Virginia Retirement System 2005 Fiscal Impact Statement

1.	Bill Numbe	r HB2481
	House of Orig	in Introduced Substitute Engrossed
	Second House	In Committee Substitute Enrolled
2.	Patron	May
3.	Committee	Appropriations
1.	Title	Virginia Retirement System; pilot defined contribution plan.

5. Summary/Purpose:

Virginia Retirement System; pilot defined contribution plan. Establishes a pilot program to allow employees hired on or after July 1, 2005, at the University of Virginia, Virginia Polytechnic Institute and State University, and the College of William and Mary the option to participate in the Virginia Retirement System's defined contribution retirement plan.

- 6. Because of the limited applicability of the bill as drafted, there is no significant actuarial costs associated with the bill. See fiscal implications below.
 - **Budget amendment necessary:** No budget amendment is necessary for the VRS, however, the institutions affected by this bill may request additional appropriations. The affected institutions must reimburse VRS for any administrative costs associated with this bill.

7. Fiscal implications:

This proposed legislation allows the University of Virginia, Virginia Polytechnic Institute and State University, and the College of William and Mary the ability to use the element of choice as a recruiting and retention tool for new employees. The ultimate impact on costs and benefits will depend upon the utilization of the DC plan and the ability of employees electing that plan to realize investment returns over the long term that are adequate to provide a reasonable retirement income.

The first VRS employer contribution rate that will be impacted by any legislation is the rate for FY07. In order to estimate the impact of this proposed legislation, the actuary has extracted census information for the group of new employees hired during FY04 at each of the institutions and compared the actuarial costs of that group of employees to the total costs for all employees at each of the institutions. The actuary then compared that to the cost of funding the DC plan, which they assumed to be 10.4% of creditable compensation.

They have assumed that the changes proposed in this legislation will have no impact on the retirement patterns of employees. All assumptions and methods are the same as those used to complete the June 30, 2004 actuarial valuation.

If passed, the proposed legislation will increase the FY07 contribution rate for these institutions by approximately 0.22% of covered payroll or \$1million, although the VRS contribution rate will not change, because the number of eligible employees is immaterial when compared to total VRS participation. The increase will be attributable to the difference between the DC plan contribution and the VRS contribution for the eligible employees. If the pilot program were extended to all employees of all institutions of higher education, and assuming 50% of eligible employees elect the DC plan, the VRS contribution rate would increase by approximately 0.09% on the remaining covered payroll. This, combined with the contribution to the DC plan (estimated to be \$47.6 million), would result in an increase in overall contributions of approximately \$13.5 million, or .46% of covered payroll.

9. Specific agency or political subdivisions affected: VRS, the University of Virginia, Virginia Tech, and the College of William and Mary

10. Technical amendment necessary: No

11. Other comments: None

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