Department of Planning and Budget
2006 Fiscal Impact Statement

1. **Bill Number** HB 37

   House of Origin ☐ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☒ Substitute ☐ Enrolled

2. **Patron** Tata

3. **Committee** N/A—Senate Floor substitute—Stolle, no. 2

4. **Title** Law enforcement retirement benefits

5. **Summary/Purpose:**

The proposed legislation would expand the number of persons eligible for health insurance coverage under the Line of Duty Act; expand the number of local deputy sheriffs eligible for enhanced retirement benefits; enhance retirement benefits for the State Police troopers and other law-enforcement personnel; and authorize localities to provide enhanced benefits to emergency medical technicians. The following sections summarize briefly the provisions in the relevant areas.

<u>Line of Duty</u>

Under current law, certain state and local public safety employees and volunteers are eligible for benefits under the Line of Duty Act. For any eligible local employee or volunteer who was killed or disabled after July 1, 2000 while in the line of duty, the state provides continued health insurance coverage for the disabled person, a surviving spouse, and any dependents. The cost of the health insurance coverage is paid in full by the state. The proposed bill would expand the definition of persons eligible for such benefits to include any local employee disabled on or after January 1, 1972, not otherwise receiving continued health insurance coverage.

<u>State Police</u>

Virginia provides enhanced retirement benefits for State Police officers—the State Police Officers' Retirement System (SPORS). Under SPORS, a retired State Police officer receives a normal retirement allowance equal to 1.70 percent of his average final compensation multiplied by the amount of creditable service. In addition, he is eligible to receive an annual supplemental payment from the date of his retirement to his full retirement age, as defined by the federal Social Security Act, provided he has at least 20 years of hazardous duty service with a VRS participating employer at the time of retirement.

The proposed legislation would increase the multiplier for the normal retirement allowance to 2.20 percent of the average final compensation.

Sheriffs and deputies; emergency medical technicians

Current law requires localities that participate in the state retirement system to provide retirement benefits to sheriffs equivalent to those provided in SPORS. The law also authorizes those localities to elect to provide retirement benefits equivalent to those provided in SPORS to other local public safety officers, including deputy sheriffs and regional jail officers. Any additional costs of providing such enhanced benefits are borne by the locality. Many counties, cities, and towns have chosen to provide such benefits, but a significant number have not. According to the Compensation Board, approximately 56 percent of the total deputy sheriff payroll statewide is subject to retirement benefits equivalent to those provided in SPORS.

The proposed legislation would require any county and city participating in the Virginia Retirement System that has not chosen to provide the enhanced benefits to deputy sheriffs to provide such benefit coverage. The bill would require the Compensation Board to reimburse those localities for the entire cost of such enhanced retirement benefits. For sheriffs, the bill also would increase the multiplier for the normal retirement allowance from 1.70 percent to 2.20 percent. For other public safety employees, the bill would authorize a locality to elect to increase the multiplier to 2.20 percent. For both sheriffs and other public safety employees, the locality would be responsible for paying the actuarial cost for the increased multiplier.

The legislation would also add full-time salaried emergency medical technicians to the list of employees for which localities would be authorized to provide retirement benefits equivalent to those in SPORS. The actuarial costs of providing such employees the enhanced benefits would be borne by the locality choosing to do so.

6. **Fiscal Impact:** Preliminary. See Item 8.

7. **Budget amendment necessary:** Yes. Items 59, 262, 414, 461, and 475.

8. **Fiscal implications:**

The fiscal implications of the proposed legislation are numerous and, for some, it is possible to provide only a minimum estimate. There are two kinds of costs—increased benefits and the costs of implementation. The projected costs are listed in the tables below. Following the tables are explanations of some of the items.

Increased Benefits

	FY 2007	**FY 2008**
Line of Duty payments	$3,950,000	$11,850,000
SPORS (State Police)	$7,154,000	$7,444,000
Deputy sheriffs	$10,684,000	$11,111,000
Total	**$21,788,000**	**$30,405,000**

Implementation Costs—General Fund

	FY 2007	FY 2008
Department of Accounts	$120,000	$120,000
Department of State Police	$810,000	$0
Total	**$930,000**	**$120,000**

Implementation Costs—Nongeneral Fund

	FY 2007	FY 2008
Virginia Retirement System	$200,000	$0

SB 393, which included the provisions in this proposed substitute for HB 37 as well as provisions for additional revenue (increased abusive driver fees), passed the Senate, but was left in committee in the House. In its budget amendments, the Senate included $25 million each year in revenue projected to be generated by SB 393. It also included $18.6 million for FY 2007 and $20.6 million in FY 2008 in Central Appropriations for additional retirement and Line of Duty costs resulting from SB 393. No additional funds were appropriated to the Compensation Board to reimburse localities for the costs of providing enhanced retirement benefits to deputy sheriffs.

NOTES

Line of Duty

Increased Benefits

The estimates shown in the table are the minimum estimated costs. The Department of Planning and Budget cannot estimate with precision the fiscal impact associated with the increased eligibility of local employees for the continued health insurance coverage benefit under the Line of Duty Act. The fiscal impact would depend on a number of factors, including the number of eligible local employees disabled between January 1, 1972 and June 30, 2000, the number of such individuals who file claims, and the costs associated with health insurance coverage. Also, the timing of the additional expenditures would depend greatly on the amount of time it would take the Department of State Police to complete the additional investigations.

Based on information provided by the Virginia Professional Fire Fighters Association, which surveyed the Virginia Retirement System (VRS), the nine active local pension systems in the Commonwealth as well as one local pension system that converted to VRS in 1997, DPB estimates that there are likely to be at least 900 new claims as a result of this bill. The current average cost for claims under the Line of Duty Act health insurance program is about $730 per month, or about $8,765 per year. While the annual cost per claim would increase in future years as health insurance costs rise, declining numbers of eligible beneficiaries could offset any overall increases in costs to provide such health insurance coverage.

Because there would likely be some delay in the filing of claims and it would also take time to process the additional claims, it is assumed that only half the projected annual cost would occur in the first year. However, for those additional persons made eligible by the proposed legislation, any benefits would be paid retroactively to July 1, 2006, the effective date of the bill. Therefore, in the table it is assumed that the remainder of the annual projected additional cost for FY 2007 would be paid in FY 2008.

***Important note*:** The Government Accounting Standards Board has issued a statement regarding accounting for the unfunded actuarial liability of post-employment benefits. This unfunded actuarial liability for the Line of Duty Act program currently totals between $333 million and $1.1 billion, depending on whether the full annual actuarial required contribution of $28 million is funded in an independent trust fund over the next 30 years. This bill would approximately triple the number of claimants currently receiving benefits, which would increase both the unfunded actuarial liability and the annual required contributions by a factor of approximately three.

Implementation Costs

The Department of State Police investigates Line of Duty claims. The agency usually uses retired state troopers, on a wage basis, to conduct these investigations. The agency estimates the average cost of an investigation to be $900. With at least 900 new claims, the cost to the State Police would be at least $810,000. Because these would be claims from persons disabled between 1972 and 2000, it would not be a continuing source of additional investigations for the agency. Current law authorizes the State Police to recover its costs from employers, but the agency has not exercised this option so far.

The Department of Accounts is responsible for administering the Line of Duty Act. The agency estimates that it would need two additional positions to confirm eligibility and pay health insurance costs on a continuing basis. The costs for these positions—salaries, fringe benefits, and other non-personal services costs—would be about $120,000 per year.

Law enforcement retirement benefits

The estimates of the additional costs of extending enhanced retirement benefits to all deputy sheriffs and of increasing the multiplier for State Police troopers were calculated by the Virginia Retirement System. For the deputy sheriff estimate, it was assumed that the state would pay the 5.0 per cent employee contribution, as it does for State Police troopers in addition to the actuarially determined employer contributions.

It needs to be noted that there would also be a nongeneral fund cost to the state, because some troopers are paid out of nongeneral fund revenues collected by the State Police. The additional nongeneral fund cost resulting from the increase in the multiplier to 2.2 percent is estimated at $1.6 million in FY 2007 and $1.7 million in FY 2008.

Finally, increasing the multiplier for sheriffs to 2.2 percent would cost local governments $1.1 million in FY 2007 and $1.2 million in FY 2008.

Other implementation costs

Both the Virginia Retirement System and the Department of Motor Vehicles have indicated that they will encounter one-time costs to modify their data systems to reflect the changes in the proposed legislation.

9. Specific agency or political subdivisions affected:

Virginia Retirement System
Department of State Police
Department of Accounts
Compensation Board
All counties and cities
Regional jails

10. Technical amendment necessary: None.

11. Other comments:

The proposed legislation would result in some counties and cities being treated differently from others. Under the bill's terms, the state would pay the costs to provide enhanced retirement benefits to deputy sheriffs in those counties and cities that have not elected to provide them in the past. Those counties and cities that have elected in the past to provide these benefits to deputies would continue to have to bear the additional costs themselves. If the proposed bill is enacted, it is likely that there will be a strong effort in the future to have the state bear the costs of providing enhanced retirement benefits for all deputies. For FY 2008, the Virginia Retirement System estimates that it would cost $20.6 million for the state to pick up the costs of enhanced retirement benefits for the remainder of the deputy sheriffs.

Date: 03/09/06 / rwh
Document: G:\LEGIS\Fis-06\HB37s3.DOC Dick Hall-Sizemore
cc: Secretary of Finance