

Virginia Retirement System 2008 Fiscal Impact Statement

1. Bill Number: HB739

House of Origin	<u> X </u>	Introduced	<u> </u>	Substitute	<u> </u>	Engrossed
Second House	<u> </u>	In Committee	<u> </u>	Substitute	<u> </u>	Enrolled

2. Patron: Caputo

3. Committee: Appropriations

4. Title: **Virginia Retirement System; retired members working at public colleges and universities.**

5. Summary: Virginia Retirement System; retired members working at public colleges and universities. Permits certain retired members who are age 62 or older to return to work as an administrative or teaching faculty employee at a public college or university and continue receiving his retirement allowance.

6. Fiscal Impact Estimates: There will be a fiscal impact, but it cannot be quantified at this time.

7. Budget Amendment Necessary: Not at this time

8. Fiscal Implications:

The VRS actuary advises that the provisions of this bill will impose costs upon the VRS administered defined benefit plans. Specifically, he concludes that some members in the employee groups affected by this proposal would likely respond to this as an opportunity to retire earlier than they currently planned to retire, thereby leading to a higher than assumed rate of retirement. This would lead to an actuarial loss and subsequently to higher employer contribution rates. The actuary reports that the increased retirement rates would also impose costs upon on the retiree health care credit and group life insurance plans.

In addition, the actuary reports that the legislation as drafted could impact the financing of the systems' unfunded accrued liability (UAL). Funding the UAL is predicated upon the assumption that covered payroll growth will be 3 percent per year. The retirees returning to work as a result of this legislation would not be active members and therefore would not be included in covered payroll reported to VRS. This will likely reduce the payroll growth rate calculated for UAL funding purposes, increasing the portion of the contribution rate dedicated to funding the UAL on an annual basis.

9. Specific Agency or Political Subdivisions Affected: VRS and institutions of higher education

10. Technical Amendment Necessary: Yes

It is not clear from the bill as introduced whether its provisions would also apply to the more than 10,000 administrative and teaching faculty who participate in the optional retirement plan for higher education (§51.1-126) which is a defined contribution plan. To address this, the legislation could be amended to clearly articulate that higher education DC plan members who retire and receive a periodic distribution from the DC plan are eligible to return to work as proposed in the bill.

11. Other Comments:

- To address the fiscal impact of the proposed legislation due to actuarial losses from increased retirement rates and reduced contributions towards the UAL, the legislation could be amended to require that employers continue to make contributions to VRS on behalf of retirees who return to work.
- The proposed legislation would create a precedent for other VRS employers (all state agencies, local school boards, and local political subdivisions) to request similar legislation for all or specific groups of employees.
- The Joint Legislative Audit and Review Commission (JLARC) has incorporated the topic of returning-to-work after retirement in its current study of public employee compensation and retirement that will be issued in the fall of 2008.

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