

## Virginia Retirement System 2008 Fiscal Impact Statement

**1. Bill Number:** SB619

House of Origin      X      Introduced                  Substitute                  Engrossed  
Second House                 In Committee              Substitute                  Enrolled

**2. Patron:**        Stolle

**3. Committee:** Finance

**4. Title:**        **Virginia Retirement System; average final compensation retirement multiplier.**

**5. Summary:** Virginia Retirement System; average final compensation retirement multiplier. Allows members of the Virginia Retirement System to make member contributions for purposes of increasing their retirement multiplier from 1.7 percent to 1.85 percent. Members would be required to pay the actuarial equivalent cost for such increase. All such contributions would be treated as additional employee contributions.

**6. Fiscal Impact Estimates:** The costs of electing the higher multiplier would be borne by VRS members. However, due to the administrative complexity of this bill, significant operating costs would be incurred by VRS and its participating employers. At this point, VRS has been unable to estimate the system development and staffing costs to be incurred by VRS, state and local agencies, and political subdivisions.

**7. Budget Amendment Necessary:** Yes.

**8. Fiscal Implications:** See Fiscal Impact above.

**9. Specific Agency or Political Subdivisions Affected:** VRS, VRS participating employers, and members covered by the VRS.

**10. Technical Amendment Necessary:** Yes. Certain amendments are necessary to conform this legislation to applicable federal law. For example, the provision that states that employee contributions would not be subject to FICA tax is contrary to federal law. As drafted, the higher contributions elected by employees would be considered wages by the IRS and subject to regular income tax treatment. Without the advantage of after-tax treatment of employee contributions, this bill would provide little or no economic benefit to members.

**11. Other Comments:** This bill, as presently drafted, is overwhelming in its administrative complexity. It would allow every active member of VRS, over 340,000 employees, to opt for a customized retirement program. Each VRS member would have the opportunity to apply the 1.85 multiplier to any span of years already served or years yet to be served, and pay an increased contribution rate that would be unique to every member of the system. Not only would VRS be required to develop customized cost estimates for each member, but employers would have to modify their payroll systems to withhold a unique amount from

each employee's paycheck in order to accurately remit employee-specific contributions to VRS each month.

**Date:** 01/21/2008 rps

**Document:** SB619.DOC