

Virginia Retirement System

2010 Fiscal Impact Statement

1. Bill Number: HB1189

House of Origin ☐ Introduced ☒ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron: Putney

3. Committee: Appropriations

4. Title: Retirement System; modifies for new employees all defined benefit retirement plans.

- 5. Summary:** Modifies for new employees, all the defined benefit retirement plans administered by the Virginia Retirement System ("VRS"), as follows: (i) requires employees to contribute five percent of creditable compensation, and (ii) increases the number of months used to calculate average final compensation from 36 to 60, (iii) increases the cost, and decreases the time in which employees may purchase certain prior service credits before the cost again increases to the actuarial equivalent cost of the service, and (iv) reduces the rate of the increase in the Consumer Price Index used for determining annual retirement allowance supplements ("COLA") from three percent plus one-half percent of the additional increase up to seven percent (maximum five percent), to two percent plus one-half percent of the additional increase up to ten percent (maximum six percent), and (v) removes the provision for early reduced retirement at age 50 with 10 years of service. The bill also decreases the Commonwealth's contribution for employees in institutions of higher education participating in an optional retirement plans by 2.4 percent of creditable compensation to 8.0 percent of creditable compensation.

In addition to these modifications, for new state and local employees covered under the main defined benefit plan, (i.e. excluding the separate plans for state and local law enforcement employees and judges), the bill changes the requirements for unreduced early retirement benefits from 50 years of age and 30 years of creditable service, to one whereby the sum of age plus years of service equals 90. The average final compensation multiplier for new state and local employees, and for new judges, excluding law enforcement employees, is reduced from 1.70 percent to 1.65 percent. Finally, for new judges, the weighted years of service factor used in calculating years of creditable service is reduced from 2.5 to 2.

These changes establish a new tier of benefits for VRS and ORP members hired on or after July 1, 2010.

6. Fiscal Impact Estimates:

6a. Expenditure Impact: HB 1189 would reduce the employer contribution from 10.4 percent to 8.0 percent for employees participating in certain VRS Optional Retirement Plans (ORP) such as college faculty and political appointees hired on or after July 1, 2010.

Table 1 is a projection developed by the VRS actuary, which presents the projected ORP contribution rates through fiscal year 2016 blending the current rate of 10.4 percent for current members and the proposed rate of 8.0 percent for new hires on or after July 1, 2010. The rates are a percent of the estimated projected salaries for ORP members.

Table 1						
Projection of Blended ORP Contribution Rates *						
Fiscal Year	2011	2012	2013	2014	2015	2016
Blended contribution rate	10.20%	10.03%	9.89%	9.75%	9.62%	9.49%
Estimated rate reduction	0.20%	0.37%	0.51%	0.65%	0.78%	0.91%
*Projected ORP contribution rates blending the current rate of 10.4% for current members and the proposed rate of 8.0% for new hires.						

Table 2 below presents the combined impact of the defined benefit changes (including 5 percent member contribution for new hires).

TABLE 2
VIRGINIA RETIREMENT SYSTEM
PROJECTION OF IMPACT ON EMPLOYER CONTRIBUTION RATES
BLENDED NORMAL COSTS CURRENT MEMBERS & NEW HIRES
8% INTEREST RATE & 3% CPI PER ANNUM ASSUMPTIONS

HB 1189 - New Defined Benefit Plan for New Hires Hired Beginning July 1, 2010

The proposed provisions set forth in this study are outlined below. Please note that items i., ii. and vi. are for all retirement plans and items iii. and iv. are for regular VRS (including most state employees, teachers, local Non-LEOs employees, and co

- i. Average Final Compensation based on 60 consecutive months of service
- ii. Cola assumption = 2.50%
- iii. Benefit multiplier = 1.65%
- iv. Unreduced early retirement with a minimum age of 50 and 90 points (Rule of 90)
- v. Service weight = 2 for JRS
- vi. 5% member contribution paid by new hires

CHANGE IN PROJECTED CONTRIBUTION RATE DUE TO CHANGES IN BENEFIT PROVISIONS (i. through v.)

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State	0.00%	-0.03%	-0.08%	-0.12%	-0.16%	-0.19%	-0.23%	-0.26%	-0.29%	-0.32%	-0.34%
Teacher	0.00%	-0.08%	-0.15%	-0.21%	-0.27%	-0.32%	-0.38%	-0.42%	-0.47%	-0.50%	-0.54%
SPORS	0.00%	-0.02%	-0.05%	-0.08%	-0.11%	-0.13%	-0.16%	-0.19%	-0.21%	-0.24%	-0.26%
VALORS	0.00%	-0.03%	-0.08%	-0.12%	-0.16%	-0.20%	-0.23%	-0.26%	-0.28%	-0.31%	-0.33%
JRS	0.00%	-0.42%	-1.22%	-1.99%	-2.79%	-3.53%	-4.16%	-4.70%	-5.22%	-5.76%	-6.23%
LOCALS (Aggregate)	0.00%	-0.04%	-0.11%	-0.17%	-0.22%	-0.26%	-0.31%	-0.36%	-0.40%	-0.43%	-0.46%

CHANGE IN PROJECTED CONTRIBUTION RATE DUE TO 5% NEW HIRES CONTRIBUTION (vi.)

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State	0.00%	-0.24%	-0.69%	-1.07%	-1.38%	-1.68%	-1.97%	-2.25%	-2.50%	-2.72%	-2.93%
Teacher	0.00%	-0.39%	-0.74%	-1.04%	-1.32%	-1.58%	-1.84%	-2.08%	-2.28%	-2.46%	-2.63%
SPORS	0.00%	-0.13%	-0.38%	-0.59%	-0.80%	-1.00%	-1.20%	-1.41%	-1.61%	-1.81%	-2.00%
VALORS	0.00%	-0.28%	-0.77%	-1.17%	-1.54%	-1.91%	-2.22%	-2.49%	-2.71%	-2.95%	-3.17%
JRS	0.00%	-0.23%	-0.67%	-1.09%	-1.52%	-1.93%	-2.28%	-2.57%	-2.85%	-3.15%	-3.40%
LOCALS (Aggregate)	0.00%	-0.24%	-0.69%	-1.07%	-1.38%	-1.68%	-1.97%	-2.25%	-2.50%	-2.72%	-2.93%

COMBINED CHANGE IN PROJECTED CONTRIBUTION RATE DUE TO CHANGES TO DEFINED BENEFIT PLANS (i. through vi.)

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State	0.00%	-0.27%	-0.77%	-1.19%	-1.54%	-1.87%	-2.20%	-2.51%	-2.79%	-3.04%	-3.27%
Teacher	0.00%	-0.47%	-0.89%	-1.25%	-1.59%	-1.90%	-2.22%	-2.50%	-2.75%	-2.96%	-3.17%
SPORS	0.00%	-0.15%	-0.43%	-0.67%	-0.91%	-1.13%	-1.36%	-1.60%	-1.82%	-2.05%	-2.26%
VALORS	0.00%	-0.31%	-0.85%	-1.29%	-1.70%	-2.11%	-2.45%	-2.75%	-2.99%	-3.26%	-3.50%
JRS	0.00%	-0.65%	-1.89%	-3.08%	-4.31%	-5.46%	-6.44%	-7.27%	-8.07%	-8.91%	-9.63%
LOCALS (Aggregate)	0.00%	-0.28%	-0.80%	-1.24%	-1.60%	-1.94%	-2.28%	-2.61%	-2.90%	-3.15%	-3.39%

7. Budget Amendment Necessary: Yes. VRS projects that the internal costs for implementing this legislation are approximately \$469,000. These costs include system updates, actuarial calculator and updating and reprinting all VRS publications. In addition, changes to the contribution rates will need to be reflected in the budget and will be reflected in the next valuation.

8. Fiscal Implications: The plan design changes in HB 1189 generally apply only to new hires. As a result, the reductions in costs associated with these plan design changes will only be fully realized many years into the future (20-30 years) when all active members are then covered under the new benefit structure. While initial cost savings associated with the plan design changes will be minimal, they will serve to reduce the ongoing or normal cost of the plan and help to contain employer costs for these plans going forward.

9. Specific Agency or Political Subdivisions Affected: VRS, all members hired on or after July 1, 2010

10. Technical Amendment Necessary: No.

11. Other Comments: For all VRS covered members, hired on or after July 1, 2010, this bill changes the definition of “average final compensation” to the highest consecutive 60 months of salary, increased from the current 36 months for VRS covered employees, SPORS, VaLORS and JRS. It also reduces the contribution by the Commonwealth to the optional retirement plan for institutions of higher education from 10.4 percent to 8.0 percent for employees hired on or after July 1, 2010. The bill requires employees hired on or after July 1, 2010, to make the 5 percent member contribution to the VRS defined benefit plan, including those members in SPORS, VaLORS and JRS. For employees hired on or after July 1, 2010, the bill changes the early retirement rules from an age-driven structure to a “rule of 90” combination of age and service credit. Under the rule of 90, a member can retire when the combination of his age and years of creditable service equal 90. For example, a member who is age 60, with 30 years of service would be able to retire with an unreduced benefit. The “rule of 90” change does not apply to SPORS, VaLORS, local hazardous duty positions, or JRS. The bill also reduces the retirement multiplier for regular and disability retirement from 1.70 percent to 1.65 percent for employees hired on or after July 1, 2010. The change does not apply to members of SPORS, VaLORS or local hazardous duty employees. The bill also changes the COLA calculation and reduces the maximum COLA for employees hired on or after July 1, 2010. The current maximum is 5 percent. The new maximum would be 6%. The purchase of service provisions are changed to reduce the timeframe to purchase service at an approximate normal cost from the first three years of employment to the first year and increases the cost in subsequent years to full actuarial cost. Finally, for new judges, the weighted years of service factor used in calculating years of creditable service is reduced from 2.5 to 2.

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