

Virginia Retirement System

2010 Fiscal Impact Statement

1. Bill Number: HB1189S2

House of Origin ☐ Introduced ☐ Substitute ☐ Engrossed

Second House ☐ In Committee ☒ Substitute ☐ Enrolled

2. Patron: **Patron Prior to Substitute – Delegate 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 months, (iii) increases the cost, and decreases the time in which employees may purchase certain prior service credits before the cost 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). The bill also decreases the Commonwealth's contribution for employees in institutions of higher education participating in an optional retirement plans (ORP) by 1.5 percent of creditable compensation to 8.9 percent of creditable compensation. Further, employees in the ORP are required to make a five percent employee contribution.

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 age 60 with 30 years of service. Further, normal retirement is defined as the date that the member attains his "retirement age" as defined under the Social Security Act. Reduced early retirement is defined as age 60 with 5 years of service or age 50 with 10 years of service.

HB 1189S2 revises the prior bill by instituting a new service weight schedule based on the judges' age at the time he or she is appointed or elected to an original term commencing July 1, 2010. The proposed service weight schedule for new judges effective July 1, 2010 is as follows:

Judges' Age at Time of Appointment or Election to an Original Term	Service weight
Less than 40	1.5
40-49	2.0
50 and above	2.5

For judges appointed or elected to an original term prior to July 1, 2010 the current service weights will continue to apply. That is, for judges commencing their term on the bench on or after January 1, 1995 a 2.5 service weight applies, while a 3.5 factor applies to judges in service on December 31, 1994. Finally, the mandatory retirement age for judges is increased to age 73.

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: This bill would reduce the employer contribution from 10.4 percent to 8.9 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. In addition, this substitute requires participants to contribute, on a salary reduction basis, a five percent employee contribution.

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 8.9 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	10.28%	10.17%	10.08%	9.99%	9.91%	9.83%
Estimated rate reduction	0.12%	0.23%	0.32%	0.41%	0.49%	0.57%
*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 CHANGE IN COSTS CURRENT MEMBERS & NEW HIRES
8% INTEREST RATE & 3% CPI PER ANNUM ASSUMPTIONS

Senate Version of 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 vii. are for all retirement plans and items iii. and iv. are for regular VRS (including most state employees, teachers, local Non-LEOs employees, and constitutional officers), and JRS, and not for SPORS, VALORS and local LEOs. Items v. and vi. apply only to JRS.

- i. Average Final Compensation based on 60 consecutive months of service
- ii. Cola assumption = 2.50%
- iii. Benefit multiplier = 1.70%
- iv. Normal retirement is Social Security normal retirement age plus 5 years of service. Unreduced early retirement is with a minimum age of 60 and 30 years of service. Reduced early retirement is with a minimum age of 60 and 5 years of service, or age 50 and 10 years of service.
- v. Judges' service weight based on age at time of appointment or election to an original term beginning on or after July 1, 2010. For first term judges less than age 40 the service weight = 1.5; age 40-49 the service weight = 2.0, and age 50 and above the service weight = 2.5.
- vi. Mandatory retirement age = 73 for JRS for current and future members
- vii. 5% member contribution paid by new hires

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

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State	0.00%	-0.02%	-0.07%	-0.11%	-0.14%	-0.17%	-0.20%	-0.23%	-0.25%	-0.27%	-0.29%
Teacher	0.00%	-0.08%	-0.15%	-0.20%	-0.26%	-0.31%	-0.36%	-0.41%	-0.45%	-0.48%	-0.52%
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%	-1.97%	-2.42%	-2.85%	-3.30%	-3.72%	-4.08%	-4.38%	-4.67%	-4.98%	-5.24%
LOCALS (Aggregate)	0.00%	-0.03%	-0.07%	-0.11%	-0.15%	-0.18%	-0.21%	-0.24%	-0.27%	-0.29%	-0.31%

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

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 vii.)

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State	0.00%	-0.26%	-0.76%	-1.18%	-1.52%	-1.85%	-2.17%	-2.48%	-2.75%	-2.99%	-3.22%
Teacher	0.00%	-0.47%	-0.89%	-1.24%	-1.58%	-1.89%	-2.20%	-2.49%	-2.73%	-2.94%	-3.15%
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%	-2.20%	-3.09%	-3.94%	-4.82%	-5.65%	-6.36%	-6.95%	-7.52%	-8.13%	-8.64%
LOCALS (Aggregate)	0.00%	-0.27%	-0.76%	-1.18%	-1.53%	-1.86%	-2.18%	-2.49%	-2.77%	-3.01%	-3.24%

- 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 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. Savings attributable to local employers will largely depend on the extent to which they require their employees to pay all or a portion of the member contribution. The State General Fund and Non General Fund savings associated with these plan design changes are estimated to be \$70 million.
- 9. Specific Agency or Political Subdivisions Affected:** VRS, all members hired on or after July 1, 2010 and potentially current employees of counties, cities, towns, local public school boards, or other local employers

10. Technical Amendment Necessary: No.

11. Other Comments: This bill generally applies to VRS covered members, hired on or after July 1, 2010. For VRS covered employees, including, SPORS, VaLORS and JRS, the bill changes the definition of "average final compensation" to the highest consecutive 60 months of salary, requires employees to contribute five percent of creditable compensation, increases the cost, and decreases the time in which employees may purchase certain prior service credits before the cost increases to the actuarial equivalent cost of the service, and 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). Under the provisions of this bill, the mandatory five percent member contribution is optional for counties, cities, towns, local public school boards or other local employers.

In addition to the above 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 age 60 with 30 years of service. Further, normal retirement is defined as the date that the member attains his "retirement age" as defined under the Social Security Act. Reduced early retirement is defined as age 60 with 5 years of service or age 50 with 10 years of service.

For new judges, HB 1189S2 institutes a new service weight schedule based on the judges' age at the time he or she is appointed or elected to an original term commencing July 1, 2010. Finally, the mandatory retirement age for judges is increased to age 73.

The bill also reduces the contribution by the Commonwealth to the optional retirement plan for institutions of higher education from the current 10.4 percent to 8.9 percent for employees hired on or after July 1, 2010 and requires that participants pay a 5 percent employee contribution on a salary reduction basis.

Date: 3/3/2010 psb

Document: HB1189S1.DOC