Virginia Retirement System
2011 Fiscal Impact Statement

1. **Bill Number:** HB1655

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

2. **Patron:** Purkey

3. **Committee:** Appropriations

4. **Title:** Retirement System; early retirement for certain employees.

5. **Summary:** Virginia Retirement System; early retirement for certain employees. Removes the option for state employees hired on or after July 1, 2010, who are covered under the main defined benefit plan, (i.e., excluding the separate plans for law-enforcement employees and judges), to retire if they are less than 65 years old. Under current law such employees can retire at the age of 60 with at least five years of service, with reduced benefits, or, in certain instances, when the sum of their age and years of service is equal to or greater than 90, with unreduced benefits. No change in retirement age is proposed for school teachers or employees of political subdivisions.

6. **Budget Amendment Necessary**: No

7. **Fiscal Impact Estimates:**

   The VRS actuary has estimated the long-term impact to the VRS State pension plan and to the OPEB plans related to the plan changes proposed by HB 1655. The calculations below are based on the data and actuarial assumptions and methods used in the June 30, 2010 actuarial valuation of the State retirement system and the OPEB, except that the assumed rates of retirement, termination before retirement and disability have been adjusted to reflect the retirement eligibility changes. VRS has also assumed that the Plan 2 COLA will be 2.25% per year for the State pension plan and for VSDP. Since Plan 2 became effective July 1, 2010, the June 30, 2010 actuarial valuation data does not include any Plan 2 members. Therefore, for purposes of this analysis, the results are estimated by applying the Plan 2 and the HB 1655 provisions to the June 30, 2010 active employee population.

   HB 1655 only applies to those persons who become a member on or after July 1, 2010. Therefore, the changes in the normal cost rates shown in the table below will only be fully realized many years in the future (about 30 years) when all active members are then covered under the new benefit structure. The initial impact on employer contribution rates is zero. However, the VRS actuary expects 50% to 75% of the change in cost should be realized over the next 7 to 14 years.

Long-term Contribution Rate Reductions as a Percent of State Employees' Covered Payroll				
	State Pension Plan	**Health Insurance Credit Program**	**Group Life Insurance Program**	**Virginia Sickness & Disability Program – Long-term Disability**
Long-term contribution rate change as a percent of June 30, 2010 payroll for covered state employees	(0.12%)	(0.04%)	(0.04%)	0.02%)

7a. Expenditure Impact: In order to provide an illustration of the general magnitude, in terms of dollars instead of percentages of payroll, that this bill could generate when all active members are then covered under the new benefit structure, the long-term reductions noted above were applied to the estimated FY 2012 payroll. Applying the long-term reductions to the estimated FY 2012 payroll, and assuming that all current members were currently covered under the provisions of HB 1655, the bill could generate approximately $7.2 million annually in savings. However, this savings won't accrue until about year thirty.

8. Fiscal Implications: None

9. Specific Agency or Political Subdivisions Affected: VRS, state agencies and state employees hired on or after July 1, 2010

10. Technical Amendment Necessary:

11. Other Comments:

This bill removes the option for **<u>state</u>** employees hired on or after July 1, 2010, who are covered under the main defined benefit plan, (i.e., excluding the separate plans for law-enforcement employees and judges), to retire if they have not reached normal retirement age. Under current law such employees can retire at the age of 60 with at least five years of service, with reduced benefits, or, in certain instances when the sum of their age and years of service is equal to or greater than 90, with unreduced benefits. This bill would limit retirement for Plan 2 employees to "normal retirement." For any Plan 2 member (a person who becomes a member on or after July 1, 2010), his normal retirement date shall be the date that the member attains his "retirement age" as defined under the Social Security Act (42 U.S.C. § 416 et seq., as now or hereafter amended).

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