Virginia Retirement System
2012 Fiscal Impact Statement

1. **Bill Number:** HB 1129

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

2. **Patron:** Howell

3. **Committee:** Appropriations

4. **Title:** Virginia Retirement System; defined benefit plan.

5. **Summary:** Virginia Retirement System; defined benefit plan. Modifies several provisions of the existing defined benefit retirement plan. Beginning January 1, 2013, the bill changes the calculation of average final compensation to cover a period of 60 months rather than 36 months. Under current law, the use of a 60-month period applies only to those employees hired on or after July 1, 2010. However, current employees affected by this change in average final compensation may use the 36-month period of calculation for compensation received prior to January 1, 2013, if it is greater than the 60-month period of calculation.

   Effective January 1, 2013, except for employees who are within five years of their unreduced retirement date at that time, the bill restricts payment of the initial cost of living adjustment (COLA) to one full calendar year after those retirees who retired with a reduced retirement benefit would have reached age or age and service requirements for an unreduced benefit. The bill also reduces the COLA to the first two percent of inflation plus one-half of the next two percent, for a maximum total of three percent. Under current law for Plan 1 employees (those hired or with service prior to July 1, 2010), the COLA is the first three percent of inflation plus one-half of the next four percent, for a maximum total of five percent. Further, current law for Plan 2 members (employees hired on or after July 1, 2010) provides for the first two percent of inflation plus one half of the next eight percent, for a maximum COLA benefit of six percent. COLAs for current retirees will not be affected.

   The substitute bill removes the provision increasing the employee contribution rate from five percent to six percent for all state employees, members of the State Police Officers' Retirement System and the Virginia Law Officers' Retirement System. Under the provisions of this substitute, the current member contribution of 5% remains unchanged.

   Finally, for state and local employees hired on or after January 1, 2013, other than hazardous duty employees and judges, the bill reduces the multiplier from 1.7 to 1.6. However, the lower multiplier will not apply to members in hazardous duty positions hired on or after January 1, 2013 in any locality that has not adopted enhanced benefits (LEOS) for its hazardous duty employees under the provisions of § 51.1-138 of the *Code of Virginia.*

6. **Budget Amendment Necessary:** Yes. While this bill does have significant costs associated with systems development, publications, and training, these cannot be ascertained at this time. The ability to accurately predict costs is complicated because VRS is replacing its current technology systems. As a result, legislative changes will likely need to be made to both the current and the future systems, depending on the effective date of the legislation. The introduction of significant changes at this time will likely cause a delay in the overall project schedule, resulting in additional payments to the vendor. Further, the cost for implementing a single piece of legislation cannot be calculated precisely due to economies of scale. The actual cost to implement all legislation enacted during a given session will more than likely be less than the sum of the costs attributed to individual bills. Therefore, VRS is not providing specific systems costs for this bill, but will calculate the total for all VRS bills once they have been acted upon favorably in both houses and prior to the conference committee report.

   VRS estimates that costs (other than system costs addressed above) to implement these changes would be approximately $377,795. These expenses would be primarily for revising print and web documents and reprinting hard copy materials. There would be additional costs for employer representatives to educate and update employers on the new provisions and for an anticipated increase in calls to the customer contact center. The changes in the substitute bill do not materially affect the cost estimates.

7. **Fiscal Impact Estimates:**
   The proposed provisions set forth in this bill are outlined below:

The following tables do not reflect the impact of applicable plan design changes on political subdivisions.

TABLE 1

Change in Projected Contribution Rate Due to Changes in Benefit Provisions (i. through iv.)

Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
State	0.00%	0.00%	1.03%	1.03%	1.22%	1.21%	1.30%	1.30%	1.32%	1.32%	1.34%	1.34%
Teachers	0.00%	0.00%	1.34%	1.34%	1.35%	1.35%	1.35%	1.35%	1.29%	1.29%	1.26%	1.26%
SPORS	0.00%	0.00%	1.40%	1.38%	1.57%	1.62%	1.81%	1.75%	1.80%	1.82%	1.77%	1.79%
VALors	0.00%	0.00%	1.21%	1.20%	1.19%	1.20%	1.18%	1.17%	1.12%	1.12%	1.05%	1.05%
JRS	0.00%	0.00%	1.44%	1.52%	1.46%	1.54%	1.36%	1.31%	1.27%	1.22%	1.07%	1.14%

Table 2 shows the projected savings from the General Fund for benefit provision changes.

General Fund											($Millions)
	TABLE 2										
	Projected Savings by Biennium Due to Changes in Benefit Provisions										
	FY 13/14	FY 15/16	FY 17/18	FY 19/20	FY 21/22	FY 23/24	FY 25/26	FY 27/28	FY 29/30	FY 31/32	FY 33/34	22 Year Total
State	-	31.71	37.47	40.16	40.79	41.31	37.57	35.02	33.11	30.55	28.60	356.30
Teachers	-	69.55	70.35	70.11	67.11	65.35	61.99	54.24	47.71	45.78	42.56	594.75
SPORS	-	2.36	2.71	3.02	3.07	3.02	2.76	2.62	2.41	2.14	1.88	25.98
VALors	-	7.51	7.46	7.35	7.00	6.56	5.85	4.89	4.14	3.49	2.94	57.20
JRS	-	1.84	1.86	1.66	1.54	1.38	1.23	0.93	0.77	0.73	0.64	12.58
Total	-	112.97	119.85	122.30	119.51	117.62	109.40	97.70	88.15	82.69	76.63	1,046.82

Table 3 is the projected savings from the non-general fund or local monies for benefit provision changes.

Non-General Fund / Local											($Millions)
	TABLE 3										
	Projected Savings by Biennium Due to Changes in Benefit Provisions										
	FY 13/14	FY 15/16	FY 17/18	FY 19/20	FY 21/22	FY 23/24	FY 25/26	FY 27/28	FY 29/30	FY 31/32	FY 33/34	22 Year Total
State	-	38.32	45.29	48.54	49.29	49.93	45.40	42.32	40.02	36.92	34.57	430.60
Teachers	-	115.33	116.65	116.26	111.28	108.35	102.79	89.93	79.12	75.90	70.57	986.19
SPORS	-	0.39	0.45	0.50	0.51	0.50	0.46	0.44	0.40	0.36	0.31	4.32
VALors	-	0.68	0.68	0.67	0.64	0.60	0.53	0.44	0.38	0.32	0.27	5.20
JRS	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	154.73	163.07	165.97	161.72	159.38	149.18	133.13	119.92	113.50	105.72	1,426.31

Table 4 is the projected savings from total funds for benefit provision changes.

Total Funds											($Millions)
	TABLE 4										
	Projected Savings by Biennium Due to Changes in Benefit Provisions (i. through iv.)										
	FY 13/14	FY 15/16	FY 17/18	FY 19/20	FY 21/22	FY 23/24	FY 25/26	FY 27/28	FY 29/30	FY 31/32	FY 33/34	22 Year Total
State	-	70.03	82.76	88.70	90.08	91.24	82.97	77.34	73.13	67.47	63.17	786.90
Teachers	-	184.88	187.00	186.37	178.39	173.70	164.78	144.17	126.83	121.68	113.13	1,580.95
SPORS	-	2.75	3.16	3.52	3.58	3.52	3.21	3.06	2.81	2.50	2.19	30.30
VALors	-	8.19	8.14	8.02	7.63	7.16	6.38	5.34	4.52	3.81	3.21	62.40
JRS	-	1.84	1.86	1.66	1.54	1.38	1.23	0.93	0.77	0.73	0.64	12.58
Total	-	267.70	282.92	288.27	281.24	277.00	258.58	230.83	208.07	196.18	182.35	2,473.13

8. **Fiscal Implications:** Some of the plan design changes apply only to new hires as of January 1, 2013. As a result, the reductions in costs associated with these plan design changes will only be fully realized many years into the future. For example, for current employees, initially the 36-month AFC will apply. As pay increases take effect over time, the 36-month AFC will "wear away" and the 60-month AFC will eventually be applicable to all affected employees. Similarly, the 1.6 multiplier is only applicable to new hires as of January 1, 2013. In time, the 1.6 multiplier will apply to all active employees subject to the lower multiplier, but this could take many years. The savings from the COLA modifications should be evident in the shorter term. While the COLA provisions do not apply to employees within

five years of eligibility for an unreduced benefit, the failure to provide a "grandfather" provision would likely lead to a sharp short-term increase in retirements of experienced employees, which might have a negative impact on productivity state-wide. This substitute bill deletes the increased 1% employee contribution, so that employee contributions remain at 5%.

9. **Specific Agency or Political Subdivisions Affected:** VRS, State employees, and members of SPORS and VaLORs.

10. **Technical Amendment Necessary:** No

11. **Other Comments:** This bill modifies the existing VRS defined benefit plan for various groups of state and local employees as follows:

Change	Effective Date	Employee Groups	Comments
3% COLA cap (first 2% of CPI-U plus one-half of the next 2%, for a maximum total of 3%)	1/1/13	General state employees, SPORS, VaLORS, JRS, Teachers, and Localities	Employees within five years of eligibility for an unreduced benefit as of effective date are grandfathered
No COLA until retired member has received an allowance for one full calendar year after reaching unreduced retirement age	1/1/13	General state employees, SPORS, VaLORS, JRS, Teachers, and Localities	Employees within five years of eligibility for an unreduced benefit as of effective date are grandfathered
60-month AFC	1/1/13	General state employees, SPORS, VaLORS, JRS, Teachers, and Localities	36-month AFC will be "frozen" for current employees as of January 1, 2013 and dual calculation will be made at time of retirement (higher number will be used)
1.6% multiplier	1/1/13	New general state employees, Teachers and Localities	Does not apply to SPORS, VaLORS, JRS or LEOS, or general state and local employees or teachers hired before January 1, 2013.

Because the substitute bill removes the increased employee contribution, purchase of prior service rates will not change. The legislation does not affect current retirees.

With respect to the legal aspects of any proposed changes to public pension plans, it is important to note that as a general rule, prospective changes that grandfather benefits earned prior to the date of the change should be acceptable by courts if challenged. Little legal guidance exists to provide clear answers on what would be acceptable changes to retirement benefits based on service and compensation prior the effective date of the change. In short, even changes that are considered low-risk can be challenged, and there is very little Virginia precedent on these issues. Decisions from other states cannot be relied on as predictors of the outcome of a case in Virginia due to differences in statutory and constitutional provisions and the case law in that particular state. The General Assembly may wish to seek a legal opinion from the Attorney General's Office.

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