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SENATE BILL NO. 854

Offered January 9, 2013

Prefiled January 2, 2013

A BILL to amend and reenact §§ 51.1-153, 51.1-155, and 51.1-169 of the Code of Virginia, relating to the Virginia Retirement System; benefits for certain local employees.

Patron—Petersen

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That §§ 51.1-153, 51.1-155, and 51.1-169 of the Code of Virginia are amended and reenacted as follows:

§ 51.1-153. Service retirement.

A. Normal retirement. - Any member in service at his normal retirement date with five or more years of creditable service may retire at any time upon written notification to the Board setting forth the date the retirement is to become effective. Any member in service who was denied membership prior to July 1, 1987, as a result of being age 60 or over when first employed may retire at any time after his normal retirement date and the requirement of having five or more years of service shall not apply.

B. Early retirement. - 1. Any member in service who has attained his fifty-fifth birthday with five or more years of creditable service may retire prior to his normal retirement date upon written notification to the Board setting forth the date the retirement is to become effective.

However, a person who becomes a member on or after July 1, 2010, or a member who does not have at least 60 months of creditable service as of January 1, 2013, under this chapter shall be allowed to retire under this subdivision prior to his normal retirement date only if the person is in service and has attained his sixtieth birthday with five or more years of creditable service, and the benefit for such person shall be calculated in accordance with the provisions of subdivision A 3 of § 51.1-155.

2. Subject to the provisions of subdivision 3, any state employee, teacher, or employee of a political subdivision who is a member of the retirement system may retire prior to his normal retirement date after attaining age 50 and 30 years of creditable service, upon written notification to the Board setting forth the date the retirement is to become effective. The benefit for such member shall be calculated in accordance with the provisions of subdivision A 1 of § 51.1-155.

3. A person who becomes a member on or after July 1, 2010, or a member who does not have at least 60 months of creditable service as of January 1, 2013, as a state employee, teacher, or employee of a political subdivision may retire prior to his normal retirement date after the sum of his age and years of creditable service equals 90, upon written notification to the Board setting forth the date the retirement is to become effective. The benefit for such member shall be calculated in accordance with the provisions of subdivision A 1 of § 51.1-155.

4. Notwithstanding the foregoing, a political subdivision by legally adopted resolution may declare to the Board that, for purposes of subdivisions B 1 and B 3 and subsection D, and subdivision A 3 of § 51.1-155, any person who is employed as a firefighter, emergency medical technician, or law-enforcement officer as those terms are defined in § 15.2-1512.2 (i) shall not be considered a person who becomes a member on or after July 1, 2010, and (ii) shall be considered to have at least 60 months of creditable service as of January 1, 2013. Such resolution shall be irrevocable.

C. Deferred retirement for members terminating service. - Any member who terminates service after five or more years of creditable service, regardless of termination date, may retire under the provisions of subsection A, B, or D of this section if he has not withdrawn his accumulated contributions prior to the effective date of his retirement or if he has five or more years of creditable service for which his employer has paid the contributions and such contributions cannot be withdrawn. For the purposes of this subsection, any requirements as to the member being in service shall not apply.

D. 50/10 retirement. - Any member in service on or after January 1, 1994, who has attained his fiftieth birthday with 10 or more years of creditable service may retire prior to his normal retirement date upon written notification to the Board setting forth the date the retirement is to become effective. A person who becomes a member on or after July 1, 2010, or a member who does not have at least 60 months of creditable service as of January 1, 2013, shall not be allowed to retire pursuant to this subsection.

E. Effective date of retirement. - The effective date of retirement shall be after the last day of service of the member, but shall not be more than 90 days prior to the filing of the notice of retirement.

F. Notification on behalf of member. - If the member is physically or mentally unable to submit

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59 written notification of his intention to retire, the member's appointing authority may submit notification
60 on his behalf.

61 **§ 51.1-155. Service retirement allowance.**

62 A. Retirement allowance. - A member shall receive an annual retirement allowance, payable for life,
63 as follows:

64 1. Normal retirement. - The allowance shall equal 1.70 percent of his average final compensation
65 multiplied by the amount of his creditable service. Notwithstanding the foregoing, for a member who (i)
66 is a person who becomes a member on or after July 1, 2010, or (ii) does not have at least 60 months of
67 creditable service as of January 1, 2013, the allowance shall equal the sum of (a) 1.65 percent of his
68 average final compensation multiplied by the amount of his creditable service performed or purchased
69 on or after January 1, 2013, and (b) 1.70 percent of his average final compensation multiplied by the
70 amount of all other creditable service.

71 2. Early retirement; applicable to teachers, state employees, and certain others. - The allowance shall
72 be determined in the same manner as for normal retirement with creditable service and average final
73 compensation being determined as of the date of actual retirement. If the member has less than 30 years
74 of service at retirement, the amount of the retirement allowance shall be reduced on an actuarial
75 equivalent basis for the period by which the actual retirement date precedes the earlier of (i) his normal
76 retirement date or (ii) the first date on which he would have completed a total of 30 years of creditable
77 service. The provisions of this subdivision shall apply to teachers and state employees. These provisions
78 shall also apply to employees of any political subdivision that participates in the retirement system if the
79 political subdivision makes the election provided in subdivision 3.

80 3. Early retirement; applicable to employees of certain political subdivisions, any person who
81 becomes a member on or after July 1, 2010, and any member who does not have at least 60 months of
82 creditable service as of January 1, 2013. - The allowance shall be determined in the same manner as for
83 normal retirement with creditable service and average final compensation being determined as of the
84 date of actual retirement. If the creditable service of the member equals 30 or more years but the sum of
85 his age at retirement plus his creditable service at retirement is less than 90, the amount of the
86 retirement allowance shall be reduced on an actuarial equivalent basis for the period by which the actual
87 retirement date precedes the earlier of (i) his normal retirement date or (ii) the first date on which the
88 sum of his then attained age plus his then creditable service would have been equal to 90 or more had
89 he remained in service until such date. If the member has less than 30 years of creditable service, the
90 retirement allowance shall be reduced for the period by which the actual retirement date precedes the
91 earlier of (i) his normal retirement date or (ii) the first date on which he would have completed a total
92 of at least 30 years of creditable service and his then creditable service plus his then attained age would
93 have been equal to 90 or more.

94 The provisions of this subdivision shall apply to the employees of any political subdivision that
95 participates in the retirement system and any other employees as provided by law. The participating
96 political subdivision may, however, elect to provide its employees with the early retirement allowance
97 set forth in subdivision 2. No such election shall be made for a person who becomes a member on or
98 after July 1, 2010, or a member who does not have at least 60 months of creditable service as of
99 January 1, 2013. Any election pursuant to this subdivision shall be set forth in a legally adopted
100 resolution.

101 Notwithstanding the foregoing, a political subdivision by legally adopted resolution may declare to
102 the Board that, for purposes of this subdivision and subdivisions B 1 and B 3 *and subsection D* of
103 § 51.1-153, any person who is employed as a firefighter, emergency medical technician, or
104 law-enforcement officer as those terms are defined in § 15.2-1512.2 (i) shall not be considered a person
105 who becomes a member on or after July 1, 2010, *and (ii) shall be considered to have at least 60*
106 *months of creditable service as of January 1, 2013.* Such resolution shall be irrevocable.

107 4. Additional allowance. - In addition to the allowance payable under subdivisions 1, 2, and 3, a
108 member shall receive an additional allowance which shall be the actuarial equivalent, for his attained
109 age at the time of retirement, of the excess of his accumulated contributions transferred from the
110 abolished system to the retirement system, including interest credited at the rate of two percent
111 compounded annually since the transfer to the date of retirement, over the annual amounts equal to four
112 percent of his annual creditable compensation at the date of abolishment for a period equal to his period
113 of membership in the abolished system.

114 5. 50/10 retirement. - The allowance shall be payable in a monthly stream of payments equal to the
115 greater of (i) the actuarial equivalent of the benefit the member would have received had he terminated
116 service and deferred retirement to age 55 or (ii) the actuarially calculated present value of the member's
117 accumulated contributions, including accrued interest.

118 B. Beneficiary serving in position covered by this title.

119 1. Except as provided in subdivisions 2 and 3, if a beneficiary of a service retirement allowance
120 under this chapter or the provisions of Chapters 2 (§ 51.1-200 et seq.), 2.1 (§ 51.1-211 et seq.), or 3

(§ 51.1-300 et seq.) is at any time in service as an employee in a position covered for retirement purposes under the provisions of this or any chapter other than Chapter 6 (§ 51.1-600 et seq.), 6.1 (§ 51.1-607 et seq.), or 7 (§ 51.1-700 et seq.), his retirement allowance shall cease while so employed. Any member who retires and later returns to covered employment shall not be entitled to select a different retirement option for a subsequent retirement.

2. Active members of the General Assembly who are eligible to receive a retirement allowance under this title, excluding their service as a member of the General Assembly, shall be eligible to receive a retirement allowance based on their creditable service and average final compensation for service other than as a member of the General Assembly. Such members of the General Assembly shall continue to be reported as any other members of the retirement system. Upon ceasing to serve in the General Assembly, members of the General Assembly receiving a retirement allowance based on their creditable service and average final compensation for service other than as a member of the General Assembly shall have their retirement allowance recomputed prospectively to include their service as a member of the General Assembly. Active members of the General Assembly shall be prohibited from receiving a service retirement allowance under this title based solely on their service as a member of the General Assembly.

3. (Expires July 1, 2015) Any person receiving a service retirement allowance under this chapter, who is hired as a local school board instructional or administrative employee required to be licensed by the Board of Education, may elect to continue to receive the retirement allowance during such employment, under the following conditions:

(a) The person has been receiving such retirement allowance for a certain period of time preceding his employment as provided by law;

(b) The person is not receiving a retirement benefit pursuant to an early retirement incentive program from any local school division within the Commonwealth; and

(c) At the time the person is employed, the position to which he is assigned is among those identified by the Superintendent of Public Instruction pursuant to subdivision 4 of § 22.1-23, by the relevant division superintendent, pursuant to § 22.1-70.3, or by the relevant local school board, pursuant to subdivision 9 of § 22.1-79.

If the person elects to continue to receive the retirement allowance during the period of such employment, then his service performed and compensation received during such period of time will not increase, decrease, or affect in any way his retirement benefits before, during, or after such employment.

§ 51.1-169. Hybrid retirement program.

A. For purposes of this section, "hybrid retirement program" or "program" means a hybrid retirement program covering any employee in a position covered for retirement purposes under the provisions of Chapter 1 (§ 51.1-124.1 et seq.) for retirement purposes other than the Virginia Retirement System defined benefit retirement plan established under Chapter 1 (§ 51.1-124.1 et seq.). Except as provided in § 51.1-302, persons who are participants in, or eligible to be participants in, the retirement plans under the provisions of Chapter 2 (§ 51.1-200 et seq.), Chapter 2.1 (§ 51.1-211 et seq.), Chapter 3 (§ 51.1-300 et seq.), the optional retirement plans established under §§ 51.1-126.1, 51.1-126.3, 51.1-126.4, and 51.1-126.7, or a person eligible to earn the benefits permitted by § 51.1-138 shall not be eligible to participate in the hybrid retirement program. *Any person who is employed as a firefighter, emergency medical technician, or law-enforcement officer as those terms are defined in § 15.2-1512.2 and whose employing political subdivision has legally adopted an irrevocable resolution as described in subdivision B 4 of § 51.1-153 and subdivision A 3 of § 51.1-155 shall not be eligible to participate in the hybrid retirement program.*

The Board shall maintain the hybrid retirement program established by this section, and any employer is authorized to make contributions under such program for the benefit of its employees participating in such program. Every person who is otherwise eligible to participate in the program but is not a member of a retirement plan administered by the Virginia Retirement System the first time he is hired on or after January 1, 2014, in a covered position, shall participate in the hybrid retirement program established by this section.

A person who participates in the otherwise applicable defined benefit retirement plan established by this title and administered by the Virginia Retirement System under this chapter may make an irrevocable election to participate in the hybrid retirement program maintained under this section. Such election shall be exercised no later than April 30, 2014. If an election is not made by April 30, 2014, such employee shall be deemed to have elected not to participate in the hybrid retirement program and shall continue to participate in his current retirement plan.

B. 1. The employer shall make contributions to the defined benefit component of the program in accordance with § 51.1-145.

2. The employer shall make a mandatory contribution to the defined contribution component of the program on behalf of an employee participating in the program in the amount of one percent of

creditable compensation. In addition, the employer shall make a matching contribution on behalf of the employee based on the employee's voluntary contributions under the defined contribution component of the program to the deferred compensation plan established under § 51.1-602, up to a maximum of 2.5 percent of creditable compensation for the payroll period, as follows: (i) 100 percent of the first one percent of creditable compensation contributed by the employee to the defined contribution component of the program under subdivision C 2 for the payroll period, and (ii) 50 percent of the next three percent of creditable compensation contributed by the employee to the defined contribution component of the program under subdivision C 2 for the payroll period. The matching contribution by the employer shall be made to the appropriate cash match plan established for the employee under § 51.1-608.

3. The total amount contributed by the employer under subdivision 2 shall vest to the employee's benefit according to the following schedule:

a. Upon completion of two years of continuous participation in the program, 50 percent.

b. Upon completion of three years of continuous participation in the program, 75 percent.

c. Upon completion of four years of continuous participation in the program, 100 percent.

If an employee terminates employment with an employer prior to achieving 100 percent vesting, contributions made by an employer on behalf of the employee under subdivision 2 that are not vested, shall be forfeited. The Board may establish a forfeiture account and may specify the uses of the forfeiture account.

4. An employee may direct the investment of contributions made by an employer under subdivision B 2.

5. No loans or hardship distributions shall be available from contributions made by an employer under subdivision B 2.

C. 1. An employee participating in the hybrid retirement program maintained under this section shall, pursuant to procedures established by the Board, make mandatory contributions on a salary reduction basis in accordance with § 414(h) of the Internal Revenue Code (i) to the defined benefit component of the program in the amount of four percent of creditable compensation in lieu of the amount described in subsection A of § 51.1-144 and (ii) to the defined contribution component of the program in the amount of one percent of creditable compensation.

2. An employee participating in the hybrid retirement program may also make voluntary contributions to the defined contribution component of the program of up to four percent of creditable compensation or the limit on elective deferrals pursuant to § 457(b) of the Internal Revenue Code, whichever is less. The contribution by the employee shall be made to the appropriate deferred compensation plan established by the employee under § 51.1-602.

3. If an employee's voluntary contributions under subdivision C 2 are less than four percent of creditable compensation, the contribution will increase by one-half of one percent, beginning on January 1, 2017, and every three years thereafter, until the employee's voluntary contributions under subdivision C 2 reach four percent of creditable compensation. The increase will be effective beginning with the first pay period that begins in such calendar year unless the employee elects not to increase the voluntary contribution in a manner prescribed by the Board.

4. No loans or hardship distributions shall be available from contributions made by an employee under this subsection.

D. 1. The amount of the service retirement allowance under the defined benefit component of the program shall be governed by § 51.1-155, except that the allowance shall equal one percent of a member's average final compensation multiplied by the amount of his creditable service while in the program. For judges who are participating in the hybrid retirement program, creditable service shall be determined as provided in § 51.1-303.

2. No member shall retire for disability under the defined benefit component of the program.

3. In all other respects, administration of the defined benefit component of the program shall be governed by the provisions of Chapter 1 (§ 51.1-124.1 et seq.).

E. With respect to any employee who elects, pursuant to subsection A, to participate in the otherwise applicable defined benefit retirement plan established by this title and administered by the Virginia Retirement System, the employer shall collect and pay all employee and employer contributions to the Virginia Retirement System for retirement and group life insurance in accordance with the provisions of Chapter 1 (§ 51.1-124.1 et seq.) for such employee.

F. 1. The Board shall develop policies and procedures for administering the hybrid retirement program it maintains, including the establishment of guidelines for employee elections and deferrals under the program.

2. No employee who is an active member in the hybrid retirement program maintained under this section shall also be an active member of any other optional retirement plan maintained under the provisions of Chapter 1 (§ 51.1-124.1 et seq.).

3. If a member of the hybrid retirement program maintained under this section is at any time in service as an employee in a position covered for retirement purposes under the provisions of Chapter 1

(§ 51.1-124.1 et seq.), 2 (§ 51.1-200 et seq.), 2.1 (§ 51.1-211 et seq.), or 3 (§ 51.1-300 et seq.), his benefit payments under the hybrid retirement program maintained under this section shall be suspended while so employed; provided, however, reemployment shall have no effect on a payment under the defined contribution component of the program if the benefit is being paid in an annuity form under an annuity contract purchased with the member's account balance.

4. Any administrative fee imposed pursuant to subdivision A 13 of § 51.1-124.22 on any employer for administering and overseeing the hybrid retirement program maintained under this section shall be charged for each employee participating in such program and shall be for costs incurred by the Virginia Retirement System that are directly related to the administration and oversight of such program.

5. The creditable compensation for any employee on whose behalf employee or employer contributions are made into the hybrid retirement program shall not exceed the limit on compensation as adjusted by the Commissioner of the Internal Revenue Service pursuant to the transition provisions applicable to eligible participants under state and local governmental plans under § 401(a)(17) of the Internal Revenue Code as amended in 1993 and as contained in § 13212(d)(3) of the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66).

6. The Board may contract with private corporations or institutions, subject to the standards set forth in § 51.1-124.30, to provide investment products as well as any other goods and services related to the administration of the hybrid retirement program. The Virginia Retirement System is hereby authorized to perform related services, including but not limited to, providing consolidated billing, individual and collective recordkeeping and accountings, and asset purchase, control, and safekeeping.