

## Virginia Retirement System 2013 Fiscal Impact Statement

**1. Bill Number:** SB838S1

House of Origin	<input type="checkbox"/>	Introduced	<input type="checkbox"/>	Substitute	X	Engrossed
Second House	<input type="checkbox"/>	In Committee	<input type="checkbox"/>	Substitute	<input type="checkbox"/>	Enrolled

**2. Patron:** Carrico

**3. Committee:** Finance

**4. Title:** SPORS and VaLORS members; option of converting accumulated sick leave into service credit under VRS.

**5. Summary:** SPORS and VaLORS members not participating in Virginia Sickness and Disability Program; purchase of state service. Provides SPORS and VaLORS members who commenced employment or were rehired before January 1, 1999, and elected to not participate in the Virginia Sickness and Disability Program the option of converting accumulated sick leave into service credit under the Virginia Retirement System. Such option would be available from May 1, 2013, to June 30, 2013. The bill contains an emergency clause.

**6. Budget Amendment Necessary:** No.

**7. Fiscal Impact Estimates:** A Senate amendment provides that this bill would only apply to SPORS and VaLORS members who commenced employment or were rehired before January 1, 1999, and elected to not participate in the Virginia Sickness and Disability Program (VSDP). The Virginia Retirement System (VRS) is unable to predict exactly how many of the approximately 2,100 SPORS and VaLORS members who were eligible for (VSDP), but who opted out, would elect to convert their accumulated sick leave into service credit in VRS. VRS has estimated the cost of the proposed bill based on data, actuarial assumptions and methods from the June 30, 2012 actuarial valuation. In addition, sick leave balances for all SPORS members and about 6% of the VaLORS members who have opted out of VSDP were provided by the Department of Accounts (DOA). Data for agencies employing VaLORS members that do not use CIPPS and PMIS, the state's central payroll and leave systems, were not available. For those VaLORS members whose sick leave balance was not reported, average sick leave balance data was used to approximate missing values.

For purposes of this review, VRS has provided two scenarios, one assuming all eligible SPORS and VaLORS members convert their sick leave balance, and one assuming 50% of eligible members convert their sick leave balance to service credit in VRS. VRS has assumed the affected members will retire earlier than expected and with greater service than anticipated by the original valuation and assumptions, resulting in increases in the unfunded liability of the SPORS and VaLORS plans.

In the tables below we present the estimated cost impact of converting sick leave balances to retirement service credits under SB838S1 for the SPORS and VaLORS retirement systems.

(1) Cost impact assuming 50% of non-VSDP SPORS and VaLORS members with the greatest accumulated sick leave balances will convert their sick leave balances to retirement service. Using this assumption, the additional creditable service generates an approximately \$12.8 million increase in the accrued unfunded liability across both plans.

	<u>FY13 Cost</u>	<u>FY14 Cost</u>	<u>FY15 Cost</u>	<u>FY16 Cost</u>	<u>FY17 Cost</u>	<u>FY18 Cost</u>
<b>Payroll Growth Assumption</b> (includes promotion, COLA, etc.):	<b>Member contributions / corresponding payroll increases</b>	<b>2.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	457,000	466,000	466,000	466,000	466,000	466,000
VaLORS - General Fund	652,000	665,000	665,000	665,000	665,000	665,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
<b>TOTAL General Fund</b>	<b>\$ 1,109,000</b>	<b>\$ 1,131,000</b>	<b>\$ 1,131,000</b>	<b>\$ 1,131,000</b>	<b>\$ 1,131,000</b>	<b>\$ 1,131,000</b>
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	76,000	77,000	77,000	77,000	77,000	77,000
VaLORS - Non-General Funds	59,000	60,000	60,000	60,000	60,000	60,000
<b>TOTAL - Non-General Funds</b>	<b>\$ 135,000</b>	<b>\$ 137,000</b>	<b>\$ 137,000</b>	<b>\$ 137,000</b>	<b>\$ 137,000</b>	<b>\$ 137,000</b>
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non Schools	-	-	-	-	-	-
<b>TOTAL Local Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Grand Totals</b>	<b>\$ 1,244,000</b>	<b>\$ 1,268,000</b>	<b>\$ 1,268,000</b>	<b>\$ 1,268,000</b>	<b>\$ 1,268,000</b>	<b>\$ 1,268,000</b>

Estimated projections based on employee data and valuations results as of June 30, 2012 and assume a level population throughout projection period.

(2) Cost impact assuming 100% of non-VSDP SPORS and VaLORS members will convert their sick leave balances to retirement service. Using this assumption, the additional creditable service generates an approximately \$19.0 million increase in the accrued unfunded liability for both plans.

	<u>FY13 Cost</u>	<u>FY14 Cost</u>	<u>FY15 Cost</u>	<u>FY16 Cost</u>	<u>FY17 Cost</u>	<u>FY18 Cost</u>
<b>Payroll Growth Assumption</b> (includes promotion, COLA, etc.):	<b>Member contributions / corresponding payroll increases</b>	<b>2.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	683,000	696,000	696,000	696,000	696,000	696,000
VaLORS - General Fund	972,000	992,000	992,000	992,000	992,000	992,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
<b>TOTAL General Fund</b>	<b>\$ 1,655,000</b>	<b>\$ 1,688,000</b>	<b>\$ 1,688,000</b>	<b>\$ 1,688,000</b>	<b>\$ 1,688,000</b>	<b>\$ 1,688,000</b>
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	113,000	115,000	115,000	115,000	115,000	115,000
VaLORS - Non-General Funds	88,000	90,000	90,000	90,000	90,000	90,000
<b>TOTAL - Non-General Funds</b>	<b>\$ 201,000</b>	<b>\$ 205,000</b>	<b>\$ 205,000</b>	<b>\$ 205,000</b>	<b>\$ 205,000</b>	<b>\$ 205,000</b>
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non Schools	-	-	-	-	-	-
<b>TOTAL Local Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Grand Totals</b>	<b>\$ 1,856,000</b>	<b>\$ 1,893,000</b>	<b>\$ 1,893,000</b>	<b>\$ 1,893,000</b>	<b>\$ 1,893,000</b>	<b>\$ 1,893,000</b>

Estimated projections based on employee data and valuations results as of June 30, 2012 and assume a level population throughout projection period.

The above costs do not take into account any offset of potential payout by employers for unused sick leave at time of retirement. This payout is for up to 25% of sick leave and is capped at \$5,000.

VRS also expects that there would be minor impacts to costs associated with the Health Insurance Credit (HIC) Program and Group Life Insurance (GLI) plan under this proposed bill due to potential acceleration of retirement dates for some eligible members.

- 8. Fiscal Implications:** Allowing the conversion of unlimited amounts of accrued sick leave to service credit would enable eligible employees who took advantage of this opportunity to retire early. In some cases, long-term employees have accrued several years of sick leave. Any employees with at least 15 years of service who retire early as a result of the conversion of accrued sick leave would also begin to receive the (HIC) earlier than anticipated, which would add to the actuarial cost of these early retirements.

Because there would be no associated employer contribution related to the additional service purchased, the converted service would add to the unfunded actuarial liability.

- 9. Specific Agency or Political Subdivisions Affected:** VRS, SPORS and VaLORS.

**10. Technical Amendment Necessary:** No

**11. Other Comments:** This legislation would allow SPORS and VaLORS employees who were eligible for VSDP and who commenced employment or were rehired prior to January 1, 1999, but who did not elect to participate in the program, to convert all or part of their accumulated sick leave balances to service credit. The conversion would be at a rate of one month of service for each 173 hours of sick leave. There is no limit on the amount of sick leave that can be converted under the bill and no cost to the employee to convert the service. The bill provides that sick leave balances may only be converted during a limited election period from May 1, 2013 through June 30, 2013.

Current law (§ 51.1-142.2(D)) allows any member in service to purchase service credit for accumulated sick leave upon retirement but only in the amount the employer may provide as payment for unused sick leave. The member is required to pay the actuarial equivalent of the cost of any service purchased under this provision. DHRM policy 4.55 allows eligible employees with at least five years of continuous salaried state service who separate from state service to be paid for up to 25% of their accrued sick leave balance up to a maximum of \$5,000.

Below are two examples of the cost impact to the VRS under the proposed bill.

The first example shows the impact for a SPORS or VaLORS member already eligible for retirement who has 1200 hours of accumulated sick leave. The 1200 hours of sick leave converts to 6 additional months of service:

Employee Age at Retirement	50		
Years of Benefit Service	25		
Average Final Compensation	\$65,000		
Accumulated Sick Leave Balance	1200 Hours		
<b>Current Value of Retirement Benefit and Unused Sick Leave at Retirement Date</b>			
<b>Annual Retirement Benefit</b>	<b>Payout of Unused Sick Leave</b>	<b>Present Value of Retirement Benefit at Retirement</b>	<b>Total Value Retirement and Sick Leave Payout</b>
\$ 27,625	\$ 5,000	\$ 458,600	\$ 463,600
<b>Value of Retirement Benefit and Unused Sick Leave under proposed SB 838 at Retirement Date</b> - Accumulated Sick Leave is converted to 6 months of additional benefit service			
<b>Annual Retirement Benefit</b>	<b>Payout of Unused Sick Leave</b>	<b>Present Value of Retirement Benefit at Retirement</b>	<b>Total Value Retirement and Sick Leave Payout</b>
\$ 28,178	\$ -	\$ 467,800	\$ 467,800
<b>The net increase in payout is approximately \$4,200</b>			

The second example shows the impact for a member who has 3600 hours of accumulated sick leave. The 3600 hours of sick leave converts to 1 year and 8 months of additional service:

Employee Age at Retirement	50		
Years of Benefit Service	25		
Average Final Compensation	\$65,000		
Accumulated Sick Leave Balance	3600 Hours		
<b>Current Value of Retirement Benefit and Unused Sick Leave at Retirement Date</b>			
<b>Annual Retirement Benefit</b>	<b>Payout of Unused Sick Leave</b>	<b>Present Value of Retirement Benefit at Retirement</b>	<b>Total Value Retirement and Sick Leave Payout</b>
\$ 27,625	\$ 5,000	\$ 458,600	\$ 463,600
<b>Value of Retirement Benefit and Unused Sick Leave under proposed SB 838 at Retirement Date</b> <b>- Accumulated Sick Leave is converted to 1 year 8 months of additional benefit service</b>			
<b>Annual Retirement Benefit</b>	<b>Payout of Unused Sick Leave</b>	<b>Present Value of Retirement Benefit at Retirement</b>	<b>Total Value Retirement and Sick Leave Payout</b>
\$ 29,467	\$ -	\$ 489,200	\$ 489,200
<b>The net increase in payout is approximately \$25,600</b>			

This bill contains an emergency enactment clause. The Senate also amended the bill by adding an enactment clause that provides that the provisions of this bill shall not become effective unless an appropriation to the Retirement System Unfunded Liability Special Reserve Fund (for the Virginia Retirement System) of at least \$19 million is included in the general appropriations act passed by the 2013 Session of the General Assembly, which becomes law. The purpose of such appropriation shall be to fund any unfunded liability created in the Virginia Retirement System by the provisions of this act.

**Date:** 01.26.13

**Document:** SB838E.DOC