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**HOUSE BILL NO. 877****AMENDMENT IN THE NATURE OF A SUBSTITUTE**(Proposed by the House Committee on Appropriations  
on February 7, 2014)

(Patron Prior to Substitute—Delegate Jones)

*A BILL to amend and reenact §§ 51.1-169, 51.1-603.1, and 51.1-610 of the Code of Virginia, relating to hybrid retirement program; local deferred compensation and cash match plans.***Be it enacted by the General Assembly of Virginia:****1. That §§ 51.1-169, 51.1-603.1, and 51.1-610 of the Code of Virginia are amended and reenacted as follows:****§ 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. Except as otherwise provided in subsection G:**

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, *which shall be made to the appropriate cash match plan established for the employee under § 51.1-608*. 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

60 forfeiture account.

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

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

65 *C. Except as otherwise provided in subsection G:*

66 1. An employee participating in the hybrid retirement program maintained under this section shall,  
67 pursuant to procedures established by the Board, make mandatory contributions on a salary reduction  
68 basis in accordance with § 414(h) of the Internal Revenue Code (i) to the defined benefit component of  
69 the program in the amount of four percent of creditable compensation in lieu of the amount described in  
70 subsection A of § 51.1-144 and (ii) to the defined contribution component of the program in the amount  
71 of one percent of creditable compensation, *which shall be made to the appropriate cash match plan*  
72 *established for the employee under § 51.1-608.*

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

78 3. If an employee's voluntary contributions under subdivision C 2 are less than four percent of  
79 creditable compensation, the contribution will increase by one-half of one percent, beginning on January  
80 1, 2017, and every three years thereafter, until the employee's voluntary contributions under subdivision  
81 C 2 reach four percent of creditable compensation. The increase will be effective beginning with the  
82 first pay period that begins in such calendar year unless the employee elects not to increase the  
83 voluntary contribution in a manner prescribed by the Board.

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

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

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

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

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

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

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

105 3. If a member of the hybrid retirement program maintained under this section is at any time in  
106 service as an employee in a position covered for retirement purposes under the provisions of Chapter 1  
107 (§ 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  
108 benefit payments under the hybrid retirement program maintained under this section shall be suspended  
109 while so employed; provided, however, reemployment shall have no effect on a payment under the  
110 defined contribution component of the program if the benefit is being paid in an annuity form under an  
111 annuity contract purchased with the member's account balance.

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

116 5. The creditable compensation for any employee on whose behalf employee or employer  
117 contributions are made into the hybrid retirement program shall not exceed the limit on compensation as  
118 adjusted by the Commissioner of the Internal Revenue Service pursuant to the transition provisions  
119 applicable to eligible participants under state and local governmental plans under § 401(a)(17) of the  
120 Internal Revenue Code as amended in 1993 and as contained in § 13212(d)(3) of the Omnibus Budget  
121 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, *except as provided in subsection G*. 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.

*G. 1. Any political subdivision of the Commonwealth that has established a plan pursuant to § 403(b) of the Internal Revenue Code of 1986, as amended (a "403(b) plan"), may, at its option, direct that its employees' voluntary contributions to the defined contribution component of the program under subdivision C 2 be made to such 403(b) plan and the corresponding employer matching contributions under subdivision B 2 be made to such 403(b) plan or the appropriate local cash match plan established under § 51.1-610. All such voluntary contributions by an employee to such 403(b) plan shall be made on a pretax basis. Any such political subdivision of the Commonwealth that so directs shall develop policies and procedures for administering such contributions, subject to and in accordance with applicable federal law and regulations. The policies and procedures shall provide for the administration of:*

*a. Vesting provisions as provided in subdivision B 3, the establishment of and uses for a forfeiture account as provided in subdivision B 3, and automatic contribution escalation provisions as provided in subdivision C 3, all with regard to employee voluntary contributions and corresponding employer matching contributions; and*

*b. Loans or hardship distributions for employee voluntary contributions under subdivision C 2 and employer matching contributions corresponding to employee voluntary contributions under subdivision B 2, notwithstanding the prohibitions on such loans or distributions in subdivision B 5 and subdivision C 4.*

*In all other respects, the political subdivision shall be subject to the provisions of the hybrid retirement program described in this section.*

*2. The governing body of any political subdivision of the Commonwealth electing to use its 403(b) plan or a local cash match plan as described in subdivision 1 shall adopt a resolution on or before November 1, 2014, and submit such resolution to the Board to notify the Board of its election, which shall be effective January 1, 2015, and shall remain effective for a minimum period of 18 months. Thereafter, the governing body of such political subdivision of the Commonwealth may change its election for its employees no more often than annually by adopting a resolution on or before March 1 of each year notifying the Board of any change in such election, which change shall become effective on July 1.*

*3. In the case of a 403(b) plan or local cash match plan administered by a political subdivision of the Commonwealth that provides individual accounts permitting an employee or beneficiary to exercise discretion over assets in his account, the political subdivision shall not be liable for any loss resulting from such employee's or beneficiary's (i) investment of voluntary contributions in the political subdivision's 403(b) plan or matching contributions in the political subdivision's 403(b) plan or local cash match plan, (ii) exercise of discretion over the assets in any of his accounts, or (iii) inaction with respect to the assets in any of his accounts that results in such assets being placed in a default investment option selected by the political subdivision, provided that the investment options for the affected individual account and the particular default investment option for such individual account are selected in accordance with subsection A of § 51.1-803, applied mutatis mutandis. Under no circumstances shall the Commonwealth, the Board, employees of the Retirement System, the Investment Advisory Committee of the Retirement System, or any other advisory committee established by the Board bear any liability with respect to any plan or individual account described in this subsection.*

*4. The provisions of this subsection shall not apply to any political subdivision of the Commonwealth that has entered into an agreement with the Virginia Retirement System pursuant to § 51.1-603.1 or 51.1-611 except with regard to a 403(b) plan.*

**§ 51.1-603.1. Participation by employees of political subdivisions in deferred compensation plan of Virginia Retirement System.**

A. The Virginia Retirement System may enter into an agreement with any political subdivision of the Commonwealth to permit participation by the political subdivision's employees in the deferred compensation plan established and administered by the Board pursuant to § 51.1-602, except that political subdivisions of the Commonwealth otherwise participating in the retirement system pursuant to Article 5 (§ 51.1-130 et seq.) of Chapter 1 shall participate in the deferred compensation plan established and administered by the Board pursuant to § 51.1-602 to the extent necessary to provide benefits under the hybrid retirement program described in § 51.1-169. *Such participation shall not be required for any political subdivision eligible for and making the election in subsection G of § 51.1-169 to direct its employees' voluntary contributions to the defined contribution component of the hybrid retirement*

183 *program to a plan it has established pursuant to § 403(b) of the Internal Revenue Code of 1986, as*  
184 *amended.*

185 B. The political subdivision may provide in the agreement that its employees who (i) commence  
186 employment or reemployment on or after a specified date occurring on or after the effective date of this  
187 provision in the agreement, (ii) are not participating in the hybrid retirement program described in  
188 § 51.1-169, and (iii) have not affirmatively elected to participate in the plan described in § 51.1-602 or a  
189 plan established by such political subdivision pursuant to § 403(b) of the Internal Revenue Code of  
190 1986, as amended, shall participate in either such plan described in § 51.1-602 or a 403(b) plan, as  
191 determined by the political subdivision, unless such employee elects, in a manner prescribed by the  
192 Board, not to participate in such plan. The amount of the deferral for any such employee participating in  
193 the plan shall equal, on a semimonthly basis, \$20 of otherwise payable compensation, unless the  
194 employee elects to defer a greater amount.

195 **§ 51.1-610. Local cash match plans.**

196 A. Any county, municipality, authority, or other political subdivision of the Commonwealth may by  
197 ordinance or resolution adopt and establish for itself and its employees a cash match plan. Any such  
198 cash match plan may include constitutional officers and their employees. The ordinance or resolution  
199 adopting or establishing such plan shall create or designate an appropriate board or officer to administer  
200 the plan, and shall confer upon such board or officer the authority to do all things by way of  
201 supervision, administration, and implementation of the plan, including the power to contract with private  
202 corporations or institutions for services in connection therewith.

203 B. If it deems it advisable, any county, municipality, authority, or other political subdivision of the  
204 Commonwealth, which by ordinance or resolution adopts and establishes for itself and its employees a  
205 cash match plan, may create a trust or other special fund for the segregation of the funds or assets  
206 resulting from contributions.

207 C. ~~No amount shall be credited pursuant to any cash match plan created pursuant to this section on~~  
208 ~~behalf of a qualified participant who is participating in the hybrid retirement program described in~~  
209 ~~§ 51.1-169 if the qualified participant has not contributed the maximum amount of voluntary~~  
210 ~~contributions under subdivision C 2 of § 51.1-169.~~

211 **2. That the provisions of this act shall become effective on January 1, 2015, except those**  
212 **provisions creating subdivision G 2 of § 51.1-169 of the Code of Virginia which shall become**  
213 **effective in due course.**