

Virginia Retirement System 2015 Fiscal Impact Statement

1. Bill Number: HB1358

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

2. Patron: Farrell

3. Committee: Courts of Justice

4. Title: Virginia Retirement System; creditable service for members of General Assembly.

5. Summary: Reduces by one-half the service credit that a member of the General Assembly may earn in any 12-month period. The reduction only applies to a member of the General Assembly who i) becomes a member after July 1, 2015, or ii) has fewer than five years of creditable service as of July 1, 2015. Creditable service attributed to General Assembly membership shall be reduced by one-half in the case of each General Assembly members described in clause (ii).

6. Budget Amendment Necessary: Yes. VRS estimates that implementation of HB 1358 would cost approximately \$100,000. This figure includes programming changes to internal VRS systems, as well as programming, testing, and training related to the changes in affected customer programs.

7. Fiscal Impact Estimates: Members of the General Assembly make up a relatively small percentage of the total State employee population and the associated State employee plan. As such, changes to service accruals for a subset of this population will have very little fiscal impact. As of July 1, 2015, 50 of the 140 members of the General Assembly would be directly impacted by this proposed bill. In addition, there are 12 former General Assembly members who are currently inactive, but not vested, whose service would be impacted.

The annual savings to the Plan to change future service accruals for select members of the General Assembly would be approximately \$76,000. This is based on a decreased annual cost of 0.0020% percent of payroll for the State Plan.

Exhibit 1

	<u>FY15 Cost</u>	<u>FY16 Cost</u>	<u>FY17 Cost</u>	<u>FY18 Cost</u>	<u>FY19 Cost</u>	<u>FY20 Cost</u>
State - General Fund	\$ -	\$ (33,000)	\$ (33,000)	\$ (33,000)	\$ (33,000)	\$ (33,000)
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	-	-	-	-	-	-
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ -	\$ (33,000)	\$ (33,000)	\$ (33,000)	\$ (33,000)	\$ (33,000)
State - Non-General Funds	\$ -	\$ (43,000)	\$ (43,000)	\$ (43,000)	\$ (43,000)	\$ (43,000)
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ (43,000)	\$ (43,000)	\$ (43,000)	\$ (43,000)	\$ (43,000)
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subdivisions - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ -	\$ (76,000)	\$ (76,000)	\$ (76,000)	\$ (76,000)	\$ (76,000)

Estimated projections based on employee data and valuations results as of June 30, 2014 and assume a level population throughout projection period.

Payroll projections are assumed level throughout projection period.

- 8. Fiscal Implications:** Even though HB 1358 would have relatively little impact on State Plan costs, and no effect on about 65% of current General Assembly members, the bill would effectively reduce the retirement benefit for 50 active General Assembly members and all future members by 50%. Exhibit 2 below shows a comparison of the annual retirement benefit for a member who serves 25 years in the General Assembly and then retires under the current method versus the proposed SB 1358, under which the benefit would be reduced by 50%.

Exhibit 2

Current Method

Plan 1 Member	Employer	Service Period	Years of Benefit Service	Average Compensation	Annual Retirement Benefit
Member serves 25 years in General Assembly	General Assembly	1/1/1990 - 1/1/2015	25.00	\$ 18,000	\$ 7,650

Proposed HB 1358

Plan 1 Member	Employer	Service Period	Years of Benefit Service	Average Compensation	Annual Retirement Benefit
Member serves 25 years in General Assembly	General Assembly	1/1/1990 - 1/1/2015	12.50	\$ 18,000	\$ 3,825

For a member who has 22 years in the General Assembly and then leaves to work for another VRS employer for three years and ultimately retires with 25 years of service, his or her benefit under the current policy allows a benefit increase from \$6,700 to \$63,750 over a three-year period. Exhibit 3 shows how HB 1358 would lower the benefit, but would still allow for a substantial actuarial loss to the plan.

Exhibit 3
Current Method

Plan 1 Member	Employer	Service Period	Years of Benefit Service	Average Compensation	Accrued Benefit
Member serves 22 years in General Assembly	General Assembly	1/1/1993 - 1/1/2015	22.00	\$ 18,000	\$ 6,732
Leaves GA and takes high paying position for 3 years	Other VRS Service	2/1/2015 - 2/1/2018	3.00	\$ 150,000	
Current method allows all service to be used with higher average final compensation (3 year Avg)	Retirement		25.00	\$ 150,000	\$ 63,750

Proposed HB 1358

Plan 1 Member	Employer	Service Period	Years of Benefit Service	Average Compensation	Accrued Benefit
Member serves 22 years in General Assembly	General Assembly	1/1/1993 - 1/1/2015	11.00	\$ 18,000	\$ 3,366
Leaves GA and takes high paying position for 3 years	Other VRS Service	2/1/2015 - 2/1/2018	3.00	\$ 150,000	
GA Service is reduced but higher average final compensation is still used to determine final benefit.	Retirement		14.00	\$ 150,000	\$ 35,700

9. Specific Agency or Political Subdivisions Affected: VRS and members of the General Assembly.

10. Technical Amendment Necessary: Yes. It may be helpful to reference the dual employment provisions in § 51.1-155(B)(2) that apply to members of the General Assembly who are also employed in other VRS covered positions.

Line 16, after “However,” insert “unless otherwise provided in § 51.1-155(B)(2),”

11. Other Comments: Because vesting and eligibility for other post-employment benefits (OPEBs) administered by VRS is determined by length of service, the General Assembly members affected by this legislation will have to work longer to earn eligibility for these benefits. For example, a General Assembly Member affected by this legislation would need 10 years of membership to vest under Plan 2 or under the defined benefit component of the Hybrid Retirement Plan instead of five years. The same member would need to serve 30 years in the General Assembly to qualify for the Health Insurance Credit instead of 15. An affected member would also need to serve eight years in order to vest to all employer

contributions to the defined contribution component of the Hybrid Retirement Plan instead of four years.

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 to 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.

HB 1480 is similar to this bill but it allows eight months of creditable service per year of General Assembly membership.

Date: 1-19-2015

Document: HB1358.DOC