

## Virginia Retirement System 2015 Fiscal Impact Statement

**1. Bill Number:** HB1659

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

**2. Patron:** Rust

**3. Committee:** Appropriations

**4. Title:** Virginia Retirement System; increase of retirement allowance.

**5. Summary:** Provides for an increase, beginning July 1, 2015, of the monthly retirement allowance payable to any person who retired with at least 15 years of creditable service before January 1, 1990, under the Virginia Retirement System or the State Police Officers' Retirement System.

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

**7. Fiscal Impact Estimates:** Participants who retired with at least 15 years of creditable service before January 1, 1980 were given a similar benefit increase in 2001. This bill provides an additional increase for members who retired prior to 1980 in the amount of \$4 times 10 years of service for years in retirement from January 1, 1980 through December 31, 1989, for an increased benefit of \$40 per month. Exhibit 1 shows the increase in unfunded liability associated with these retirees.

### Exhibit 1 – Pre 1980 Retirees

Employer	Number of Retirees Impacted	Estimated Increase in Unfunded Liability
State	298	\$ 839,000
SPORS	25	\$ 76,000
Teachers	409	\$ 1,013,000
Political Subdivision - Schools	11	\$ 22,000
Political Subdivision - Non-Schools	97	\$ 316,000
<b>Total</b>	<b>840</b>	<b>\$ 2,266,000</b>

Exhibit 2 shows the number of additional retired members who would be affected by this proposed bill, along with the corresponding increase in unfunded liability as of July 1, 2015.

These members retired between 1980 and 1990 and would receive a monthly increase equal to \$4 times years of service at retirement plus an additional \$4 times the number of years and months from date of retirement until January 1, 1990.

### Exhibit 2 – Retired between 1980 – 1990

Employer	Number of Additional Retirees Impacted	Estimated Increase in Unfunded Liability
State	2,655	\$ 23,446,000
SPORS	102	\$ 1,267,000
Teachers	4,149	\$ 37,533,000
Political Subdivision - Schools	224	\$ 1,625,000
Political Subdivision - Non-Schools	820	\$ 8,313,000
<b>Total</b>	<b>7,950</b>	<b>\$ 72,184,000</b>

The additional unfunded accrued liability would become part of each respective employer's annual required contribution as a component of the unfunded amortization charge. The exhibit below shows estimated impact on plan costs.

### Exhibit 3

	<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	\$ -	\$ 739,000	\$ 739,000	\$ 739,000	\$ 739,000	\$ 739,000
SPORS - General Fund	-	80,000	80,000	80,000	80,000	80,000
VaLORS - General Fund	-	-	-	-	-	-
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	1,079,000	1,079,000	1,079,000	1,079,000	1,079,000
<b>TOTAL General Fund</b>	<b>\$ -</b>	<b>\$ 1,898,000</b>	<b>\$ 1,898,000</b>	<b>\$ 1,898,000</b>	<b>\$ 1,898,000</b>	<b>\$ 1,898,000</b>
State - Non-General Funds	\$ -	\$ 964,000	\$ 964,000	\$ 964,000	\$ 964,000	\$ 964,000
SPORS - Non-General Funds	-	14,000	14,000	14,000	14,000	14,000
VaLORS - Non-General Funds	-	-	-	-	-	-
<b>TOTAL - Non-General Funds</b>	<b>\$ -</b>	<b>\$ 978,000</b>	<b>\$ 978,000</b>	<b>\$ 978,000</b>	<b>\$ 978,000</b>	<b>\$ 978,000</b>
Teacher - Local Funds	\$ -	\$ 1,640,000	\$ 1,640,000	\$ 1,640,000	\$ 1,640,000	\$ 1,640,000
Political Subdivisions - Schools	\$ -	\$ 115,000	\$ 115,000	\$ 115,000	\$ 115,000	\$ 115,000
Political Subdivisions - Non School	-	605,000	605,000	605,000	605,000	605,000
<b>TOTAL Local Funds</b>	<b>\$ -</b>	<b>\$ 2,360,000</b>	<b>\$ 2,360,000</b>	<b>\$ 2,360,000</b>	<b>\$ 2,360,000</b>	<b>\$ 2,360,000</b>
<b>Grand Totals</b>	<b>\$ -</b>	<b>\$ 5,236,000</b>	<b>\$ 5,236,000</b>	<b>\$ 5,236,000</b>	<b>\$ 5,236,000</b>	<b>\$ 5,236,000</b>

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

Payroll projections are assumed to remain level throughout projection period.

- 8. Fiscal Implications:** Benefit payments from the fund would increase by \$12.1 million per year.
- 9. Specific Agency or Political Subdivisions Affected:** VRS, retired members, contingent annuitants, and survivors of State, SPORS, Teachers and retired members of participating local subdivisions could be impacted.
- 10. Technical Amendment Necessary:** No.
- 11. Other Comments:** This bill amends current law to include an additional 7,950 retirees, contingent annuitants or survivors of these members in the group that is eligible for an additional retirement benefit. In addition, 840 retirees who are currently receiving an increased benefit under this provision would receive an additional \$40 per month under the second part of the benefit formula.

Below are two examples of how the proposed bill would affect an average retiree from each of the groups of employees, pre-1980 retirees and those retired between 1980 and 1990.

Exhibit 4 shows how this legislation would affect a pre-1980 retiree. Retirees with over 15 years of service at retirement were given an additional retirement adjustment in 2001. With annual cost of living adjustments and the additional benefit provided by this bill, this member's benefit will have increased 218% since retirement. During this same period, 1977 to 2014, the U.S consumer price index has increased 291%. The proposed benefit of \$1,825 per month provides a benefit similar to a new retiree with an average final compensation of \$47,700 and 27 years of service.

**Exhibit 4 - Pre 1980 Retiree**

	Average Final Earnings	Service	Monthly Benefit	Percentage Increase in Benefit Since Retirement
Retired July 1, 1977	\$ 15,000	27.00	\$ 573.75	
July 2001 - monthly benefit has grown to over \$1,200 a month due to annual cost-of-living increases			\$ 1,216.87	112%
SB 945 from 2001 Legislative session provided an additional \$4 times years of service at retirement plus \$4 times number of years retired prior to 1980			\$ 124.00	
New benefit effective July 1, 2001			\$ 1,340.87	134%
July 2015 - monthly benefit has grown to \$1,785			\$ 1,784.85	211%
Proposed 2015 legislation would add an additional \$40 per month to Pre 1980 retirees' benefit			\$ 1,824.85	218%

Exhibit 5 shows how a retiree who retired prior to 1990, but after 1980, would be impacted by this legislation. As you can see below, with annual cost of living adjustments and the additional benefit provided by HB 1659, this member's benefit will have increased 115% since retirement. Even without the impact of HB 1659, the member's benefit has increased over 100% since retirement. During this same period, 1986 to 2014, the U.S consumer price index has increased 116%. The proposed benefit of \$1,852 per month, which is a 7% increase for the average retiree, provides a benefit similar to a new retiree with an average final compensation of \$48,500 with 27 years of service.

**Exhibit 5 - Retired between 1980 - 1990**

	Average Final Earnings	Service	Monthly Benefit	Percentage Increase in Benefit Since Retirement
Retired July 1, 1986	\$ 22,500	27.00	\$ 860.63	
July 2001 - monthly benefit has grown to nearly \$1,300 a month due to annual cost-of-living increases			\$ 1,297.81	51%
Not impacted by SB 945 legislation in 2001			\$ -	
New benefit effective July 1, 2001			\$ 1,297.81	51%
July 2015 - monthly benefit has grown to nearly \$1,728			\$ 1,727.52	101%
Proposed 2015 legislation would provide an additional \$4 times years of service at retirement plus \$4 times number of years retired prior to 1990			\$ 124.00	
Proposed 2015 legislation would add an additional \$124 per month for this employee			\$ 1,851.52	115%

Current law applies to Virginia Retirement System and SPORS retirees, or their contingent annuitants or survivors, with at least 15 years of service who retired prior to January 1, 1980. This bill includes all Virginia Retirement System and SPORS members, or their contingent annuitants and survivors, with at least 15 years of service who retired prior to January 1, 1990. VaLORS was not established until 1999 and, therefore, there are no VaLORS retirees prior to January 1, 1990. Eligible retirees shall have their monthly benefit increased beginning July 1, 2015. The benefit increase would be the sum of (1) \$4 per year of service credit the member had at date of retirement plus (2) \$4 per year for each year of retirement prior to January 1, 1990.

This bill is identical to SB 1022.

Revised to correct percentages associated with the benefit increase.

**Date:** 01-30-2015

**Document:** HB1659.DOC