

Virginia Retirement System 2015 Fiscal Impact Statement

1. Bill Number: SB738

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

2. Patron: Carrico

3. Committee: Finance

4. Title: Virginia Sickness and Disability Program; open enrollment period for members of the State Police Officers' Retirement System.

5. Summary: Opens the enrollment into the Virginia Sickness and Disability Program from October 1, 2015, through December 31, 2015 for employees covered by the State Police Officers' Retirement System who are not currently covered by the program. An election to participate in the program must be in writing and is irrevocable. The sick leave balance of such employees who elect to join the program would be converted to retirement service credit on the basis of one month for every 173 hours of sick leave. The bill also contains technical changes.

6. Budget Amendment Necessary: Yes. VRS estimates that one-time implementation costs of approximately \$81,000 will be necessary for systems changes and testing.

7. Fiscal Impact Estimates: This bill provides certain members of the State Police Officers' Retirement System (SPORS) the opportunity to elect participation in the Virginia Sickness and Disability Program (VSDP). An electing member may convert accumulated sick leave into VRS service credit at a rate of one month for every 173 hours of sick leave. There are 593 SPORS members who were previously eligible for VSDP, but who opted out. The average age of these members as of the proposed election date will be 51 and they will have an average of 27 years of service. VRS is unable to predict how many of the 593 SPORS members would elect to enroll in VSDP and convert accumulated sick leave, but we would expect some adverse selection, particularly with those members with large sick leave balances who are already eligible to retire with unreduced benefits. Nearly 65% of the SPORS members who would be eligible for the election will already meet the service requirement of 25 years of service for an unreduced retirement at the proposed election date even before adding the additional service.

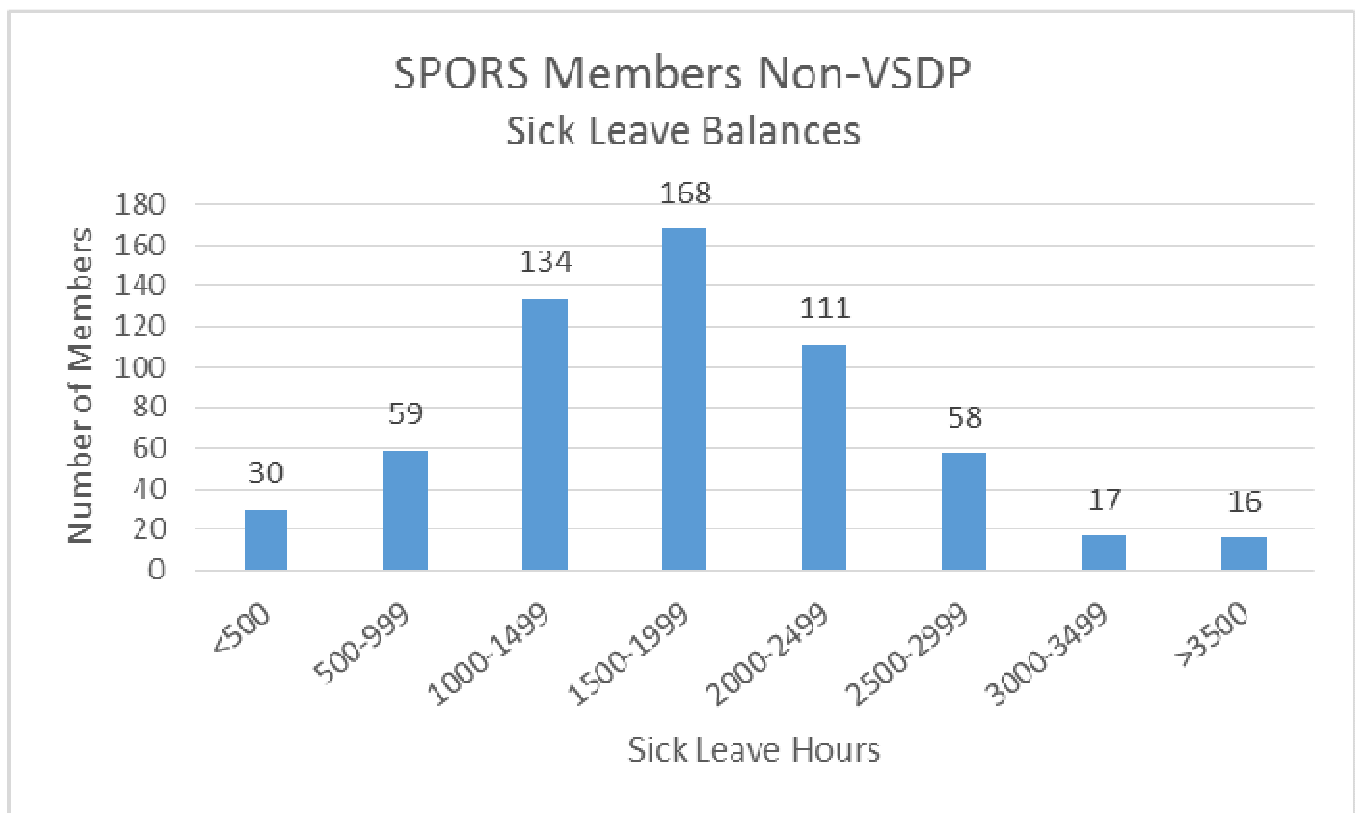
Although the Plan would experience an actuarial gain in disability coverage for any member who elected to convert to VSDP under this proposed bill, the increase in liability associated with converting the sick leave balance to pension service would erase any savings and ultimately increase the cost for the SPORS plan by generating additional unfunded liability.

Pre-funding assumes that contributions along with investment income will be used to pay for future retirement benefits. Since a majority of these 593 SPORS members are already eligible for retirement, there is not enough time to accumulate investment income to pay for the increased benefits. Without an immediate contribution to cover the increase in plan liability, the new unfunded liability will need to be paid by the next generation of taxpayers.

VRS also expects that there would be minor impacts to costs associated with the Health Insurance Credit (HIC) Program and Group Life Insurance (GLI) Program due to the accelerated retirement eligibility of some members, but we expect these impacts to be less significant than the conversion of sick leave into pension service.

Exhibit 1 below shows the sick leave balances associated with the current SPORS members. The average sick leave balance is 1,757 hours, which would equate to just over 10 months of additional service if converted to service credit.

Exhibit 1



Below, VRS provides cost estimates under two scenarios. The first scenario assumes that 50% of all eligible SPORS members elect to enroll in VSDP, while the second scenario assumes all members elect to convert to VSDP. The cost estimates are based on data, actuarial assumptions, and methods from the June 30, 2014 actuarial valuation.

50% Election Rate

	<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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	670,000	670,000	670,000	670,000	670,000
VaLORS - General Fund	-	-	-	-	-	-
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ -	\$ 670,000	\$ 670,000	\$ 670,000	\$ 670,000	\$ 670,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	116,000	116,000	116,000	116,000	116,000
VaLORS - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ 116,000	\$ 116,000	\$ 116,000	\$ 116,000	\$ 116,000
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subdivisions - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ -	\$ 786,000	\$ 786,000	\$ 786,000	\$ 786,000	\$ 786,000

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.

The immediate increase in unfunded liability that would result from this legislation is expected to be approximately \$7.2 million.

100% Election Rate

	<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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	996,000	996,000	996,000	996,000	996,000
VaLORS - General Fund	-	-	-	-	-	-
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ -	\$ 996,000	\$ 996,000	\$ 996,000	\$ 996,000	\$ 996,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	172,000	172,000	172,000	172,000	172,000
VaLORS - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ 172,000	\$ 172,000	\$ 172,000	\$ 172,000	\$ 172,000
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subdivisions - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ -	\$ 1,168,000	\$ 1,168,000	\$ 1,168,000	\$ 1,168,000	\$ 1,168,000

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.

The immediate increase in unfunded liability that would result from 100% of the eligible members converting their sick leave to service credit is expected to be approximately \$10.7 million.

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.

- 8. Fiscal Implications:** Allowing the conversion of accumulated sick leave to retirement service credit would enable eligible employees who took advantage of the opportunity to retire earlier. In some cases, long-term employees have accrued several years of sick leave. Any employee with at least 15 years of service who retires earlier than expected will also begin to receive an HIC earlier than expected. All eligible members will have at least 15 years of service.

Accelerated retirement eligibility generally increases the unfunded liabilities since contributions were not collected for the relevant period of service credit.

- 9. Specific Agency or Political Subdivisions Affected:** VRS and members of SPORS.

- 10. Technical Amendment Necessary:** Yes. VRS suggests that for administrative simplicity the effective date for all members who opt in to VSDP be the same date instead of staggered dates based on the actual date of the member's election.

Line 55, at the beginning of the line, change "January 1, 2016" to December 1, 2015.

Lines 56 and 57, after "shall be" delete "the first day of the pay period following the delivery of the notice of the election to the Retirement System."

Line 56, after "shall be" insert January 1, 2016.

- 11. Other Comments:** This legislation would allow any SPORS member who is not a VSDP participant as of September 30, 2015, to elect to participate in VSDP. The election must be in writing, would be irrevocable, and must be received by VRS between October 1, 2015, and January 1, 2016. The effective date of participation for any SPORS member electing participation pursuant to this bill will be the first day of the first pay period following the delivery of the election notice to VRS. Upon election, a member may convert his or her accumulated sick leave to retirement service credit at a rate of one month of service credit for 173 hours of sick leave. The bill does not limit the amount of sick leave that can be converted. However, any conversion must take place as of a member's effective date of VSDP participation.

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 member already eligible for retirement who has 1,200 hours of accumulated sick leave. The 1,200 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		
Current Value of Retirement Benefit and Unused Sick Leave at Retirement Date			
Annual Retirement Benefit	Payout of Unused Sick Leave	Present Value of Retirement Benefit at Retirement	Total Value Retirement and Sick Leave Payout
\$ 27,625	\$ 5,000	\$ 458,600	\$ 463,600
Value of Retirement Benefit and Unused Sick Leave under proposed legislation at Retirement Date - Accumulated Sick Leave is converted to 6 months of additional benefit service			
Annual Retirement Benefit	Payout of Unused Sick Leave	Present Value of Retirement Benefit at Retirement	Total Value Retirement and Sick Leave Payout
\$ 28,178	\$ -	\$ 467,800	\$ 467,800
The net increase in payout is approximately \$4,200			

The second example shows the impact for a SPORS member who has 3,600 hours of accumulated sick leave. The 3,600 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		
Current Value of Retirement Benefit and Unused Sick Leave at Retirement Date			
Annual Retirement Benefit	Payout of Unused Sick Leave	Present Value of Retirement Benefit at Retirement	Total Value Retirement and Sick Leave Payout
\$ 27,625	\$ 5,000	\$ 458,600	\$ 463,600
Value of Retirement Benefit and Unused Sick Leave under proposed legislation at Retirement Date - Accumulated Sick Leave is converted to 1 year 8 months of additional benefit service			
Annual Retirement Benefit	Payout of Unused Sick Leave	Present Value of Retirement Benefit at Retirement	Total Value Retirement and Sick Leave Payout
\$ 29,467	\$ -	\$ 489,200	\$ 489,200
The net increase in payout is approximately \$25,600			

Prior to the committee amendment, this bill was identical to HB 1883. It is also similar to SB 977. Whereas this bill and HB 1883 restrict the open enrollment to SPORS members, SB 977 opens enrollment to any eligible employee, as defined by § 51.1-1100, who is not participating in VSDP as of September 30, 2015.

The engrossed version of this legislation contains an additional enactment clause that provides that the legislation will not become effective unless an appropriation of at least \$10.7 million to the State Police Officers Sickness and Disability Program Unfunded Liability Special Reserve Fund (for the Virginia Retirement System) is included in a general appropriation act passed in 2015 by the General Assembly that becomes law.

Date: 2-6-15

Document: SB738E.DOC