VIRGINIA ACTS OF ASSEMBLY — CHAPTER

An Act to amend and reenact §§ 51.1-142.2, as it shall become effective, and 51.1-169 of the Code of Virginia, relating to the Virginia Retirement System; technical corrections.

[S 51]

Approved

Be it enacted by the General Assembly of Virginia:

1. That §§ 51.1-142.2, as it shall become effective, and 51.1-169 of the Code of Virginia are amended and reenacted as follows:

§ 51.1-142.2. (Effective January 1, 2017) Prior service or membership credit for certain members; service credit for accumulated sick leave.

Certain members may purchase credit for service as provided in this section.

A. 1. Any member in service may purchase service credit from the following categories of service or leave: (i) leave of absence for educational purposes that was previously approved by the member's employer; (ii) leave of absence for a serious health condition of the member or of an immediate family member, all as defined in the Family and Medical Leave Act of 1993, 29 U.S.C. § 2601 et seq., as amended, and previously certified by the member's employer; (iii) up to one year of service credit per occurrence of leave for any unpaid leave of absence due to the birth, adoption, or death of a ~~qualified~~ *qualifying* child, as defined in § 51.1-500; (iv) service as a full-time employee of another state, a public school system of another state, or a political subdivision of the Commonwealth or another state, as certified by such state, public school system, or political subdivision; (v) full-time service of a political subdivision of this state not credited to the member under an agreement as provided for in § 51.1-143.1, as certified by such political subdivision; (vi) civilian service of the United States; (vii) full-time service at a private institution of higher education if the private institution is merged with a public institution of higher education and graduates of the private institution are then issued new degrees from the public institution; or (viii) any period of time when the member was employed part time or in a wage position by a participating employer and not otherwise eligible to participate in the retirement system because the member was not an employee as defined in § 51.1-124.3. However, no member in service shall be allowed to purchase more than a total of four years of service credit pursuant to this subdivision.

2. In addition to the service credit that may be purchased under subdivision 1, any member in service may purchase up to four years of service credit for prior active duty military service in the armed forces of the United States, provided that the discharge from a period of active duty status with the armed forces was not dishonorable.

3. The service credit to be credited to a member under this subsection shall be calculated at the ratio of one year, or portion thereof, of service credit to one year, or portion thereof, of service purchased, except for employment service purchased under clause (viii) of subdivision 1, which shall be calculated at the ratio of one month of service credit for each 173 hours of service as certified by the employer.

For each year or portion thereof to be credited at the time of purchase under this subsection, the member shall pay the approximate normal cost of the retirement plan under which the member is covered at the time of such purchase, as determined by the Board in its sole discretion. If the member does not purchase, or enter into a purchase of service credit contract for, the service made available in this subsection within the first 24 months of the member's active service following his first date of hire or the final day of any applicable leave of absence, as applicable, then, for each year or portion thereof to be credited at the time of purchase, the member shall pay the actuarial equivalent cost. To the extent the member becomes inactive during the 24 months following his first date of hire or the final day of any applicable leave of absence, such periods shall not be included in the 24 months of active service.

Except as otherwise required by Chapter 1223 of Title 10 of the United States Code, as amended, no service credit may be purchased under this section if it is included in the calculation of any retirement allowance received or to be received by the member from this or another retirement system, or if there is a balance in a defined contribution account that serves as a primary retirement account related to such service.

For purposes of this ~~section~~ *subsection*, "active duty military service" means full-time service of at least 180 consecutive days in the United States Army, Navy, Air Force, Marines, Coast Guard, or reserve components thereof.

B. Any member in service may purchase all prior service credit for creditable service lost from ceasing to be a member under this chapter, as provided in § 51.1-128, because of the withdrawal of his accumulated contributions. For each year or portion thereof to be credited at the time of purchase under

this subsection, the member shall pay the withdrawn amount to be purchased plus interest accrued daily and compounded annually from the date of withdrawal to the date of payment at the assumed rate of return established by the Board for the actuarial valuation of the retirement system that is in effect at the time of the purchase. The Board shall develop guidelines and procedures for administering this subsection.

C. Any member in service may purchase service credit for accumulated sick leave on his effective date of retirement based upon such sums as the employer may provide as payment for any unused sick leave balances. The cost of service credit purchased under this subsection shall be the actuarial equivalent cost of such service.

D. Any member receiving benefits under the Virginia Workers' Compensation Act (§ 65.2-100 et seq.) may, in a manner prescribed by the Board and prior to the effective date of retirement, purchase service that is not reported to the retirement system by the member's employer while the member is receiving such benefits.

For each year or portion thereof to be credited at the time of purchase under this subsection, the member shall pay the approximate normal cost of the retirement plan under which the member is covered, as determined by the Board in its sole discretion. If the member does not purchase, or enter into a purchase of service credit contract for, any service made available in this subsection within the first 24 months of the member's active service following his first date of hire or the final day of any applicable leave of absence, then, for each year or portion thereof to be credited at the time of purchase, the member shall pay the actuarial equivalent cost. To the extent the member becomes inactive during the 24 months following his first date of hire or the final day of any applicable leave of absence, such periods shall not be included in the 24 months of active service.

E. Payment may be made in a lump sum at the time of purchase or by payroll deduction. Any number of additional deductions may be permitted at any time. Should any deduction be terminated before the member purchases the entire period contracted for, the member shall be credited with the number of full or partial months of service for which full payment has been made. If any deduction is continued after the entire period has been purchased, the member shall be credited with no more than the amount of service for which he was eligible and for which he paid, and the excess amount deducted shall be refunded to the member.

F. Any employer may elect to pay an equivalent amount in lieu of all member contributions required of its employees for the purchase of service credit pursuant to this section. These contributions shall not be considered wages for purposes of Chapter 7 (§ 51.1-700 et seq.), nor shall they be considered salary for purposes of this chapter.

G. In any case where member and employer contributions, as required under this chapter, were not made because of an error in the payroll, personnel, or other classification system of an employer participating in the retirement system, service that has not been credited because of such error may be purchased on the following basis:

1. The most recent three years of service credit shall be purchased, using applicable member and employer contribution rates and creditable compensation in effect for such period, in a manner and at the cost prescribed by the Board; and

2. All other years of service credit shall be purchased by the employer at an actuarial equivalent cost.

H. Any member may receive credit at no cost for service rendered in the armed forces of the United States provided (i) the member was on leave of absence from a covered position, (ii) the discharge from a period of active duty with the armed forces was not dishonorable, (iii) the member has not withdrawn his accumulated contributions, (iv) the member is not disabled or killed while on leave without pay while performing active duty military service in the armed forces of the United States, and (v) the member reenters service in a covered position within one year after discharge from the armed forces. In order to receive such service, the member must complete such forms and other requirements as are required by the Board and the retirement system.

§ 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.). 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.), 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 meets the definition of "emergency medical services personnel" in § 32.1-111.1 or is employed as a firefighter, 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. No member of the Judicial Retirement System under Chapter 3 (§ 51.1-300 et seq.) shall be eligible to participate in the hybrid retirement program described in § 51.1-169 except members appointed to an original term on or after January 1, 2014.

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 or rehired 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 active participation, 50 percent.

b. Upon completion of three years of active participation, 75 percent.

c. Upon completion of four years of active participation, 100 percent.

For purposes of this subdivision, "active participation" includes creditable service, as defined in § 51.1-124.3, in any retirement plan established by this title and administered by the Retirement System.

If an employee ~~terminates employment with an employer~~ *ceases to be a member* 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 forfeiture account.

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

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

C. Except as otherwise provided in subsection G:

1. An employee participating in the hybrid retirement program maintained under this section shall, pursuant to procedures established by the Board, make mandatory contributions on a salary reduction basis in accordance with § 414(h) of the Internal Revenue Code (i) to the defined benefit component of the program in the amount of four percent of creditable compensation in lieu of the amount described in subsection A of § 51.1-144 and (ii) to the defined contribution component of 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.

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

3. If an employee's voluntary contributions under subdivision C 2 are less than four percent of creditable compensation, the contribution will increase by one-half of one percent, beginning on January

1, 2017, and every three years thereafter, until the employee's voluntary contributions under subdivision C 2 reach four percent of creditable compensation. The increase will be effective beginning with the first pay period that begins in such calendar year unless the employee elects not to increase the voluntary contribution in a manner prescribed by the Board.

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

5. Disclosure of all services, fees, restrictions, and surrender penalties associated with employee voluntary contributions under subdivision C 2 shall be provided by the Board on an annual basis to an employee who does not make the election provided in subdivision G 1.

D. 1. The amount of the service retirement allowance under the defined benefit component of the program shall be governed by § 51.1-155 for all creditable service credited prior to the effective date of the member's participation in the program. For all other creditable service, the allowance shall equal one percent of a member's average final compensation multiplied by the amount of his creditable service while in the program. For judges who are participating in the hybrid retirement program, creditable service shall be determined as provided in § 51.1-303 and service retirement eligibility shall be determined as provided in § 51.1-305.

2. No member shall retire for disability under the defined benefit component of the program, provided, however, that judges who are participating in the hybrid retirement program may retire for disability under §§ 51.1-307 and 51.1-308.

3. Except as provided in subdivision 1, any employee participating in the hybrid retirement program maintained under this section shall be considered to be a person who becomes a member on or after July 1, 2010.

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

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

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

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

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

4. Any administrative fee imposed pursuant to subdivision A 13 of § 51.1-124.22 on any employer for administering and overseeing the hybrid retirement program maintained under this section shall be charged for each employee participating in such program and shall be for costs incurred by the Virginia Retirement System that are directly related to the administration and oversight of such program. Notwithstanding the foregoing, the Board is authorized to collect all or a portion of such fee directly from the employee.

5. The creditable compensation for any employee on whose behalf employee or employer contributions are made into the hybrid retirement program shall not exceed the limit on compensation as adjusted by the Commissioner of the Internal Revenue Service pursuant to the transition provisions applicable to eligible participants under state and local governmental plans under § 401(a)(17) of the Internal Revenue Code as amended in 1993 and as contained in § 13212(d)(3) of the Omnibus Budget 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, elect to allow its employees the option to direct that 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 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.

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 allow its employees 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, 2015, and submit such resolution to the Board to notify the Board of its election, which shall be effective January 1, 2016, and shall remain effective for 12 months. Thereafter, the governing body of any political subdivision of the Commonwealth may make or change its election for its employees no more often than annually by adopting a resolution on or before November 1 of each year notifying the Board of a new or changed election, which shall become effective on January 1.

3. A person who participates in the hybrid retirement program maintained under this section may make an election to participate in the 403(b) plan established by his employer under subdivision G 1. Such election shall be exercised no later than November 30, 2015, and shall be effective January 1, 2016. If an election is not made by November 30, 2015, such employee shall be deemed to have elected not to participate in the 403(b) plan established by his employer under subdivision G 1. Thereafter, such employee may make or change his election on or before November 30 of each year by notifying his employer of a new or changed election, which shall become effective the following January 1. If an election is not made or changed by November 30, such employee shall be deemed to have elected not to change the prior year's election.

4. 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.

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

6. Disclosure of all services, fees, restrictions, and surrender penalties associated with employee voluntary contributions under subsection G shall be provided by the political subdivision of the Commonwealth on an annual basis to an employee who makes the election provided in subdivision G 1. Such employee shall also be provided with a side-by-side comparison of the long-term effects of generic expense ratios on his investments.

7. The Board shall not be responsible for administration of or recordkeeping related to voluntary contributions to the defined contribution component of the program made to a 403(b) plan or the corresponding employer matching contributions made to a 403(b) plan or the appropriate local cash match plan established under § 51.1-610 that are authorized by subdivision G 1.

8. The Board shall develop policies and procedures for administering the provisions of this subsection.