

Department of Planning and Budget 2016 Fiscal Impact Statement

1. Bill Number: HB236

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron: Lingamfelter

3. Committee: Appropriations

4. Title: Teacher Emeritus Fund and Program; established.

5. Summary: Establishes the Teacher Emeritus Fund and Program as a competitive grant program administered by the Department of Education for the purpose of awarding grants to local school divisions to hire teachers emeriti who have completed at least 20 years of service as teachers in the public elementary and secondary schools of the Commonwealth to mentor public elementary and secondary school teachers with less than two years of classroom experience on the day-to-day challenges of classroom instruction. Such grants would cover one-quarter of the salary of a teacher emeritus for up to four years, provided that the school division hires no more than one teacher emeritus per 100 full-time equivalent teaching positions. The bill permits any teacher emeritus receiving a service retirement allowance under the Virginia Retirement System to elect to continue to receive the retirement allowance during such employment if he has been receiving such retirement allowance for a certain period of time preceding his employment as provided by law and he is not receiving a retirement benefit pursuant to an early retirement incentive program from any local school division within the Commonwealth.

6. Budget Amendment Necessary: Yes. Item 131, Item 139, Item 491.

7. Fiscal Impact Estimates: Preliminary. See Item 8.

8. Fiscal Implications: Under the Teacher Emeritus Program established by this legislation, a teacher emeritus salary would be funded 25 percent by the state and 75 percent by the local school division. This funding ratio is equivalent to a .7500 local composite index, which may deter local school divisions with a low composite index from participating in this program. The actual fiscal impact to the state resulting from teacher emeriti salaries is indeterminate at this time; however, the state fiscal impact is dependent upon an appropriation by the General Assembly.

The Virginia Retirement System (VRS) anticipates that HB 236 likely would create only a small number of emeritus positions, and based on the proposed eligibility requirements, which require a member not to be in receipt of any early retirement incentive payments, VRS expects relatively little immediate impact to the fund. However, passage of this bill could

impact future retirement trends as teachers are incentivized to retire earlier in hopes of acquiring one of the emeritus positions. Earlier than anticipated retirements would have a financial impact on the teacher's defined benefit plan, the health insurance credit program, and the group life insurance plan. Members retiring earlier than expected tend to produce an actuarial loss to the plan mainly due to paying out benefits for a longer period of time than anticipated.

The Department of Education (DOE) would be responsible for administering the Teacher Emeritus Program. Statewide demand for the program is indeterminate at this time; however, if demand requires a Teacher Emeritus Program administrator, DOE estimates an annual state cost of \$115,000 for salary, benefits, and related costs for a pay band level five position. Additionally, VRS anticipates a number of system changes as a result of HB 236 and estimates a state cost of \$25,000 for design, coding, testing, and implementation of these changes. Additionally, in the implementation phase and ongoing years, VRS estimates the need for a 0.10 full-time equivalent position, at an estimated state cost of \$6,500 per year, to coordinate all VRS efforts related to the program.

- 9. Specific Agency or Political Subdivisions Affected:** Department of Education, Virginia Retirement System, Department of Human Resource Management, local school divisions.

- 10. Technical Amendment Necessary:** Yes. Line 74 should read as follows:

“1. Except as provided in subdivisions 2, ~~and 3~~, *and 4*, if a beneficiary of a service retirement allowance”

- 11. Other Comments:** The implementation of a program established by this legislation will need to comply with certain provisions of the Internal Revenue Code (“IRC”) concerning in-service distributions. VRS is subject to such provisions because of its status as a qualified governmental plan under IRC § 414(d). In relevant part, the IRC prohibits an in-service distribution, meaning that a VRS member cannot take a distribution or begin receiving a retirement allowance while working in a VRS-covered position. Furthermore, the IRS will not treat a prearranged agreement for reemployment with the same employer as a true separation from VRS-covered service.

What this means for the proposed Teacher Emeritus Fund and Program is that the selection of qualifying teachers to participate in the program should occur after a teacher's retirement and bona fide separation from VRS-covered service. Selection prior to a teacher's retirement could constitute a prearranged agreement for reemployment, which could consequently impact VRS' status as a qualified governmental plan.

The Teacher Emeritus Program is structured almost exactly like the teacher critical shortage program outlined in § 51.1-155(B)(3). That program is administered to require a one-year break in service prior to being eligible to work in a critical shortage position. It is likely that VRS would administer the Teacher Emeritus Program in the same manner.