

Virginia Retirement System 2016 Fiscal Impact Statement

1. Bill Number: HB 408

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

2. Patron: Ingram

3. Committee: Appropriations

4. Title: Virginia Retirement System benefits.

5. Summary: Provides for an increase, beginning July 1, 2016, 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 (or predecessor retirement systems).

6. Budget Amendment Necessary: VRS estimates that implementation costs would be approximately \$40,250 for systems programming and testing.

7. Fiscal Impact Estimates: This bill provides a benefit increase for members with at least 15 years of creditable service who retired prior to 1990. VRS identified 7,177 retirees or contingent annuitants who would be impacted by this bill. Exhibit 1 shows the breakdown of members by plan who retired between 1980 and 1990 who would be affected by this proposed bill, along with the corresponding increase in unfunded liability as of July 1, 2016 that would result. The bill provides a retirement benefit increase in the amount of \$4 times the number of years of creditable service, plus \$4 times the number of years in retirement through December 31, 1989. All partial years of service or retirement are rounded to a full year.

**Exhibit 1
Group Retired between 1980 - 1990**

Employer	Number of Retirees or Contingent Annuitants Impacted	Estimated Increase in Unfunded Liability	Increase in Contribution Rate	Estimated Additional Contribution
State	2,394	\$ 18,578,000	0.034%	\$ 1,327,000
SPORS	92	\$ 918,000	0.058%	\$ 66,000
Teachers	3,757	\$ 30,956,000	0.029%	\$ 2,212,000
Political Subdivision - Schools	191	\$ 1,255,000	0.017%	\$ 90,000
Political Subdivision - Non-Schools	743	\$ 6,804,000	0.012%	\$ 486,000
Total	7,177	\$ 58,511,000		\$ 4,181,000

There are also 703 participants who retired with at least 15 years of creditable service before January 1, 1980 who were given a similar benefit increase in 2001. For these members, the additional increase is in the amount of \$4 times the 10 years in retirement through December 31, 1989, for an increased benefit of \$40 per month. Exhibit 2 shows the increase in unfunded liability associated with these retirees and contingent annuitants.

Exhibit 2
Group Retired prior to 1980

Employer	Number of Retirees or Contingent Annuitants Impacted	Estimated Increase in Unfunded Liability	Increase in Contribution Rate	Estimated Additional Contribution
State	252	\$ 644,000	0.001%	\$ 46,000
SPORS	24	\$ 56,000	0.004%	\$ 4,000
Teachers	336	\$ 779,000	0.001%	\$ 56,000
Political Subdivision - Schools	7	\$ 14,000	0.000%	\$ 1,000
Political Subdivision - Non-Schools	84	\$ 245,000	0.000%	\$ 18,000
Total	703	\$ 1,738,000		\$ 125,000

The additional unfunded accrued liability would become part of each respective employer's annual required contribution as a component of the unfunded amortization charge. Exhibit 3 below shows that the estimated impact on plan costs is \$4.3 million per year.

Exhibit 3

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State - General Fund	\$ 587,000	\$ 587,000	\$ 587,000	\$ 587,000	\$ 587,000	\$ 587,000
SPORS - General Fund	59,000	59,000	59,000	59,000	59,000	59,000
VaLORS - General Fund	-	-	-	-	-	-
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	907,000	907,000	907,000	907,000	907,000	907,000
TOTAL General Fund	\$ 1,553,000	\$ 1,553,000	\$ 1,553,000	\$ 1,553,000	\$ 1,553,000	\$ 1,553,000
State - Non-General Funds	\$ 787,000	\$ 787,000	\$ 787,000	\$ 787,000	\$ 787,000	\$ 787,000
SPORS - Non-General Funds	11,000	11,000	11,000	11,000	11,000	11,000
VaLORS - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ 798,000	\$ 798,000	\$ 798,000	\$ 798,000	\$ 798,000	\$ 798,000
Teacher - Local Funds	\$ 1,360,000	\$ 1,360,000	\$ 1,360,000	\$ 1,360,000	\$ 1,360,000	\$ 1,360,000
Political Subdivisions - Schools	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000	\$ 90,000
Political Subdivisions - Non-Schools	\$ 504,000	\$ 504,000	\$ 504,000	\$ 504,000	\$ 504,000	\$ 504,000
TOTAL Local Funds	\$ 1,954,000	\$ 1,954,000	\$ 1,954,000	\$ 1,954,000	\$ 1,954,000	\$ 1,954,000
Grand Totals	\$ 4,305,000	\$ 4,305,000	\$ 4,305,000	\$ 4,305,000	\$ 4,305,000	\$ 4,305,000

Estimated projections based on employee data and valuation results as of June 30, 2015 and assume a level population throughout projection period.

Payroll projections are assumed to remain level throughout projection period.

- 8. Fiscal Implications:** Benefit payouts from the fund would increase by \$10.9 million per year.
- 9. Specific Agency or Political Subdivisions Affected:** VRS, retired members, contingent annuitants, and survivors of State, SPORS, Teachers and participating political subdivisions, and all participating employers could be impacted.

10. Technical Amendment Necessary: No.

11. Other Comments: This bill amends current law to include an additional 7,117 retirees, contingent annuitants or survivors of these members in the group that is eligible for an additional retirement benefit. In addition, 703 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 in the example below will have increased 218% since retirement. During this same period, 1977 to 2015, the U.S. consumer price index increased 291%. The proposed benefit of \$1,827 per month provides a benefit similar to that of 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 2016 - monthly benefit has grown to \$1,787			\$ 1,786.97	211%
Proposed 2016 legislation would add an additional \$40 per month to Pre 1980 retirees' benefit			\$40.00	
Proposed new benefit effective July 1, 2016			\$1,826.97	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 408, this member's benefit will have increased by 115% since retirement. Even without the impact of HB 408, the member's benefit has increased over 100% since retirement. During this same period, 1986 to 2015 the U.S. consumer price index has increased 116%. The proposed benefit of \$1,854 per month, which is a 115% increase for the average retiree, provides a benefit similar to that of 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 2016 - monthly benefit has grown to nearly \$1,730			\$ 1,729.57	101%
Proposed 2016 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 new benefit effective July 1, 2016			\$ 1,853.57	115%

Current law applies to Virginia Retirement System and SPORS retirees, or their contingent annuitants or survivors, with at least 15 years of creditable 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. The bill would increase the monthly benefit for eligible retirees beginning July 1, 2016. The benefit increase would be the sum of 1) \$4 per year of service credit at the date of retirement, plus 2) \$4 per year for each year of retirement prior to January 1, 1990.

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