

## Department of Planning and Budget

### 2016 Fiscal Impact Statement

**1. Bill Number:** HB665-ER

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

**2. Patron:** Howell

**3. Committee:** Passed Both Houses

**4. Title:** Commission on Employee Retirement Security and Pension Reform established.

**5. Summary:** Creates the Commission on Employee Retirement Security and Pension Reform in the legislative branch to study and make recommendations relating to the financial soundness of retirement plans covering state and local government employees; the suitability of retirement plans offered or maintained for current state and local government employees and the attributes of retirement plans that will be suitable for future employees; the impact on state and local governments of the anticipated retirement of experienced employees between 2016 and 2026 and strategies for replacing such employees; and the elements of compensation and benefits packages that are essential to attracting and retaining a highly productive state and local government workforce. The Commission will initially focus on the financial soundness of retirement plans covering state and local government employees and strategies for reducing unfunded liabilities under such plans.

The Commission will be composed of 11 legislative members, eight nonlegislative citizen members, and two ex officio members. Legislative members from the House of Delegates will include the Speaker of the House of Delegates, the Chairman of the House Committee on Appropriations, the Chairman of the House Committee on Finance, and three members of the House of Delegates to be appointed by the Speaker of the House of Delegates. Legislative members from the Senate will include the Majority Leader of the Senate, any Chairman of the Senate Committee on Finance who is not the Majority Leader of the Senate, and three members of the Senate to be appointed by the Senate Committee on Rules. Five nonlegislative citizen members will be appointed by the Speaker of the House of Delegates, including one appointed from a list of nominees jointly submitted by the Virginia Association of Counties and the Virginia Municipal League, one from a list of nominees submitted by the Virginia Governmental Employees Association, and one from a list of nominees submitted by the Virginia Education Association. The Senate Committee on Rules will appoint three nonlegislative citizen members, including one appointed from a list of nominees jointly submitted by the Virginia Sheriffs' Association and the Virginia State Police Association. The Directors of the Department of Human Resource Management and the Virginia Retirement System will serve on the Commission ex officio with nonvoting privileges.

The Commission is authorized to employ actuaries and other experts, conduct statistical analyses, engage in financial modeling, and undertake such other activities as are consistent with its duties. The costs for such actuaries, experts, statistical analyses, and financial models utilized to study retirement plans, retirement options, and other retirement matters on behalf of state and local employees participating in the Virginia Retirement System will be paid by the Virginia Retirement System. The Department of Human Resource Management will provide staff support to the Commission. Technical assistance will be provided by the staff of the Virginia Retirement System, the Committee on House Appropriations, the Committee on Senate Finance, and the Division of Legislative Services. Administrative staff support will be provided by the Office of the Clerk of the House of Delegates.

The bill provides for the Commission's work to end on July 1, 2021.

- 6. Budget Amendment Necessary:** Indeterminate; see Item 8, below.
- 7. Fiscal Impact Estimates:** Fiscal impact is indeterminate; see Item 8, below.
- 8. Fiscal Implications:** The fiscal impact of the bill is indeterminate and will depend on activities of the Commission on Employee Retirement Security and Pension Reform established.

The bill provides that commission members shall be compensated for their service and reimbursed for all reasonable and necessary expenses incurred in the performance of their duties as provided in the appropriation act. Such costs are indeterminate and would vary based on unknown factors such as the number and location of meetings held and whether meetings occurred during session. A general fund budget amendment is needed for such costs. Trust funds of the Virginia Retirement System (VRS) cannot be used to compensate or reimburse Commission members for their costs due to the exclusive benefit rule under § 401 of the Internal Revenue Code.

The Office of the Clerk of the House estimates the costs of compensation and reimbursement of necessary expenses will be approximately \$8,760 for the six legislative members from the House and \$3,000 for the five nonlegislative citizen members appointed by the Speaker of the House of Delegates. The Office of the Clerk of the Senate estimates the costs of compensation and reimbursement of necessary expenses will be approximately \$7,300 for the five legislative members from the Senate and \$1,800 for the three nonlegislative citizen members appointed by the Senate Committee on Rules. Together, the estimated costs for the eleven legislative and eight nonlegislative citizen members total \$20,860. These are educated estimates of the House and Senate assuming four meetings per year based on previous experiences with other legislative commissions and councils; however, actual costs would depend on the factors discussed above.

The bill authorizes the Commission to conduct studies and gather information and data and specifies that VRS is responsible for the cost of actuaries, experts, statistical analyses, and financial models utilized to study retirement plans, retirement options, or other retirement

matters on behalf of employees participating in the Virginia Retirement System. Based on VRS' current budget, additional appropriation will be needed for such costs; however costs will depend on the analyses requested by the Commission and are indeterminate. Costs will be allocated to VRS trust funds on a pro rata basis. VRS is subject to the exclusive benefit rule under § 401 of the Internal Revenue Code; therefore, VRS trust funds can only be used for the exclusive benefit of members of the Virginia Retirement System and their beneficiaries. The bill specifies that the costs for any non-retirement analysis or consultation shall not be paid from VRS funds. Therefore, other funding sources would need to be utilized for any analysis, consultation or other expenses unrelated to retirement.

While it has been several years since a 2011 Joint Legislative Audit and Review Commission study of retirement benefits was conducted and the nature and depth of the analyses proposed in this legislation differ, the costs for the retirement-related analyses contained therein were approximately \$230,000 over a one-year period. VRS expects costs may exceed those of the 2011 study, as the bill would provide a five-year review period, with the provisions expiring on July 1, 2021. Actual costs will depend upon the analyses requested by the Commission. To the extent possible, VRS will provide the Commission with existing analyses in order to minimize the impact to VRS trust funds.

Staff support for the Commission will be provided by the Department of Human Resource Management (DHRM) and administrative staff support will be provided by the Office of the Clerk of the House of Delegates. Technical assistance will also be provided by the staff of the Virginia Retirement System, the Committee on House Appropriations, the Committee on Senate Finance, and the Division of Legislative Services (DLS). The fiscal impact is indeterminate and would depend on the activities of the Commission and the extent of support and assistance needed. The Commission is authorized to conduct studies and gather information and data to accomplish its purposes, for which assistance may be required. The Office of the Clerk of the House of Delegates, DLS, the Committee on House Appropriations, and the Committee on Senate Finance expect to be able to provide assistance with existing staff resources.

- 9. Specific Agency or Political Subdivisions Affected:** The Virginia Retirement System, Department of Human Resource Management, Division of Legislative Services, the Office of the Clerk of the House and Senate, the Committee on House Appropriations, and the Committee on Senate Finance.

**10. Technical Amendment Necessary:** No.

**11. Other Comments:** None.