

Department of Planning and Budget 2019 Fiscal Impact Statement

1. Bill Number: SB1227

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

2. Patron: Chase

3. Committee: Passed both houses

4. Title: Licensed local school board instructional or administrative employees; service retirement allowance.

5. Summary: Extends from July 1, 2020, to July 1, 2025, the sunset date for provisions (i) requiring school boards, division superintendents, if so requested, and the Superintendent of Public Instruction to annually identify and report critical shortages of teachers and administrative personnel and (ii) permitting any person receiving a service retirement allowance who is hired as a local school board instructional or administrative employee required to be licensed by the Board of Education to elect to continue to receive the retirement allowance during such employment under certain conditions.

6. Budget Amendment Necessary: No

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

8. Fiscal Implications: This bill continues the current teacher critical shortage program, but the Virginia Retirement System (VRS) has no way of predicting whether participation in the program will remain level or increase. Based on information reported by school divisions to VRS, the table below provides statistics on the number of full-time critical shortage teaching positions filled with a VRS retiree over the last decade.

DOE Region	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19*	Total CS Positions	% of total CS positions
Region 1	9	12	9	6	5	8	3	1		4	3	60	12.96%
Region 2	13	7	8	11	8	6	5	6	15	14	9	102	22.03%
Region 3	7	5	3	3	2	2	2	2	1	7	1	35	7.56%
Region 4	29	17	14	13	17	16	3	5	18	18	11	161	34.77%
Region 5	2	2	2	2	2	2	1	1	1	3	3	21	4.54%
Region 6	5	4	2	2	2	3	5	1	3	6	4	37	7.99%
Region 7	7	5	3	3	3					2		23	4.97%
Region 8	2	1	3	4	2	1	1	1	1	4	4	24	5.18%
	74	53	44	44	41	38	20	17	39	58	35	463	100.00%

* 2018-2019 data may be incomplete. Critical shortage information is not due to VRS until November 1st. This is the current number for the 2018-19 school year.

Region 1 - Charles City, Chesterfield, Dinwiddie, Goochland, Hanover, Henrico, New Kent, Powhatan, Prince George, Surry, Sussex, Colonial Heights, Hopewell, Petersburg, Richmond

Region 2 - Accomack, Isle of Wight, James City (Williamsburg), Northampton, Southampton, York, Chesapeake, Franklin, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, Williamsburg (James City County)

Region 3 - Caroline, Essex, Gloucester, King George, King William, King and Queen, Lancaster, Mathews, Middlesex, Northumberland, Richmond, Spotsylvania, Stafford, Westmoreland, Colonial Beach, Fredericksburg, West Point

Region 4 - Arlington, Clarke, Culpeper, Fairfax, Fauquier, Frederick, Loudoun, Madison, Orange, Page, Prince William, Rappahannock, Shenandoah, Warren, Alexandria, Falls Church, Manassas, Manassas Park, Winchester

Region 5 - Albemarle, Amherst, Augusta, Bath, Bedford, Campbell, Fluvanna, Greene, Highland, Louisa, Nelson, Rockbridge, Rockingham, Buena Vista, Charlottesville, Harrisonburg, Lexington, Lynchburg, Staunton, Waynesboro

Region 6 - Alleghany, Botetourt, Craig, Floyd, Franklin, Henry, Montgomery, Patrick, Pittsylvania, Roanoke, Covington, Darville, Martinsville, Roanoke, Salem

Region 7 - Bland, Buchanan, Carroll, Dickenson, Giles, Grayson, Lee, Pulaski, Russell, Scott, Smyth, Tazewell, Washington, Wise, Wythe, Bristol, Galax, Norton, Radford

Region 8 - Amelia, Appomattox, Brunswick, Buckingham, Charlotte, Cumberland, Greensville, Halifax, Lunenburg, Mecklenburg, Nottoway, Prince Edward

Return-to-work provisions have the potential to financially impact the VRS retirement plans due to the following factors:

- **Can incentivize members to retire earlier than originally expected.** Since members would be able to receive a retirement benefit and continue to receive compensation for working in a VRS covered position, provisions of the bill could change retirement patterns. To illustrate, if members retire earlier than anticipated, the plan pays benefits earlier than expected and for a longer period of time. In addition, the plan has less time in which to earn investment income on member and employer contributions which is necessary to fund benefits. Requiring longer breaks in service, such as a year or more, would help to avoid prearrangements of subsequent re-employment (precluded by the Internal Revenue Code - IRC) and mitigate altering retirement patterns of current members.
- **Can impact allocation of cost-sharing if replacing current covered positions with retirees.** Employers filling positions with retirees under the provisions of the bill could impact cost-sharing allocations if the payroll of these members is exempt from inclusion in valuation pay. As an example, payroll of a school division that hires retirees will be smaller than anticipated if these positions that were formerly filled by active employees will now be filled by retirees, for whom no employer contributions are being made. This impact can be avoided by requiring that the payroll of retired members is included in the plan's covered payroll for VRS reporting. While the

member and employer would pay no normal cost since the member will not accrue additional benefit service, the covered payroll could still be used to amortize the legacy unfunded liability payment. This would protect against artificially increasing the amortization rate for other employers in the teacher plan who may not fill VRS covered positions with retired members.

Based on the available statistics from the last 10 years, the program does not appear to be significantly impacting retirement patterns within the teacher pool. The fact that the teacher pool is the largest VRS retirement pool with over 150,000 active members and the return to work provision is averaging approximately 42 people per year over the last 10 years (less than 0.03% of active population), current participation levels are not large enough to produce significant cost implications. However, if a large increase in retirees participating in the teacher critical shortage program took place, it could impact the teacher pool.

9. Specific Agency or Political Subdivisions Affected: Virginia Retirement System, Department of Education (DOE), and local school divisions identified as at-risk by DOE

10. Technical Amendment Necessary: No

11. Other Comments: None