

Virginia Retirement System 2019 Fiscal Impact Statement

1. Bill Number: SB 1384

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

2. Patron: McDougale

3. Committee: Finance

4. Title: Virginia Retirement System; increased retirement allowance for judges.

5. Summary: Increases by five percent the retirement multiplier (1.70% to 1.785% for Plan 1, 1.65% to 1.7325% for Plan 2, 1.00% to 1.05% for Hybrid) for judges for service earned on and after their fifty-fifth birthday. The bill provides that the increase applies only to judges who retire on or after July 1, 2019.

6. Budget Amendment Necessary: Yes.

Item 474. If the provisions of the bill are effective July 1, 2019, a budget amendment to cover the additional annual cost of 1.05% of payroll would be required for the Supreme Court of Virginia. This is approximately \$722,000 from the general fund for fiscal year 2020 and each year thereafter.

Item 488. VRS implementation costs are estimated at approximately \$45,408 in non-general funds for updating handbooks and training materials, as well as programming necessary to make the changes contemplated by the legislation.

7. Fiscal Impact Estimates:

Fiscal Impact Estimates/Expenditure Impacts:

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Positions</i> | <i>General Fund</i> | <i>Non-General Fund & Local Funds</i> |
|--------------------|----------------|------------------|---------------------|---|
| 2019 | | | \$722,000 | \$45,408 |
| 2020 | | | \$722,000 | |
| 2021 | | | \$722,000 | |
| 2022 | | | \$722,000 | |
| 2023 | | | \$722,000 | |
| 2024 | | | \$722,000 | |
| 2025 | | | \$722,000 | |

A more detailed breakdown of estimated costs are shown in Item 8 below.

- 8. Fiscal Implications:** The proposed legislation provides an across-the-board increase of five percent in the retirement multiplier for judicial service performed after a judge reaches age 55. The increase applies only to those judges who retire on or after July 1, 2019.

All judges who are active as of June 30, 2019 would be impacted by the proposed legislation. The following table show the demographics of the affected members:

Active JRS Members

| Members | Count | Average Age | Average Service as of June 30, 2018 |
|---------------------------------|-------|-------------|-------------------------------------|
| Active Members under Age 55 | 126 | 49.13 | 5.97 |
| Active Members Age 55 and Older | 290 | 63.15 | 12.43 |
| Total Actives | 416 | 58.9 | 10.47 |

The average service of all active judges is 10.47 years as of June 30, 2018. Of that, 5.63 years were earned before age 55 and 4.84 years were earned after age 55.

The proposed legislation would provide an increased retirement benefit for any judge who retires on or after July 1, 2019, regardless of the applicable VRS benefit tier that applies to the judge (Plan 1, Plan 2 or the Hybrid Retirement Program).

Judges appointed to an original term prior to January 1, 2013, are in Plan 1, and receive a 1.7% multiplier on all service. Judges appointed to an original term on or after January 1, 2013, or who were not vested (five years of service) as of January 1, 2013, are in Plan 2, which has a 1.65% multiplier. Judges appointed to an original term on or after January 1, 2014 are in the Judicial Retirement System (JRS) Hybrid Retirement Program. This program provides a defined benefit component with a retirement multiplier of 1.00%. There is also a defined contribution component whereby the employer contributes a mandatory 1 percent of the judge's creditable compensation as well as matches a portion of any voluntary contributions a judge may make, up to 2.5 percent. The judge may make voluntary contributions to the defined contribution component of the program up to four percent of creditable compensation. The defined benefit from the first component and the distributions from the defined contribution component comprise the retirement benefit for a judge in the JRS Hybrid Retirement Program. Judges in Plan 2 and the Hybrid Retirement Program also have different COLA provisions that result in a maximum COLA of 3%, as opposed to the maximum 5% COLA applicable to Plan 1 judges.

As of June 30, 2018 the JRS plan had a funded status of 83.0% with \$109.6 million of unfunded liability. The exhibit below shows the impact SB 1384 would have on plan liabilities.

Exhibit 1

| | JRS Plan as of June 30, 2018 | JRS Plan as of June 30, 2018 with Impacts of SB 1384 | Change |
|--------------------------------------|---------------------------------|---|-------------|
| Unfunded Actuarial Accrued Liability | \$109,640,000 | \$112,832,000 | \$3,192,000 |
| Funded Status | 83.0% | 82.6% | -0.4% |

The proposed changes would increase the employer cost rate by approximately 1.05%. For fiscal year 2020 the JRS plan has an expected contribution rate of 34.39%. SB 1384 would increase the rate to 35.44%. Exhibit 2 below shows the estimated future cost impacts associated with the bill.

Exhibit 2

| | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> | <u>FY 2024</u> | <u>FY 2025</u> |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| State - General Fund | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| SPORS - General Fund | - | - | - | - | - | - |
| VaLORS - General Fund | - | - | - | - | - | - |
| JRS - General Fund | 722,000 | 722,000 | 722,000 | 722,000 | 722,000 | 722,000 |
| ORP/UVA - General Funds | - | - | - | - | - | - |
| TOTAL General Fund | \$ 722,000 | \$ 722,000 | \$ 722,000 | \$ 722,000 | \$ 722,000 | \$ 722,000 |
| State - Non-General Funds | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| SPORS - Non-General Funds | - | - | - | - | - | - |
| VaLORS - Non-General Funds | - | - | - | - | - | - |
| ORP/UVA - Non-General Funds | - | - | - | - | - | - |
| TOTAL - Non-General Funds | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Grand Totals | \$ 722,000 | \$ 722,000 | \$ 722,000 | \$ 722,000 | \$ 722,000 | \$ 722,000 |

Estimated projections based on employee data and valuation results as of June 30, 2018 and assume a level population throughout projection period.

Payroll projections include a 2% increase for JRS members effective July 1, 2019. Payroll beyond 2020 is assumed to remain level throughout projection period.

9. Specific Agency or Political Subdivisions Affected: VRS and the Supreme Court of Virginia.

10. Technical Amendment Necessary: Yes.

The second enactment clause of the proposed legislation states, “That the provisions of this act shall apply only to members of the Virginia Retirement System who retire on or after July 1, 2019.” This enactment clause should refer to the Judicial Retirement System since the bill’s provisions are confined to retirements under that plan (Chapter 3 of Title 51.1).

11. Other Comments:

The proposed legislation provides an across-the-board increase of five percent in the retirement multiplier for judicial service performed after a judge reaches age 55. The increase applies only to those judges who retire on or after July 1, 2019.

While judges currently receive the same benefit multiplier as all other employees in the respective benefit tiers, a weighting factor of between 1.5 and 3.5 is applied to their service based on the date of the judge's original appointment or election and, on and after July 1, 2010, the judge's age at the time of such original appointment or election. The relevant Code section is provided below.

§ 51.1-303. Creditable service.

A. For those members in service on December 31, 1994, service as a judge shall be multiplied by a factor of 3.5, the weighted years of service factor, to calculate years of creditable service. To calculate years of creditable service for those members appointed or elected to an original term commencing on or after January 1, 1995, service as a judge shall be multiplied by the weighted years of service factor of 2.5. To calculate years of creditable service for those members appointed or elected to an original term commencing on or after July 1, 2010, the following formula shall be used: if (i) the member was less than 45 years old at the time he was appointed or elected to such original term, then service as a judge shall be multiplied by the weighted years of service factor of 1.5, (ii) the member was at least 45 years old but less than 55 years old at the time he was appointed or elected to such original term, then service as a judge shall be multiplied by the weighted years of service factor of 2.0, and (iii) the member was at least 55 years old at the time he was appointed or elected to such original term, then service as a judge shall be multiplied by the weighted years of service factor of 2.5. For purposes of this section, "original term" means the first term for which the member was appointed or elected to a position covered by the Judicial Retirement System.

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