

Virginia Retirement System 2019 Fiscal Impact Statement

1. Bill Number: SB 1384-S1

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

2. Patron: McDougale

3. Committee: Finance

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

5. Summary: Increases the retirement multiplier to 1.70% for certain judges in the Hybrid Retirement Program. The bill provides that the increase applies only to judges who are appointed to an original term on or after July 1, 2019 and are at least age 55 at the time of the appointment.

6. Budget Amendment Necessary: Yes.

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				\$45,408
2020				
2021				
2022				
2023				
2024				
2025				

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

8. Fiscal Implications: The proposed legislation as amended provides an increase in the Hybrid Retirement Program retirement multiplier to 1.70% for judicial service performed by those judges who are appointed to an original term on or after July 1, 2019 and are at least age 55 at the time of the appointment.

Only judges appointed to an original term on or after July 1, 2019 and who are at least age 55 at the time of appointment would be affected by the proposed legislation, therefore no one in the current Judicial Retirement System (JRS) plan would be affected. The following exhibit shows the demographics of the current JRS population by appointment date and age at appointment. While 23% of the current judges in the JRS plan were first appointed at age 55 or older, nearly 40% of all new appointments since pension reforms were enacted in 2010 have fallen into the age 55 and over category:

Exhibit 1

Active JRS Members by Appointment Date

Appointment Date	Age at Date of Appointment			Total
	Less than 45	45 - 54	55 or Older	
Prior to 7/1/2010	96	107	19	222
2011	0	0	0	0
2012	4	2	5	11
2013	8	10	17	35
2014	5	13	10	28
2015	12	17	16	45
2016	11	14	11	36
2017	3	8	13	24
2018	4	6	5	15
Prior to 7/1/2010	96	107	19	222
After Pension Reforms	47	70	77	194
Total Plan	143	177	96	416

This bill would affect only JRS members participating in the Hybrid Retirement Program. The exhibit below provides a breakdown of judges by age at original appointment by benefit tier within the JRS plan. As shown in Exhibit 2 below, approximately 25% of judges in the Hybrid Retirement Program were less than age 45 when first appointed, about 37% were ages 45-54, and approximately 38% of judges in the Hybrid Retirement Program were first appointed at age 55 or older.

Exhibit 2**Active JRS Members by Benefit Tier**

Appointment Date	Age at Date of Original Appointment			Total
	Less than 45	45 - 54	55 or Older	
Plan 1	102	120	29	251
Plan 2	11	14	22	47
Hybrid	30	43	45	118
Total Plan	143	177	96	416

Under the current plan provisions judges appointed to an original term commencing prior to January 1, 2013, are in Plan 1, and receive a 1.70% multiplier on all service. Judges appointed to an original term commencing 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 for JRS service. Judges appointed to an original term on or after January 1, 2014 are in the JRS Hybrid Retirement Program. This program provides a defined benefit component with a retirement multiplier of 1.00% for JRS service. The substitute bill would increase the multiplier to 1.70% for judges who are appointed to an original term on or after July 1, 2019 and who are at least age 55 at the time of their original appointment.

There is also a defined contribution component in the JRS Hybrid Retirement Program 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.

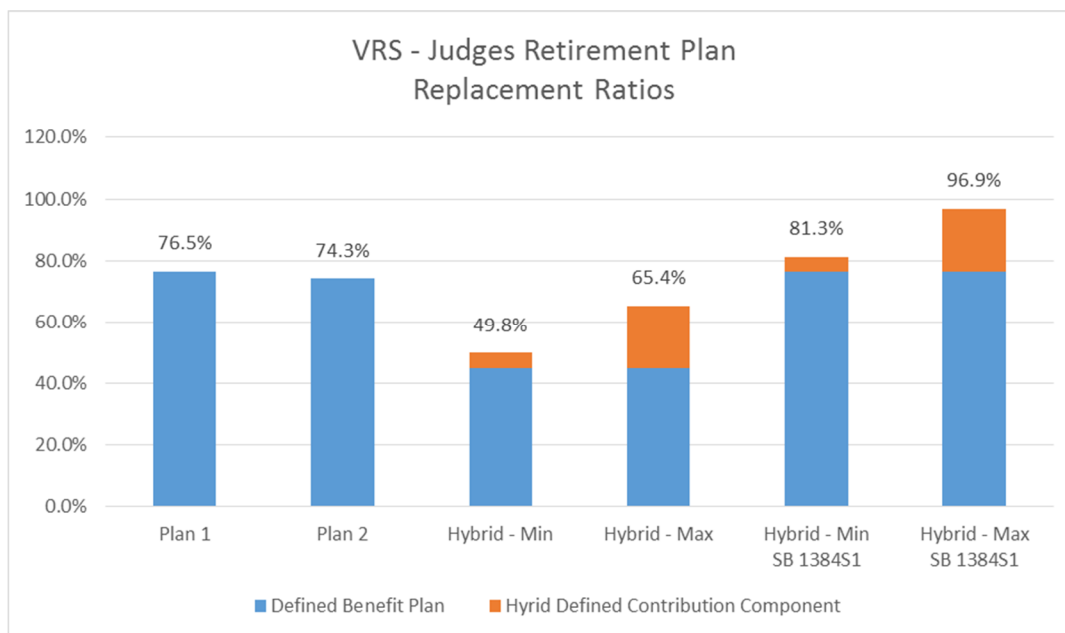
Based on the age at appointment, JRS members also receive a service weighting as part of the benefit. Effective with 2010 pension reforms the following service weightings are applicable based on age at the time of the judge's original appointment:

JRS Service Weighting		
Under Age 45	Age 45-54	Age 55 & Over
1.50	2.00	2.50

As an example a judge appointed at age 35 would need to work 20 years to receive 30 years of benefit service credit, whereas a judge appointed at age 45 would only have to work 15 years, and a judge appointed at age 55 would need only 12 years of service to receive 30 years of benefit service credit in the plan.

The exhibit below shows the replacement ratios associated with a judge who is appointed at age 55 under the various benefit tiers of the current JRS plan. The changes proposed in the substitute bill to the benefits of Hybrid Retirement Program members first appointed on or after age 55 would exceed benefit levels of current Plan 1 and Plan 2 participants.

Exhibit 3



Replacement ratios for a judge appointed at age 55 and retiring at age 73 with 18 years of service with the respective weighting factors applied. Actual benefit is capped at 78% of the member's average final compensation. Defined contribution component of Hybrid plan assumes 5.0% investment returns prior to retirement and conversion of accumulated balance to an annuity assuming 4.0% discount rate and 2.5% cost-of-living component.

As of June 30, 2018 the JRS plan had a funded status of 83.0% with \$109.6 million of unfunded liability. The proposed changes in the substitute bill would have no immediate impact on plan liabilities or costs since it only applies to judges first appointed to an original term on or after July 1, 2019. If we assume that future appointments will continue to include approximately 40% of the members being age 55 or older at the time of appointment we would expect the cost of the bill to compound over time as new judges are appointed. Exhibit 4 provides the estimated employer normal cost rate under the current plan provisions versus the provisions of SB 1384S1. Under the current plan provisions, normal costs rates will continue to decline as newly appointed judges are enrolled in the hybrid plan, which has a lower cost than the legacy Plan 1 and Plan 2 benefit tiers. Under SB 1384S1 the initial impact is expected to be approximately 0.25% of covered payroll, increasing to nearly 8.5% of covered payroll over the next 20 years. Because the cost of benefits for newly appointed judges over the age of 55 is expected to be larger, the blended normal cost rates will not decline as much as under the current structure. The analysis in Exhibit 4 assumes that the same appointment patterns with respect to age at appointment as well as number of appointments will continue in a similar manner going forward.

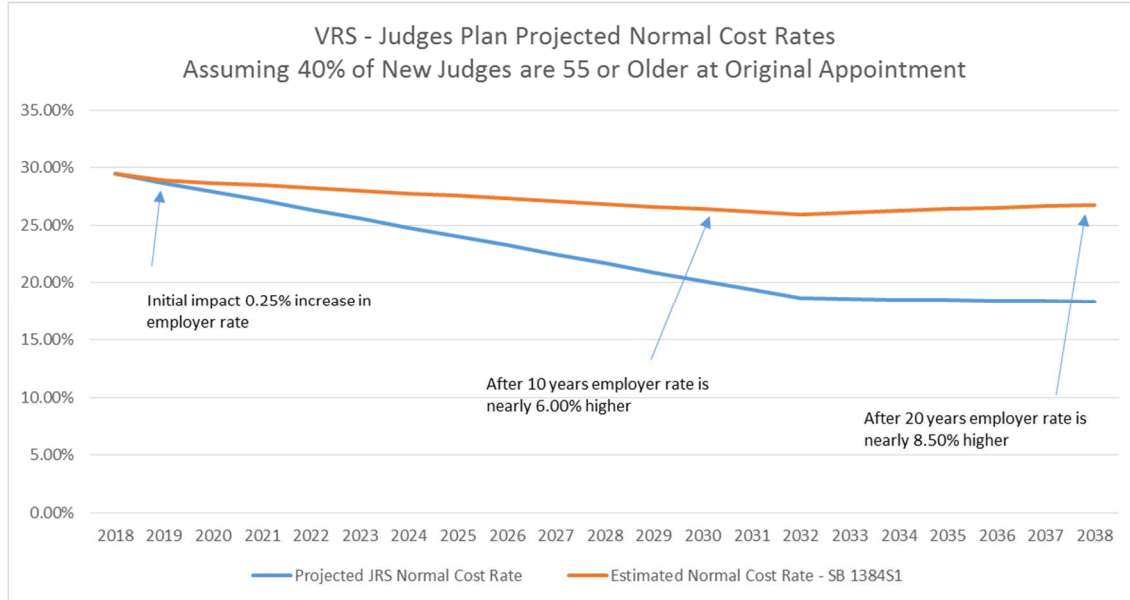
Exhibit 4

Exhibit 5 below shows the estimated future cost impacts associated with the bill assuming 40% of new judge appointments are age 55 or older. The analysis in Exhibit 5 also assumes that the same appointment patterns continue with respect to ages at appointment as well as the number of appointments each year. If the age of newly appointed judges varies from the assumed level or if appointment patterns change, costs could be higher or lower than those shown below.

Exhibit 5

	<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		-		158,000		158,000		908,000		908,000		1,657,000
ORP/UVA - General Funds		-		-		-		-		-		-
TOTAL General Fund	\$	-	\$	158,000	\$	158,000	\$	908,000	\$	908,000	\$	1,657,000
State - Non-General Funds	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
SPORS - Non-General Funds		-		-		-		-		-		-
ValORS - Non-General Funds		-		-		-		-		-		-
ORP/UVA - Non-General Funds		-		-		-		-		-		-
TOTAL - Non-General Funds	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Grand Totals	\$	-	\$	158,000	\$	158,000	\$	908,000	\$	908,000	\$	1,657,000

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 not become effective unless an appropriation effectuating the purposes of this act is included in a general appropriation act passed in 2018 by the General Assembly that becomes law.” This enactment clause should refer to the appropriation act passed in 2019.

11. Other Comments:

The proposed substitute legislation provides an increase in the retirement multiplier to 1.70% for judicial service performed by judges in the Hybrid Retirement Program whose original appointment is on or after July 1, 2019 and who were at least age 55 at the time of their original appointment.

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 existing 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.

Date: 02-5-2019

Document: SB1384S1.DOC/VRS