

## Virginia Retirement System 2020 Fiscal Impact Statement

**1. Bill Number:** HB 1350

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

**2. Patron:** Mullin

**3. Committee:** Appropriations

**4. Title:** Virginia Law Officers' Retirement System; sworn members of the Department of Motor Vehicles.

**5. Summary:** Adds sworn members of the enforcement division of the Department of Motor Vehicles to the membership of the Virginia Law Officers' Retirement System.

**6. Budget Amendment Necessary:** Yes.

Item 494. VRS implementation costs are estimated to be approximately \$73,000. This does not include impact to current or future contribution rates or to the funded status of the plans, which are discussed below and in section 7. The estimated costs take into account that, in order to comply with Chapter 10 of Title 51.1, VRS handbooks and other benefit materials would need to be reprinted, and system changes would need to be made upon the effective date of this legislation to accurately reflect benefits for a new population of Virginia Law Officers' Retirement System (VaLORS) members. Additionally, the cost of reprinting VRS handbooks and other benefit materials will be allocated across any bills that require materials to be reprinted out of cycle.

Item 438. The Department of Motor Vehicles (DMV) may require a budget amendment of \$333,000 for each fiscal year, both FY 2021 and FY 2022, to cover the additional employer cost associated with the higher contribution rate in the Virginia Law Officers' Retirement System (VaLORS) compared to the contribution rate in the State Plan in which the DMV enforcement officers currently participate. Based on the Governor's proposed budget for the upcoming biennium, the VaLORS contribution rate is 7.42% of payroll greater than the State Plan contribution rate, as reflected in Exhibit 1.

**Exhibit 1**  
**Sworn Members of the Department of Motor Vehicles**

Plan	Number of DMV Officers as of 6/30/19	Expected Payroll	Retirement Contribution Rates	Expected Employer Contributions
			FY 2021	FY 2021
<b>As Member of State Plan</b>	73	\$ 4,488,026	14.46%	\$ 649,000
<b>As Member of VaLORS Plan</b>	73	\$ 4,488,026	21.88%	\$ 982,000
<b>Additional Funds Needed</b>				\$ 333,000

Item 477. The rate associated with the VaLORS plan would be impacted for all employers currently participating in VaLORS if sworn members of the enforcement division of DMV were added to VaLORS. The change would increase the VaLORS rate from 21.88% to 21.92%, which would require \$483,000 in additional funding beginning July 1, 2020. The VaLORS plan requirement would increase by \$1.13 million while the State plan funding would reduce by \$649,000. Details of the change are discussed in item 7 below.

- 7. Fiscal Impact Estimates:** In addition to direct agency costs over the next biennium based on the higher contribution rate for these employees, DMV would also share in the expected long-term actuarial costs of adding these employees to VaLORS.

The addition of DMV enforcement officers to VaLORS is expected to increase the VaLORS contribution rate by 0.04% of payroll. This is due to the change in VaLORS demographics associated with the addition of the 73 DMV enforcement officers. On average, DMV enforcement officers are 10 years older, have approximately 9 years more service, and receive an average salary that is approximately \$19,000 greater than current VaLORS members. These differences impact the normal cost rate of VaLORS. Because the DMV enforcement officers would be leaving the State plan, a similar, although much smaller, impact in the form of a minimal cost decrease would be expected in the State plan. The net change in annual costs related to the changes in both plans would be an estimated \$483,000 overall increase per year.

Since this bill transfers all of the members' prior service as a DMV enforcement officer into VaLORS, the cost impact includes a transfer of pro-rata share of assets from the State plan to VaLORS to cover a portion of the liabilities originally accrued in the State plan. The asset transfer used in the fiscal impact statement is approximately \$7.3 million.

Currently, DMV enforcement officers are 100% funded by non-general funds, and this was assumed to continue to be the case for purposes of estimating cost changes under the bill. The VaLORS plan is currently 90.91% funded by general funds and 9.09% by non-general funds. If this bill were enacted, 89.82% of the VaLORS plan would become funded by

general funds and 10.18% would become funded by non-general funds. Exhibit 2 below shows the expected impacts on the State and VaLORS plans.

## Exhibit 2

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State - General Fund	\$ (251,000)	\$ (251,000)	\$ (251,000)	\$ (251,000)	\$ (251,000)	\$ (251,000)
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	1,017,000	1,017,000	1,017,000	1,017,000	1,017,000	1,017,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
<b>TOTAL General Fund</b>	<b>\$ 766,000</b>	<b>\$ 766,000</b>	<b>\$ 766,000</b>	<b>\$ 766,000</b>	<b>\$ 766,000</b>	<b>\$ 766,000</b>
State - Non-General Funds	\$ (398,000)	\$ (398,000)	\$ (398,000)	\$ (398,000)	\$ (398,000)	\$ (398,000)
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	115,000	115,000	115,000	115,000	115,000	115,000
<b>TOTAL - Non-General Funds</b>	<b>\$ (283,000)</b>	<b>\$ (283,000)</b>	<b>\$ (283,000)</b>	<b>\$ (283,000)</b>	<b>\$ (283,000)</b>	<b>\$ (283,000)</b>
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools w/ HIC	-	-	-	-	-	-
Political Subs - Schools w/o HIC	-	-	-	-	-	-
Political Subs - Non School	-	-	-	-	-	-
<b>TOTAL Local Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Grand Totals</b>	<b>\$ 483,000</b>	<b>\$ 483,000</b>	<b>\$ 483,000</b>	<b>\$ 483,000</b>	<b>\$ 483,000</b>	<b>\$ 483,000</b>

Estimated projections based on employee data and valuation results as of June 30, 2019 and assume a level population throughout projection period.  
Payrolls beyond 2021 are assumed to remain level throughout projection period.

- 8. Fiscal Implications:** As of June 30, 2019, the VaLORS actuarial funded status was 67.2%. Because the bill immediately provides DMV enforcement officers with VaLORS benefits based on service credit earned in that position, the VaLORS unfunded liability will increase by \$7.6 million. There are eight unfilled DMV enforcement officer positions that will incur additional costs to VaLORS should these positions be filled.
- 9. Specific Agency or Political Subdivisions Affected:** VRS, DMV, and all employers with employees participating in VaLORS.
- 10. Technical Amendment Necessary:** VRS is requesting that the effective date of this legislation be delayed until July 1, 2021, as the agency is finalizing a multi-year effort to modernize its business processes and implement enhanced technology that will result in new functionality and improved services for its members, employers, and retirees. A delayed effective date of July 1, 2021 will allow for necessary systems adaptations without as much of an impact on the modernization effort. A delayed effective date will also allow for communications and outreach to affected employees and employers. VRS is also anticipating the potential need to implement multiple legislative initiatives this year, which will require additional time for effective implementation.

**11. Other Comments:** The bill proposes to add certain DMV enforcement officers to VaLORS as of the effective date of the bill. If enacted, the legislation would allow service credit earned prior to the effective date to count towards eligibility for VaLORS retirement benefits.

Because DMV enforcement officers do not currently participate in VaLORS, some of them may participate in the Hybrid Retirement Plan. If this bill passes, these officers will be placed in VaLORS and will no longer participate in the Hybrid Retirement Plan.

In 1999, the General Assembly and Governor established VaLORS to provide benefits generally equivalent to those received by state police officers and other law enforcement positions. There have been numerous bills introduced, but not enacted, since then to add certain groups to the VaLORS membership.

VaLORS provides a multiplier of 2.00% on service accrued under the plan. The hazardous duty supplement is only available to VaLORS members who were in service prior to July 1, 2001 and who did not make an election to receive the higher multiplier in lieu of the hazardous duty supplement. Employees who become members of VaLORS on or after July 1, 2001 or who have a break in service from VaLORS and who return, are eligible for the 2.00% multiplier but not the supplement. VaLORS members are eligible for unreduced retirement at age 60 with at least five years of service, or at age 50 with at least 25 years of service credit. With the exception of certain members who were in service on June 30, 2002, and July 1, 2002, and who had five years of non-hazardous duty service at the time, all current VaLORS members must have at least five years of hazardous duty service (State Police, VaLORS, or enhanced hazardous duty service in a political subdivision) to retire under VaLORS provisions. If this legislation is enacted, any member who has at least five years of service in a hazardous duty position, including service as a DMV enforcement officer, will be eligible for retirement under VaLORS.

In its 2008 *Review of State Employee Total Compensation* report, <http://jlarc.virginia.gov/pdfs/reports/Rpt378.pdf>, the Joint Legislative Audit and Review Commission (JLARC) developed an assessment of several occupational groups, including DMV enforcement officers. JLARC rated these groups based on level of risk and responsibility (see Appendix D, pages 156-58). In addition, JLARC proposed guidelines that could be used in conjunction with its risk and responsibility assessment to determine whether an occupation should receive enhanced benefits.

This bill is similar to SB 790, which would add Department of Conservation and Recreation conservation officers to VaLORS. SB 790, however, would only allow conservation officers to accrue VaLORS benefits prospectively based on service earned as a conservation officer on or after July 1, 2020.

**Date:** 01-18-2020

**Document:** HB1350.DOC/VRS