

Virginia Retirement System 2020 Fiscal Impact Statement

1. Bill Number: SB1019-S1

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

2. Patron: Stanley and Ruff

3. Committee: Finance and Appropriations

4. Title: Virginia Law Officers' Retirement System; additional retirement allowance; retirement age.

5. Summary: Changes the age through which a retired law-enforcement officer covered under the Virginia Law Officers' Retirement System (VaLORS) is entitled to receive the hazardous duty supplement from the law-enforcement officer's sixty-fifth birthday to retirement age as defined by the Social Security Act. This change aligns the hazardous duty supplement age with the hazardous duty supplement age used in the State Police Officers' Retirement System. The substitute bill requires that an appropriation be included in the appropriation act in order for the bill to become effective.

6. Budget Amendment Necessary: Yes.

Item 477. If the provisions of the bill are effective July 1, 2020, a budget amendment to cover the additional annual cost of the 0.71% increase in the contribution rate for VaLORS is approximately \$2.63 million; \$2.4 million from the general fund and \$239,000 from non-general funds for fiscal year 2021 and each year thereafter.

Item 494. In addition, VRS implementation costs are estimated at approximately \$41,000 non-general funds for programming and communications necessary to make this change.

7. Fiscal Impact Estimates:

Fiscal Impact Estimates/Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>General Fund</i>	<i>Non-General Fund & Local Funds</i>
2020				\$41,000
2021	\$2,626,000		\$2,387,000	\$239,000
2022	\$2,626,000		\$2,387,000	\$239,000
2023	\$2,626,000		\$2,387,000	\$239,000
2024	\$2,626,000		\$2,387,000	\$239,000
2025	\$2,626,000		\$2,387,000	\$239,000
2026	\$2,626,000		\$2,387,000	\$239,000

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

- 8. Fiscal Implications:** The proposed legislation would provide payment of the supplemental allowance until a member's Social Security full retirement age. The Social Security full retirement age is the age at which a member is eligible to receive full unreduced benefits from Social Security. In the past, the full Social Security benefit age was 65, but with legislation passed by Congress in 1983, the full benefit age increased and now varies depending on when an individual was born, with the current maximum age being 67 for those born in 1960 or later.¹

In determining the cost impact of the proposed legislation, the benefit changes outlined above were assumed to apply prospectively to eligible members who have retired and not reached their Social Security full retirement age, and to active eligible members who have not yet commenced benefits.

Exhibit 1 below shows the number of members who would be affected by the proposed legislation.

Exhibit 1*
Active VaLORS Members

Members	Count	Average Age	Average Service as of June 30, 2019
Active Members Eligible for Supplement	1,187	50.31	22.75
Active Members No Supplement	7,505	37.71	6.79
Total VaLORS Actives	8,692	39.43	8.97

Retired VaLORS Members

Members	Count	Average Retirement Age	Average Service at Retirement
Retired Receiving Supplement and less than Social Security Retirement Age as of June 30, 2019	1,784	52.94	24.82
Retired No Supplement	3,187	59.42	20.1
Total VaLORS Retirees	4,971	57.09	21.79

*VALORS members hired after 2001 receive a 2.0% multiplier in lieu of the supplement. More detail regarding eligibility for the supplement is provided in Section 11.

The cost of this legislation will be reflected in increased employer contribution rates of 0.71% per year. This measure would also increase the unfunded liability by approximately \$34.7 million and decrease the funded ratio of VaLORS. As of June 30, 2019, the funded ratio of the VaLORS plan stood at 67.2% with an unfunded liability of \$726 million.

Exhibit 2 shows the estimated future cost impacts associated with the bill.

¹ Social Security Act Amendments of 1983, Pub. L. No. 98-21, 97 Stat. 65.

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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	2,387,000	2,387,000	2,387,000	2,387,000	2,387,000	2,387,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ 2,387,000	\$ 2,387,000	\$ 2,387,000	\$ 2,387,000	\$ 2,387,000	\$ 2,387,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	239,000	239,000	239,000	239,000	239,000	239,000
TOTAL - Non-General Funds	\$ 239,000	\$ 239,000	\$ 239,000	\$ 239,000	\$ 239,000	\$ 239,000
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subdivisions - Local Funds	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ 2,626,000	\$ 2,626,000	\$ 2,626,000	\$ 2,626,000	\$ 2,626,000	\$ 2,626,000

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.

9. Specific Agency or Political Subdivisions Affected: VRS and employers of VaLORS members.

10. Technical Amendment Necessary: No.

11. Other Comments: The hazardous duty supplement is a dollar amount added to the retirement benefit of eligible VaLORS retirees (those with 20 years of hazardous duty service, among other requirements) until the member reaches age 65. Normal retirement age for VaLORS members is age 60 with at least five years of creditable service. Prior to 2001, a VaLORS retiree would receive a monthly benefit equal to 1) his or her monthly retirement allowance calculated using a 1.7% multiplier, and 2) the hazardous duty supplement amount in effect at the time (note: the supplement is recalculated biennially based on increases in Social Security benefits). The supplement amount is currently \$14,244 per year, which is paid to a retiree as \$1,187 per month. When a VaLORS retiree reaches age 65, the supplement ends and the retiree continues to receive his or her monthly retirement allowance minus the supplement.

In 2001, the General Assembly enacted legislation that gave eligible VaLORS members the option to elect an alternate benefit structure. The legislation required that all new VaLORS members hired on or after July 1, 2001 would not be eligible for the hazardous duty supplement. Instead, such members would receive a monthly retirement allowance calculated using a 2% multiplier. At the time of the legislation's enactment, all then-existing VaLORS members (i.e., those hired before July 1, 2001) had the opportunity to elect whether they wished to maintain their original benefit structure (i.e., the 1.7% multiplier plus the

hazardous duty supplement) or elect the new benefit structure (i.e., the 2% multiplier without the supplement).

The bill would affect those VaLORS members who were hired before July 1, 2001 and who chose not to elect the new benefit structure (assuming they have 20 years of hazardous duty service). When such members retire, they are currently eligible for the hazardous duty supplement until they reach age 65. This bill, however, would tie the supplement's cutoff date to a retiree's Social Security retirement age, which varies depending on an individual's date of birth. In general, a VaLORS retiree who is eligible for the hazardous duty supplement would receive the supplement for a slightly longer period of time as a result of the bill.

The same hazardous duty supplement is available to VRS members who retire from the State Police Officers' Retirement System (SPORS). Local hazardous duty members whose localities have elected enhanced hazardous duty benefits may also be eligible for the supplement. The cutoff date of the supplement under SPORS and for local hazardous duty members with enhanced benefits is also the retiree's Social Security retirement age, which was changed from age 65 in 2001 (Chapter 804 of the 2001 Acts of Assembly).

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