

Virginia Retirement System 2020 Fiscal Impact Statement

1. Bill Number: SB 606

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

2. Patron: McDougale

3. Committee: Finance and Appropriations

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

5. Summary: Increases, for the purposes of determining benefits provided under the Judicial Retirement System, the retirement multiplier from 1.00% to 1.70%. The increase would apply only to judges appointed on or after July 1, 2020, who are participants in the Hybrid Retirement Program and who are at least age 55 at the time of appointment.

6. Budget Amendment Necessary: Yes.

Item 494. VRS implementation costs are estimated at approximately \$73,000 in non-general funds for updating handbooks and training materials, as well as systems' programming necessary to make the changes contemplated by the legislation.

7. Fiscal Impact Estimates:

7) Fiscal Impact Estimates/Expenditure and Revenue Impacts:

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				\$73,000
2021				
2022				
2023				
2024				
2025				
2026				

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

8. Fiscal Implications: The proposed legislation 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, 2020 and are at least age 55 at the time of the appointment.

Only judges appointed to an original term on or after July 1, 2020 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, including other judges who are currently in the Hybrid Retirement Plan. 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, 36% of all new appointments since 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	95	97	16	208
2011	0	0	0	0
2012	4	2	5	11
2013	8	10	15	33
2014	6	13	9	28
2015	12	17	16	45
2016	11	14	9	34
2017	3	8	12	23
2018	4	3	5	12
2019	18	30	20	68
Prior to 7/1/2010	95	97	16	208
After 7/1/2010	66	97	91	254
Total Plan	161	194	107	462

This bill would affect only JRS members participating in the Hybrid Retirement Program who are appointed to an original term on or after July 1, 2020 and who are at least age 55 at the time appointment. Exhibit 2 below provides a breakdown of judges by age at original appointment by benefit tier within the JRS plan. It indicates that approximately 27% of judges in the Hybrid Retirement Program were less than age 45 when first appointed, about 39% were ages 45-54, and approximately 34% 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	101	108	23	232
Plan 2	12	14	22	48
Hybrid	48	72	62	182
Total Plan	161	194	107	462

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, which provides not only a defined benefit component with a retirement multiplier of 1.00% for JRS service, but also a defined contribution component described below. The bill would increase the defined benefit multiplier to 1.70% for only those Hybrid Retirement Program judges who are appointed to an original term on or after July 1, 2020 and who are at least age 55 at the time of their original appointment. By increasing the defined benefit multiplier to 1.7% for these judges, their total JRS Hybrid plan benefit (which includes a defined benefit and a defined contribution component) would be greater than the benefits for judges in Plan 1 and Plan 2.

Under the defined contribution component of the JRS Hybrid Retirement Program, the employer contributes a mandatory 1% of the judge's creditable compensation as well as matches a portion of any voluntary contributions a judge may make, up to 2.5%. The judge may make voluntary contributions to the defined contribution component of the program up to 4% 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.

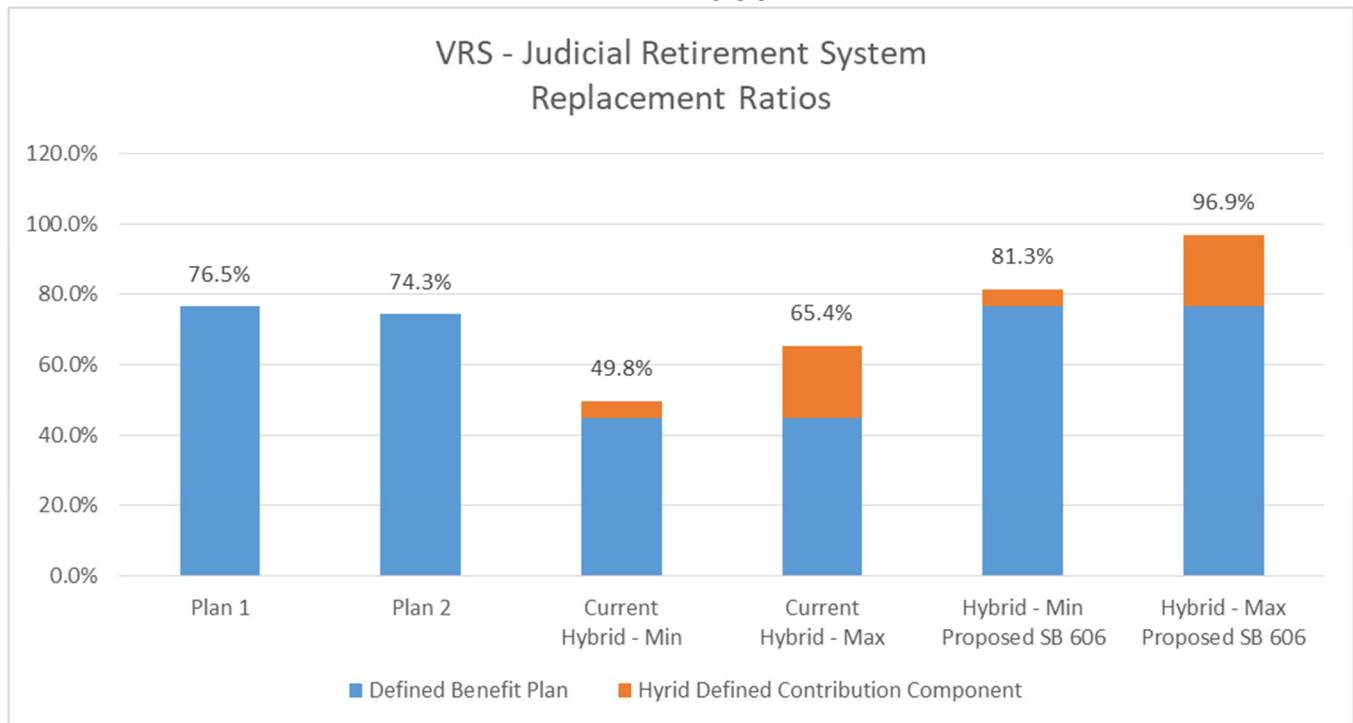
Based on the age at appointment, JRS members also receive a service weighting as part of the benefit. Effective July 1, 2010, the following service weightings are applicable based on age at the time of the judge's original appointment:

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

To illustrate, 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 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, and those of the pre-July 1, 2020 members of the JRS Hybrid Retirement Program.

Exhibit 3



As of June 30, 2019, the JRS plan had a funded status of 82.6% with \$116.6 million of unfunded liability. The proposed changes in the 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, 2020. 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 606. 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 606 the initial impact is expected to be approximately 0.25% of covered payroll, increasing to nearly 9.50% 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 over time as expected 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

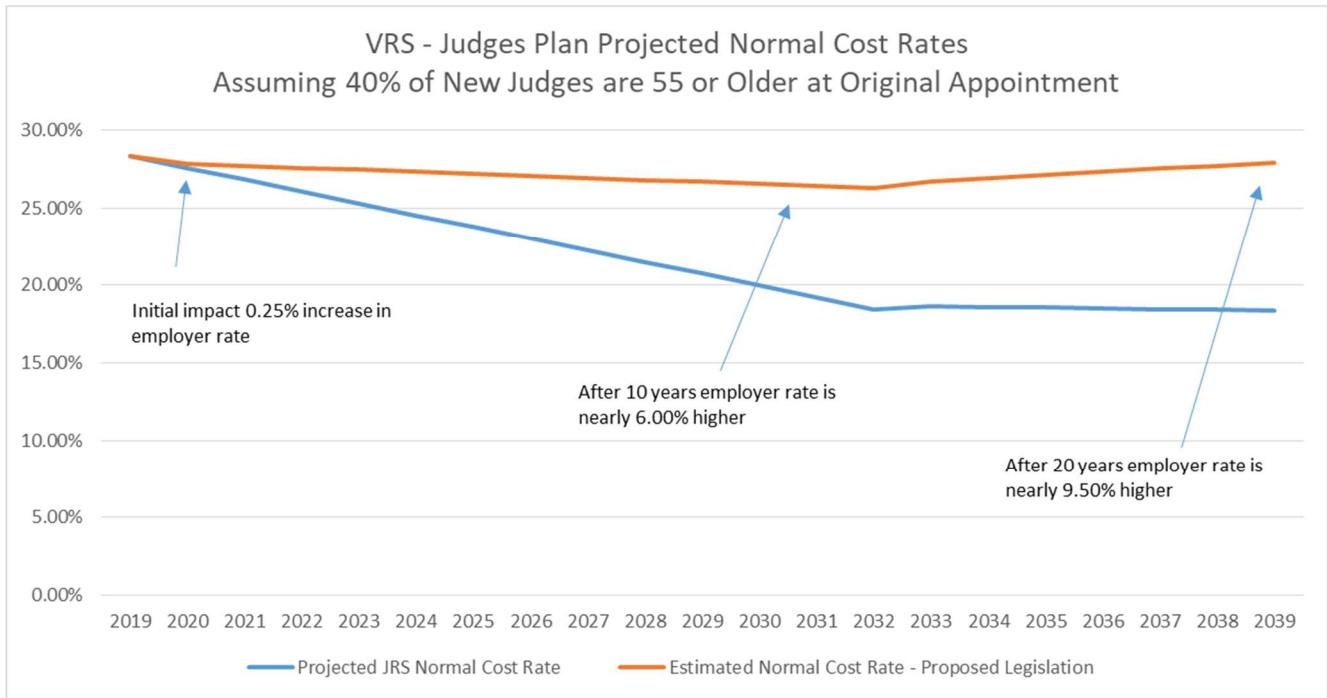


Exhibit 5 below shows the estimated future cost impacts associated with the bill assuming 40% of new judge appointments are age 55 or older. The analysis in exhibit 5 also assumes that the same appointment patterns continue with respect to ages at appointment as well as the number of appointments each 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.

Note that if this legislation is passed in conjunction with House Bill 556, which would remove the 78% of average final compensation cap for judges who work for five years following their JRS service, then the costs will be significantly higher than those shown herein.

Exhibit 5

	<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	-	-	-	-	-	-
JRS - General Fund	-	207,000	207,000	1,176,000	1,176,000	2,144,000
ORP/UVA - General Funds	-	-	-	-	-	-
TOTAL General Fund	\$ -	\$ 207,000	\$ 207,000	\$ 1,176,000	\$ 1,176,000	\$ 2,144,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
ValORS - Non-General Funds	-	-	-	-	-	-
ORP/UVA - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ -	\$ 207,000	\$ 207,000	\$ 1,176,000	\$ 1,176,000	\$ 2,144,000

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 Supreme Court of Virginia.

10. Technical Amendment Necessary: No.

11. Other Comments: The proposed 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, 2020 and who were at least age 55 at the time of their original appointment. Current Hybrid Retirement Program judges would continue to receive the 1.0% multiplier.

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, as indicated in the chart below.

Appointed or Elected	Weighting Factor
Prior to 1/1/1995	3.5
After to 1/1/1995 but Prior to 7/1/2010	2.5
On or after 7/1/2010 - Under Age 45 at Appointment	1.5
On or after 7/1/2010 - Age 45 - 54 at Appointment	2.0
On or after 7/1/2010 - Age 55 or older at Appointment	2.5

Date: 01-12-2020

Document: SB606.DOC/VRS