Virginia Retirement System

2022 Fiscal Impact Statement

1. **Bill Number:** SB 507

   House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** Lewis

3. **Committee:** Finance and Appropriations

4. **Title:** Virginia Retirement System; benefits for certain local law-enforcement employees.

5. **Summary**: Requires localities prospectively electing enhanced retirement benefits to use the 1.85 percent multiplier for determining the annual retirement allowance for local law-enforcement officers receiving benefits similar to those provided to State Police officers. Currently, localities may elect to provide a 1.7 percent multiplier in lieu of the 1.85 percent multiplier.

6. **Summary of Impacts**

   Benefit(s) impacted: Individual local plans. Service retirement benefits for eligible employees of localities that elect enhanced retirement benefits for hazardous duty employees under § 51.1-138. Currently localities that elect enhanced retirement benefits can choose between the 1.7% and 1.85% multiplier. Will not change the benefits of sheriffs, who are already provided the 1.85% multiplier under § 51.1-138(B), or the benefits of other employees already provided enhanced retirement benefits.

   Impact to unfunded liability (see Item 9 for details): Indeterminate. Will vary by employer for those that elect the benefits for eligible hazardous duty employees in the future.

   Impact to contribution rate(s) (see Item 9 for details): Indeterminate. Will vary by employer for those that elect the benefits for eligible hazardous duty employees in the future.

   Specific Agency or Political Subdivisions Affected (see Item 10): VRS and localities that elect enhanced retirement benefits in the future for hazardous duty employees under § 51.1-138.

   VRS cost to implement (see Item 7 and Item 8 for details): Approximately $93,000 for FY 2022.

   Employer cost to implement (see Item 7 and Item 8 for details): Indeterminate. There may not be any implementation costs for employers. Will impact the cost of providing the benefit for localities that decide to elect the enhanced benefits after the bill is effective. Will not change the cost for localities that have already elected the benefits. **See Section 9 for more information.**

Other VRS and employer impacts (see Items 7, 9, 11, and 12 for details): VRS requires local plans to be 75% funded before adding new benefit coverage. Electing hazardous duty benefits creates unfunded liability because employees are provided retroactive coverage. If electing enhanced retirement benefits would cause the employer's funded status to drop below 75%, a lump sum payment to bring the plan to 75% funded is required at the time of the election. The 1.85% multiplier generates more unfunded liability than the 1.7% multiplier.

GF budget impacts (see Item 8 for details): None.

NGF budget impacts (see Item 8 for details): $93,000 NGF in FY 2022 for implementation.

7. **Budget Amendment Necessary**: Yes. In Item 494, VRS would need a NGF appropriation of approximately $93,000 for FY 2022 to cover the cost of programming and testing, as well as updating employee and employer communications, with minimal ongoing costs. This does not include the potential impact to future local contribution rates or to the funded status of the local plans, which are discussed below.

8. **Fiscal Impact Estimates:** More detail on the fiscal impact is explained in Item 9 below.

9. **Fiscal Implications:** The costs of the benefits would be borne by the local political subdivisions that elect enhanced hazardous duty benefits going forward and will vary by employer due to the underlying demographics of each employer. As of June 30, 2021, 231 local employers had elected enhanced hazardous duty coverage for eligible members. The exhibit below shows that the average employer cost for political subdivisions to provide enhanced hazardous duty benefits as of June 30, 2021, was 21.48% for employers with the 1.85% multiplier as compared to 19.55% for employers with the 1.7% multiplier. This exhibit also shows that a majority of the employers have chosen to elect the 1.7% multiplier.

Local Employers Electing Enhanced Hazardous Duty Coverage for Eliglble Members

Enhanced Coverege Elected	Number of Employers	Average Employer Rate for Hazardous Duty Members
Elected 1.70% Multiplier	122	19.55%
Elected 1.85% Multiplier	109	21.48%
Total	231	20.46%

The bill would make the cost of electing hazardous duty benefits for new localities more expensive since they would no longer have the option to elect the lower 1.7% multiplier. It is worth noting that the cost of providing enhanced hazardous duty benefits is more than double the cost of benefits provided to general employees, an average of 20.46% cost for the enhanced coverage compared to 8.10% cost for general employees. The main drivers of the increased cost are the enhanced hazardous duty supplement and the early eligibility for retirement.

The bill requires localities that elect hazardous duty benefits going forward to provide the 1.85% multiplier for all categories of employees for whom they are making the election at that time. Under § 51.1-138, localities can make an irrevocable election to provide enhanced hazardous duty benefits to any or all of the various categories of hazardous duty employees listed. The election involves choosing between a 1.7% multiplier and a 1.85% multiplier for the retirement benefit, as well as the option to elect a hazardous duty supplement currently equal to $1,222 per month and continuing until Social Security normal retirement age. The supplement is increased every two years based on Social Security cost of living adjustments. The VRS normal retirement age for employees eligible for enhanced hazardous duty coverage becomes age 60 rather than 65, and employees are eligible for an unreduced benefit at age 60 with at least five years of service credit or at age 50 with at least 25 years of service credit.

Under current law, employers that have already elected the 1.7% multiplier may leave the 1.7% multiplier in place or they may follow the standard election procedures of requesting an actuarial study and then passing a new resolution to increase the multiplier to 1.85% for those employees for whom hazardous duty benefits have been elected.

10. **Specific Agency or Political Subdivisions Affected:** VRS and all participating local employers that elect enhanced retirement benefits for hazardous duty employees under § 51.1-138 in the future.

11. **Technical Amendment Necessary:** No.

12. **Other Comments:** The proposed bill would require localities that elect enhanced hazardous duty benefits under § 51.1-138 going forward to use the 1.85% multiplier for determining the annual retirement allowance for eligible employees receiving benefits similar to those provided to State Police officers. Currently, § 51.1-138 gives localities an option to provide a 1.7% multiplier in lieu of the 1.85% multiplier.

    Members of SPORS (state police officers) have a 1.85% multiplier for all retirements on or after July 1, 2007. Before that, there was a 1.7% multiplier. Localities may currently make an irrevocable election under § 51.1-138 to provide enhanced retirement benefits for their hazardous duty employees, and these enhanced benefits are derived from SPORS. When the SPORS multiplier was increased in 2007 from 1.7% to 1.85%, the General Assembly amended § 51.1-138 to grant localities the option to use the lower multiplier for their hazardous duty employees.

    Whether to provide these enhanced benefits is a local election funded by each separately actuarially rated locality that participates in VRS. If the bill is enacted, any locality that wishes to provide enhanced hazardous duty benefits going forward must adopt a resolution adding the benefits with the 1.85% multiplier for selected covered employees under § 51.1-138.

    Under the legislation, localities that elect enhanced hazardous duty benefits for eligible employees under § 51.1-138 going forward will no longer have the option of choosing between the 1.7% and 1.85% multipliers. VRS interprets this legislation as applying to future elections by localities. Employers that have already elected the 1.7% multiplier may, but are not required to, change the election to the higher multiplier.

As drafted, the legislation does not require an employer to retroactively apply the 1.85% multiplier if it has already elected the 1.7% multiplier. This would require the employer to pay retirement benefits at a higher level than what was funded. When an employer elects hazardous duty benefits under § 51.1-138, they must undertake an actuarial study that shows what the estimated future benefits will cost, as well as the impact on the plan's individual funded status. Requiring localities to pay retirement benefits that are higher than the benefits that were funded would negatively impact each plan's funded status.

In addition to the impacts discussed above, this bill will also affect HB 56 (juvenile detention specialists); HB 162 (animal control officers); and HB 131, HB 854, and SB 585 (911 dispatchers) that all add groups of employees that localities may elect to provide enhanced retirement benefits to under § 51.1-138.

Date: 1/23/2022

Document: SB507.DOC/VRS