# 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 prior to substitute:** Lewis

3. **Committee:** Finance and Appropriations

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

5. **Summary**: Requires localities to use the 1.85% multiplier for determining the annual retirement allowance for deputy sheriffs for service earned on and after July 1, 2023.

6. **Summary of Impacts**

   **<u>Benefit(s) impacted:</u>** Individual local plans. Service retirement benefits for all deputy sheriffs for service earned on and after July 1, 2023. All deputy sheriffs currently receive enhanced hazardous duty benefits, regardless of whether the locality has elected the benefits. If a locality has not elected the 1.85% multiplier, however, this bill will require the locality to provide the higher multiplier to its deputy sheriffs. The substitute bill will not affect the benefits of any employees other than deputy sheriffs and will not affect service earned prior to July 1, 2023.

   **<u>Impact to unfunded liability (see Item 9 for details):</u>** Since the bill is prospective for service earned after July 1, 2023, there will be no impact to unfunded liabilities of the local employer plans.

   **<u>Impact to contribution rate(s) (see Item 9 for details):</u>** Will vary by employer, with the average increase being 0.36% of payroll for employers impacted. Employers that have already elected the 1.85% multiplier or those that do not employ deputy sheriffs or that do not participate in VRS will not be impacted.

   **<u>Specific Agency or Political Subdivisions Affected (see Item 10):</u>** VRS and localities that have elected enhanced retirement benefits with a 1.7% multiplier for hazardous duty employees under § 51.1-138, and localities that have not elected enhanced retirement benefits for its hazardous duty employees under § 51.1-138.

   **<u>VRS cost to implement (see Item 7 and Item 9 for details):</u>** Approximately $73,000 for FY 2023.

   **<u>Employer cost to implement (see Item 7 and Item 9 for details):</u>** Indeterminate. There may not be any implementation costs for employers. Will impact the cost of providing the benefit for affected localities after the bill is effective in 2023. Will not change the cost for localities that have already elected the benefits with the 1.85% multiplier. **See Section 9 for more information.**

**<u>Other VRS and employer impacts (see Items 7, 9, 11, and 12 for details):</u>** There are three localities not participating in VRS but that may have deputy sheriffs. These localities will not be affected by the legislation.

**<u>GF budget impacts (see Item 9 for details):</u>** None.

**<u>NGF budget impacts (see Item 9 for details):</u>** $73,000 NGF in FY 2023 for implementation.

7. **Budget Amendment Necessary**: Yes. In Item 500, VRS would need a NGF appropriation of approximately $73,000 for FY 2023 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.

   The average increase in the employer contribution rate for impacted localities is 0.36% of covered payroll. The Compensation Board indicates that most localities have exceeded the 2.13% cap on Compensation Board reimbursements for constitutional officers, therefore there should not be a GF impact. To the extent localities that have elected the 1.7% multiplier have deputy sheriffs that are funded in whole or in part by the Compensation Board or other GF source, localities will be responsible for the increases associated with the substitute bill. Budget impacts have not been included for individual localities.

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 VRS-participating local political subdivisions that have not elected the 1.85% multiplier for deputy sheriffs, and will vary by employer due to the underlying demographics of each employer. As of June 30, 2021, 120 VRS-participating local employers employed deputy sheriffs with 56 of the 120 employers already having elected the 1.85% enhanced hazardous duty coverage for eligible members. The exhibit below shows the number of VRS-participating employers with deputy sheriffs and the current enhanced hazardous duty coverage provided as of June 30, 2021. The cost to increase the enhanced hazardous duty multiplier for the 64 employers currently providing the 1.7% multiplier will vary by employer with the average increase in cost expected to be 0.36% of employer payroll

**Local Employers Employing Deputy Sheriffs**

| Enhanced Coverage Elected | Number of Employers | Number of Deputy Sheriffs | Average Increase in Employer Rate |
|---|---|---|---|
| 1.70% Multiplier | 64 | 2,897 | 0.36% |
| 1.85% Multiplier | 56 | 4,638 | N/A |
| Total | 120 | 7,535 | |

There are also three localities not participating in VRS but that may have deputy sheriffs.

The bill would make the cost of hazardous duty benefits for localities that have not already elected the 1.85% multiplier, and that have deputy sheriffs, more expensive.

The bill requires all VRS-participating localities going forward from July 1, 2023 to provide the 1.85% multiplier on service earned after that date for all deputy sheriffs, regardless of whether the locality has elected to provide enhanced retirement benefits for its hazardous duty employees. Under § 51.1-138(D), as of July 1, 2008, all VRS-participating localities were required to provide enhanced hazardous duty benefits to deputy sheriffs. If a locality does not elect enhanced hazardous duty benefits, or if the locality does not elect the 1.85% multiplier, the deputy sheriffs currently receive the 1.7% multiplier. Sheriffs and regional jail supervisors automatically receive enhanced hazardous duty benefits with the 1.85% multiplier under § 51.1-138(B).

10. **Specific Agency or Political Subdivisions Affected:** VRS and all participating local employers that employ deputy sheriffs and have not elected the 1.85% multiplier for hazardous duty employees under § 51.1-138.

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

12. **Other Comments:** Beginning July 1, 2023, the proposed substitute bill would require localities that employ deputy sheriffs and that have not elected the 1.85% multiplier to use the 1.85% multiplier on service earned on and after July 1, 2023 for determining the annual retirement allowance for its deputy sheriffs. Currently, § 51.1-138 gives localities an option to provide a 1.7% multiplier in lieu of the 1.85% multiplier if they elect hazardous duty benefits.

    Members of SPORS (State Police Officers' Retirement System) 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. Section 51.1-138(D), however, requires all VRS participating employers to provide enhanced hazardous duty benefits to deputy sheriffs. If the employer has not elected the 1.85% multiplier, their deputy sheriffs currently receive the 1.7% multiplier.

    If the substitute bill is enacted, any VRS-participating locality that employs deputy sheriffs and that has not elected the 1.85% multiplier must provide the higher multiplier for service earned on and after July 1, 2023.

    The substitute bill does not require the 1.85% multiplier to retroactively apply to a locality's deputy sheriffs.

The delayed effective date of July 1, 2023 will allow for employer outreach and communication and will allow the localities to budget for future costs.

**Date:** 2/15/2022

**Document:** SB507S1.DOC/VRS