

Virginia Retirement System

2023 Fiscal Impact Statement

1. **Bill Number:** HB 1867

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** P. Scott

3. **Committee:** Pending

4. **Title:** Virginia Retirement System; prior service or membership credit

5. **Summary:** Allows a member of the Virginia Retirement System who is a teacher to receive at no cost to the member up to four years of service credit for prior active duty military service in the armed forces of the United States. The service cannot already have been purchased or granted.

6. **Summary of Impacts**

Benefit(s) impacted: Eligibility for retirement.

Impact to unfunded liability (see Item 9 for details): While VRS is not able to determine the number of current teachers or future teachers who would have prior active military service to purchase, we do know that each person who purchases up to 48 months of active military service would create an unfunded liability that ranges from \$10,000 - \$60,000 depending on the age and service and compensation of the member. With a total active population of over 150,000 it is unknown how many teachers have prior military service available to be granted. However, if 1,500 members (1% of the Teacher population) had this type of service, and the average cost was \$35,000, the total cost to the fund could be \$50 million. The current unfunded liability of the Teacher Plan is \$11.8 billion.

Impact to contribution rate(s) (see Item 9 for details): It is unknown how many teachers have prior military service available to be granted. Based on our example above, if 1.0% of the Teacher pool has prior military service that has not been purchased, there could be an increase to the employer rate. Impacts would be dependent on the volume and the timing of the granting of service.

Specific Agency or Political Subdivisions Affected (see Item 10): VRS, all school divisions, and the localities that fund them.

VRS cost to implement (see Item 7 and Item 8 for details): Approximately \$78,000 for FY 2023.

Employer cost to implement (see Item 7 and Item 8 for details): None.

Other VRS and employer impacts (see Item 7, Item 9, Item 11, and Item 12 for details):

Granting of service in a pooled plan will effectively spread the cost of each period of granted service over all of the employers in the Teacher plan.

GF budget impacts (see Item 8 for details): No immediate impact.

NGF budget impacts (see Item 8 for details): \$78,000 in FY 2023 for VRS implementation.

7. **Budget Amendment Necessary:** Yes. Item 498. VRS would need a NGF appropriation of approximately \$78,000 for FY 2023 to revise and post handbooks, manuals and e-courses on purchase of prior service (PPS), to revise and post PPS web materials, and to communicate the change to employers and members.
8. **Fiscal Impact Estimates:** More detail on the fiscal impact is explained in Item 9 below.
9. **Fiscal Implications:** It is unclear how many teachers may have prior active-duty military service (ADMS) to be included in their VRS member record. While up to four years of prior ADMS would be granted to teachers at no cost to the member, the VRS Trust Fund would incur unfunded liabilities for the additional years granted for which VRS has not received payments and invested funds.

Assuming 1% of the teacher population (1,500 teachers) had this type of service, and the average cost was \$35,000, the total cost to the fund could be \$50 million. The current unfunded liability of the Teacher Plan is \$11.8 billion.

Depending on the number of teachers who take advantage of this provision over time, this may impact contribution rates. As initiatives to recruit veterans as teachers increase, correspondingly the number of those who have qualifying service will also increase. The provision does not change the restriction that prior military service cannot be granted if it is included in the calculation of any retirement allowance received or to be received by the member from this or another retirement system, or if there is a balance in a defined contribution account that serves as a primary retirement account related to such service. Further, the member must be actively employed with a VRS-participating employer for the granted service to be provided.

10. **Specific Agency or Political Subdivisions Affected:** VRS, all school divisions, and the localities that fund them.

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

12. **Other Comments:** This bill allows teachers who are active members of VRS to be granted up to four years of service credit for prior active-duty military service in the armed forces of the United States at no cost to the member. The service cannot already have been purchased or granted, and the discharge from the period of ADMS cannot be dishonorable. In addition, prior military service cannot be granted if it is included in the calculation of any retirement allowance received or to be received by the member from this or another retirement system, or if there is a balance in a defined contribution account that serves as a primary retirement

account related to such service. In addition, the member must be actively employed with a VRS-participating employer for the granted service to be provided.

While it is not expected that there will be an immediate impact on contribution rates in the Teacher Plan, granting service with no employer or employee contributions will contribute to the unfunded liability, which is currently \$11.8 billion.

It is expected that new teachers with prior ADMS would readily take advantage of the provisions of this bill, and it is possible that deferred VRS members who return to a VRS-covered position would also do so if they had not already purchased prior ADMS during a previous period(s) of active VRS membership.

The opportunity to be granted up to four years of prior ADMS is valuable to an eligible member. Prior service credit counts toward vesting, eligibility for retirement and eligibility for the health insurance credit, if offered by the employer.

A teacher must be an active VRS member to be granted the prior ADMS under the bill. A teacher would not be eligible for the grant of prior ADMS if they are employed in a non-covered position, on a leave of absence without pay, a deferred member or a retiree, or if the service is included in the calculation of another retirement benefit. Employers currently can choose to pay the for purchase of this service credit on behalf of the employee.

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