

Virginia Retirement System

2023 Fiscal Impact Statement

1. Bill Number: HB 2299

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

2. Patron: Orrock

3. Committee: Appropriations

4. Title: Virginia Law Enforcement Officers' Retirement System; conservation police officers.

5. Summary: Adds conservation officers of the Department of Conservation and Recreation (DCR) to the definition of "employee" as it relates to the Virginia Law Officers' Retirement System (VaLORS).

6. Summary of Impacts

Benefit(s) impacted: Moves certain DCR employees from the State Plan into VaLORS beginning July 1, 2023.

Impact to unfunded liability (see Item 9 for details): Increases VaLORS by \$7.1 million and decreases State employees plan by \$2.2 million. VaLORS funded status is expected to decrease to approximately 71.2% (from the current 71.4%).

Impact to contribution rate(s) (see Item 9 for details): Increases contribution requirements for certain DCR employees in FY 2024 and going forward. DCR will need approximately \$576,000 for FY 2024. There would be no impact to the State employees plan contribution rate for FY 2024 due to maintaining the prior year rate of 14.46% (as provided in the appropriation act); however, future rates would be expected to increase by approximately 0.01% of covered payroll. However, the employer rate for all VaLORS employers would be expected to be slightly lower with the inclusion of certain members of DCR. The reduction in the rate is mainly due to spreading the unfunded liability over a larger payroll.

Specific Agency or Political Subdivisions Affected (see Item 10): VRS, DCR, and all employers with employees participating in VaLORS.

VRS cost to implement (see Item 7 and Item 8 for details): Approximately \$55,000 in FY 2023.

Employer cost to implement (see Item 7 and Item 8 for details): DCR will need approximately \$576,000 to add additional employees covered by VaLORS in FY 2024. Any of DCR's other costs to implement this change are indeterminate except for the increased VaLORS employer contribution rates required.

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

The addition of DCR conservation officers to VaLORS will change contribution rates for all VaLORS employers as the DCR employees have a higher average salary and higher average service than the current VaLORS population. The Department of Accounts and the Department of Human Resource Management will be involved in creating new job titles for VaLORS.

GF budget impacts (see Item 8 for details): Approximately \$576,000 increase in FY 2024 for the increase in employer contribution costs.

NGF budget impacts (see Item 8 for details): Approximately \$55,000 in FY 2023 for VRS implementation.

7. Budget Amendment Necessary: Yes. Items 376 and 498 of HB 1400.

Item 498: VRS implementation costs are estimated to be approximately \$55,000 in FY 2023. This does not include the impact to current or future contribution rates or to the funded status of the plans, which are discussed below and in Item 8. The estimated costs take into account system changes that would need to be made upon the effective date of the legislation to accurately reflect benefits for a new population of VaLORS members. Additionally, the cost of reprinting VRS handbooks and other benefit materials will be allocated across any bills that require materials to be reprinted out of cycle.

Item 376: DCR will require a budget amendment of \$576,000 for FY 2024 to cover the additional employer cost associated with the higher contribution rate for VaLORS compared to the contribution rate in the State Plan in which DCR conservation officers currently participate. Based on the budget for the biennium, the VaLORS contribution rate that DCR will have to contribute for these officers is 10.14% of payroll greater than the State Plan contribution rate that they are already paying, as reflected in Exhibit 1.

Exhibit 1

Plan	Number of Conservation Officers as of 6/30/2022	Expected Payroll	Retirement Contribution Rates	Expected Employer Contributions
			FY 2024	FY 2024
As Member of State Plan	92	\$ 5,673,494	14.46%	\$ 820,000
As Member of VaLORS Plan	92	\$ 5,673,494	24.60%	\$ 1,396,000
Additional Funds Needed				\$ 576,000

8. Fiscal Impact Estimates: Estimates shown below reflect overall impacts to the State and VaLORS plans. Individual employer impacts for DCR are reflected in Item 7.

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>General Fund</i>	<i>Non-General Fund & Local Funds</i>
2023	\$55,000			\$55,000
2024	\$576,000		\$576,000	-
2025	\$866,000		\$908,000	(\$42,000)
2026	\$866,000		\$908,000	(\$42,000)
2027	\$866,000		\$908,000	(\$42,000)
2028	\$866,000		\$908,000	(\$42,000)
2029	\$866,000		\$908,000	(\$42,000)

Please see the discussion in Item 9 for details on the amounts shown in the chart.

- 9. Fiscal Implications:** Overall, the addition of DCR conservation officers to VaLORS is expected to increase the unfunded liability of VaLORS by \$7.1 million. However, due to the increase in the covered payroll associated with the DCR conservation officers, the employer contribution rate is expected to remain relatively level. On average, the DCR conservation officers are one year younger, have approximately one more year of service, and receive an average salary that is approximately \$7,600 per year greater than current VaLORS members.

In developing the cost impacts of this bill, it was assumed that the liabilities associated with service in the State plan would be transferred to the VaLORS plan for these members. In addition, a transfer of assets of approximately \$7.4 million was also assumed to move from the State fund to the VaLORS fund due to the transfer of liabilities. Because of the transfer of both assets and liabilities, there is not an impact to the funded status of the State plan. As of June 30, 2022, the VaLORS actuarial funded status was 71.4%. Because the bill immediately allows DCR conservation officers who have at least five years of hazardous duty service to retire with VaLORS benefits if they are otherwise eligible, the VaLORS unfunded liability will increase by approximately \$7.1 million, and the funded status will decrease to approximately 71.2%.

Note that due to the funding for the State plan remaining at the prior year level of 14.46% (as provided in the appropriation act), the change in funding for the State plan for FY 2024 would be a net decrease of approximately \$820,000. The net change in annual funding related to the changes in both plans would be an estimated increase of \$576,000 for FY 2024. This is expected to increase to \$866,000 by FY 2025. Note that the savings for the State Plan are greater for FY 2024 due to maintaining the prior year rate of 14.46%. Future savings are expected to be much lower, which is reflected in the increased costs beyond FY 2024.

Currently, DCR conservation officers are 100% funded by general funds, and this was assumed to continue to be the case for purposes of estimating cost changes under the bill. The VaLORS plan is currently 90.63% funded by general funds and 9.37% by non-general funds. If this bill were enacted, 90.76% of the VaLORS plan would become funded by general funds and 9.24% would become funded by non-general funds. Exhibit 2 below shows the expected impacts on the State and VaLORS plans.

Exhibit 2

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
State - General Fund	\$ (820,000)	\$ (113,000)	\$ (113,000)	\$ (113,000)	\$ (113,000)	\$ (113,000)
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	1,396,000	1,021,000	1,021,000	1,021,000	1,021,000	1,021,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ 576,000	\$ 908,000	\$ 908,000	\$ 908,000	\$ 908,000	\$ 908,000
State - Non-General Funds	\$ -	\$ (146,000)	\$ (146,000)	\$ (146,000)	\$ (146,000)	\$ (146,000)
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	-	104,000	104,000	104,000	104,000	104,000
TOTAL - Non-General Funds	\$ -	\$ (42,000)	\$ (42,000)	\$ (42,000)	\$ (42,000)	\$ (42,000)
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non-schools	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ 576,000	\$ 866,000	\$ 866,000	\$ 866,000	\$ 866,000	\$ 866,000

Estimated projections based on employee data and valuation results as of June 30, 2022 and assume a level population throughout projection period. Payrolls include proposed pay increases included in budget for FY 2023 and 2024. Payrolls are assumed to remain level beyond 2024 through remainder of the projection period.

10. Specific Agency or Political Subdivisions Affected: VRS, DCR, and all employers with employees participating in VaLORS.

11. Technical Amendment Necessary: No.

12. Other Comments: The bill proposes to add DCR conservation officers commissioned pursuant to § 10.1-115 to VaLORS as of the effective date of the bill. To be commissioned as a DCR conservation officer under § 10.1-115, an individual must be at least 21 years of age and have graduated from high school or obtained an equivalent diploma. The individuals must be recommended by the DCR Director and approved by the Governor prior to being commissioned by the Secretary of the Commonwealth.

If enacted, the legislation would allow service credit earned prior to the effective date to count towards eligibility for VaLORS retirement benefits. Members would not be eligible to retire with VaLORS benefits, however, unless they have five or more years of creditable service as a member of VaLORS, SPORS, or as an employee in a hazardous duty position at a political subdivision that offers enhanced hazardous duty benefits.

Because DCR conservation officers do not currently participate in VaLORS, some of them participate in the Hybrid Retirement Plan. As of June 30, 2022, 51 of the 92 members impacted by this bill were in the Hybrid Retirement Plan, which is approximately 55% of the population. If this bill passes, these members will be placed in VaLORS, will no longer participate in the Hybrid Retirement Plan, and will have the 2% multiplier applied to all prior service with Department of Conservation. This means that these 51 members will receive the 2% multiplier on all prior hazardous duty service but will also be allowed to keep the defined contribution balance accumulated in the hybrid plan prior to the change. This will provide these 51 members with a benefit that is essentially higher than other Plan 1 or Plan 2 VaLORS members.

In 1999, the General Assembly and Governor established VaLORS to provide benefits generally equivalent to those received by state police officers and other law enforcement positions. There have been numerous bills introduced, but not enacted, since then to add certain groups to the VaLORS membership.

VaLORS provides a multiplier of 2.00% on service accrued under the plan. The hazardous duty supplement is only available to VaLORS members who were in service prior to July 1, 2001 and who did not make an election to receive the higher multiplier in lieu of the hazardous duty supplement. Employees who become members of VaLORS on or after July 1, 2001 or who have a break in service from VaLORS and who return, are eligible for the 2.00% multiplier but not the supplement. VaLORS members are eligible for unreduced retirement at age 60 with at least five years of service credit, or at age 50 with at least 25 years of service credit. With the exception of certain members who were in service on June 30, 2002, and July 1, 2002, and who had five years of non-hazardous duty service at the time, all current VaLORS members must have at least five years of hazardous duty service (State Police, VaLORS, or enhanced hazardous duty service in a political subdivision) to retire under VaLORS provisions. If this legislation is enacted, any member who has at least five years of service in a hazardous duty position, including service as a DCR conservation officer, will be eligible (at the time of their retirement) to receive a retirement benefit under VaLORS.

In its 2008 *Review of State Employee Total Compensation* report, <http://jlarc.virginia.gov/pdfs/reports/Rpt378.pdf>, the Joint Legislative Audit and Review Commission (JLARC) developed an assessment of several occupational groups, including DCR internal investigators. JLARC rated these groups based on level of risk and responsibility (see Appendix D, pages 156-58). In addition, JLARC proposed guidelines that could be used in conjunction with its risk and responsibility assessment to determine whether an occupation should receive enhanced benefits.

In 2023, the Joint Legislative Audit and Review Commission (JLARC) is undertaking a comprehensive review of hazardous duty eligibility and benefits.

Date: 1/16/2023

Document: HB2299.DOC/VRS