

Virginia Retirement System 2008 Fiscal Impact Statement

1. Bill Number: SB127

House of Origin X Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Edwards

3. Committee: Finance

4. Title: **Retirement; teachers and administrative faculty of institutions of higher education.**

5. Summary: Retirement; teachers and administrative faculty of institutions of higher education. Senate Bill 127 provides that teachers and administrative faculty of institutions of higher education who are covered under an optional retirement (DC) plan (in lieu of the Virginia Retirement System defined benefit plan) and who have 10 years of service with the Commonwealth may make a one-time, irrevocable election to transfer into the VRS defined benefit plan.

6. Fiscal Impact Estimates: Fiscal impact is unknown at this time. Data are not available that would enable VRS to determine the number of teachers and administrative staff at institutions of higher education who would choose the VRS under this provision. See Fiscal Implications.

7. Budget Amendment Necessary: No

8. Fiscal Implications: It is impossible to identify those employees who would choose the VRS under this provision. The VRS believes a large number of employees would elect the VRS plan. And as drafted, the bill provides for transfers to be made in an actuarial cost-neutral manner.

However, the legislation does not address potential costs associated with other benefits that provided based on their membership in the VRS. First, members transferring into VRS would be eligible to purchase other prior public service at 5 percent of their current creditable compensation. This type of service cannot be purchased under an optional retirement DC plan. Yet, current statute requires that a VRS defined benefit plan members purchase this type of service within 3-years of becoming a member in VRS, when the actuarial cost is lowest. Under the proposed legislation, any number of higher education DC plan members initially electing to transfer to the VRS defined benefit plan would have eligible prior service that could be purchased. Because they would have at least 10 years or more of service with the Commonwealth, the actuarial cost for them would be substantially higher than the current 5 percent of creditable compensation charged eligible VRS defined benefit plan members.

Second, the legislation is silent with respect to coverage by the Virginia Sickness and Disability Plan (VSDP). This program is currently not available to optional retirement DC plan members. These employees are typically covered for disability purposes in an

institution sponsored disability insurance program. Upon enrolling in VRS, the member would be eligible to select between participation in the VSDP or remain in their employing institution's disability plan. Dependent upon their age and health, providing eligible employees the opportunity to join VSDP could result in adverse selection against VSDP. In other words, any number of eligible employees who select VSDP might be older and more likely to have health issues, thereby utilizing VSDP benefits at higher than assumed rates, thereby increasing the cost to employers of VSDP.

9. Specific Agency or Political Subdivisions Affected: VRS and public institutions of higher education.

10. Technical Amendment Necessary: Yes. The bill should be amended so that all benefits that members would be eligible for by making the election to participate in the VRS defined benefit plan would be granted at actuarial cost so that all benefits would remain cost neutral.

11. Other Comments: This bill is similar to Senate Bill 975 which was introduced during the 2007 General Assembly session and was referred to JLARC for inclusion in its 2008 study of public employee compensation and retirement.

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