

Virginia Retirement System 2009 Fiscal Impact Statement

1. Bill Number: HB1998

House of Origin X Introduced Substitute Engrossed

Second House In Committee Substitute Enrolled

2. Patron: Vanderhye

3. Committee: Appropriations

4. Title: Retirement System; purchase of prior service credit.

5. Summary: Removes the cap (four years) on the number of years of creditable service a member may purchase for prior service at a private institution of higher education when the private institution is merged with a public institution of higher education.

6. Fiscal Impact Estimates: See Other Comments below.

7. Budget Amendment Necessary: No

8. Fiscal Implications:

9. Specific Agency or Political Subdivisions Affected: VRS and any member who may have such service to purchase.

10. Technical Amendment Necessary: No

11. Other Comments: This bill would likely apply to a very limited group of employees. Further, it applies to a narrow category of service available for purchase. This bill allows for a purchase of service beyond the four year limitation currently in statute. In 2001 the VRS Board of Trustees requested legislation which provided certain changes to the service purchase provisions because the purchase of prior service was affecting the funded status of the VRS Trust Fund. When the VRS Board and the General Assembly streamlined the purchase of service provisions, it was done so in part to provide more efficient administration and consistency in the application of applying prior service credit to the defined benefit plan. By extending the years available for purchase, this could potentially open a window for other groups to extend the allowable purchase provisions currently in place. This bill allows for service to be purchased at a rate of 5 percent of salary per each year of service purchased. This is a heavily subsidized rate, and the actual cost of such a purchase far exceeds this rate and may be as high as 45 percent. If the service purchase were to be subsidized at the 5 percent rate, there would be a cost to the pension plan and possibly the health insurance credit program. Even if the purchase of service is under an actuarial equivalent basis for pension purposes, there would still be a potential cost to the health insurance credit program for the granting of prior service to these employees, unless there is a similar actuarial cost calculation for the health credit.

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