

Virginia Retirement System 2009 Fiscal Impact Statement

1. Bill Number: SB1378

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

2. Patron: Stolle

3. Committee: Finance

4. Title: **Purchase of prior service credit by teachers.**

5. Summary: Purchase of prior service credit by teachers. Provides teachers with six years of teaching experience in the Commonwealth with an additional year to purchase prior service at a cost of five percent of creditable compensation or five percent of average final compensation, whichever is greater. The additional year would begin on the date that the teacher attained six years of creditable service earned as a teacher.

6. Fiscal Impact Estimates:

6a. Expenditure Impact:

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
State-GF						
SPORS-GF						
VaLORS-GF						
JRS-GF						
Teacher-GF	\$1,561,000	\$1,623,000	\$1,688,000	\$1,756,000	\$1,826,000	\$1,899,000
Total GF	<u>\$1,561,000</u>	<u>\$1,623,000</u>	<u>\$1,688,000</u>	<u>\$1,756,000</u>	<u>\$1,826,000</u>	<u>\$1,899,000</u>
State-NGF						
SPORS-NGF						
VaLORS-NGF						
Total NGF	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Teacher-Local	\$2,404,000	\$2,500,000	\$2,600,000	\$2,704,000	\$2,812,000	\$2,924,000
Pol Subs - Schools w/ HIC						
Pol Subs - Schools w/out HIC						
Pol Subs - Non School						
Total Local	<u>\$2,404,000</u>	<u>\$2,500,000</u>	<u>\$2,600,000</u>	<u>\$2,704,000</u>	<u>\$2,812,000</u>	<u>\$2,924,000</u>
Grand Total	<u>\$3,965,000</u>	<u>\$4,123,000</u>	<u>\$4,288,000</u>	<u>\$4,460,000</u>	<u>\$4,638,000</u>	<u>\$4,823,000</u>

7. Budget Amendment Necessary: Yes

8. Fiscal Implications: See Fiscal Impact Estimate and Other Comments.

The bill would provide for a window period to allow teachers to purchase service at the rate of 5% of pay for each year of service. Generally, service purchased at 5% of pay is less than the actuarial equivalent. As a result, the service purchase would have a cost impact on the pension plan. In the case of the health insurance credit program, there is no cost to members for the service purchase. Accordingly, the cost of the health credit program would increase due to the additional service that was purchased without any offsetting contribution to the plan.

Only teachers with six or more years of creditable years as a teacher will be eligible to purchase service and they will have one-year in which to purchase the service. However, there is no way of knowing how many people will purchase the service.

The actuary estimated the cost of the proposed legislation based on the data, actuarial assumptions and methods used in the June 30, 2008 actuarial valuation of the teachers' pension and health insurance credit programs. Historical data from a prior window period from July 1, 2001 through June 30, 2004 in which teachers were allowed to purchase service at the rate of 5% of pay was also used. The actuary used this data to estimate the average service purchased and the percent of eligible members who would purchase service. In analyzing the experience with the prior window, the actuary noted that members age 49 and over were significantly more likely to purchase service than the members under age 49.

The historical data is consistent with the actuary's expectation that members closer to retirement, and with relatively high accrued liability, would be more likely to elect to purchase service. The turnover rate for these members would be lower than the current actuarial assumptions. This would eventually generate some actuarial losses. The actuary attempted to reflect this anticipated anti-selection in setting the assumptions to value the cost of this bill. Nonetheless, the true cost of the bill will ultimately depend on the number of members electing to purchase service, their age, service and pay.

9. Specific Agency or Political Subdivisions Affected: VRS and participating local school boards

10. Technical Amendment Necessary: No

11. Other Comments: 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. The 2001 legislation established a time frame in which members could purchase service at 5% of their creditable compensation. Active members at the time the legislation was enacted had 3 years in which to purchase prior service at the 5% rate. New hires had 3 years from their initial date of hire to purchase this service at the 5% rate. After the 3 years had elapsed, a member could purchase the service at actuarial cost.

Encouraging members to purchase service early in their careers limited the retirement system's liability for furnishing member benefits that were not otherwise funded. Allowing an additional window for teachers to purchase service at the deeply discounted price will affect the funded status of the VRS plan.

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