

Virginia Retirement System 2009 Fiscal Impact Statement

1. **Bill Number:** SB953

House of Origin Introduced ___ Substitute ___ Engrossed

Second House ___ In Committee ___ Substitute ___ Enrolled

2. **Patron:** Stuart

3. **Committee:** Finance

4. **Title:** **Graduate teaching assistants; allows members in service to purchase retirement credit.**

5. **Summary:** Prior service credit; graduate teaching assistants. Allows a member in service to purchase retirement credit for prior service rendered as a graduate teaching assistant of an institution of higher education.

6. **Fiscal Impact Estimates:** It is not possible to quantify the number of members who would take advantage of this opportunity. As a result, the actuary was not able to determine a cost to the plan. In addition, as drafted this bill does not specify whether service eligible for purchase is limited to public institutions only. See fiscal implications and other comments.

7. **Budget Amendment Necessary:** No

8. **Fiscal Implications:**

This bill allows for service as a graduate teaching assistant 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.

Although VRS was not able to quantify specific costs, the actuary stated that there would be additional cost to VRS and that there could be some anti-selection with the purchase of service at the 5% rate. In addition, members who decide to purchase the service will likely do so in part because they see the opportunity to earn a greater pension benefit from the DB plan than the 5% cost and are more committed to staying until retirement. As a result, the turnover rate for these members would be lower than the current actuarial assumptions eventually resulting in some actuarial losses.

9. **Specific Agency or Political Subdivisions Affected:** VRS and all participating VRS employers

10. **Technical Amendment Necessary:** Yes

11. Other Comments:

In order to restrict this to public institutions, "public" should be added on line 64 before the word "institution".

Otherwise, there may be an inference that service with a private institution of higher education could be purchased. If service with private institutions were purchased, the time would be "non-qualified service" under Section 415(n) of the Internal Revenue Code and would be required to be limited to a total of 5 years of non-qualified service (regardless of its type) . The General Assembly has never allowed non-qualified service to be purchased, in part because the total cannot exceed 5 years and if non-qualified service were granted, the VRS would have to develop a mechanism to track and count such service to make sure that the 5 year IRS limit was not exceeded.

Date: 1/23/2009 pas

Document: SB953.DOC