

Virginia Retirement System 2010 Fiscal Impact Statement

1. Bill Number: HB562

House of Origin X Introduced Substitute Engrossed

Second House In Committee Substitute Enrolled

2. Patron: Tata

3. Committee: Appropriations

4. Title: **Virginia Retirement System; retirement supplement**

5. Summary: Clarifies (i) that the allowance supplement that is indexed to inflation will not reduce the allowance when there is deflation, and (ii) corrects how COLA adjustments should be calculated following a period of deflation. The bill also makes some technical changes.

6. Fiscal Impact Estimates:

6a. Expenditure Impact:

7. Budget Amendment Necessary: No

8. Fiscal Implications: See other comments.

9. Specific Agency or Political Subdivisions Affected: VRS, VRS participating employers
VRS covered employees and retirees

10. Technical Amendment Necessary: No

11. Other Comments: The VRS Board of Trustees requested this legislation.

The Bureau of Labor Statistics recently released its December 2009 inflation index. As a result, VRS will report negative inflation for the calendar year and no COLA adjustment will be provided to VRS retirees on July 1, 2010.

Averages for the 2008 and 2009 monthly series are as follows:

CPI-U - 12 month average 2008 = 215.303

CPI-U - 12 month average 2009 = 214.537

Accordingly, VRS has calculated that the decline between 2008 and 2009 is 0.36%.

As a legal matter, the Attorney General's Office has rendered an informal opinion confirming that the VRS statutes require the Board to take no action regarding COLA supplements in a year when the change in CPI-U is zero or less. This means that VRS retirees will not be subject to a downward adjustment in benefits on July 1, 2010. In addition, the opinion encouraged VRS to

obtain legislative amendments to correct Title 51.1 with respect to how the COLA calculation will resume following a period of deflation. This legislation clarifies how the COLA will be calculated following such a period.

The table below graphically displays how the COLA would be calculated during a period of deflation under current Code provisions and under this proposed legislation.

| | | | | Hypothetical CPI-U | |
|----------------------------|-------------|-------------|-------------|---------------------------------|---------------------------------|
| | | | | Current Code Requirement | Proposed Change (HB 562) |
| | 2007 | 2008 | 2009 | 2010 | 2010 |
| Annual Average | 207.342 | 215.303 | 214.537 | 219.000 | 219.000 |
| Years Used for COLA | 2007/2006 | 2008/2007 | 2009/2008 | 2010/2009 | 2010/2008 |
| COLA Adjustment | 2.80% | 3.84% | No Change | 2.08% | 1.72% |
| Effective Date | 7/1/2008 | 7/1/2009 | 7/1/2010 | 7/1/2011 | 7/1/2011 |

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