

Virginia Retirement System 2013 Fiscal Impact Statement

1. Bill Number: HB 1590

House of Origin X Introduced Substitute Engrossed

Second House In Committee Substitute Enrolled

2. Patron: Ware, O.

3. Committee: Appropriations

4. Title: **VRS; certain higher educational institution employees in optional retirement plan.**

5. Summary: Provides employees in the optional retirement plan for institutions of higher education the opportunity to purchase service credit in the defined benefit plan with accrued contributions and earnings, and thereafter be covered under the defined benefit plan.

6. Fiscal Impact Estimates: Eligible higher education institution employees who are in an optional retirement plan (ORP) have to pay full actuarial cost for all pension plan service credits they will receive under HB 1590. In this case, the bill will generally be cost neutral with respect to the VRS defined benefit plan since the plan will receive the present value of the actuarial accrued liability with respect to the service being purchased. While the pension service purchase would be cost neutral, the bill may still have an impact on the Virginia Sickness and Disability Program (VSDP) and on the VRS State pension plan, if the eligible employees purchase other categories of prior service at the current rate.

7. Budget Amendment Necessary: No

8. Fiscal Implications: It is impossible to identify those employees who would choose the VRS DB plan under this provision. The VRS believes a large number of employees would consider electing the VRS DB plan, but purchasing ten years of service at actuarial cost might limit the number of eligible employees from making such an election. As drafted, the bill provides for transfers to be made in an actuarial cost-neutral manner. However, this legislation does not address potential costs associated with benefits these employees would be eligible for as members of the VRS DB plan. For example, these members could purchase other categories of prior service at the approximate normal costs for state employees. Such purchases would not be cost neutral. In addition, there could be some anti-selection with the purchase at the normal cost rate and the application for disability benefits under VSDP after the member transfers to the DB plan. Also, members who decide to transfer to the DB plan may do so in part because they see a greater pension benefit from the DB plan 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. This would eventually generate some actuarial losses.

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

10. Technical Amendment Necessary: No

11. Other Comments: This bill allows any person covered under an ORP for employees of institutions of higher education and who has at least ten years of service with the Commonwealth to make a one-time, irrevocable election to use accrued contributions and earnings in the ORP account to purchase service credit in the VRS DB plan at a rate to be determined by the Board. The election must be made no later than six months following the month in which such person's total service with the Commonwealth reaches 120 months. For any such person in service on July 1, 2013, the election must be made no later than January 1, 2014. The provisions of § 51.1-126.5 apply to the use of the ORP account balances to purchase the DB plan service.

The bill as drafted conflicts with the provisions of § 51.1-169(A), which allows "[a] person who participates in the otherwise applicable defined benefit retirement plan . . . [to] make an irrevocable election to participate in the hybrid retirement program . . . no later than April 30, 2014." If an ORP member were to exercise the option to convert to the VRS DB plan under this bill prior to January 1, 2014, this bill would preclude the member from electing to participate in the hybrid retirement plan during this election period, as HB1590 provides that "[a]ny person making the election under this subsection shall thereafter participate in the Virginia Retirement System defined benefit retirement plan."

After January 1, 2014, the hybrid retirement plan will also be included in "the Virginia Retirement System (§ 51.1-124.1 et seq.)" (Lines 125-126). Therefore, on and after January 1, 2014, this bill would allow eligible ORP members to purchase service credit in either the VRS DB plan or the VRS hybrid retirement plan, although the bill also provides that anyone exercising this election shall participate in the Virginia Retirement System defined benefit retirement plan.

This bill is similar to House Bill 1949 which was introduced during the 2009 General Assembly session and was referred to in the JLARC study on Employee Compensation. The report cited concerns with the costs associated with the purchase of prior service and increases in disability costs.

Date: 01.16.2013

Document: HB1590.DOC