

Virginia Retirement System 2013 Fiscal Impact Statement

1. Bill Number: HB2168

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron: Howell, W.J.

3. Committee: Appropriations

4. Title: Virginia Retirement System; hybrid retirement program.

5. Summary: Virginia Retirement System; hybrid retirement program. Increases the maximum amount of the employer's matching contribution on behalf of the employee from 2.5 percent of creditable compensation to 2.8 percent of creditable compensation.

6. Budget Amendment Necessary: No.

7. Fiscal Impact Estimates: The mandatory hybrid retirement program was established during the 2012 legislative session with the following employee/employer contribution schedule:

Hybrid Defined Benefit and Defined Contribution Schedule (Under Current Law)

Employer Contribution	Employee Contribution
To DB: determined actuarially	To DB: 4.0% (mandatory)
To DC: 1.0% (mandatory)	To DC: 1.0% (mandatory)
To DC: employer match 1.0%	To DC: 1.0% (optional)
To DC: employer match 0.5%	To DC: 1.0% (optional)
To DC: employer match 0.5%	To DC: 1.0% (optional)
To DC: employer match 0.5%	To DC: 1.0% (optional)
Total possible employer DC contribution: 3.5%	Total possible employee DC contribution: 5%
Total possible employer contribution: 3.5% plus actuarially determined DB contribution	Total possible employee contributions: 9%

HB 2168 proposes to adjust the employer contribution schedule by increasing the employer match above the first optional employee 1% contribution as follows:

Hybrid Defined Benefit and Defined Contribution Schedule (Under Proposed HB2168)

Employer Contribution	Employee Contribution
To DB: determined actuarially	To DB: 4.0% (mandatory)
To DC: 1.0% (mandatory)	To DC: 1.0% (mandatory)
To DC: employer match 1.0%	To DC: 1.0% (optional)
To DC: employer match 0.6%	To DC: 1.0% (optional)
To DC: employer match 0.6%	To DC: 1.0% (optional)
To DC: employer match 0.6%	To DC: 1.0% (optional)
Total possible employer DC contribution: 3.8%	Total possible employee DC contribution: 5%
Total possible employer contribution: 3.8% plus actuarially determined DB contribution	Total possible employee contributions: 9%

Table 1 below shows the estimated cost resulting from proposed HB 2168. It is expected that HB 2168 will cost \$75.95 million over 20 years for the State, Teachers, and JRS retirement systems.

TABLE 1											
Assuming 80% Contribute Minimum and 20% Contribute Maximum Contribution to DC											
Projected Cost by Biennium - Total Fund											20 Year
	FY 15/16	FY 17/18	FY 19/20	FY 21/22	FY 23/24	FY 25/26	FY 27/28	FY 29/30	FY 31/32	FY 33/34	Total
State	\$ 1.04	\$ 1.62	\$ 2.11	\$ 2.50	\$ 2.85	\$ 3.17	\$ 3.38	\$ 3.60	\$ 3.80	\$ 3.96	\$ 28.03
Teachers	\$ 1.64	\$ 2.57	\$ 3.41	\$ 4.08	\$ 4.68	\$ 5.18	\$ 5.69	\$ 6.18	\$ 6.65	\$ 7.09	\$ 47.15
JRS	\$ 0.04	\$ 0.05	\$ 0.07	\$ 0.07	\$ 0.08	\$ 0.08	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.76
Total	\$ 2.72	\$ 4.24	\$ 5.59	\$ 6.65	\$ 7.61	\$ 8.44	\$ 9.15	\$ 9.87	\$ 10.55	\$ 11.14	\$ 75.95
Projected Cost by Biennium - General Fund											20 Year
	FY 15/16	FY 17/18	FY 19/20	FY 21/22	FY 23/24	FY 25/26	FY 27/28	FY 29/30	FY 31/32	FY 33/34	Total
State	\$ 0.47	\$ 0.73	\$ 0.96	\$ 1.13	\$ 1.29	\$ 1.44	\$ 1.53	\$ 1.63	\$ 1.72	\$ 1.79	\$ 12.69
Teachers	\$ 0.62	\$ 0.97	\$ 1.29	\$ 1.54	\$ 1.77	\$ 1.96	\$ 2.15	\$ 2.34	\$ 2.52	\$ 2.68	\$ 17.83
JRS	\$ 0.04	\$ 0.05	\$ 0.07	\$ 0.07	\$ 0.08	\$ 0.08	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.76
Total	\$ 1.13	\$ 1.76	\$ 2.31	\$ 2.75	\$ 3.14	\$ 3.48	\$ 3.77	\$ 4.06	\$ 4.33	\$ 4.57	\$ 31.29
Projected Cost by Biennium - Non-General Fund											20 Year
	FY 15/16	FY 17/18	FY 19/20	FY 21/22	FY 23/24	FY 25/26	FY 27/28	FY 29/30	FY 31/32	FY 33/34	Total
State	\$ 0.57	\$ 0.89	\$ 1.16	\$ 1.37	\$ 1.56	\$ 1.74	\$ 1.85	\$ 1.97	\$ 2.08	\$ 2.16	\$ 15.34
Teachers	\$ 1.02	\$ 1.60	\$ 2.12	\$ 2.54	\$ 2.91	\$ 3.22	\$ 3.54	\$ 3.84	\$ 4.14	\$ 4.41	\$ 29.32
JRS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ 1.59	\$ 2.48	\$ 3.28	\$ 3.91	\$ 4.47	\$ 4.96	\$ 5.38	\$ 5.81	\$ 6.22	\$ 6.57	\$ 44.66

8. Fiscal Implications:

In pension systems where workers get substantially different payouts due to their differing incomes, replacement rates are a common measurement which can be used to determine the effectiveness of the pension system. A replacement ratio is a person's gross income after retirement divided by his or her gross income before retirement. Generally a person needs less gross income after retiring, but the amount varies, usually based on income. Lower earners generally need a higher replacement ratio than high wage earners. It is estimated that most people will need a replacement ratio between 75%-80% to maintain their standard of living in retirement.

The following exhibit shows the estimated impact on employees' expected replacement ratio under both the current mandatory hybrid provisions and the proposed provisions under HB2168.

The increased matching contributions under proposed HB2168 increase the accumulated savings account balance at retirement by approximately 3.5% for an employee over a 30-year career. This equates to an increase in the expected replacement ratio of approximately 0.7%



