Virginia Retirement System 2013 Fiscal Impact Statement

1.	Bill Number	r: HB21	168				
	House of Orig	in 🖂	Introduced		Substitute		Engrossed
	Second House		In Committee		Substitute		Enrolled
2.	Patron:	Howell,	W.J.				
3.	Committee:	Approp	riations				
4.	Title:	Virginia	Retirement Sy	stem	; hybrid retire	ement	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:	Total possible employee DC contribution: 5%
3.5%	
Total possible employer contribution: 3.5%	Total possible employee contributions: 9%
plus actuarially determined DB contribution	

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:	Total possible employee DC contribution: 5%
3.8%	
Total possible employer contribution: 3.8%	Total possible employee contributions: 9%
plus actuarially determined DB contribution	

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.

										TAI	BLE :	1										
		P	۱ssu	ming 8	0%	Contrib	ute	Minim	nimum and 20% Contribute Maximum Contribution to DC													
Projected C	ost by	Bienni	um	- Total	Fun	d											H				2	0 Year
•		15/16		17/18			FY:	21/22	FY 2	23/24	FY	25/26	FY:	27/28	FY	29/30	FY	31/32	FY 3	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 C	ost by	Bienni	um	- Gene	ral I	und															2	0 Year
	FY 1	15/16	FY	17/18	FY	19/20	FY 2	21/22	FY 2	23/24	FY	25/26	FY 2	27/28	FY:	29/30	FY	31/32	FY 3	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 C	ost by	Bienni	um	- Non-	Gen	eral Fu	ınd														2	0 Year
	FY 1	15/16	FY	17/18	FY	19/20	FY 2	21/22	FY 2	23/24	FY	25/26	FY 2	27/28	FY:	29/30	FY	31/32	FY 3	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%



Assumptions & Methods:										
Replacement Ratios are equal to t	he annuity payable at select	ed retirement age divided b	y the compensatio	n in final yea	r before retire	ement.				
For purposes of calculating the so date unadjusted.	ocial security replacement ra	atio at age 60, the replaceme	ent ratio is the exp	ected benefit	amount that	will become	payable at	social secu	rity normal r	etireme
Salary increases are assumed to	oe 4% per year. Inflation/Cos	st-of-Living is assumed to be	2.5% per year.							
Social Security is assumed to con	nmence beginning at social s	ecurity normal retirement a	ge. Prior to that d	te only retir	ement benefit	would be pa	yable.			
Mortality assumptions used to ar	nuitize defined contribution	balances are those prescri	bed by Internal Re	venue Code 4	17e(3) for cal	culating mi	nimum lumį	p sum balan	ces in 2011.	
Defined contribution plan balanc	es assume 6% pre-retiremen	t investment returns.								
Defined contribution plan balanc individual could purchase an ann	•	•							kely that an	
Hybrid Minimum contributions as corresponding 3.5% or 3.8% empl				Maximum co	ntributions as	sumes 5% e	mployee co	ntribution a	nd	
Assumes member works entire ca	reer under one benefit formu	ila. (No transition)								

- **9. Specific Agency or Political Subdivisions Affected:** The matching contribution changes to the mandatory hybrid plan would affect VRS, Teachers, JRS and state agencies as of January 1, 2014.
- 10. Technical Amendment Necessary: No.
- 11. Other Comments: This bill increases the employer matching amounts to the defined contribution component of the hybrid retirement plan. Current law provides for a maximum employer contribution of 3.5% to the defined contribution component, depending on the amount of employee optional contributions. HB2168 would provide for a maximum employer contribution of 3.8%, including the 1% mandatory contribution to the defined contribution component. These employer contribution amounts do not include the actuarially determined defined benefit contribution.

Date: 01.23.13

Document: HB2168.DOC