

Virginia Retirement System 2009 Fiscal Impact Statement

1. Bill Number: HB486

House of Origin X Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Ware, O.

3. Committee: Appropriations

4. Title: **Retirement; teachers and administrative faculty of institutions of higher education.**

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 employees have to pay full actuarial cost for all pension plan service credits they will receive under HB 486. 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 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 under this provision. The VRS believes a large number of employees would consider electing the VRS plan, but purchasing 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. For example, these members could purchase prior service at the approximate normal costs for state employees. Such purchases would not be cost neutral. In addition, the VRS actuary noted that there could be some anti-selection with the purchase at the normal cost rate and the application for disability retirement under VSDP after the member transfers to the DB plan. Also, the actuary expects that the members who decide to transfer to the DB plan will 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 is similar to House Bill 1949 which was introduced during the 2009 General Assembly session and was referred to 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.

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