

Virginia Retirement System 2014 Fiscal Impact Statement

1. **Bill Number:** HB 688

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. **Patron:** Torian

3. **Committee:** Appropriations

4. **Title:** VRS; management of assets of nongovernmental investors.

5. **Summary:** Authorizes the Virginia Retirement System to create an entity to administer and manage the assets of other state and local government-related entities and non-governmental investors beginning January 1, 2015. Such entity would be allowed to charge for its services.

6. **Budget Amendment Necessary:** No. As this bill is permissive, no costs would necessarily be incurred. Should VRS seek to manage assets of other entities, the proposed legislation allows an entity created for this purpose to charge for its services.

7. **Fiscal Impact Estimates:** There is no fiscal impact estimates related to this proposal as it is permissive. Should VRS seek to exercise the authority granted by this proposal, legal costs would be incurred in establishing an entity to manage assets of other state and local government and non-governmental investors.

8. **Fiscal Implications:** See Fiscal Impact Estimates above.

9. **Specific Agency or Political Subdivisions Affected:** VRS and other participating governmental or non-governmental entities that participate in the VRS management of assets program.

10. **Technical Amendment Necessary:** Yes. If VRS is to manage assets of other entities, the legislation should provide that VRS, its officers, trustees and employees, have no liability with regard to such investments. The following language could be added to clarify that the Board of Trustees, or any other related entity, officer or employee, shall have no liability for the investment of non-system assets.

Under no circumstances shall the Commonwealth, the Retirement System, the Retirement System trust fund, the Board, any political subdivision of the Commonwealth, any advisory committee, member, officer or employee of any of the foregoing be liable for any losses or damages incurred by beneficial owners of, or other parties in respect of, non-system assets

for any reason whatsoever, including negligence in connection with services provided in respect of non-system assets.

No officer, director or employee of, or member of any committee of, the entity authorized by this section shall be liable for any losses or damages incurred by beneficial owners of, or other parties in respect of, non-system assets for any reason whatsoever, including negligence in connection with services provided in respect of non-system assets.

- 11. Other Comments:** This bill authorizes VRS to create an entity to administer and manage the assets of other state and local government-related entities or non-governmental investors. The proposed legislation allows the entity to charge for its services, and requires that any such non-VRS assets under management must be segregated from VRS Trust Fund assets and be accounted for separately from Trust Fund assets.

This proposal could allow VRS and its investment division to manage two groups of non-VRS assets. The first is the assets of other state and local government-related entities. These could include the assets of other state entities that currently have assets managed by third parties. In addition, there are local government pools of assets that are currently being managed by third parties that would also fall within the parameters of this legislation. This legislation would not change the types of assets such entities are allowed to invest in, but would authorize these state and local governmental entities to allow VRS to manage their assets. Under the proposed technical amendment, VRS, its Board, officers, and employees, would be shielded from liability for the investment of such non-system assets. In addition, the technical amendment shelters the Commonwealth and any political subdivision of the Commonwealth from liability with respect to these assets. The VRS Board of Trustees is interested in this concept and is about to launch a study. However, the Board did not anticipate enabling legislation until the study is complete and not until the 2015 session of the General Assembly at the earliest.

The second pool of assets that would be implicated by this legislation relates to assets of private individuals whose employers do not offer a retirement plan. Several states, including California, are studying whether the economies of scale provided by a large government pension plan would allow an opportunity for employees whose employers do not offer any type of retirement account to use the state's defined contribution accounts as a retirement vehicle. Under this type of arrangement, the employer would likely be required to deduct retirement contributions on a pre-tax basis and send them to VRS, where the contributions would be invested in the same investment options provided to state and local employees through the Commonwealth's deferred compensation plan.

If this type of arrangement were to be implemented, the legislation would need to provide more detail concerning plan design, eligible participants, fees, time periods, and other similar provisions.

This legislation has a delayed effective date of January 2015.

Date: 01.20.2014

Document: HB688.DOC