Virginia Retirement System
2015 Fiscal Impact Statement

1. **Bill Number:** HB1969

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

2. **Patron:** Prior to Substitute—Jones

3. **Committee:** Passed both Houses

4. **Title:** Virginia Retirement System; cash balance retirement plan.

5. **Summary:** Directs the Virginia Retirement System to develop a proposed cash balance retirement plan and provide the proposal to the General Assembly no later than November 1, 2015.

6. **Budget Amendment Necessary**: Yes. Developing a proposal for a new retirement plan will require assistance from the Plan actuary. While it is not possible to determine the exact cost of actuarial services for this purpose, it is likely to be between $50,000 and $100,000.

7. **Fiscal Impact Estimates:** Final; none.

8. **Fiscal Implications:** None.

9. **Specific Agency or Political Subdivisions Affected:** VRS.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** This bill directs VRS to review cash balance retirement plans implemented in other states and develop and submit a plan to the General Assembly by November 1, 2015.

    The submission to the General Assembly must include an analysis covering: (i) a comparison of the long-term employer and employee costs of such cash balance plans to current VRS plan designs, (ii) an assessment of their financial risks to employers and employees, (iii) the administrative impact of such plans to VRS and its employers, (iv) the likely effect upon retirement benefits for employees, and (v) a recommended funding structure under which a cash balance plan could be funded by state and local employers while still meeting the funding requirements of existing VRS plans.

    VRS is aware of at least six state-sponsored cash balance plans in existence. California, Kansas, Kentucky, and Nebraska each sponsor a cash balance plan, while Texas maintains two separate cash balance plans. Several other states offer retirement plans that share characteristics with a cash balance plan, such as the money purchase plan in Montana.

Generally speaking, benefits under a cash balance plan are based on the value of individual member accounts held by employees and maintained and managed by the plan sponsor or the state as in the examples provided above. Employees' accounts grow as they and their employers make regular contributions. The accounts are invested by the state pension plan as part of a pooled fund and the members do not have investment direction over the accounts. Employee accounts are typically guaranteed a minimum rate of return. Excess returns can be shared with employees, saved for a year in which actual returns fall short of the minimum, or some combination thereof. Upon retirement, an employee receives a lifetime annuity that is calculated using the present value of his or her individual retirement account. The Internal Revenue Service classifies a cash balance plan as a type of defined benefit plan.

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