

Virginia Retirement System 2015 Fiscal Impact Statement

1. **Bill Number:** SB1173

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

2. **Patron:** Carrico

3. **Committee:** Finance

4. **Title:** Virginia Retirement System; revocation of participation of political subdivision.

5. **Summary:** Allows a political subdivision that has not made retirement contributions on behalf of its employees to the Virginia Retirement System for 25 or more consecutive years to revoke its agreement to participate in the Retirement System. This is an exception to the general rule that election to participate in the Retirement System is irrevocable.

6. **Budget Amendment Necessary:** No.

7. **Fiscal Impact Estimates:** None.

8. **Fiscal Implications:** VRS currently has 14 employers who have no active employees. Of the 14 employers with no active participants, four are towns and appear to have had no active employees for at least 25 years. The other ten employers are commissions or authorities that no longer exist as an active state agency, but still have inactive members and pension obligations on their books.

These employers do, however, have obligations to former employees who are either retired, deferred vested, or actively working for another VRS employer with prior accrued service with the employer in question. Many of these employers may not have contributed to VRS over the past 25 years, but that does not eliminate previous obligations to former employees.

Provisions are already in place (§ 51.1-139 of the *Code of Virginia*) that provide a means for employers who are financially unable to meet obligations, and are truly insolvent, to terminate their plans and to pay out members with the balance of funds available.

9. **Specific Agency or Political Subdivisions Affected:** VRS and employers who have not had any covered employees for a period of 25 years.

10. **Technical Amendment Necessary:** Yes, to clarify prospective application.

Line 33, after “its employees” insert “*for any creditable service rendered on or after the date of revocation*”

Line 33 strike “*Upon such notice*”.

Strike lines 34 and 35.

- 11. Other Comments:** SB 1173 proposes to allow a political subdivision participating with VRS to revoke its VRS membership if the political subdivision has not made retirement contributions for at least 25 consecutive years. Any such revocation of membership must be in writing, and revocation would terminate the political subdivision’s future obligations to VRS.

Section 51.1-800 of the *Code of Virginia* requires that every county and city, and every town having a population of 5,000 or more, shall provide a retirement system either by establishing and maintaining a local retirement system with benefits comparable to those of VRS or by participating directly in the Virginia Retirement System.

Currently, under § 51.1-139, when an employer is financially unable to make its required contributions, the locality notifies VRS of its insolvency. VRS then deems the employer to be in default. Upon an employer’s default, each member or beneficiary whose coverage is affected by the default becomes fully vested. The plan actuary determines the amount of the reserves held on behalf of each then-member and each then-beneficiary, and VRS credits to each member and beneficiary his or her share of the reserves. The reserve plus the amount of the accumulated contributions of each member is then disbursed in a manner prescribed by the Board consistent with the applicable Internal Revenue Code tax qualification rules. Although VRS has never had an insolvency occur, it is anticipated that annuities would be purchased for each affected member and beneficiary using the applicable share of the reserves and the member’s contributions. This final disbursement terminates the rights and privileges of the members and beneficiaries, and the employer would no longer be considered a participating employer.

When a political subdivision elects to participate in VRS, its governing body must adopt a resolution affirming its irrevocable decision to participate in VRS in accordance with Title 51.1 of the *Code of Virginia*, which requires that the employer make contributions on behalf of any employee of the political subdivision who is eligible for VRS benefits (a “covered employee”). Those employer-paid contributions are invested to help fund a member’s future retirement and other post-employment benefits (OPEBs), such as the health insurance credit and group life insurance (for eligible retirees). If a participating political subdivision were allowed to simply stop making required contributions while participating with VRS, then the entire premise of the funding for the retirement system would be undermined. The reason for the current requirement for irrevocable participation is to ensure that there is a revenue source to fund ongoing pension and benefit liabilities for covered employees related to their service with a particular employer.

VRS has recommended a technical amendment that would clarify that the legislation would only apply to an employer's prospective liabilities for service rendered by its employees on or after the date of revocation. VRS would freeze any future service accruals in the plan.

This bill is identical to HB 1885.

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