Virginia Retirement System
2015 Fiscal Impact Statement

1. **Bill Number:** SB978

   House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** Ruff

3. **Committee:** Finance

4. **Title:** Virginia Retirement System; participation in Plan One.

5. **Summary:** Allows an employee hired before July 1, 2010, who did not have at least 60 months of creditable service as of January 1, 2013, to make a one-time, irrevocable election to participate in the Virginia Retirement System as a Plan One employee.

6. **Budget Amendment Necessary**: Yes. Costs for programming changes and testing, implementing the election process, employer reporting and reconciliation, and for revising and reprinting handbooks and other materials are estimated to be approximately $126,000.

7. **Fiscal Impact Estimates:** As part of the General Assembly's pension reform efforts in 2012, all VRS members who did not have five years of service as of January 1, 2013 (Plan One non-vested employees) were moved to Plan Two[1]. As a result of the 2012 pension reform legislation (HB 1130, Chapter 701, 2012 Acts of Assembly, and SB 498, Chapter 823, 2012 Acts of Assembly) approximately 34,000 former Plan One members were moved to Plan Two. SB 978 would allow these members to elect to move back into Plan One effective January 1, 2016 and to accrue benefits under Plan One provisions prospectively from that date forward. In addition to impacting the costs of the State, Teacher and local pension plans due to changes in retirement eligibility, this bill would also impact other post-employment benefits (OPEBs), such as the State and Teacher health insurance credit program, the Group Life Insurance program and the Virginia Sickness and Disability Program.

   Since Plan One benefit provisions are more generous than Plan Two provisions, VRS would expect all members to elect to return to Plan One. Allowing these members to move back to the Plan One benefit tier will not only increase the liability of each of the plans, but could also potentially be viewed by external entities, such as bond rating agencies, as a partial

[1] Plan One refers to VRS members in the defined benefit plan who were hired before July 1, 2010, and who have not taken a refund of member contributions. Plan Two refers to a member who joined VRS for the first time on or after July 1, 2010, or who had worked in a covered position prior to July 1, 2010 but had taken a refund of his or her member contributions. The pension reform legislation passed during the 2012 regular session of the General Assembly moved non-vested Plan One members (those who did not have five years of creditable service as of January 1, 2013) to Plan Two effective January 1, 2013.

rollback of the State's commitment to pension reform. The increases in the unfunded liabilities of the retirement plans would be as follows:

Exhibit 1

	State	Teacher	SPORS	VaLORS	Locals (Aggregate)	Total Impact
Increase in Unfunded Liability	$ 23,888,000	$ 56,145,000	$ 102,000	$ 618,000	$ 26,557,000	$ 107,310,000

In Exhibit 2 below we show the annual cost to allow Plan One non-vested members back into Plan One, including the impact on OPEB funding, would be approximately $25.1 million per year. The expected increase in the State employer contribution rate would be 0.15% of payroll, and the Teacher Plan would experience a 0.17% increase in the employer rate. Included in the $25.1 million annual cost increase would be an additional $7.7 million requirement from the general fund with the balance coming from either non-general or local funds.

Exhibit 2

	FY15 Cost	FY16 Cost	FY17 Cost	FY18 Cost	FY19 Cost	FY20 Cost
State - General Fund	$ -	$ 2,469,000	$ 2,469,000	$ 2,469,000	$ 2,469,000	$ 2,469,000
SPORS - General Fund	-	29,000	29,000	29,000	29,000	29,000
VaLORS - General Fund	-	135,000	135,000	135,000	135,000	135,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	5,106,000	5,106,000	5,106,000	5,106,000	5,106,000
TOTAL General Fund	$ -	$ 7,739,000	$ 7,739,000	$ 7,739,000	$ 7,739,000	$ 7,739,000
State - Non-General Funds	$ -	$ 3,220,000	$ 3,220,000	$ 3,220,000	$ 3,220,000	$ 3,220,000
SPORS - Non-General Funds	-	5,000	5,000	5,000	5,000	5,000
VaLORS - Non-General Funds	-	13,000	13,000	13,000	13,000	13,000
TOTAL - Non-General Funds	$ -	$ 3,238,000	$ 3,238,000	$ 3,238,000	$ 3,238,000	$ 3,238,000
Teacher - Local Funds	$ -	$ 7,756,000	$ 7,756,000	$ 7,756,000	$ 7,756,000	$ 7,756,000
Political Subdivisions - Local Funds	$ -	$ 6,458,000	$ 6,458,000	$ 6,458,000	$ 6,458,000	$ 6,458,000
TOTAL Local Funds	$ -	$ 14,214,000	$ 14,214,000	$ 14,214,000	$ 14,214,000	$ 14,214,000
Grand Totals	$ -	$ 25,191,000	$ 25,191,000	$ 25,191,000	$ 25,191,000	$ 25,191,000

Estimated projections based on employee data and valuation results as of June 30, 2014 and assume a level population throughout projection period.

Payroll projections are assumed to remain level throughout projection period.

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

9. **Specific Agency or Political Subdivisions Affected:** VRS and all VRS participating employers.

10. **Technical Amendment Necessary:** Yes. VRS suggests that for administrative simplicity the effective date of the change for all members who were not vested as of January 1, 2013 and who would now be eligible to elect to return to Plan One be January 1, 2016, and that the opt-in period end on November 30, 2015 in order to allow for processing the changes before the effective date.

    Line 17, after "before" change "January 1, 2016" to December 1, 2015.

11. **Other Comments:** The 2012 pension reform legislation made a number of plan design changes to the Plan Two benefit tier, and the Plan One non-vested members were affected by these changes as well. At the time of their hire, Plan One non-vested members were subject to the Plan One benefit provisions. However, for members who did not have 60 months of service as of January 1, 2013, those members were made subject to the plan design provisions of Plan Two, which overall is a less substantial benefit. Following is a list of the changes for the 34,000 Plan Two members that would be reversed by allowing them the opportunity to return to Plan One.

    - With the exception of hazardous duty employees with enhanced hazardous duty benefits and judges, the benefit multiplier was reduced to 1.65% for State, Teachers, and applicable Local members for service earned after January 1, 2013. Judges who were not vested as of January 1, 2013 also had their benefit multiplier reduced to 1.65% for future service. This bill would restore the 1.7% multiplier for eligible employees who elect to return to Plan One for service earned on and after January 1, 2016.

    - With the exception of hazardous duty employees with enhanced hazardous duty benefits, Plan Two's age and service requirements, including the Rule-of-90, were applied to Plan One employees who were not vested by January 1, 2013. This legislation would return eligible employees who elect to return to Plan One to the age and service provisions of that benefit level:

        Normal retirement age under the VRS Plan One benefit tier is age 65. Plan One members are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Plan One members may retire with a reduced benefit as early as age 55 with at least five years of creditable service, or at age 50 with at least 10 years of creditable service.

    - Average final compensation (AFC) was changed from the highest consecutive 36 months of compensation to the highest consecutive 60 months of compensation for Plan One members not vested as of January 1, 2013, including judges and hazardous duty employees. Eligible members who elect to return to Plan One would have the original Plan One AFC of 36 months.

- Cost-of-living increases are capped at 3% for any Plan One member who was not vested as of January 1, 2013, including judges and hazardous duty employees. This legislation would apply the Plan One cost-of-living formula, which is capped at 5%, to eligible members who opt back in to Plan One.

- Under this legislation, former Plan One non-vested members would have accrued benefits using a 1.7% multiplier for service prior to January 1, 2013. Accruals for service between January 1, 2013 and January 1, 2016 would have been at a 1.65% multiplier, with future accruals again being under the 1.7% multiplier.

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