

## Virginia Retirement System 2017 Fiscal Impact Statement

**1. Bill Number:** HB 2080

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

**2. Patron:** Wilt

**3. Committee:** Appropriations, Compensation and Retirement Subcommittee

**4. Title:** Virginia Law Officers' Retirement System; hazardous materials officers.

**5. Summary:** Adds hazardous materials officers of the Department of Emergency Management as members of the Virginia Law Officers' Retirement System. Hazardous materials officers would accrue retirement benefits under the Virginia Law Officers' Retirement System only for creditable service earned on or after July 1, 2017.

**6. Budget Amendment Necessary:** Yes. Item 489. VRS implementation costs are estimated at approximately \$33,000. The estimated costs also take into account that VRS handbooks and other benefit materials were reprinted in January 2017 and, in order to comply with Chapter 10 of Title 51.1, would need to be reprinted upon the effective date of this legislation to accurately reflect benefits for a new population of VaLORS members. Similar legislation has been proposed for certain members of the Department of Conservation and Recreation ("DCR"), which would require similar programming to implement. If those bills were to be enacted (HB 1833 and SB 1071), VRS implementation costs would likely be less than the sum of individual implementation costs provided for each bill. Additionally, the cost of reprinting VRS handbooks and other benefit materials will be allocated across any bills that require materials to be reprinted out of cycle.

Item 403. The Department of Emergency Management ("DEM") would require a budget amendment of \$45,000 for FY 2018 to cover the additional employer cost for the increased contribution rate for VaLORS associated with moving hazardous materials officers from the State plan to the VaLORS plan, as shown in Exhibit 1 below. The difference in plan rates between the State plan and VaLORS is 7.56% of payroll for FY 2018.

**Exhibit 1**  
**Department of Emergency Management Hazardous Materials Officers**

Plan	Number of Hazardous	Expected Payroll	Retirement Contribution Rates *	Expected Employer Contributions
			FY2018	FY 2018
As Member of State Plan	9	\$ 594,100	13.49%	\$ 80,100
As Member of VaLORS Plan	9	\$ 594,100	21.05%	\$ 125,100
<b>Additional Funds Needed</b>				\$ 45,000

\* Employer contribution rates are based on Governor's proposed budget.

- 7. Fiscal Impact Estimates:** In addition to the direct agency costs (effective July 1, 2017) that DEM would incur for moving these members to the VaLORS retirement plan, which are discussed in Item 6, DEM would also share in the expected future cost increases to the VaLORS plan normal cost that would be created with the inclusion of the hazardous materials officers. See Item 8.
- 8. Fiscal Implications:** The proposed addition of the hazardous materials officers in the VaLORS plan is expected to increase the cost of the VaLORS plan by 0.03% of payroll. The increase in cost is due to the change in demographics associated with the nine hazardous materials officers. On average, the hazardous materials officers are 13 years older than current members in the VaLORS plan. Hazardous materials officers also have a higher average salary than current VaLORS members, \$66,010 versus \$38,730. These changes cause the normal cost rate for the whole VaLORS plan to increase by the stated 0.03%. Similarly, we expect a decrease in the State plan normal cost rate of approximately 0.002% of payroll due to the hazardous materials officers moving out of the State plan and into VaLORS. The net change in annual costs for both plans would be an estimated \$41,000 per year as developed in Exhibit 2 below.

**Exhibit 2**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Plan	Rate Change	Payroll	General Fund Percentage	Non-General Fund Percentage	General Fund Dollars = (1)x(2)x(3)	Non-General Fund Dollars = (1)x(2)x(4)	Total Funding =(5) + (6)
State	-0.0019%	\$4,001,950,578	42.73%	57.27%	(\$33,000)	(\$44,000)	(\$77,000)
VaLORS	0.0334%	\$353,332,011	91.45%	8.55%	\$108,000	\$10,000	\$118,000
Net Change					\$75,000	(\$34,000)	\$41,000

Currently, hazardous materials officers are 100% funded by non-general funds. When developing the expected change in costs to the State and VaLORS plans shown below, we assumed hazardous materials officers would continue to be totally funded by non-general funds. Currently the VaLORS plan is 91.45% funded by general funds; if this bill were enacted, 91.28% of the VaLORS plan would become funded by general funds. Exhibit 3 below shows the expected impacts on the State and VaLORS plan funding. The cost impacts

are the net impact on retirement funding due to moving the nine hazardous materials officers to the VaLORS plan effective July 1, 2017. This assumes that contribution rates would be adjusted effective July 1, 2017 to reflect the plan experience related to moving hazardous materials officers into VaLORS.

**Exhibit 3**  
**Expected Impact of HB 2080 on the State and VaLORS Plans**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY2023</u>
State - General Fund	\$ (33,000)	\$ (33,000)	\$ (33,000)	\$ (33,000)	\$ (33,000)	\$ (33,000)
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	108,000	108,000	108,000	108,000	108,000	108,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
<b>TOTAL General Fund</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>
State - Non-General Funds	\$ (44,000)	\$ (44,000)	\$ (44,000)	\$ (44,000)	\$ (44,000)	\$ (44,000)
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	10,000	10,000	10,000	10,000	10,000	10,000
<b>TOTAL - Non-General Funds</b>	<b>\$ (34,000)</b>	<b>\$ (34,000)</b>	<b>\$ (34,000)</b>	<b>\$ (34,000)</b>	<b>\$ (34,000)</b>	<b>\$ (34,000)</b>
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subdivisions - Local Funds	-	-	-	-	-	-
<b>TOTAL Local Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Grand Totals</b>	<b>\$ 41,000</b>	<b>\$ 41,000</b>	<b>\$ 41,000</b>	<b>\$ 41,000</b>	<b>\$ 41,000</b>	<b>\$ 41,000</b>

Estimated projections based on employee data and valuation results as of June 30, 2016 and assume a level population throughout projection period.

Payroll projections are assumed to remain level throughout projection period.

As of June 30, 2016, the actuarial funded status of the VaLORS plan stood at 62.3%. As this bill applies benefits prospectively, it would not increase the existing unfunded liability of the plan. As of June 30, 2016, there were nine hazardous materials officers who would be affected by HB 2080 and one open position.

- 9. Specific Agency or Political Subdivisions Affected:** VRS, the Department of Emergency Management, and any hazardous materials officers of the Department of Emergency Management. In addition, all employers that have VaLORS-covered employees would be impacted by the increased contribution rate.

- 10. Technical Amendment Necessary:** No.

- 11. Other Comments:** HB 2080 would add any hazardous materials officer of the Department of Emergency Management to the definition of “employee” for purposes of membership in the Virginia Law Officers’ Retirement System (“VaLORS”) (Chapter 2.1 of Title 51.1, § 51.1-211, et seq.).

The bill does not transfer all of the members’ prior VRS service into VaLORS. Only creditable service earned on or after July 1, 2017, may be used to accrue VaLORS retirement

benefits for this proposed group of members. As a result, the member would not immediately vest to the VaLORS hazardous duty provisions.

The legislation provides that any person who becomes a member of VaLORS pursuant to this provision shall accrue the applicable VaLORS retirement benefits only for creditable service on or after July 1, 2017. This means that any officer who becomes eligible for VaLORS coverage under this provision will be eligible for the 2% multiplier for hazardous duty service and will not be eligible for the 1.7% multiplier and the supplement provided in § 51.1-217(B).

Under current law, any hazardous materials officer without prior VRS service who is hired on or after January 1, 2014, will be covered by the Hybrid Retirement Program. If this bill were to pass, these members, as well as any hazardous materials officers hired on or after the effective date of this legislation, would go into VaLORS as a Plan 2 member and not be covered by the Hybrid Retirement Program.

In 1999, the General Assembly and Governor approved the establishment of VaLORS to provide benefits generally equivalent to state police officers to certain other law enforcement and corrections positions. There have been numerous bills introduced since that time to allow additional groups to become eligible to participate in VaLORS that have not been enacted.

In its 2008 report, *Review of State Employee Total Compensation*, <http://jlarc.virginia.gov/pdfs/reports/Rpt378.pdf>, the Joint Legislative Audit and Review Commission (JLARC) developed an assessment of several occupational groups and rated these groups based on level of risk and responsibility (See Appendix D, Pages 156-57). In addition, JLARC developed a set of guidelines (See Appendix D, beginning on Page 159) that could be used in conjunction with its risk and responsibility assessment to ascertain if a given occupation merits consideration for inclusion in enhanced benefits.

This bill is similar to SB 1071 and HB 1833 in that they propose to add a new category of employees to VaLORS (i.e., conservation officers). However, those bills also require that an individual have five years of creditable service in VaLORS before becoming eligible for a VaLORS retirement benefit. HB 2080 does not contain such a provision.

**Date:** 01-20-2017

**Document:** HB2080.DOC/VRS