

## Department of Planning and Budget 2017 Fiscal Impact Statement

**1. Bill Number:** SB1076

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

**2. Patron:** Ruff

**3. Committee:** General Laws and Technology

**4. Title:** My Virginia Plan Program; retirement plans for employees of private employers.

**5. Summary:** Directs the Department of the Treasury (the Department) to create the My Virginia Plan Program (the Program) to enable private employers to connect with financial services firms that offer retirement plans. The bill provides that participation in a plan offered through the Program is voluntary for employers and their employees. The bill requires the Department to review and approve financial services firms to offer retirement plans through the Program and create a website for employers to obtain information on how to participate. The bill provides that the Department ensure that the Program provides a range of investment options to meet the needs of investors with various levels of risk tolerance and various ages. The bill prohibits the Department from exposing the Commonwealth to any potential liability under the federal Employee Retirement Income Security Act of 1974. The Department is also prohibited from offering or operating a state-administered investment option for any businesses or individuals through the Program. The Department shall charge fees to financial services firms to recoup start-up and ongoing costs. The Department is authorized to adopt regulations necessary to allow the Program to operate as authorized.

**6. Budget Amendment Necessary:** Yes.

**7. Fiscal Impact Estimates:** Preliminary; See Item 8 below.

**7a. Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2017	\$0	0	
2018	\$800,000	5	Nongeneral
2019	\$700,000	5	Nongeneral
2020	\$700,000	5	Nongeneral
2021	\$700,000	5	Nongeneral
2022	\$700,000	5	Nongeneral
2023	\$700,000	5	Nongeneral

**7b. Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2017	\$0	
2018	\$0	
2019	\$0	
2020	\$2,200,000	Nongeneral
2021	\$700,000	Nongeneral
2022	\$700,000	Nongeneral
2023	\$700,000	Nongeneral

- 8. Fiscal Implications:** The proposal is not expected to have a general fund fiscal impact since the bill mandates that the Department is to charge fees to financial services firms to recoup start-up and ongoing costs. With no additional funding during start-up, the Department would be required to get a Treasury Loan to address costs incurred during start-up and the initial ongoing operating costs. The Treasury Loan would be repaid from revenue generated by fees charged to the firms during the first year of Program operations. After the first year of Program operations, the bill limits the fees charged to firms to only the ongoing costs by the Department to operate the Program.

The Department continues to refine their operational needs to meet the mandates of the bill. At this time the agency has identified first year costs at \$800,000, with an ongoing estimated cost of \$700,000 to administer the Program. The amounts include personnel costs of \$550,000 per year (includes a senior level position with expertise in the area of retirement accounts and five positions to be trained to educate/market and support Virginia's private employers and their employees on the Program), \$100,000 (one-time cost) to develop a dedicated website, and another \$150,000 for travel and other expenses (e.g., computers, equipment, VITA charges, marketing, etc.).

It should be noted that the amounts identified in Item 7a above do not include potential legal costs associated with establishing or operating the Program. According to the Department, based on conversations with other states such as Massachusetts, Washington and New Jersey, legal costs can be expected to reach into the mid six digits. This cost is incurred since states are required to address DOL (Department of Labor) regulations and ensure compliance to ERISA (Employee Retirement Income Security Act of 1974).

Also, the 24-month delay in revenue reflected in Item 7b. above is assumed since that appears to be the accepted time frame to establish private employer/employee retirement plan programs in other states (e.g., Illinois, Massachusetts and New Jersey). As the Department points out, although several states have started developing private employer/employee retirement programs, it appears no state has actually implemented a program and many are having to delay implementation for various reasons.

- 9. Specific Agency or Political Subdivisions Affected:** Department of the Treasury

- 10. Technical Amendment Necessary:** Yes.

A new budget Item should be considered so that this initiative is separated from other agency activities and funding/costs. This is appropriate given the uniqueness of the Program as compared to other activities of the Department. A new budget Item would also provide a distinct location for any budget language associated with the Program.

Budget language should be considered for the Program that authorizes the Secretary of Finance to approve a Treasury Loan to the Department for costs incurred in developing the My Virginia Plan Program as well as ongoing operating costs until sufficient revenue exists to fully support operations.

An amendment should be considered to modify § 2.2-1847.B, as introduced in SB 1076, such that the Department is permitted more time in which to recoup Program start-up costs. As introduced, the Department must recoup start-up costs via fees to financial services firms in the first year of Program operations. Since the magnitude of the fee to recoup start-up costs cannot be determined at this time, smoothing the start-up fee over several years is recommended. For example, by extending the time to four years the Department could reduce the initial fee by as much as 75 percent.

- 11. Other Comments:** The Program may be better suited under the Virginia Retirement System (VRS), where the retirement plan expertise already exists. Unlike Virginia that has a retirement agency operating independently of the Department of the Treasury, other states' retirement activities fall under their Department of the Treasury (e.g., Connecticut, New Jersey, and Massachusetts). In Minnesota the plan is run by the state treasury as a separate account but actually managed by the State Board of Investment.

Identical to HB2204.