

Virginia Retirement System 2016 Fiscal Impact Statement

1. Bill Number: SB 168

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

2. Patron: Ruff

3. Committee: Finance

4. Title: Virginia Law Officers' Retirement System; adjusts annual supplement.

5. Summary: Adjusts the annual supplemental allowance under the Virginia Law Officers' Retirement System to continue until a member reaches Social Security retirement age. Current law would end the benefit at age 65.

6. Budget Amendment Necessary: Yes. Although the fiscal impact will be incorporated into the VaLORS employer contribution rate, VRS implementation costs are estimated at \$15,500.

7. Fiscal Impact Estimates: The proposed legislation would provide payment of the supplemental allowance until a member's Social Security full retirement age. The Social Security full retirement age is the age at which a member is eligible to receive full unreduced benefits from Social Security. In the past the full Social Security benefit age was 65, but with legislation passed by Congress in 1983 the full benefit age has increased and varies by when an individual was born, with the current maximum age being 67 for those born in 1960 or later.¹

In determining the cost impact of the proposed legislation, the benefit changes outlined above were assumed to apply prospectively to eligible members who have retired and not reached their Social Security full retirement age, and to active eligible members who have not yet commenced benefits.

¹ Social Security Act Amendments of 1983, Pub. L. No. 98-21, 97 Stat. 65.

Exhibit 1 below shows the number of members who would be affected by the proposed legislation.

Exhibit 1
Active VaLORS Members

Members	Count	Average Age	Average Service as of June 30, 2015
Active Members Eligible for Supplement	2,075	48.28	20.33
Active Members No Supplement	6,745	38.61	7.03
Total Actives	8,820	40.88	10.15

Retired VaLORS Members

Members	Count	Average Retirement Age	Average Retirement Service
Retired Receiving Supplement and less than Social Security Retirement Age as of June 30, 2015	1,486	53.17	26.98
Retired No Supplement	2,131	58.15	20.77
Total Retirees from VaLORS	3,617	56.23	23.16

The cost of this legislation will be reflected in increased employer contribution rates for FY17 by 0.90%. This measure would also increase the unfunded liability by \$37.7million and decrease the funded ratio of VaLORS. As of June 30, 2015, the funded ratio of the VaLORS plan stood at 60.6%.

Exhibit 2 shows the estimated future cost impacts associated with the bill.

Exhibit 2

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	2,774,000	2,774,000	2,774,000	2,774,000	2,774,000	2,774,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ 2,774,000	\$ 2,774,000	\$ 2,774,000	\$ 2,774,000	\$ 2,774,000	\$ 2,774,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	259,000	259,000	259,000	259,000	259,000	259,000
TOTAL - Non-General Funds	\$ 259,000	\$ 259,000	\$ 259,000	\$ 259,000	\$ 259,000	\$ 259,000
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subdivisions - Local Funds	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ 3,033,000	\$ 3,033,000	\$ 3,033,000	\$ 3,033,000	\$ 3,033,000	\$ 3,033,000

Estimated projections based on employee data and valuation results as of June 30, 2015 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, employers of VaLORS members, and VaLORS members who are eligible to receive the hazardous duty supplement.

10. Technical Amendment Necessary: No.

11. Other Comments: The hazardous duty supplement is a dollar amount added to the retirement benefit of eligible VaLORS retirees (those with 20 years of hazardous duty service, among other requirements) until the member reaches age 65. Normal retirement age for VaLORS members is age 60 with at least five years of creditable service. Prior to 2001, a VaLORS retiree would receive a monthly benefit equal to 1) his or her monthly retirement allowance calculated using a 1.7% multiplier, and 2) the hazardous duty supplement amount in effect at the time (the supplement is recalculated biennially based on increases in Social Security benefits). The supplement amount is currently \$13,548 per year or \$1,129 per month. When a VaLORS retiree reaches age 65, the supplement ends and the retiree continues to receive his or her monthly retirement allowance minus the supplement.

In 2001, the General Assembly enacted legislation that gave some VaLORS members the option to elect an alternate benefit structure. The legislation required that all new VaLORS

members hired on or after July 1, 2001 would not be eligible for the hazardous duty supplement. Instead, such members would receive a monthly retirement allowance calculated using a 2% multiplier. At the time of the legislation's enactment, all then-existing VaLORS members (i.e., those hired before July 1, 2001) had the opportunity to elect whether they wished to maintain their original benefit structure (i.e., the 1.7% multiplier plus the hazardous duty supplement) or elect the new benefit structure (i.e., the 2% multiplier without the supplement).

SB 168 would affect those VaLORS members who were hired before July 1, 2001 and who chose not to elect the new benefit structure (assuming they have 20 years of hazardous duty service). When such members retire, they are currently eligible for the hazardous duty supplement until they reach age 65. This bill, however, would tie the supplement's cutoff date to a retiree's Social Security retirement age, which varies depending on an individual's date of birth. In general, a VaLORS retiree who is eligible for the hazardous duty supplement would receive the supplement for a longer period of time as a result of SB 168.

The same hazardous duty supplement is available to VRS members who retire from the State Police Officers' Retirement System (SPORS). Local hazardous duty members whose localities have elected enhanced benefits, may also be eligible for the supplement. The cutoff date of the supplement under SPORS and for local hazardous duty members with enhanced benefits is also the retiree's Social Security retirement age, which was changed from age 65 in 2001 (Chapter 804 of the 2001 Acts of Assembly).

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