

Virginia Retirement System 2019 Fiscal Impact Statement

1. Bill Number: SB 1032

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

2. Patron: Stanley

3. Committee: Finance

4. Title: Virginia Law Officers' Retirement System; retirement age.

5. Summary: Changes the age through which a retired law-enforcement officer covered under the Virginia Law Officers' Retirement System is entitled to receive an additional retirement allowance from the law-enforcement officer's sixty-fifth birthday to retirement age as defined by the Social Security Act. This change aligns the additional allowance with that currently provided under the State Police Officers' Retirement System.

6. Budget Amendment Necessary: Yes.

Item 474. If the provisions of the bill are effective July 1, 2019, a budget amendment to cover the additional annual cost of 0.72% of payroll would be required for each of the agencies that employ VaLORS members. This is approximately \$2.4 million from the general fund and \$213,000 from non-general funds for fiscal year 2020 and each year thereafter.

Item 488. In addition, VRS implementation costs are estimated at approximately \$19,000 for programming necessary to make this change.

7. Fiscal Impact Estimates:

Fiscal Impact Estimates/Expenditure Impacts:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>General Fund</i>	<i>Non-General Fund & Local Funds</i>
2019	\$19,000			\$19,000 (VRS)
2020	\$2,557,000		\$2,364,000	\$213,000
2021	\$2,557,000		\$2,364,000	\$213,000
2022	\$2,557,000		\$2,364,000	\$213,000
2023	\$2,557,000		\$2,364,000	\$213,000
2024	\$2,557,000		\$2,364,000	\$213,000
2025	\$2,557,000		\$2,364,000	\$213,000

A more detailed breakdown of estimated costs is shown in Item 8 below.

8. Fiscal Implications: 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 increased and now varies depending on 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.

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, 2018
Active Members	Eligible for Supplement	1,366	49.81	22.22
	Not Eligible for Supplement	7,352	37.88	6.92
Total VaLORS Actives		8,718	39.75	9.32

Retired VaLORS Members

Members		Count	Average Retirement Age	Average Service at Retirement
Retired	Receiving Supplement and less than Social Security Retirement Age as of June 30, 2018	1,724	52.95	25.26
	Not Eligible for Supplement	2,943	59.51	20.32
Total VaLORS Retirees		4,667	57.09	22.14

*VALORS members hired after 2001 receive a 2.0% multiplier in lieu of the supplement. More detail regarding eligibility for the supplement is provided in Section 11.

The cost of this legislation will be reflected in increased employer contribution rates of 0.72% per year. This measure would also increase the unfunded liability by approximately \$32.1 million and decrease the funded ratio of VaLORS. As of June 30, 2018, the funded ratio of the VaLORS plan stood at 68.7% with an unfunded liability of \$643.6 million.

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

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

Exhibit 2

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	2,364,000	2,364,000	2,364,000	2,364,000	2,364,000	2,364,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ 2,364,000					
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	213,000	213,000	213,000	213,000	213,000	213,000
TOTAL - Non-General Funds	\$ 213,000					
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subdivisions - Local Funds	-	-	-	-	-	-
TOTAL Local Funds	\$ -					
Grand Totals	\$ 2,577,000					

Estimated projections based on employee data and valuation results as of June 30, 2018 and assume a level population throughout projection period.

Payroll projections include a 2% increase effective July 1, 2019 as well as additional 2% for members with three or more years of service. Payroll beyond 2020 is assumed to remain level throughout projection period.

9. Specific Agency or Political Subdivisions Affected: VRS and employers of VaLORS members.

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 (note: the supplement is recalculated biennially based on increases in Social Security benefits). The supplement amount is currently \$13,584 per year, which is paid to a retiree as \$1,132 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).

The bill 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 the bill.

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).

Date: 01-9-2019

Document: SB1032.DOC