

Virginia Retirement System 2020 Fiscal Impact Statement

1. Bill Number: HB 556

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

2. Patron: Knight

3. Committee: pending

4. Title: Judicial Retirement System; amount of retirement allowance

5. Summary: Provides that the annual retirement allowance of a person who retires under the Judicial Retirement System (JRS) shall not exceed 78% of the person's average final compensation, unless such person prior to becoming a judge performs five or more years of creditable service under another retirement plan administered by VRS. However, in no case shall such person's annual retirement allowance exceed 100% of his average final compensation.

6. Budget Amendment Necessary: As stand-alone legislation, VRS considers implementation of this bill as “routine,” and does not require additional funding. As a matter of course, the agency will review all legislation likely to be enacted prior to the passage by each chamber. If the aggregate number of “routine” bills likely to pass either chamber is unusually large or complex, it is possible that the agency will require authorization to expend additional non-general fund resources. If so, VRS will identify the costs and request such resources at that time.

7. Fiscal Impact Estimates: See Fiscal Implications below for cost estimates.

8. Fiscal Implications: The proposed legislation would allow an appointed judge who retires on or after July 1, 2020 to exceed 78% of average final compensation, but not more than 100% of final average compensation, if they performed at least five years of service with another VRS employer prior to joining JRS.

Judges receive weighted service credit in the JRS plan, which varies based on date of appointment or election, and for those appointed or elected on or after July 1, 2010, the factor also varies by age at appointment. For example, a judge appointed on or after July 1, 2010 who was age 45 at the time of appointment would earn 2 years of service for each year served as a judge. The exhibit below summarizes the weighted service factor provisions of JRS:

Appointed or Elected	Weighting Factor
Prior to 1/1/1995	3.5
After to 1/1/1995 but Prior to 7/1/2010	2.5
On or after 7/1/2010 - Under Age 45 at Appointment	1.5
On or after 7/1/2010 - Age 45 - 54 at Appointment	2.0
On or after 7/1/2010 - Age 55 or older at Appointment	2.5

Based on the current demographics of the JRS plan, the exhibit below shows the current benefit tier and weighting factors for active judges. Nearly 65% of the current judges have a weighting factor of 2.5 or higher.

Plan Tier	Service Weighting Factors				
	1.50	2.00	2.50	3.50	Total
Plan 1	7	11	188	25	231
Plan 2	11	14	22	0	47
Hybrid	48	71	65	0	184
Total	66	96	275	25	462

The provisions of this bill could impact 157 of the 462 current judges and potentially future appointments/elections to the JRS plan.

Total Active Judges 6/30/19	Active Judges with 5 or More Years of Other VRS Service	Average JRS Service as of 6/30/19	Average Weighted JRS Service as of 6/30/19	Average Prior VRS Service as of 6/30/19
462	157	8.3	20.1	14.4

While other VRS plans are not capped at 78% of average final compensation, members of those plans would need to work many more years to exceed 78% of average final compensation. The exhibit below highlights the service requirements for general employees to exceed 78% of final average compensation. The plan design is not structured to provide 78% of average final compensation as a pension benefit.

Service Required by General Employees to Exceed 78% of AFC

Benefit Tier	Benefit Factor	Years of Service
Plan 1	1.70	45.92
Plan 2	1.65	47.33
Hybrid	1.00	78.00

Based on the current population, we estimate that 71 of the 157 JRS members with prior VRS service would have a benefit that exceeds 78% of their average final compensation, approximately 60% of which would receive 100% of their average final compensation if the 78% cap were removed. The provisions of the bill would add approximately \$8.0 million to the \$116.6 million unfunded liability of the JRS plan and increase the employer rate from 28.49% to 29.52% of covered payroll. This would require an increase in contributions of \$792,000. The exhibit below shows the estimated increase in employer contributions that would be required each of the next six years.

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	-	-	-	-	-	-
JRS - General Fund	792,000	792,000	792,000	792,000	792,000	792,000
ORP/UVA - General Funds	-	-	-	-	-	-
TOTAL General Fund	\$ 792,000	\$ 792,000	\$ 792,000	\$ 792,000	\$ 792,000	\$ 792,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	-	-	-	-	-	-
ORP/UVA - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ 792,000	\$ 792,000	\$ 792,000	\$ 792,000	\$ 792,000	\$ 792,000

Estimated projections based on employee data and valuation results as of June 30, 2019 and assume a level population throughout projection period.
Payrolls beyond 2021 are assumed to remain level throughout projection period.

Note that if this legislation is passed in conjunction with Senate Bill 606, which would increase the benefit factor (multiplier) for Hybrid Retirement Plan judges from 1.00 to 1.70, the costs will be significantly higher than those shown here.

9. Specific Agency or Political Subdivisions Affected: VRS and Supreme Court of Virginia.

10. Technical Amendment Necessary: VRS is requesting a delayed effective date of July 1, 2021. VRS is anticipating the potential need to implement multiple legislative initiatives this year, which will require additional time not only for system programming, but also for overall effective implementation.

11. Other Comments: The proposed legislation would provide that a judge's annual retirement allowance is capped at 78% of the judge's average final compensation unless the judge has been credited with five or more years of creditable service under another retirement plan pursuant to subsection B of § 51.1-303 for service performed prior to becoming a judge. The

bill provides that the annual retirement allowance cannot exceed 100% of the judge's average final compensation.¹

Current legislation (§ 51.1-303) already prohibits a judge's retirement allowance from exceeding 100% of the judge's average final compensation, and recent legislation affirmed the provision of a 78% cap on a judge's average final compensation unless the judge has been credited with five or more years of creditable service under another retirement plan administered by the Virginia Retirement System after ceasing to be a judge. As a practical matter, this means that if a judge leaves JRS and subsequently moves into another VRS-covered position, the former judge would need to work for at least 5 years in that position otherwise the 78% cap would still apply.

A judge's average final compensation is based on his or her highest years of creditable compensation, whether that is made up of JRS service or other VRS service. This means that if the judge's highest applicable years of compensation are either before or after the JRS service, that average final compensation will be applied using the weighted JRS service.

Under this proposed legislation, as long as a judge retires from JRS, his or her annual retirement allowance can be up to 100% of average final compensation if the judge has at least five years of prior creditable service in a VRS-administered plan. Any judge who was appointed with the requisite amount of prior VRS service will, under the proposed legislation, be able to accumulate JRS weighted service beyond the existing 78% cap, with a potential retirement benefit of 100% of average final compensation.

JRS Plan 1 and JRS Plan 2 judges will benefit the most from the proposed legislation since the multiplier for those plans are 1.70% and 1.65%, respectively, and the weighted service greatly increases the potential that the annual retirement allowance for judges in these plans will exceed the current 78% cap and approach the 100% cap.

Approximately 60 percent of all current judges are in Plan 1 and Plan 2, so it will take a considerable number of years before the JRS Hybrid plan becomes the dominant plan. However, all judges who are appointed to an original term on or after January 1, 2014 are in the JRS Hybrid plan. Under the JRS Hybrid plan the multiplier is 1.00%, making it much less likely that a judge retiring from this plan would approach or exceed the current 78% cap on the annual retirement allowance, even after taking weighted service into account. However, Hybrid members also receive defined contributions, which are not included when determining the 78% cap, but should be included when determining the value of the Hybrid

¹ The annual retirement allowance is a statutory formula that multiplies average final compensation times creditable service times the applicable multiplier (1.7%, 1.65%, or 1%). Average final compensation is the average creditable compensation of a member for the 36 highest consecutive months of creditable service for Plan 1 members, or the average creditable compensation during the 60 highest consecutive months of creditable service for Plan 2 and Hybrid Retirement Plan members.

benefit for members.² While the focus of this bill provides that JRS members with prior VRS service not be subject to the 78% benefit cap, the overall VRS plan design has not been structured to replace 100% of a member's pre-retirement income. For example, the income replacement for a Plan 1 general VRS-covered employee after a 30-year career will be approximately 51% ($1.7\% \times 30 \text{ years} = 51\%$). While the future effects of the proposed legislation are mitigated since any new VRS member hired on or after January 1, 2014 is placed in the Hybrid retirement program, which also has a 1.00% multiplier, the current population could disproportionately benefit from this legislation as more than half of active judges are Plan 1 and Plan 2 and nearly one-third of active judges have 5 or more years of other VRS service.

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Document: HB556.DOC/VRS

² There is also a defined contribution component to JRS Hybrid plan. A judge in this plan contributes a mandatory 1% of creditable compensation that is matched 100% by the employer. The judge can make voluntary contributions of up to 4% of creditable compensation, matched in part by the employer up to 2.5% of creditable compensation. This component provides tax-deferred savings to build on the benefit under the defined benefit component. The judge manages the investments and related risk for this component.