

## Virginia Retirement System 2020 Fiscal Impact Statement

**1. Bill Number:** SB790-E

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

**2. Patron:** Deeds

**3. Committee:** Finance and Appropriations

**4. Title:** Virginia Law Officers Retirement System; provide benefits to conservation officers.

**5. Summary:** Adds conservation officers of the Department of Conservation and Recreation as members of the Virginia Law Officers' Retirement System. The bill makes conservation officers eligible to accrue retirement benefits under the Virginia Law Officers' Retirement System only for creditable service on and after July 1, 2020. The engrossed bill requires that an appropriation be included in the appropriation act in order for the bill to become effective.

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

Item 375. The Department of Conservation and Recreation (DCR) may require a budget amendment of \$366,400 for FY 2021 and FY 2022 to cover the additional employer cost associated with the higher contribution rate in VaLORS compared to the contribution rate in the State Plan in which the conservation officers currently participate. Based on the Governor's proposed budget for the upcoming biennium, the VaLORS contribution rate is 7.42% of payroll greater than the State Plan contribution rate, as reflected in Exhibit 1.

### Exhibit 1 Conservation Officers - Department of Conservation and Recreation

Plan	Number of Conservation Officers as of 6/30/19	Expected Payroll	Retirement Contribution Rates	Expected Employer Contributions
			FY 2021	FY 2021
As Member of State Plan	98	\$ 4,937,834	14.46%	\$ 714,000
As Member of VaLORS Plan	98	\$ 4,937,834	21.88%	\$ 1,080,400
Additional Funds Needed				\$ 366,400

Item 477. The cost associated with the VaLORS plan and the State plan would be impacted for all employers currently participating in these plans if conservation officers of the Department of Conservation and Recreation were added to VaLORS. The change would require an additional \$1.02 million, \$818,000 effective July 1, 2020 in additional funding for the VaLORS plan and an additional \$199,000 for the State plan. Details of the change are discussed in item 8 below.

Item 494. VRS implementation costs are estimated at approximately \$52,000. This does not include impact to current or future contribution rates or to the funded status of the plans, which are discussed above and in sections 7 and 8. The estimated costs take into account that, in order to comply with Chapter 10 of Title 51.1, VRS handbooks and other benefit materials would need to be reprinted, and system changes would need to be made upon the effective date of this legislation to accurately reflect benefits for a new population of Virginia Law Officers' Retirement System (VaLORS) members. Moreover, the cost of revising and reprinting VRS handbooks and other benefit materials will be allocated across any bills that require materials to be revised and reprinted out of cycle.

7. **Fiscal Impact Estimates:** In addition to the direct agency costs (effective July 1, 2020) that DCR would incur for moving these members to the VaLORS retirement plan, which are discussed in item 6, DCR would also share in the expected future cost increases to the VaLORS plan normal cost that would be created with the inclusion of the conservation officers.

**Fiscal Impact Estimates/Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>General Fund</b></i>	<i><b>Non-General Fund &amp; Local Funds</b></i>
2020				\$52,000
2021	\$1,017,000		822,000	\$195,000
2022	\$1,017,000		822,000	\$195,000
2023	\$1,017,000		822,000	\$195,000
2024	\$1,017,000		822,000	\$195,000
2025	\$1,017,000		822,000	\$195,000
2026	\$1,017,000		822,000	\$195,000

A more detailed breakdown of estimated costs, including the impact on contribution rates and the unfunded liability, is shown in item 8 below.

8. **Fiscal Implications:** The proposed addition of the conservation officers to the VaLORS plan is expected to increase the cost of the VaLORS plan by an estimated 0.22% of payroll. The increase in cost is due to the change in demographics associated with the 98 conservation officers and the subsequent increase in the plan normal cost. On average, the current group of conservation officers are 37.7 years old, which is approximately 6.5 years older than the current VaLORS plan members at hire date. Conservation officers also have on average two more years of service and a higher average salary than current VaLORS members, \$50,400 versus \$42,542. These differences cause the normal cost rate for the

whole VaLORS plan to increase. We also expect a slight increase in the State plan cost due to the conservation officers moving out of the State plan, which results in a smaller covered payroll over which to collect the required contributions. In addition, the benefits accrued by conservation officers in the State plan would be eligible to be paid out sooner than expected due to conservation officers now falling under the hazardous duty provisions in the VaLORS plan. The net change in annual costs for both plans combined would be an estimated \$1,017,000 per year.

Currently, conservation officers are 100% funded by the general fund. When developing the expected change in costs to the State and VaLORS plans shown below, VRS assumed conservation officers would continue to be totally funded by the general fund. Currently, the VaLORS plan is 90.91% funded by general funds. If this bill were enacted, 91.03% of the VaLORS plan would become funded by general funds. Exhibit 2 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 98 conservation officers to the VaLORS plan effective July 1, 2020. This assumes that contribution rates would be adjusted effective July 1, 2020 to reflect the plan experience related to moving conservation officers into VaLORS.

### Exhibit 2

	<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	\$ 77,000	\$ 77,000	\$ 77,000	\$ 77,000	\$ 77,000	\$ 77,000
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	745,000	745,000	745,000	745,000	745,000	745,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
<b>TOTAL General Fund</b>	<b>\$ 822,000</b>	<b>\$ 822,000</b>	<b>\$ 822,000</b>	<b>\$ 822,000</b>	<b>\$ 822,000</b>	<b>\$ 822,000</b>
State - Non-General Funds	\$ 122,000	\$ 122,000	\$ 122,000	\$ 122,000	\$ 122,000	\$ 122,000
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	73,000	73,000	73,000	73,000	73,000	73,000
<b>TOTAL - Non-General Funds</b>	<b>\$ 195,000</b>	<b>\$ 195,000</b>	<b>\$ 195,000</b>	<b>\$ 195,000</b>	<b>\$ 195,000</b>	<b>\$ 195,000</b>
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools w/ HIC	-	-	-	-	-	-
Political Subs - Schools w/o HIC	-	-	-	-	-	-
Political Subs - Non School	-	-	-	-	-	-
<b>TOTAL Local Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Grand Totals</b>	<b>\$ 1,017,000</b>	<b>\$ 1,017,000</b>	<b>\$ 1,017,000</b>	<b>\$ 1,017,000</b>	<b>\$ 1,017,000</b>	<b>\$ 1,017,000</b>

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.

As of June 30, 2019, the VaLORS actuarial funded status was 67.2%. As this bill applies benefits prospectively, it would not increase the existing unfunded liability of the plan. As of June 30, 2019, there were 98 conservation officers who would be affected by SB 790.

- 9. Specific Agency or Political Subdivisions Affected:** VRS, DCR, and any DCR conservation officers commissioned pursuant to § 10.1-115. In addition, all employers that have VaLORS-covered employees would be impacted by the increased contribution rate.
- 10. Technical Amendment Necessary:** Yes. VRS is requesting that the effective date of this legislation be delayed until July 1, 2021, as the agency is finalizing a multi-year effort to modernize its business processes and implement enhanced technology that will result in new functionality and improved services for its members, employers, and retirees. A delayed effective date of July 1, 2021 will allow for necessary systems adaptations without as much of an impact on the modernization effort. A delayed effective date will also allow for communications and outreach to affected employees and employers. VRS is also anticipating the potential need to implement multiple legislative initiatives this year, which will require additional time for effective implementation.
- 11. Other Comments:** This bill would add any DCR conservation officer commissioned pursuant to § 10.1-115 to the definition of “employee” for purposes of membership in VaLORS (Chapter 2.1 of Title 51.1). In order to be commissioned under § 10.1-115, an individual must be at least 21 years of age and have graduated from high school or obtained an equivalent diploma. The individuals must be recommended by the DCR Director and approved by the Governor prior to being commissioned by the Secretary of the Commonwealth.

The bill does not transfer all of the members’ prior VRS service into VaLORS. Only creditable service earned on or after July 1, 2020, 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.

This bill also provides that no conservation officer who becomes a member of VaLORS under this provision will be eligible to retire under VaLORS unless the officer has five or more years of creditable service as a member of VaLORS, as a member of the State Police Officers’ Retirement System (SPORS) or as a local employee covered by enhanced hazardous duty benefits under § 51.1-138.

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, 2020. 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 conservation 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 conservation officers hired on or after the effective date of this legislation, would go into VaLORS as Plan 2 members and not be covered by the Hybrid Retirement Program.

In 1999, the General Assembly and Governor established VaLORS to provide benefits generally equivalent to those received by state police officers and other law enforcement positions. There have been numerous bills introduced, but not enacted, since then to add certain groups to the VaLORS membership.

VaLORS provides a multiplier of 2% on service accrued under VaLORS. The hazardous duty supplement is only available to VaLORS members who were in service prior to July 1, 2001 and who did not make an election to receive the higher multiplier in lieu of the hazardous duty supplement. Employees who become members of VaLORS on or after July 1, 2001 or who have a break in service from VaLORS and who return, are eligible for the 2% multiplier but not the supplement. VaLORS members are eligible for unreduced retirement at age 60 with at least five years of service, or at age 50 with at least 25 years of service credit.

In its 2008 *Review of State Employee Total Compensation* report, <http://jlarc.virginia.gov/pdfs/reports/Rpt378.pdf>, the Joint Legislative Audit and Review Commission (JLARC) developed an assessment of several occupational groups, including regular and special conservation officers with DCR. JLARC rated these groups based on level of risk and responsibility (see Appendix D, pages 156-58). In addition, JLARC proposed guidelines that could be used in conjunction with its risk and responsibility assessment to determine whether an occupation should receive enhanced benefits.

**Date:** 2-10-2020

**Document:** SB790E.DOC/VRS