

Virginia Retirement System

2021 Fiscal Impact Statement

1. **Bill Number:** HB 2097

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** O'Quinn

3. **Committee:** Appropriations

4. **Title:** Virginia Law Officers' Retirement System; Department of Corrections Special Investigations Unit

5. **Summary:** Adds agents of the Department of Corrections (DOC) Special Investigations Unit (SIU) to the Virginia Law Officers' Retirement System (VaLORS). The bill provides that such employees will not be eligible to retire under VaLORS unless they have five years of creditable service as a member of VaLORS, the State Police Officers' Retirement System, or an equivalent local system.

6. **Summary of Impacts**

Benefit(s) impacted: VaLORS and the State Plan.

Impact to unfunded liability (see Item 9 for details): Increases VaLORS by \$410,000; decreases State by \$365,000.

Impact to contribution rate(s) (see Item 9 for details): None for current rates.

Specific Agency or Political Subdivisions Affected (see Item 10): VRS, DOC, and all employers with employees participating in VaLORS.

VRS cost to implement (see Item 7 and Item 8 for details): Approximately \$113,000 in FY21.

Employer cost to implement (see Item 7 and Item 8 for details): DOC will need approximately \$113,200 in FY22.

Other VRS and employer impacts (see Item 7, Item 8, Item 9, Item 11, and Item 12 for details): The addition of DOC SIU agents to VaLORS may change future rates for all VaLORS employers. DOA and DHRM will be involved in creating a new job title for VaLORS.

GF budget impacts (see Item 7 for details): Approximately \$113,200 increase in FY22.

NGF budget impacts (see Item 7 for details): None at this time.

7. **Budget Amendment Necessary:** Yes. Items 494, 402.

Item 494. VRS implementation costs are estimated to be approximately \$113,000 in FY21. This does not include the impact to current or future contribution rates or to the funded status of the plans, which are discussed below and in section 8. The estimated costs take into account expected impacts on transition to the new Cardinal accounting system and other projects, as well as 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. Additionally, the cost of reprinting VRS handbooks and other benefit materials will be allocated across any bills that require materials to be reprinted out of cycle.

Item 402. The Department of Corrections (DOC) may require a budget amendment of \$113,200 for FY 2022 to cover the additional employer cost associated with the higher contribution rate for the Virginia Law Officers' Retirement System (VaLORS) compared to the contribution rate in the State Plan in which the DOC SIU agents currently participate. Based on the Governor's proposed budget for the upcoming biennium, the VaLORS contribution rate that DOC will have to contribute for these agents is 7.44% of payroll greater than the State Plan contribution rate that they are already paying, as reflected in Exhibit 1.

Exhibit 1
Department of Corrections Special Investigations Unit

Plan	Number of DOC SIU Agents as of 6/30/2020	Expected Payroll	Retirement Contribution Rates	Expected Employer Contributions
			FY 2022	FY 2022
As Member of State Plan	22	\$ 1,521,943	14.46%	\$ 220,100
As Member of VaLORS Plan	22	\$ 1,521,943	21.90%	\$ 333,300
Additional Funds Needed				\$ 113,200

The current employer contribution rate associated with the VaLORS plan for other VaLORS employers will not be impacted due to the proposed inclusion of the 22 DOC SIU agents.

8. Fiscal Impact Estimates:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>General Fund</i>	<i>Non-General Fund & Local Funds</i>
2021	\$113,000			\$113,000
2022	\$113,200		\$113,200	\$0
2023	\$113,200		\$113,200	\$0

2024	\$113,200		\$113,200	\$0
2025	\$113,200		\$113,200	\$0
2026	\$113,200		\$113,200	\$0
2027	\$113,200		\$113,200	\$0

- 9. Fiscal Implications:** The addition of DOC SIU agents to VaLORS is expected to increase the VaLORS normal cost rate by 0.04% of covered payroll as well as increase the unfunded liability by \$410,000. However, due to the increase in the covered payroll associated with the DOC SIU agents, the unfunded amortization rate will decrease by 0.04%, thus providing no net change in the employer rate. On average, the 22 DOC SIU agents are 13 years older, have approximately 14 years more service, and receive an average salary that is approximately \$27,000 greater than current VaLORS members, which is why the normal cost rate increases.

As of June 30, 2020, the VaLORS actuarial funded status was 68.47%. Because the bill immediately allows DOC SIU agents who have at least five years of hazardous duty service to retire with VaLORS benefits if they are otherwise eligible, the VaLORS unfunded liability will increase by \$410,000 and slightly lower the funded status to 68.46%.

The DOC SIU agents leaving the State plan will also have no direct impact on the current employer contribution rate for the State plan, however it would lower the unfunded liability by \$365,000. The net change in annual funding related to the changes in both plans would be an estimated \$113,200 overall increase per year.

Currently, DOC SIU agents are 100% funded by general funds, and this was assumed to continue to be the case for purposes of estimating cost changes under the bill. The VaLORS plan is currently 90.91% funded by general funds and 9.09% by non-general funds. If this bill were enacted, 90.95% of the VaLORS plan would become funded by general funds and 9.05% would become funded by non-general funds. Exhibit 2 below shows the expected impacts on the State and VaLORS plans.

Exhibit 2

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State - General Fund	\$ (220,100)	\$ (220,100)	\$ (220,100)	\$ (220,100)	\$ (220,100)	\$ (220,100)
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	333,300	333,300	333,300	333,300	333,300	333,300
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ 113,200	\$ 113,200	\$ 113,200	\$ 113,200	\$ 113,200	\$ 113,200
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non School	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ 113,200	\$ 113,200	\$ 113,200	\$ 113,200	\$ 113,200	\$ 113,200

Estimated projections based on employee data and valuation results as of June 30, 2020 and assume a level population throughout projection period.
Payrolls beyond 2022 are assumed to remain level throughout projection period.

10. Specific Agency or Political Subdivisions Affected: VRS, DOC, and all employers with employees participating in VaLORS.

11. Technical Amendment Necessary: No.

12. Other Comments: The bill proposes to add certain DOC Special Investigative Unit agents, who are sworn law enforcement officers (according to DOC operational procedures available on the DOC website) , to VaLORS as of the effective date of the bill. If enacted, the legislation would allow service credit earned prior to the effective date to count towards eligibility for VaLORS retirement benefits. Members would not be eligible to retire with VaLORS benefits, however, unless they have five or more years of creditable service as a member of VaLORS, SPORS, or as an employee in a hazardous duty position at a political subdivision that offers enhanced hazardous duty benefits.

Because DOC SIU agents do not currently participate in VaLORS, some of them may participate in the Hybrid Retirement Plan. If this bill passes, these officers will be placed in VaLORS and will no longer participate in the Hybrid Retirement Plan.

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 2.00% on service accrued under the plan. 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 2.00% multiplier but not the supplement. VaLORS members are eligible for unreduced retirement at age 60 with at least five years of service credit, or at age 50 with at least 25 years of service credit. With the exception of certain members who were in service on June 30, 2002, and July 1, 2002, and who had five years of non-hazardous duty service at the time, all current VaLORS members must have at least five years of hazardous duty service (State Police, VaLORS, or enhanced hazardous duty service in a political subdivision) to retire under VaLORS provisions. If this legislation is enacted, any member who has at least five years of service in a hazardous duty position, including service as a DOC SIU agent, will be eligible (at the time of their retirement) to receive a retirement benefit under VaLORS.

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 DOC internal investigators. 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: 1/21/2021

Document: HB2097.DOC/VRS