

## Virginia Retirement System

### 2024 Fiscal Impact Statement

**1. Bill Number:** SB 130

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

**2. Patron:** Craig

**3. Committee:** Finance and Appropriations

**4. Title:** Virginia Retirement System; service retirement allowance; hazardous duty.

**5. Summary:** Provides that a member of the State Police Officers' Retirement System or the Virginia Law Officers' Retirement System who is eligible for a hazardous duty supplement shall receive such supplement amount from the date of retirement. Under current law, the supplement is only allowed from the date of retirement until (i) for the State Police Officers' Retirement System, the member's retirement age under federal social security laws and (ii) for eligible members of the Virginia Law Officers' Retirement System, the member's sixty-fifth birthday. The bill has a delayed effective date of July 1, 2025, and provides that its provisions apply only to eligible members who retire on and after July 1, 2025.

**6. Summary of Impacts**

**Benefit(s) impacted:** Removes end date for the hazardous duty supplement for eligible members of the State Police Officers Retirement System (SPORS) and Virginia Law Officers Retirement System (VaLORS) and for eligible local employees whose locality has elected to provide hazardous duty benefits who retire on or after July 1, 2025.

**Impact to unfunded liability (see Item 9 for details):** Increases liabilities by approximately \$150 million; SPORS unfunded liability would increase by \$87 million and VaLORS unfunded liability would increase by \$62 million. Local plans that have elected enhanced hazardous duty benefits would also see increases in liability that would vary by plan. The increases for local plans in hazardous duty member liabilities are expected to be in the range of 5-10% depending on plan demographics.

**Impact to contribution rate(s) (see Item 9 for details):** Increases contribution requirements for SPORS between six and eight percent of covered payroll depending on the amortization period of unfunded liability. Increases contribution requirements for VaLORS between one and two percent of covered payroll depending on the amortization period of unfunded liability. Local plans that have elected enhanced hazardous duty benefits would also see increases in contribution rates for hazardous duty members in the range of 5-10% of covered payroll depending on populations.

**Specific Agency or Political Subdivisions Affected (see Item 10):** VRS, State Police, all employers with employees participating in VaLORS, and all political subdivisions that have

elected to provide hazardous duty benefits to eligible employees. While the SPORS plan has approximately 1,900 active members, and VaLORS has approximately 400 active members impacted by this legislation, local employers who have elected enhanced hazardous duty benefits will have nearly 28,000 active members who could be impacted by this bill.

**VRS cost to implement (see Item 7 and Item 8 for details):** Approximately \$110,000 for FY 2025, primarily for programming and communications. This does not include additional costs to perform new valuations to make the employer contribution rate changes required if the bill is enacted.

**Employer cost to implement (see Item 7 and Item 8 for details):** Approximate total increase of \$14,577,000 in FY 2025, and \$14,724,000 for each year thereafter, to cover increased employer contribution requirements for SPORS and VaLORS members. In addition, local employers that have elected enhanced hazardous duty benefits would also see increased funding requirements associated with providing the hazardous duty supplement with no end date. Local employers' costs will vary depending on the number of members covered under enhanced hazardous duty coverage, and certified contribution rates for fiscal years 2025 and 2026 would not reflect the necessary funding required for this bill. Employer costs to implement this change are unavailable other than the increased contributions required.

**Other VRS and employer impacts (see Item 7, Item 9, Item 11, and Item 12 for details):** VRS will need to reach out to employers to communicate the extension of this benefit received by certain employees.

Because this bill as written is only applicable to retirements on or after July 1, 2025, there may be recent retirees who look to take advantage of the legislation by returning to work for a short period of time and then re-retiring in order to obtain the lifetime supplement.

VRS may need to re-certify contribution rates for local employers impacted for fiscal year 2025-2026 to reflect the expected increase in cost. See Item 7.

It is likely that local employers will not have budgeted for this increase.

**GF budget impacts (see Item 8 for details):** Approximately \$12,871,000 in FY 2025 and \$13,000,000 for each year thereafter for the increase in employer contribution costs for SPORS and VaLORS members.

**NGF budget impacts (see Item 8 for details):** Approximately \$1,706,000 in FY 2025 and \$1,724,000 for each year thereafter for the increase in employer contribution costs for SPORS and VaLORS members. Approximately \$110,000 in FY 2025 for VRS implementation, with minimal ongoing costs. Local employers who have elected enhanced hazardous duty coverage will also have budget impacts related to this bill which will vary by employer.

**7. Budget Amendment Necessary: Yes.**

Item 469. An appropriation of \$12,871,000 GF and \$1,706,000 NGF will be needed to cover the increase in employer contribution costs. In addition, the contribution rate for all SPORS members would need to be increased to 37.01% . This represents an increase of 5.69% of covered payroll from the contribution rate established by VRS (31.32%), which is also the contribution rate set forth in the budget bills. The contribution rate for VaLORS in the budget bills does not need to be increased. While the legislation would result in an increase of 1.18% of covered payroll (from 22.81% to 23.99%), the budget bills maintain a higher contribution rate for VaLORS of 24.6% which would be sufficient to cover this increase. However, this means that expected future savings and any improvement in funded status will not be fully realized from retaining VaLORS contributions rates higher than the VRS Board-certified rates.

Item 484. VRS will need a NGF appropriation of approximately \$110,000 in FY 2025 to cover the cost of programming and testing, as well as updating employee and employer communications.

The increased contribution rates required for this bill will also increase impacts estimated for all other bills related to SPORS, VaLORS, and local enhanced hazardous duty benefits. The costs above also do not include additional costs to perform new valuations to make the changes required by the bill.

- 8. Fiscal Impact Estimates:** More detail on the fiscal impact is explained in Item 9 below.
- 9. Fiscal Implications:** The provisions of the bill would extend the hazardous duty supplement, which is currently paid to a retiree for a limited duration, beyond Social Security normal retirement age, or age 65 for eligible VaLORS members. The supplement (currently \$16,884 per year) is paid to a retiree who is credited with at least 20 years of hazardous duty service at retirement. The supplement was designed to provide a bridge payment to hazardous duty members who may become eligible for unreduced retirement as early as age 50 and who retire before they are eligible for Social Security benefits.

The bill significantly expands the duration and, correspondingly, the original scope of the hazardous duty supplement, and would make permanent what is currently a limited duration benefit. For the average SPORS member who retired in 2023, the provisions of this bill would provide a benefit of 1.85% of a member's AFC plus the supplement for life. This would effectively be the same as providing a benefit based on approximately 2.70% of the average SPORS retiree's AFC in 2023. This expansion of the hazardous duty supplement will increase the costs to employers of providing this benefit. In addition, the amount of the supplement will increase over time. The supplement is evaluated every two years and is adjusted based upon increases in Social Security benefits during that two-year period. The supplement also has no cap or limit on the prescribed increases, such as those in place for the VRS cost-of-living increases, which cap annual increases at 5.0% for Plan 1 members and 3.0% for Plan 2 and Hybrid members.

The table below shows the estimated future cost impacts to state employers associated with the bill.

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	8,602,000	8,688,000	8,688,000	8,688,000	8,688,000	8,688,000
VaLORS - General Fund	4,269,000	4,312,000	4,312,000	4,312,000	4,312,000	4,312,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
<b>TOTAL General Fund</b>	<b>\$ 12,871,000</b>	<b>\$ 13,000,000</b>	<b>\$ 13,000,000</b>	<b>\$ 13,000,000</b>	<b>\$ 13,000,000</b>	<b>\$ 13,000,000</b>
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	1,184,000	1,196,000	1,196,000	1,196,000	1,196,000	1,196,000
VaLORS - Non-General Funds	522,000	528,000	528,000	528,000	528,000	528,000
<b>TOTAL - Non-General Funds</b>	<b>\$ 1,706,000</b>	<b>\$ 1,724,000</b>	<b>\$ 1,724,000</b>	<b>\$ 1,724,000</b>	<b>\$ 1,724,000</b>	<b>\$ 1,724,000</b>
<b>Grand Totals</b>	<b>\$ 14,577,000</b>	<b>\$ 14,724,000</b>	<b>\$ 14,724,000</b>	<b>\$ 14,724,000</b>	<b>\$ 14,724,000</b>	<b>\$ 14,724,000</b>

Estimated projections based on employee data and valuation results as of June 30, 2023 and assume a level population throughout projection period. Payrolls include proposed pay increases included in proposed budget for FY 2025 and 2026. Payrolls are assumed to remain level beyond 2026 through remainder of the projection period.

As described above, local employers' costs will vary depending on the number of members covered under enhanced hazardous duty coverage, and certified contribution rates for fiscal years 2025 and 2026 would not reflect the necessary funding required for this bill. The SPORS plan funded status as of June 30, 2023 was 70.28% and the employer contribution rate for fiscal year 2025-2026 without this legislation is expected to be 31.32% of payroll. The provisions of this bill are expected to lower the funded status below 70% and push the employer cost towards 40% of covered payroll.

The VaLORS plan funded status as of June 30, 2023 was 71.19%, and the employer contribution rate for fiscal year 2025-2026 without this legislation is 22.81% of payroll, though the Governor's proposed budget maintained the prior rate at 24.60%. The provisions of this bill are expected to lower the funded status below 70% and increase the employer cost by about 2.0% of covered payroll.

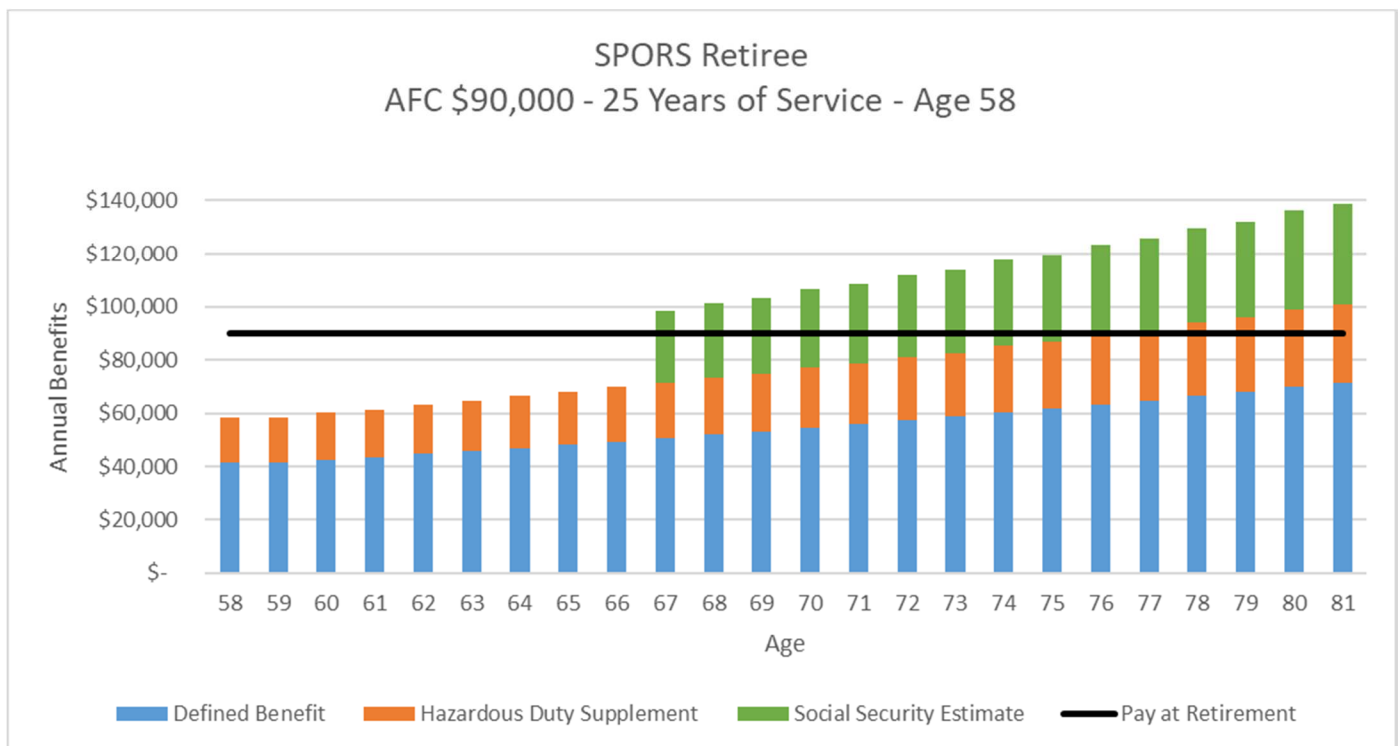
**10. Specific Agency or Political Subdivisions Affected:** VRS, State Police, all employers with employees participating in VaLORS, and all political subdivisions that have elected to provide hazardous duty benefits to eligible employees.

**11. Technical Amendment Necessary:** No.

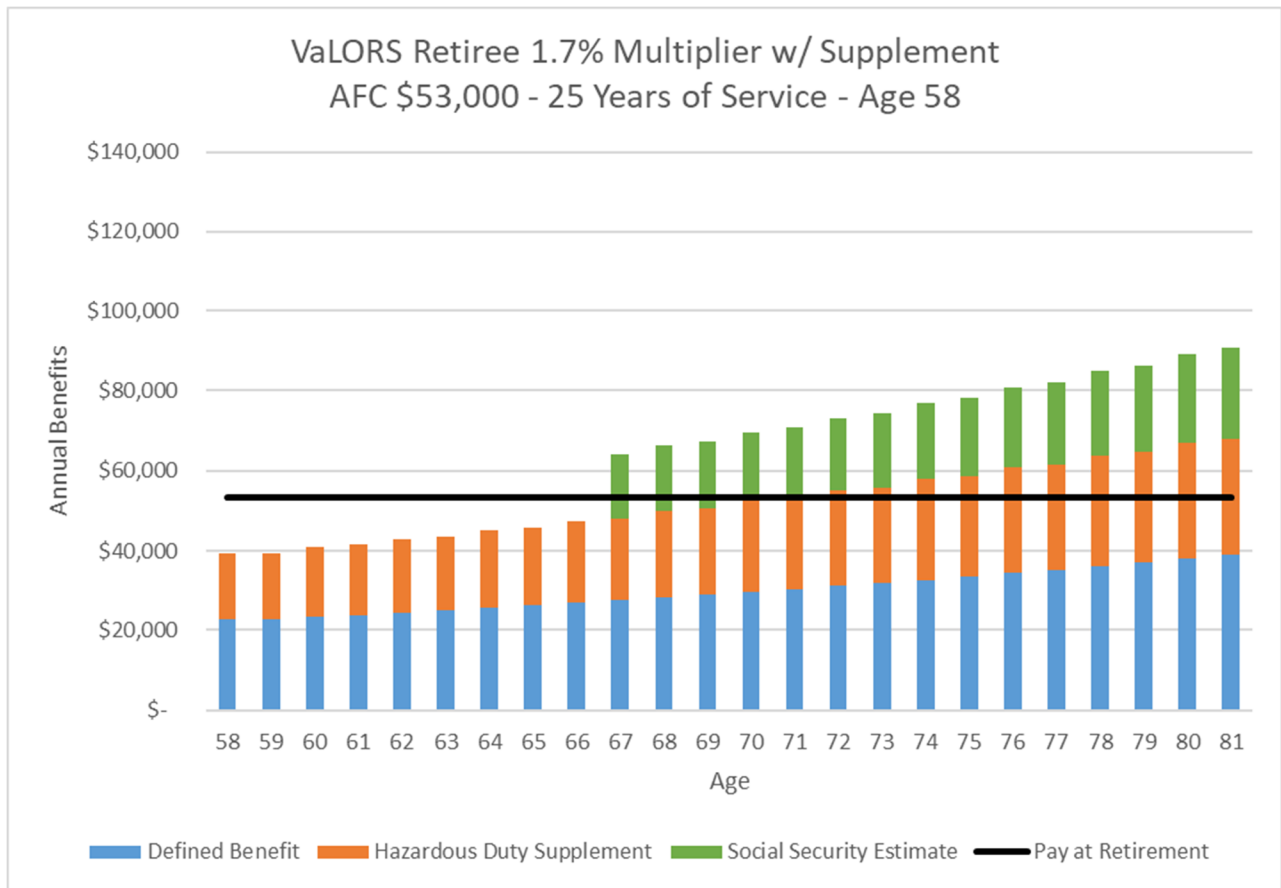
**12. Other Comments:** Note that this legislation only applies to eligible members who retire on or after July 1, 2025. If all previously retired members of SPORS and VaLORS who retired prior to July 1, 2025, who were eligible for the hazardous duty supplement were also provided the supplement with no end date (or if they returned to work and subsequently re-retired after July 1, 2025), it would increase unfunded liabilities by an additional \$721 million. Combined with those who retire after July 1, 2025, the total increase in unfunded liabilities would be \$871 million for both SPORS and VaLORS members; SPORS unfunded liability would increase \$267 million and VaLORS unfunded liability would increase by \$604 million. The local employers offering enhanced hazardous duty benefits would also see

increases in unfunded liability of hazardous duty members in the range of 15 – 20% of covered payroll.

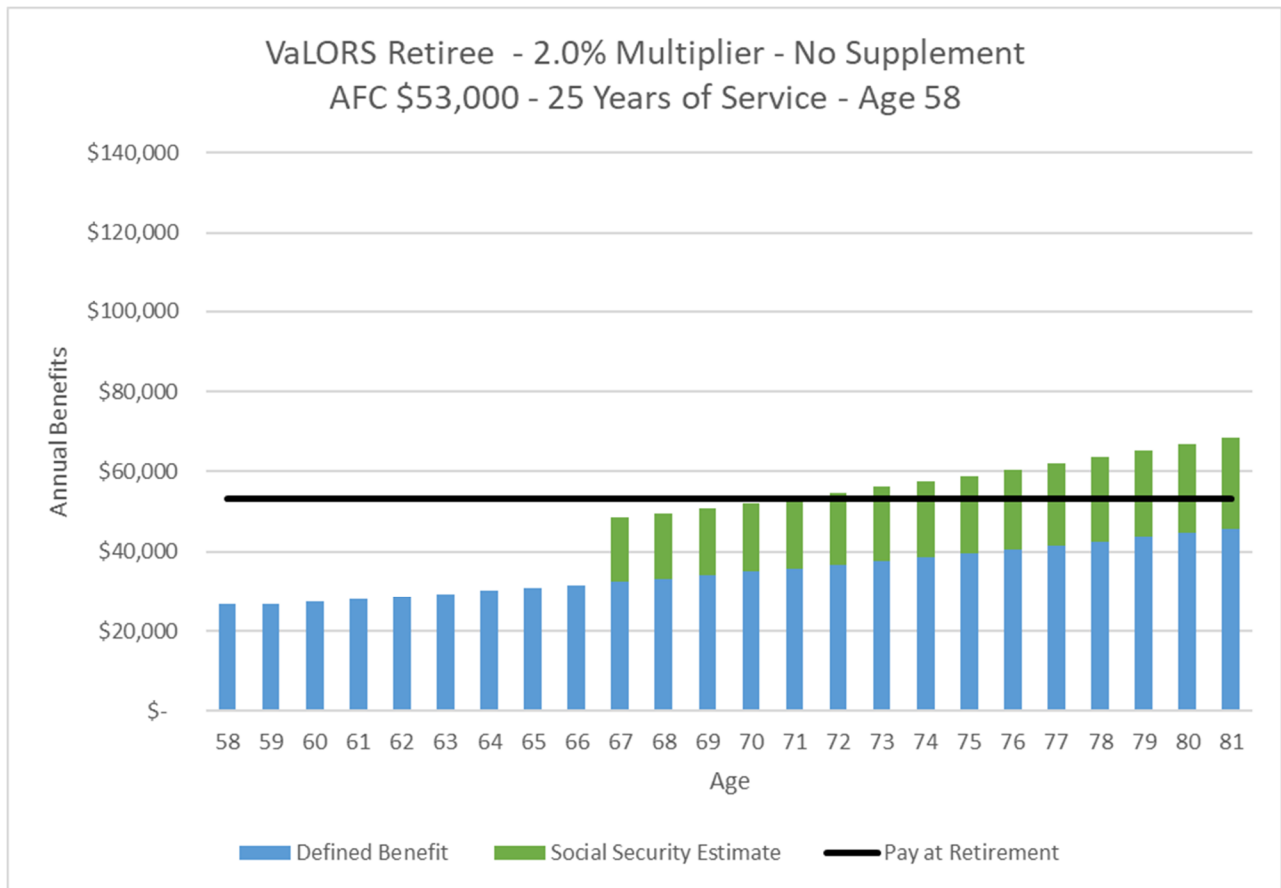
When compared to general employees, hazardous duty members already have enhanced benefits, which include earlier eligibility for unreduced retirement along with, in most cases, an increased multiplier, even though they pay the same member contribution rate as general employees. Below are comparisons of estimated replacement ratios for SPORS and VaLORS members as compared to a general State employee. SPORS members have one of the highest average pays, with those retiring in 2023 having an average compensation of \$90,000. The current replacement ratio at retirement is approximately 65%. Under the proposed bill, a member would exceed their pre-retirement income at age 67 when full Social Security payments are available.



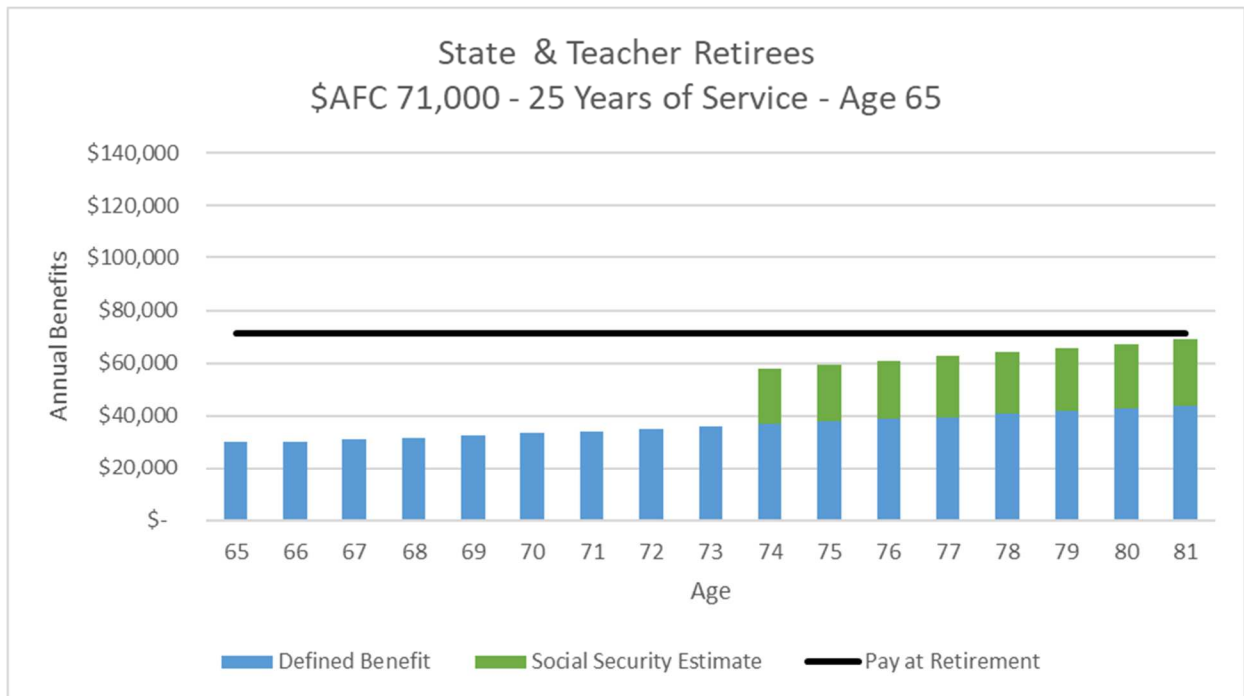
VaLORS members who are eligible for the supplement would have a similar pattern. While the average compensation for VaLORS retirees was approximately \$53,000 in 2023, the replacement ratio at retirement was just over 74% including the supplement. These members would also exceed their active employee income at retirement when full Social Security becomes available at age 67.



This legislation does not impact the majority of VaLORS members because most members receive a 2.0% multiplier in lieu of the supplement. VaLORS retirees who retire under with the 2.0% multiplier would have a replacement ratio of 50% at retirement, and while their benefit would be smaller than those with the 1.7% multiplier and the supplement, they would still be expected to exceed pre-retirement income levels shortly after social security payments would begin.



General state employees and teachers retired with an average compensation of \$71,000 and \$64,000 respectively in 2023 with a replacement ratio of approximately 43%. These employees tend to work longer, as unreduced retirement requires higher age and service. Unlike SPORS and VaLORS members, teachers and general state employees are not expected to exceed pre-retirement incomes until much later in retirement.



Members of SPORS and local law-enforcement officers whose employers are providing SPORS-like benefits who retire with at least 20 years of hazardous duty service credit will also receive a hazardous duty supplement, which is a dollar amount added to the officer's monthly retirement payment. In addition, certain members of VaLORS who were employed in a VaLORS position on June 30, 2001, and on July 1, 2001, may be eligible for the hazardous duty supplement (an employee who joined or rejoined VaLORS after July 1, 2001, is ineligible for the hazardous duty supplement). A retiree will continue to receive the hazardous duty supplement until the retiree reaches normal Social Security retirement age or age 65 if an eligible member of VaLORS.

The hazardous duty supplement was created as a method to provide retired law-enforcement officers with a bridge to Social Security in recognition of the fact that many members of SPORS could retire well before they would be eligible to receive Social Security benefits. In a 2012 report ([RD48 \(Published 2012\) – Review of Retirement Benefits for State and Local Government Employees - December 2011 \(virginia.gov\)](#)), the Joint Legislative Audit and Review Commission (JLARC) explained the connection between the hazardous duty supplement and Social Security benefits as follows:

[Certain law-enforcement officers] are eligible to retire with full benefits as early as age 50 with at least 25 years of service.

Therefore, these employees tend to have slightly shorter tenures, and they often retire before they are eligible for Social Security benefits, which means they need



to rely on their VRS benefit and any personal savings prior to Social Security eligibility. (Most individuals are not eligible to receive any form of Social Security payments before the age of 62.) Therefore, members of these plans would have significantly lower income replacement rates than they would if they had unreduced Social Security benefits. For example, if a SPORS member retired at age 55 with 25 years of service, this individual would only replace approximately 46 percent of their pre-retirement income through their VRS benefit ( $1.85 \times 25$ ). . . . Without Social Security, and assuming pre-retirement earnings of \$40,000 a year, members of these plans would need to replace between 42 and 38 percent of their income through other means, making an affordable retirement less likely at that time.

To assist SPORS members in bridging the income replacement during the period in which these individuals are not yet eligible to receive any form of Social Security, these employees are also eligible for a hazardous duty supplement, which begins when the employee retires and ends when the employee reaches Social Security's normal retirement age.

The hazardous duty supplement was first added as a benefit in SPORS in 1966 (1966 Va. Acts ch. 628). The supplement was extended to local law-enforcement officers in 1970 when localities were given the option of extending SPORS-equivalent benefits to their officers and to members of VaLORS when that system was created in 1999. In 1966, the supplement was \$1,620 per year. The amount of the supplement has been increased over the years and the current amount is \$16,884 per year. The amount of the hazardous duty supplement is evaluated every two years and may be adjusted based upon increases in Social Security benefits during that two-year period.

**Date:** 1/23/2024

**Document:** SB130.DOC/VRS