

Virginia Retirement System 2010 Fiscal Impact Statement

1. Bill Number: HB1189Enrolled

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

2. Patron: Patron Prior to Substitute – Delegate Putney

3. Committee: Appropriations

4. Title: Retirement System; modifies for new employees all defined benefit retirement plans.

5. Summary: Modifies for new employees, all the defined benefit retirement plans administered by the Virginia Retirement System ("VRS"), as follows: (i) requires new state employees to contribute five percent of creditable compensation and provides school boards and local employers with the flexibility to elect alternate member contribution rates, up to 5%, to be paid by their new employees, so long as the employer pays the full 5% member contribution for their current employees, (ii) increases the number of months used to calculate average final compensation from 36 to 60 months, (iii) increases the cost, and decreases the time by which employees may purchase certain prior service credits before the cost of such service increases to the full actuarial equivalent, and (iv) reduces the rate of the increase in the Consumer Price Index used for determining annual retirement allowance supplements ("COLA") from three percent plus one-half percent of the additional increase up to seven percent (maximum five percent), to two percent plus one-half percent of the additional increase up to ten percent (maximum six percent).

The bill also decreases the Commonwealth's contribution for new employees in institutions of higher education participating in an optional retirement plan (ORP) to 8.5 percent of creditable compensation. Institutions may contribute up to 8.9%, but any contribution in excess of 8.5% must be funded through non-state funds. Further, new employees in the ORP are required to make a five percent employee contribution.

In addition to these modifications, for new state and local employees covered under the main defined benefit plan, (i.e. excluding the separate plans for state and local law enforcement employees and judges), the bill changes the requirements for unreduced early retirement benefits from 50 years of age and 30 years of creditable service, to the "Rule of 90" (when the combination of age and service equals 90). Further, normal retirement is defined as the date that the member attains his "retirement age" as defined under the Social Security Act. Reduced early retirement is defined as age 60 with 5 years of service. The early reduced retirement at age 50 with 10 years of service is eliminated.

The enrolled bill institutes a new service weight schedule based on the judge's age at the time he or she is appointed or elected to an original term commencing July 1, 2010. The proposed service weight schedule for new judges effective July 1, 2010 is as follows:

Judge's Age at Time of Appointment or Election to an Original Term	Service weight
Less than 45	1.5
45-54	2.0
55 and above	2.5

For judges appointed or elected to an original term prior to July 1, 2010 the current service weights will continue to apply. That is, for judges commencing their term on the bench on or after January 1, 1995 a 2.5 service weight applies, while a 3.5 factor applies to judges in service on December 31, 1994.

These changes establish a new tier of benefits for VRS and ORP members hired on or after July 1, 2010.

6. Fiscal Impact Estimates:

6a. Expenditure Impact: This bill would reduce the employer contribution from 10.4 percent to 8.5 percent for employees participating in certain VRS Optional Retirement Plans (ORP) such as college faculty and political appointees hired on or after July 1, 2010. In addition, new members will contribute, on a salary reduction basis, a five percent employee contribution. Further, employers are given the option to increase their contribution from 8.5% to 8.9% so long as the increased contributions are not paid from state funds.

Table 1 is a projection developed by the VRS actuary, which presents the projected ORP contribution rates through fiscal year 2016 blending the current rate of 10.4 percent for current members and the proposed rate of 8.5 percent for new hires on or after July 1, 2010. The rates are a percent of the estimated projected salaries for ORP members.

Table 1 Projection of Blended ORP Contribution Rates *						
Fiscal Year	2011	2012	2013	2014	2015	2016
Blended contribution rate	10.24%	10.11%	9.99%	9.88%	9.78%	9.68%
Estimated rate reduction	-0.16%	-0.29%	-0.41%	-0.52%	-0.62%	-0.72%
*Projected ORP contribution rates blending the current rate of 10.4% for current members and the proposed rate of 8.5% for new hires.						

Table 2 below presents the combined impact of the defined benefit changes (including 5 percent member contribution for new hires).

Table 2											
VIRGINIA RETIREMENT SYSTEM											
PROJECTION OF IMPACT ON EMPLOYER CONTRIBUTION RATES											
BLENDED CHANGE IN COSTS CURRENT MEMBERS & NEW HIRES											
8% INTEREST RATE & 3% CPI PER ANNUM ASSUMPTIONS											
Final HB 1189 - New Defined Benefit Plan for New Hires Hired Beginning July 1, 2010											
The proposed provisions set forth in this study are outlined below. Please note that items i., ii. and vi. are for all retirement plans and items iii. and iv. are for regular VRS (including most state employees, teachers, local Non-LEOs employees, and constitutional officers), and JRS and not for SPORS, VALORS and local LEOs. Items v. applies only to JRS.											
i. Average Final Compensation based on 60 consecutive months of service											
ii. Cola assumption = 2.50%											
iii. Benefit multiplier = 1.70%											
iv. Normal retirement is Social Security normal retirement age plus 5 years of service. Unreduced early retirement if member meets Rule of 90 (sum of his or her age and years of service equals 90). Reduced early retirement is with a minimum age of 60 and 5 years of service.											
v. Judges' service weight based on age at time of appointment or election to an original term beginning on or after July 1, 2010. For first term judges less than age 45 the service weight = 1.5; age 45-54 the service weight = 2.0, and age 55 and above the service weight = 2.5.											
vi. 5% member contribution paid by new hires											
CHANGE IN PROJECTED CONTRIBUTION RATE DUE TO CHANGES IN BENEFIT PROVISIONS (i. through v.)											
Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State	0.00%	-0.02%	-0.07%	-0.11%	-0.14%	-0.17%	-0.20%	-0.23%	-0.25%	-0.27%	-0.29%
Teacher	0.00%	-0.08%	-0.15%	-0.20%	-0.26%	-0.31%	-0.36%	-0.41%	-0.45%	-0.48%	-0.52%
SPORS	0.00%	-0.02%	-0.05%	-0.08%	-0.11%	-0.13%	-0.16%	-0.19%	-0.21%	-0.24%	-0.26%
VALORS	0.00%	-0.03%	-0.08%	-0.12%	-0.16%	-0.20%	-0.23%	-0.26%	-0.28%	-0.31%	-0.33%
JRS	0.00%	-1.43%	-1.88%	-2.31%	-2.76%	-3.18%	-3.54%	-3.84%	-4.13%	-4.44%	-4.70%
LOCALS (Aggregate)	0.00%	-0.03%	-0.07%	-0.11%	-0.15%	-0.18%	-0.21%	-0.24%	-0.27%	-0.29%	-0.31%
CHANGE IN PROJECTED CONTRIBUTION RATE DUE TO 5% NEW HIRES CONTRIBUTION (vi.)											
Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State	0.00%	-0.24%	-0.69%	-1.07%	-1.38%	-1.68%	-1.97%	-2.25%	-2.50%	-2.72%	-2.93%
Teacher	0.00%	-0.39%	-0.74%	-1.04%	-1.32%	-1.58%	-1.84%	-2.08%	-2.28%	-2.46%	-2.63%
SPORS	0.00%	-0.13%	-0.38%	-0.59%	-0.80%	-1.00%	-1.20%	-1.41%	-1.61%	-1.81%	-2.00%
VALORS	0.00%	-0.28%	-0.77%	-1.17%	-1.54%	-1.91%	-2.22%	-2.49%	-2.71%	-2.95%	-3.17%
JRS	0.00%	-0.23%	-0.67%	-1.09%	-1.52%	-1.93%	-2.28%	-2.57%	-2.85%	-3.15%	-3.40%
LOCALS (Aggregate)	0.00%	-0.24%	-0.69%	-1.07%	-1.38%	-1.68%	-1.97%	-2.25%	-2.50%	-2.72%	-2.93%
COMBINED CHANGE IN PROJECTED CONTRIBUTION RATE DUE TO CHANGES TO DEFINED BENEFIT PLANS (i. through vi.)											
Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State	0.00%	-0.26%	-0.76%	-1.18%	-1.52%	-1.85%	-2.17%	-2.48%	-2.75%	-2.99%	-3.22%
Teacher	0.00%	-0.47%	-0.89%	-1.24%	-1.58%	-1.89%	-2.20%	-2.49%	-2.73%	-2.94%	-3.15%
SPORS	0.00%	-0.15%	-0.43%	-0.67%	-0.91%	-1.13%	-1.36%	-1.60%	-1.82%	-2.05%	-2.26%
VALORS	0.00%	-0.31%	-0.85%	-1.29%	-1.70%	-2.11%	-2.45%	-2.75%	-2.99%	-3.26%	-3.50%
JRS	0.00%	-1.66%	-2.55%	-3.40%	-4.28%	-5.11%	-5.82%	-6.41%	-6.98%	-7.59%	-8.10%
LOCALS (Aggregate)	0.00%	-0.27%	-0.76%	-1.18%	-1.53%	-1.86%	-2.18%	-2.49%	-2.77%	-3.01%	-3.24%
Based on June 30, 2009 VRS actuarial valuation data, assumptions and methods, and assuming stable future active population (0% population growth).											

7. **Budget Amendment Necessary:** Yes. VRS projects that the internal costs for implementing this legislation are approximately \$469,000. These costs include system updates, actuarial calculator and updating and reprinting all VRS publications. In addition, changes to the contribution rates will need to be reflected in the budget and will be reflected in the next valuation.
8. **Fiscal Implications:** The plan design changes apply only to new hires. As a result, the reductions in costs associated with these plan design changes will only be fully realized many years into the future (20-30 years) when all active members are then covered under the new benefit structure. Savings attributable to local employers will largely depend on the extent to which they require their employees to pay all or a portion of the member contribution. The

State General Fund and Non General Fund savings associated with these plan design changes are estimated to be \$42.5 million for the biennium. In addition, the 10-year savings (state and local funds) are estimated to be approximately \$3 billion. However, this savings estimate is dependent upon local employers requiring new members to contribute the full 5 percent member contribution.

- 9. Specific Agency or Political Subdivisions Affected:** VRS, all members hired on or after July 1, 2010 and potentially current employees of counties, cities, towns, local public school boards, or other local employers

10. Technical Amendment Necessary: No.

11. Other Comments:

This bill creates a new defined benefit plan design for state and local employees who gain VRS coverage on or after July 1, 2010 and have no covered service credit prior to that date. Similarly, the bill creates a new plan for Optional Retirement Plan (ORP) members hired on or after July 1, 2010. HB1189 does not affect benefits for current members.

Changes for employees hired on or after July 1, 2010 with no prior service credit include:

5-Year AFC:

The number of months to be used in the calculation of Average Final Compensation will increase from the highest 36 highest consecutive months of creditable service to the 60 highest consecutive months of creditable service.

Normal Retirement Age:

Normal retirement age for general employees will increase from age 65 to the age at which a member becomes eligible for full Social Security benefits. For employees in hazardous duty positions (SPORS, VaLORS, and local hazardous duty employees, i.e., law enforcement, fire fighters, and emergency medical technicians), normal retirement remains age 60 with 5 years of service.

ORP Contribution Rates:

Establishes an 8.5% employer contribution rate for ORP members (reduced from 10.4%). Employers are given the option to increase their contribution from 8.5% to 8.9% so long as the increased contributions are not paid from state funds. ORP employees will also be required to make a 5% member contribution.

Purchases of Prior Service:

New employees eligible to purchase prior service will have one year from their date of employment to purchase or enter into a contract to purchase such service. The cost of this service will be its actuarially determined approximate “normal cost” as set by the VRS Board. If such service is purchased after the one-year window, it will be priced at full actuarial cost. Implementation of this provision is delayed until January 1, 2011.

Member Contributions:

Employees hired on or after July 1, 2010 with no prior service credit will be required to pay the 5% member contribution on a salary reduction basis. However, school boards and local employers will have the flexibility to elect alternate member contribution rates, up to 5%, to be paid by their new employees, so long as they pay the full 5% member contribution for their current employees.

COLA Formula:

The COLA formula for new hires will match the annual increases in the CPI-U for the first 2% and one-half of the additional increases in CPI-U, until it caps at 6%.

For current employees, the COLA formula remains unchanged and will continue to match the annual increase in CPI-U for the first 3% and one-half of the additional increases in CPI-U, until it caps at 5%.

Early Retirement with a Reduced Benefit:

Eligibility for an early reduced retirement benefit for general employees will be attained at age 60 with 5 years of service (remaining at 55/5 for current employees). Eligibility for a reduced early retirement at 50/10 is eliminated for new hires. For employees in hazardous duty positions (SPORS, VaLORS, and local hazardous duty employees, i.e., law enforcement, fire fighters, and emergency medical technicians), early reduced retirement remains at age 50 with 5 years of service.)

Early Retirement with an Unreduced Benefit:

General employees will become eligible for an early unreduced retirement under the Rule of 90, whereby the member's age and service must sum to at least 90. For employees in hazardous duty positions (SPORS, VaLORS, and local hazardous duty employees, i.e., law enforcement, fire fighters, and emergency medical technicians), early unreduced retirement remains age 50 with 25 years of service.

Service Weighting for Judges:

New judges, based on the judges' age at the time he or she is appointed or elected to an original term commencing July 1, 2010, will have his or her actual service on the bench weighted in accordance with the following factors:

- If first appointed to the bench prior to age 45 – 1.5 years of weighted service for each actual year of service on the bench
- If first appointed to the bench between ages of 45 and 55 – 2.0 years of weighted service for each actual year of service on the bench

- If first appointed to the bench at age 55 or over – 2.5 years of weighted service for each actual year of service on the bench

Implementation Dates:

Nearly all provisions become effective on July 1, 2010 for newly hired employees. Two exceptions are provided as follows:

1. The one year window for the purchase of prior service at less than full actuarial cost will not begin until January 1, 2011.
2. New employees with written employment contracts executed prior to March 15, 2010, but who commence covered employment on or after July 1, 2010, will be deemed to be Plan 1 members.

Date: 4/7/2010 psb

Document: HB118ER.DOC