

Virginia Retirement System

2010 Fiscal Impact Statement

1. Bill Number: HB511

House of Origin X Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Brink

3. Committee: Appropriations

4. Title: **Virginia Retirement System; retirement plans.**

5. Summary: Modifies the retirement plans administered by the Virginia Retirement System, including (i) having state employees pay a portion of their retirement contributions; (ii) for new state and local employees, increasing the minimum age for unreduced retirement allowance from 50 to 55, and reducing the maximum annual cost of living adjustments (COLA) to retirement allowances; and (iii) permitting local employers to pay any portion of the employee share of retirement contributions (under current law local employers must pay all or none of such contributions).

6. Fiscal Impact Estimates:

6a. Expenditure Impact: This bill codifies plan design changes and required member contributions set forth in HB 30. Accordingly, the short-term savings associated with the changes provided for in HB 511 have already generally been incorporated into HB 30.

For example, HB 30 estimated that the 1% contribution for Optional Retirement Plan (ORP) members will generate \$3.4 million in GF in the first year and \$7.0 million in GF in the second. HB 30 also estimates the NGF savings to the Commonwealth as \$3.9 million the first year and \$8.0 million in the second.

Table 1 displays the potential savings associated with implementing a 1% employee-paid member contribution in FY 2011 and a 2% employee-paid member contribution in FY 2012.

Table 1
State Employee Contribution
1% FY 2011 & 2% FY 2012

Contribution	FY 11 1%	FY 12 2%	FY 13 2%	FY 14 2%	FY 15 2%
State-GF	12,058,000	24,116,000	24,839,000	25,584,000	26,352,000
SPORS-GF	865,000	1,731,000	1,783,000	1,836,000	1,891,000
VaLORS-GF	3,311,000	6,623,000	6,822,000	7,027,000	7,238,000
JRS-GF	609,000	1,217,000	1,254,000	1,292,000	1,331,000
Teacher-GF					
Total GF	16,843,000	33,687,000	34,698,000	35,739,000	36,812,000
State-NGF	12,789,000	25,577,000	26,344,000	27,134,000	27,948,000
SPORS-NGF	141,000	282,000	290,000	299,000	308,000
VaLORS-NGF	268,000	535,000	551,000	568,000	585,000
Total NGF	13,198,000	26,394,000	27,185,000	28,001,000	28,841,000
Teacher-Local					
Local Aggregate					
Total Local					
Grand Total	\$30,041,000	\$60,081,000	\$61,883,000	\$63,740,000	\$65,653,000

Table 2 presents the change in the gross normal cost rate for new hires. The normal cost is the actuarial present value of benefits attributed by the pension formula to employee service performed during the current year. The normal cost expresses the ongoing cost of the plan for a new member without any prior service.

Table 2	
Change in Gross Normal Cost	
Does not include reduction for employee contributions	
	Long-term Change in Gross Normal Cost Rate
State	-0.21%
Teacher	-0.27%
State Police	-1.08%
VALORS	-0.67%
Judicial	-0.76%
Locals	-0.40%
Notes:	
1. Normal cost for a new plan for new hires beginning July 1, 2010	

2. For new hires State, teachers, non-hazardous duty local employees unreduced early retirement at age 55 with 30 years of service. (The age for unreduced early retirement is currently age 50 with 30 years of service.)
3. For new hires in SPORS, VALORS and local hazardous duty employees, the unreduced early retirement age is 55 with 25 years of service.
4. For all retirement systems, the COLA is calculated as the first 2% of CPI increase plus one-half of each additional percent increase up to 6 %. The maximum COLA is 4% (currently 5%).

Table 3 represents the change in the projected contribution rate for the following plan design changes:

- For new hires State, teachers, non-hazardous duty local employees unreduced early retirement at age 55 with 30 years of service. (The age for unreduced early retirement is currently age 50 with 30 years of service.)
- For new hires in SPORS, VALORS and local hazardous duty employees, the unreduced early retirement age is 55 with 25 years of service.
- For all retirement systems, the COLA is calculated as the first 2% of CPI increase plus one-half of each additional percent increase up to 6 %. The maximum COLA is 4% (currently 5%).

<p style="text-align: center;">Table 3</p> <p style="text-align: center;">CHANGE IN PROJECTED CONTRIBUTION RATE RELATED TO PLAN DESIGN CHANGES</p>										
Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State	-0.01%	-0.03%	-0.04%	-0.06%	-0.07%	-0.08%	-0.09%	-0.11%	-0.11%	-0.12%
Teacher	-0.02%	-0.04%	-0.06%	-0.07%	-0.09%	-0.10%	-0.11%	-0.12%	-0.13%	-0.14%
SPORS	-0.03%	-0.08%	-0.13%	-0.17%	-0.22%	-0.26%	-0.30%	-0.35%	-0.39%	-0.43%
VALORS	-0.04%	-0.10%	-0.16%	-0.21%	-0.26%	-0.30%	-0.33%	-0.36%	-0.40%	-0.43%
JRS	-0.04%	-0.10%	-0.17%	-0.23%	-0.29%	-0.35%	-0.39%	-0.43%	-0.48%	-0.52%
Locals (aggregate)	-0.02%	-0.06%	-0.09%	-0.11%	-0.13%	-0.16%	-0.18%	-0.20%	-0.22%	-0.23%
<p>Notes: (1) New Hires and Current Employees are Blended and (2) Does not include reduction for employee contributions</p>										

7. **Budget Amendment Necessary:** Yes. The VRS calculates that internal costs for implementing this legislation are approximately \$460,000. These internal costs include system updates, cost calculators and updates to all VRS publications.
8. **Fiscal Implications:** The plan design changes (unreduced retirement age and COLA provisions) in HB 511 generally 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. While initial cost savings associated with the plan design changes will be minimal,

they will serve to reduce the ongoing or normal cost of the plan and help to contain employer costs for the plan going forward.

In addition, HB 511 provides for current members to pay a 1% contribution effective July 1, 2010 and a 2% contribution effective July 1, 2011. This change will have the impact of decreasing employer contributions (which currently include the 5% member contribution) by 1% for fiscal year 2011 and 2% by fiscal year 2012.

Local employers will have the option of requiring their employees to make all or any portion of the 5% member contribution to the VRS defined benefit plan. Therefore, the impact of having employees pay a portion of their contributions will depend on the election made by the political subdivision. Further, school boards will have the option of requiring their employees to make all or any portion of the 5% member contribution to the VRS defined benefit plan.

9. Specific Agency or Political Subdivisions Affected: VRS, State and participating political subdivisions (non-hazardous duty only)

10. Technical Amendment Necessary: Yes. Language needs to be inserted in 51.1-153(D) that a member hired on or after July 1, 2010 cannot retire under 50/10. Below is proposed language for the amendment.

D. 50/10 retirement. - Any member in service on or after January 1, 1994, who has attained his ~~fiftieth~~ 50th birthday with ~~ten~~ 10 or more years of creditable service may retire prior to his normal retirement date upon written notification to the Board setting forth the date the retirement is to become effective. *However, the provisions of this subsection D shall not apply to any member commencing employment with no prior service credit on or after July 1, 2010.*

In addition, on line 320 after “service” insert the word “credit.”

11. Other Comments: This bill provides for employee-paid member contributions in the amount of 1% effective July 1, 2010 and a 2% contribution effective July 1, 2011. For persons hired after July 1, 2010 (including employees in SPORS, VaLORS, and local hazardous duty positions), the bill increases the minimum age for an unreduced retirement from 50 years to 55 years of age. For persons hired after July 1, 2010, the bill decreases the level and maximum effect of cost of living allowances (COLA). Currently, the COLA is the first 3% of inflation plus one-half of such additional increase up to 7%. The new limits are the first 2% of inflation plus one-half of such additional increase up to 6%. Practically speaking, the current maximum is 5% and the new maximum will be 4%.

In addition, the bill phases in an employee contribution to the optional retirement plans for higher education (defined contribution) administered by VRS. In FY2011, the required employee contribution will be 1% of creditable compensation, and in FY2012 the contribution increases to 2%. Similarly, the bill phases in an employee contribution to the Optional Retirement Plan for Political Appointees (defined contribution plan) administered by VRS. In FY2011, the required employee contribution will be 1% of creditable compensation, and in FY2012 the contribution increases to 2%. Lastly, the bill gives a school board the option of phasing in an employee contribution to the optional retirement plan (defined contribution) for school division superintendents administered by VRS. In FY2011, the required employee contribution will be 1% of creditable compensation, and in FY2012 the contribution increases to 2%.

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