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# **HB 1189 – Delegate Putney**

# HB 1189 (Putney)

- HB 1189 proposes to make eight changes in the retirement programs for state and local employees ***hired on or after July 1, 2010*** with no prior service:
  1. Lower the retirement benefit multiplier from 1.70% to 1.65%,
  2. Lower Average Final Compensation (AFC) on which retirement benefits are based by using the average of the highest consecutive five years rather than the highest consecutive three years,
  3. Increase the early, unreduced retirement age from the current 50 years of age with 30 years of service to the “Rule of 90”,
  4. Lower the typical annual cost of living adjustments,
  5. Require new employees to pay the 5.0% **employee** contribution,
  6. Lower the years of service multiplier for new judges from 2.5 to 2.0,
  7. Purchase of service at the “normal” or full actuarial cost, and
  8. Lower the contribution for state and local optional retirement plans (ORP) from 10.4% to 8.0%.

# HB 1189: Actuarial Savings

- The projected actuarial savings for the general fund from HB 1189 are approximately \$70 million for the 2010-12 biennium.

	<u>FY 2011</u>	<u>FY 2012</u>	<u>Total</u>
<b>State Employees</b>			
General Fund	(\$5.8)	(\$16.0)	(\$21.8)
NGF Transfers to GF	<u>(\$4.2)</u>	<u>(\$11.5)</u>	<u>(\$15.7)</u>
<b>Total State Employees (GF)</b>	<b>(\$10.0)</b>	<b>(\$27.5)</b>	<b>(\$37.5)</b>
<b>Teachers</b>			
<b>General Fund (Direct Aid)</b>	<b>(\$11.2)</b>	<b>(\$21.7)</b>	<b>(\$32.9)</b>
Local Funds	<u>(\$22.4)</u>	<u>(\$43.2)</u>	<u>(\$65.6)</u>
Total: Teachers	(\$33.6)	(\$64.9)	(\$98.5)
<b>Total: HB 1189 (GF)</b>	<b>(\$21.2)</b>	<b>(\$49.2)</b>	<b>(\$70.4)</b>

# Retirement Multiplier

- HB 1189 proposes to lower the retirement multiplier for most state employees, teachers, and employees of political subdivisions hired on or after July 1, 2010.
  - Virginia Retirement System (VRS): move from the current 1.70% of Average Final Compensation (AFC) to 1.65% of AFC.
  - Current employees will not be affected by these changes.
- State Police Officers Retirement System (SPORS), Virginia Law Officers Retirement System (VALORS), Judicial Retirement System, and Law Enforcement Retirement (Local Public Safety): No Change.

<u>Provision</u>	<u>Current</u>	<u>HB 1189</u>
<b>Benefit Formula</b>	AFC x YRS Service x .0170	AFC x YRS Service x .0165

# Average Final Compensation (AFC)

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- HB 1189 proposes to lower the Average Final Compensation (AFC) for state employees, teachers, and employees of political subdivisions hired on or after July 1, 2010.
  - Virginia Retirement System (VRS): move from the current average of the highest 36 months to the average of the highest 60 months.
  - Current employees will not be affected by these changes.
- This change **does** affect the State Police Officers Retirement System (SPORS), Virginia Law Officers Retirement System (VALORS), Judicial Retirement System, and Law Enforcement Retirement (LEORS) for local public safety employees.

**Provision**  
**AFC Calculation**

**Current**  
3 Highest years

**HB 1189**  
5 Highest years

# Early Retirement Age

- HB 1189 proposes to increase the early retirement requirements for most state employees, teachers, and employees of political subdivisions hired on or after July 1, 2010.
  - Virginia Retirement System (VRS): move from the current age 50 with 30 years of service to the “Rule of 90” (Age + Service = 90).
  - Current employees will not be affected by these changes.
- Eliminates the 50/10 early retirement option.
- State Police Officers Retirement System (SPORS), Virginia Law Officers Retirement System (VALORS), and Judicial Retirement System: No Change.

<u>Provision</u>	<u>Current</u>	<u>HB 1189</u>
<b>Early Retirement</b>	50 years Old/30 Years service	Age + Service = 90
<b>Normal Retirement</b>	65 years Old/5 Years service	65 years Old/5 Years service

# VRS Cost of Living Increase

- Alters the annual cost of living adjustments (COLAs) provided under the Virginia Retirement System (VRS), the Judicial Retirement System (JRS), the State Police Officers Retirement System (SPORS), and Virginia Law Officers Retirement System (VALORS).
- Applies to state and local employees hired on or after July 1, 2010.

	Examples of CPI Increase		
	10.0%	5.0%	3.0%
<b>Current COLA (Max 5.0%):</b>			
Fully recognize the first 3%	3.0%	3.0%	3.0%
1/2 of the next 4%	<u>2.0%</u>	<u>1.0%</u>	<u>0.0%</u>
<b>Total COLA</b>	<b>5.0%</b>	<b>4.0%</b>	<b>3.0%</b>
<b>Proposed COLA ( Max 10.0%):</b>			
Fully recognize the first 2%	2.0%	2.0%	2.0%
1/2 of the next 8%	<u>4.0%</u>	<u>1.5%</u>	<u>0.5%</u>
<b>Total COLA</b>	<b>6.0%</b>	<b>3.5%</b>	<b>2.5%</b>

# Employee VRS Contribution

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- Reinstates employee payment of the 5% employee contribution for state employees, teachers, and employees of political subdivisions hired **on or after July 1, 2010** (currently paid by employer).
- This change **does** affect the State Police Officers Retirement System (SPORS), Virginia Law Officers Retirement System (VALORS), Judicial Retirement System, and Law Enforcement Retirement (LEORS) for local public safety employees.
- The employee contribution for VRS retirement is set at 5% by §51.1-144 of the Code of Virginia.
  - The Commonwealth assumed payment of this 5% contribution in lieu of a salary increase in 1983.
  - Most local employers have also assumed payment of the 5% employee contribution.

# Optional Retirement Plan Contribution

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- HB 1189 proposes to change the employer contribution rate for Optional Retirement Plans to 8.0% from 10.4%.
- The Code of Virginia provides for three optional retirement plans:
  - Faculty,
  - State appointed officials, and
  - School superintendents.
- These are defined contribution plans.
- The employer contribution rates are set out at 10.4% in §§51.1-126, 51.1-126.5, 51.1-126.6, of the Code of Virginia.

# Optional Retirement Plan Contribution

- Higher education peer institutions have an average employer contribution of 8.9%.
- Higher education peer institutions have an average mandatory employee contribution of 5.2%.

## Comparison of the ORP Contribution Rates

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
<b>Current</b>	10.4%	0.0%	10.4%
<b>Peer Group Average</b>	8.9%	5.2%	14.1%
<b>SB 30 (Introduced)</b>			
<b>FY 2011</b>	9.4%	1.0%	10.4%
<b>FY 2012</b>	8.4%	2.0%	10.4%
<b>HB 1189</b>	8.0%	0.0%	8.0%

# Weighted Judicial Service

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- HB 1189 proposes to change the weight assigned to each year of service as a judge from 2.5 x years of service to 2.0 x years of service.
- The Code of Virginia currently provides two weights for judicial service:
  - Judges' in service on December 31, 1994:  
3.5 x years of service,
  - Judges' beginning service on or after January 1, 1994:  
2.5 x years of service,

# Purchase of Service

- HB 1189 proposes to change the purchase of service provisions so that service purchased:
  - Within the first year of eligibility = “normal” cost.
  - After the first year of eligibility = full actuarial cost.
- The Code of Virginia currently provides three costs for purchase of service:

	Type of Service	Within 3 years of Eligibility	After 3 years of Eligibility
1	Prior VRS service, military service, and other public employer	5.0%	Actuarial Cost
2	Active duty military service from a VRS position	No Cost within 1st year	See #1
3	Sick Leave	Actuarial Cost	Actuarial Cost

# Comparison of Proposed Retirement Rates

Proposal	State Employees			Teachers		
	Paid by Employer	Paid by Employee	Total	Paid by Employer	Paid by Employee*	Total*
<b>Budgeted FY 2010</b>	11.26%	0.00%	11.26%	8.81%	5.00%	13.81%
<b>2010-12 Biennium:</b>						
<b>VRS Board</b>	13.46%	0.00%	13.46%	12.91%	5.00%	17.91%
<b>HB 1189</b>						
<b>Current Employees</b>						
<b>FY 2011</b>	11.31%	0.00%*	11.31%*	15.02%	0.00%*	15.02%*
<b>FY 2012</b>	10.81%	0.00%*	11.81%*	14.60%	0.00%*	14.60%*
<b>New Employees</b>						
<b>FY 2011</b>	6.31%	5.00%*	11.31%*	10.02%	5.00%*	15.02%*
<b>FY 2012</b>	5.81%	5.00%*	10.81%*	9.60%	5.00%*	14.60%*

**\* Note:** The Commonwealth and most localities have assumed payment of the employee contribution on behalf of their employees. This changes for new employees only under HB 1189 when employees assume the full employee share.

# Comparison to Study Recommendations

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- HB 1189 makes substantial changes in the retirement program for state and local employees.
- The 2008 JLARC Study:
  - Found VRS retirement income replacement is comparable to other major public employers;
    - The level of employee contribution is low.
  - Recommended the change in the COLA;
  - Changes to the early retirement age, and employee contributions were recommended in a different form; and
  - Changes in the AFC, retirement multiplier, and ORP contribution were not recommended.
- The Senate Finance Committee should consider several adjustments and technical amendments to HB 1189.

# Summary of VRS Benefit Provisions

<u>Provision</u>	<u>Current</u>	<u>HB 1189</u>
<b>Benefit Formula</b>	AFC x YRS Service x .0170	AFC x YRS Service x .0165
<b>AFC Calculation</b>	3 Highest years	5 Highest years
<b>Early Retirement</b>	50 years old/30 Years service	Age + Service = 90
<b>Normal Retirement</b>	65 years old/5 Years service	65 years old/5 Years service
<b>COLA</b>	First 3% of CPI + <u>Next 4% of CPI x 0.5</u> Cap of 5%	First 2% of CPI + <u>Next 8% of CPI x 0.5</u> Cap of 6%
<b>JRS Years of Service</b>	Years of Service x 2.5 Max Age 70	Years of Service x 2.0 Max Age 70
<b>Employee Contribution:</b>		
<b>Current Employees</b>	0.0%	0.0%
<b>New Employees</b>	0.0%	5.0%
<b>Optional Retirement Plans</b>	10.4% Employer Rate 0.0% Employee Rate	8.0% Employer Rate 0.0% Employee Rate

# Summary of VRS Benefit Provisions

<u>Provision</u>	<u>Senate Amended HB 1189</u>	<u>HB 1189</u>
<b>Benefit Formula</b>	AFC x YRS Service x .0170	AFC x YRS Service x .0165
<b>AFC Calculation</b>	5 Highest years	5 Highest years
<b>Early Retirement</b>	60 years old/30 Years service SB 232 (Watkins)	Age + Service = 90
<b>Normal Retirement</b>	Conform to Social Security SB 232 (Watkins)	65 years old/5 Years service
<b>COLA</b>	First 2% of CPI <u>+ Next 8% of CPI x 0.5</u> Cap of 6%	First 2% of CPI <u>+ Next 8% of CPI x 0.5</u> Cap of 6%
<b>JRS Years of Service</b>	Years of Service x 2.0 Max Age 73 SB 206 (Edwards)	Years of Service x 2.0 Max Age 70
<b>Employee Contribution:</b>		
<b>Current Employees</b>	0.0%	0.0%
<b>New Employees</b>	5.0%	5.0%
<b>Optional Retirement Plans</b>	8.9% Employer Rate 5.0% Employee Rate	8.0% Employer Rate 0.0% Employee Rate