



SENATE OF VIRGINIA

Senate Finance Committee

Mister Chairman and Members of the Committee:

Your special subcommittee on HB 1189 is in agreement with the general principles embodied in that bill. We recommend that the committee adopt a substitute that will:

- Conform its provisions to those of two bills that have already passed the Senate (SB 206: Senator Edwards' bill on the maximum retirement age of judges; and SB 232: Senator Watkins' bill on the early and normal retirement ages under the VRS.),
- Fine-tune the legislation to reflect the findings of previous study reports, and
- Make several technical corrections.

The substitute we recommend makes ten changes in the retirement programs for state and local employees. All but one of these, which is noted below, apply only to employees *hired on or after July 1, 2010* with no prior service:

1. Lower Average Final Compensation (AFC) on which retirement benefits would be based by using the average of the highest consecutive five years rather than the highest consecutive three years.
2. Increase the early, unreduced retirement age from the current 50 years of age with 30 years of service to 60 years of age with 30 years, as provided for in SB 232 (Watkins).
3. Gradually increase the age for full, unreduced retirement benefits from age 65 with five years of service to age 67 with five years of service, consistent with the federal Social Security

program, as provided for in SB 232 (Watkins). These ages are set out below:

Year of Birth	Full (normal) Retirement Age
<u>1937 or earlier</u>	Age 65
<u>1938</u>	65 and 2 months
<u>1939</u>	65 and 4 months
<u>1940</u>	65 and 6 months
<u>1941</u>	65 and 8 months
<u>1942</u>	65 and 10 months
<u>1943-1954</u>	Age 66
<u>1955</u>	66 and 2 months
<u>1956</u>	66 and 4 months
<u>1957</u>	66 and 6 months
<u>1958</u>	66 and 8 months
<u>1959</u>	66 and 10 months
<u>1960 and later</u>	Age 67

4. Lower the typical annual cost of living adjustments.
5. Require new **state** employees to pay the five percent employee contribution. Local governments and school divisions would be able to decide this issue independently.
6. Increase the mandatory retirement age for judges from 70 years of age to 73 years of age, as provided for in SB 206 (Edwards)
Note: This provision applies to current employees.
7. Lower the years of service multiplier for new judges from 2.5 to 2.0.
8. Purchase of service at the “normal” or full actuarial cost.
9. Lower the contribution for state and local optional retirement plans (ORP) from 10.4 percent to 8.9 percent; and
10. Institute a mandatory five percent member contribution to these optional plans.

The attached chart compares the provisions of the subcommittee's recommended substitute to the provisions of HB 1189, as it came to the Senate.

As was the case with HB 1189, the substitute will result in general fund savings of approximately \$70.4 million for the 2010-12 biennium.

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

Mr. Chairman, these are the recommendations of your special subcommittee. We hope it will be the committee's desire to adopt them.

Comparison of Major Benefit Provisions*

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

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

* Note: Shaded areas highlight differences.