

Virginia Retirement System

2022 Fiscal Impact Statement

1. Bill Number: SB 752

House of Origin Introduced Substitute Engrossed

Second House In Committee Substitute Enrolled

2. Patron: Stuart

3. Committee: Finance and Appropriations

4. Title: Virginia Law Officers' Retirement System; eligibility.

5. Summary: Adds sworn members of the enforcement division of the Department of Motor Vehicles (DMV) and conservation officers of the Department of Conservation and Recreation (DCR) to the membership of the Virginia Law Officers' Retirement System (VaLORS).

6. Summary of Impacts

Benefit(s) impacted: Moves certain DMV and DCR employees from the State Plan into VaLORS beginning July 1, 2022.

Impact to unfunded liability (see Item 9 for details): Increases VaLORS by \$15,029,000; decreases State by \$4,828,000.

Impact to contribution rate(s) (see Item 9 for details): Increases contribution requirements for certain employees in FY 2023 and FY 2024: DMV will need approximately \$500,500 for FY 2023 and \$525,500 for FY 2024; DCR will need approximately \$559,000 for FY 2023 and \$586,900 for FY 2024. There would be no impact to the State plan contribution rate for FY 2023 and 2024 due to maintaining the prior year rate of 14.46% (as provided in the introduced budget), however, future rates would be expected to increase by approximately 0.01% of covered payroll. The employer rate for all VaLORS employers would be reduced from 24.60% to 24.57%. The reduction in the rate is mainly due to spreading the unfunded liability over a larger payroll as the normal cost increased with the addition of the two employer groups.

Specific Agency or Political Subdivisions Affected (see Item 10): VRS, DMV, DCR, and all employers with employees participating in VaLORS.

VRS cost to implement (see Item 7 and Item 8 for details): Approximately \$113,000 in FY 2022.

Employer cost to implement (see Item 7 and Item 8 for details): DCR will need approximately \$1,145,900 to add additional employees covered by VaLORS in FY 2023 and FY 2024; DMV will need approximately \$1,026,000 to add additional employees covered by

VaLORS in FY 2023 and FY 2024. DMV and DCR costs to implement this change are indeterminate other than the increased contribution rates required.

Other VRS and employer impacts (see Item 7, Item 8, Item 9, Item 11, and Item 12 for details): The addition of DCR conservation officers and DMV enforcement division members to VaLORS will change future contribution rates for all VaLORS employers. DOA and DHRM will be involved in creating new job titles for VaLORS.

GF budget impacts (see Item 7 for details): Approximately \$1,543,000 increase in FY 2023 and \$1,620,000 increase in FY 2024 for contribution rates.

NGF budget impacts (see Item 7 for details): Approximately \$599,000 decrease in FY 2023 and \$629,000 decrease in FY 2024 for contribution rates. Approximately \$113,000 NGF in FY 2022 for VRS implementation.

7. **Budget Amendment Necessary:** Yes. Items 494, of HB 29, and Items 376 and 442 of HB 30.

Item 494. VRS implementation costs are estimated to be approximately \$113,000 in FY 2022. This does not include the impact to current or future contribution rates or to the funded status of the plans, which are discussed below and in section 8. The estimated costs take into account system changes that would need to be made upon the effective date of this legislation to accurately reflect benefits for a new population of VaLORS members. Additionally, the cost of reprinting VRS handbooks and other benefit materials will be allocated across any bills that require materials to be reprinted out of cycle.

Item 376. The DCR will require a budget amendment of \$1,145,900. The budget amendment would include \$559,000 for FY 2023 and \$586,900 for FY 2024 to cover the additional employer cost associated with the higher contribution rate for VaLORS compared to the contribution rate in the State Plan in which the DCR conservation officers currently participate. Based on the proposed budget for the upcoming biennium, the VaLORS contribution rate that DCR will have to contribute for these officers is 10.11% of payroll greater than the State Plan contribution rate that they are already paying, as reflected in Exhibit 1.

Item 442. The DMV will require a budget amendment of \$1,026,000. The budget amendment would include \$500,500 for FY 2023 and \$525,500 for FY 2024 to cover the additional employer cost associated with the higher contribution rate for VaLORS compared to the contribution rate in the State Plan in which the DMV enforcement agents currently participate. Based on the proposed budget for the upcoming biennium, the VaLORS contribution rate that DMV will have to contribute for these agents is 10.11% of payroll greater than the State Plan contribution rate that they are already paying, as reflected in Exhibit 1.

Exhibit 1
Conservation Officers - Department of Conservation and Recreation

Plan	Number of Conservation Officers as of 6/30/2021	Expected Payroll FY 2023	Expected Payroll FY 2024	Retirement Contribution Rates	Expected Employer Contributions
				FY 2023/FY 2024	FY 2023/FY 2024
As Member of State Plan	99	\$5,529,300	\$5,805,800	14.46%	\$1,639,100
As Member of VaLORS Plan	99	\$5,529,300	\$5,805,800	24.57%	\$2,785,000
Additional Funds Needed					\$1,145,900

Sworn Members of the Department of Motor Vehicles

Plan	Number of DMV Officers as of 6/30/2021	Expected Payroll FY 2023	Expected Payroll FY 2024	Retirement Contribution Rates	Expected Employer Contributions
				FY 2023/FY 2024	FY 2023/FY 2024
As Member of State Plan	73	\$4,950,750	\$5,198,300	14.46%	\$1,467,600
As Member of VaLORS Plan	73	\$4,950,750	\$5,198,300	24.57%	\$2,493,600
Additional Funds Needed					\$1,026,000

- 8. Fiscal Impact Estimates:** Estimates shown below reflect overall impacts to the State and VaLORS plans. Individual employer impacts for DMV and DCR are reflected in Item 7.

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>General Fund</i>	<i>Non-General Fund & Local Funds</i>
2022	\$113,000			\$113,000
2023	\$944,000		\$1,543,000	(\$599,000)
2024	\$991,000		\$1,620,000	(\$629,000)
2025	\$1,804,000		\$1,974,000	(\$170,000)
2026	\$1,804,000		\$1,974,000	(\$170,000)
2027	\$1,804,000		\$1,974,000	(\$170,000)
2028	\$1,804,000		\$1,974,000	(\$170,000)

Please see the discussion in Fiscal Implications for details on the amounts shown in the chart.

- 9. Fiscal Implications:** Overall, the addition of DCR conservation officers and DMV enforcement agents to VaLORS is expected to increase the VaLORS normal cost rate by 0.04% of covered payroll as well as increase the unfunded liability by \$15,029,000. However, due to the increase in the covered payroll associated with the DCR conservation officers and sworn members of the DMV enforcement division, the unfunded liability amortization rate will decrease by 0.07%, thus providing a net decrease in the employer rate of 0.03%. On average, the DCR conservation officers and sworn members of the DMV enforcement division are four years older, have approximately five years more service, and

receive an average salary that is approximately \$14,000 greater than current VaLORS members. The addition of these two groups with the given demographics causes an overall increase in the VaLORS normal cost rate.

In developing the cost impacts of this bill, it was assumed that the liabilities associated with service in the State plan would be transferred to the VaLORS plan for these members. In addition, a transfer of assets of \$16,284,000 was also assumed to move from the State fund to the VaLORS fund due to the transfer of liabilities. Because of the transfer of both assets and liabilities, there is not an impact to the funded status of the State plan. As of June 30, 2021, the VaLORS actuarial funded status was 69.3%. Because the bill immediately allows DCR conservation officers and DMV enforcement agents who have at least five years of hazardous duty service to retire with VaLORS benefits if they are otherwise eligible, the VaLORS unfunded liability will increase by \$15,029,000 and the funded status will decrease to 69.1%.

The DCR conservation officers and sworn officers of the DMV enforcement division leaving the State plan would increase the current employer contribution rate for the State plan by 0.01%, however it would lower the unfunded liability of the State plan by \$4,828,000. Note that due to the funding for the State plan remaining at the prior year level of 14.46% (as provided in the introduced budget), the change in funding for the State plan for FY 2023 and FY 2024 would be a net decrease of approximately \$1.4 million. The net change in annual funding related to the changes in both plans would be an estimated increase of \$944,000 for FY 2023 and \$991,000 for FY 2024. This is expected to increase to \$1,804,000 by FY 2025. Note that the savings for the State Plan are greater for FY 2023 and 2024 due to maintaining the prior year rate of 14.46% (as provided in the introduced budget). Future savings are expected to be much lower, which is reflected in the increased costs beyond FY 2024.

Currently, DCR conservation officers are 100% funded by general funds and sworn officers of the DMV enforcement division are 100% funded by non-general funds, and this was assumed to continue to be the case for purposes of estimating cost changes under the bill. The VaLORS plan is currently 90.63% funded by general funds and 9.37% by non-general funds. If this bill were enacted, 89.58% of the VaLORS plan would become funded by general funds and 10.42% would become funded by non-general funds. Exhibit 2 below shows the expected impacts on the State and VaLORS plans.

Exhibit 2

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
State - General Fund	\$ (660,000)	\$ (693,000)	\$ (339,000)	\$ (339,000)	\$ (339,000)	\$ (339,000)
SPORS - General Fund	-	-	-	-	-	-
VaLORS - General Fund	2,203,000	2,313,000	2,313,000	2,313,000	2,313,000	2,313,000
JRS - General Fund	-	-	-	-	-	-
TOTAL General Fund	<u>\$ 1,543,000</u>	<u>\$ 1,620,000</u>	<u>\$ 1,974,000</u>	<u>\$ 1,974,000</u>	<u>\$ 1,974,000</u>	<u>\$ 1,974,000</u>
State - Non-General Funds	\$ (855,000)	\$ (898,000)	\$ (439,000)	\$ (439,000)	\$ (439,000)	\$ (439,000)
SPORS - Non-General Funds	-	-	-	-	-	-
VaLORS - Non-General Funds	256,000	269,000	269,000	269,000	269,000	269,000
TOTAL - Non-General Funds	<u>\$ (599,000)</u>	<u>\$ (629,000)</u>	<u>\$ (170,000)</u>	<u>\$ (170,000)</u>	<u>\$ (170,000)</u>	<u>\$ (170,000)</u>
Political Subs - In Aggregate	-	-	-	-	-	-
TOTAL Local Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Grand Totals	<u>\$ 944,000</u>	<u>\$ 991,000</u>	<u>\$ 1,804,000</u>	<u>\$ 1,804,000</u>	<u>\$ 1,804,000</u>	<u>\$ 1,804,000</u>

Estimated projections based on employee data and valuation results as of June 30, 2021 and assume a level population throughout projection period. Payrolls include proposed pay increases included in Governor's proposed budget for FY 2023 and 2024. Payrolls are assumed to remain level beyond 2024 through remainder of projection period.

10. Specific Agency or Political Subdivisions Affected: VRS, DCR, DMV, and all employers with employees participating in VaLORS.

11. Technical Amendment Necessary: Yes. VRS is requesting that the effective date of this legislation be delayed until July 1, 2023, to allow for necessary systems adaptations and validation testing as well as communications and outreach to affected employees and employers. As a large number of VRS-related pieces of legislation are being proposed this year, additional time is needed in order to provide for the effective implementation of concurrent legislative initiatives.

12. Other Comments: The bill proposes to add DCR conservation officers commissioned pursuant to § 10.1-115 and sworn members of the enforcement division of DMV to VaLORS as of the effective date of the bill. To be commissioned as a DCR conservation officer under § 10.1-115, an individual must be at least 21 years of age and have graduated from high school or obtained an equivalent diploma. The individuals must be recommended by the DCR Director and approved by the Governor prior to being commissioned by the Secretary of the Commonwealth. Sworn members of the enforcement division of DMV are vested with the powers of sheriffs for the purpose of enforcing the laws of the Commonwealth which the DMV Commissioner is required to enforce, and they are authorized to enforce the criminal laws of the Commonwealth.

If enacted, the legislation would allow service credit earned prior to the effective date to count towards eligibility for VaLORS retirement benefits. Members would not be eligible to

retire with VaLORS benefits, however, unless they have five or more years of creditable service as a member of VaLORS, SPORS, or as an employee in a hazardous duty position at a political subdivision that offers enhanced hazardous duty benefits.

Because DCR conservation officers and DMV enforcement division sworn members do not currently participate in VaLORS, some of them participate in the Hybrid Retirement Plan. As of June 30, 2021, 59 of the 172 members impacted by this bill were in the Hybrid Retirement Plan, which is approximately 35% of the population. If this bill passes, these members will be placed in VaLORS, will no longer participate in the Hybrid Retirement Plan, and will have the 2% multiplier applied to all prior service with Department of Conservation or DMV. This means that these 59 members will receive both the 2% multiplier on all service but will also be allowed to keep the defined contribution balance accumulated in the hybrid plan prior to the change. This will provide these 59 members with a benefit that is essentially higher than other Plan 1 or Plan 2 VaLORS members.

In 1999, the General Assembly and Governor established VaLORS to provide benefits generally equivalent to those received by state police officers and other law enforcement positions. There have been numerous bills introduced, but not enacted, since then to add certain groups to the VaLORS membership.

VaLORS provides a multiplier of 2.00% on service accrued under the plan. The hazardous duty supplement is only available to VaLORS members who were in service prior to July 1, 2001 and who did not make an election to receive the higher multiplier in lieu of the hazardous duty supplement. Employees who become members of VaLORS on or after July 1, 2001 or who have a break in service from VaLORS and who return, are eligible for the 2.00% multiplier but not the supplement. VaLORS members are eligible for unreduced retirement at age 60 with at least five years of service credit, or at age 50 with at least 25 years of service credit. With the exception of certain members who were in service on June 30, 2002, and July 1, 2002, and who had five years of non-hazardous duty service at the time, all current VaLORS members must have at least five years of hazardous duty service (State Police, VaLORS, or enhanced hazardous duty service in a political subdivision) to retire under VaLORS provisions. If this legislation is enacted, any member who has at least five years of service in a hazardous duty position, including service as a DCR conservation officer or sworn member of the DMV enforcement division, will be eligible (at the time of their retirement) to receive a retirement benefit under VaLORS.

In its 2008 *Review of State Employee Total Compensation* report, <http://jlarc.virginia.gov/pdfs/reports/Rpt378.pdf>, the Joint Legislative Audit and Review Commission (JLARC) developed an assessment of several occupational groups, including DCR internal investigators. JLARC rated these groups based on level of risk and responsibility (see Appendix D, pages 156-58). In addition, JLARC proposed guidelines that could be used in conjunction with its risk and responsibility assessment to determine whether an occupation should receive enhanced benefits.

Date: 1/28/2022

Document: SB752.DOC/VRS