

# Virginia Retirement System

## 2022 Fiscal Impact Statement

**1. Bill Number:** SB 382

**House of Origin** ☒ Introduced ☐ Substitute ☐ Engrossed  
**Second House** ☐ In Committee ☐ Substitute ☐ Enrolled

**2. Patron:** McDougale

**3. Committee:** Finance and Appropriations

**4. Title:** Virginia Retirement System; increased retirement allowance for certain judges.

**5. Summary:** Increases, for the purposes of determining benefits provided under the Judicial Retirement System, the retirement multiplier from 1 percent to 1.7 percent. The increase would apply only to judges appointed on or after July 1, 2022, who are participants in the hybrid retirement program, and who are at least age 55 at the time of appointment.

**6. Summary of Impacts**

**Benefit(s) impacted:** For judicial retirement benefit calculations, the bill provides a 1.7% multiplier for Hybrid Retirement Plan (Hybrid) judges appointed to an original term on or after July 1, 2022 who are age 55 or older at the time of appointment, compared to:

- a 1% multiplier for all judges in the Hybrid plan appointed prior to July 1, 2022;
- a 1% multiplier for judges in the Hybrid plan appointed on or after July 1, 2022 if they are not at least age 55 at the time of appointment;
- a 1.65% multiplier for Plan 2 judges; and
- a 1.7% multiplier for Plan 1 judges.

See also Item 9 – Fiscal Implications, JRS Service Weighting chart.

The changes proposed in the bill would exceed benefit levels of current Plan 1 and Plan 2 JRS members.

**Impact to unfunded liability (see Item 9 for details):** Dependent on the number of judges age 55 or older who are appointed on or after July 1, 2022.

**Impact to contribution rate(s) (see Item 9 for details):** Impacts to contribution rates are dependent on the number of judges age 55 or older who are appointed on or after July 1, 2022. Contribution rates would not be changed until the FY 2025-2026 biennium, at which time the impact of the number of judges hired under the bill would be incorporated into the actuarial valuation.

**Specific Agency or Political Subdivisions Affected (see Item 10):** VRS and the Judicial Branch

**VRS cost to implement (see Item 7 and Item 8 for details):** Approximately \$68,000 for FY 2022.

**Employer cost to implement (see Item 7 and Item 8 for details):** The Judicial Branch may have costs to implement the bill. Costs are not available at this time.

**Other VRS and employer impacts (see Item 7, Item 9, Item 11, and Item 12 for details):** Provides a higher multiplier for Hybrid Plan judges age 55 or older appointed after July 1, 2022, compared to other Hybrid Plan judges appointed after July 1, 2022, any Hybrid Plan judges appointed prior to July 1, 2022, and Plan 2 judges. Plan 1 judges receive the 1.7% multiplier, but do not participate in the defined contribution component of the Hybrid Plan.

**GF budget impacts (see Item 8 and Item 9 for details):** Impacts to contribution rates are estimated at \$664,000 for FY 2023-2026 and \$1,579,000 for FY 2027-2028. See Item 9, Exhibit 6 for details and assumptions. The Judicial Branch may have costs to implement the bill. Costs are not available at this time.

**NGF budget impacts (see Item 8 for details):** \$68,000 NGF in FY 2022 for VRS implementation. The Judicial Branch may have costs to implement the bill. Costs are not available at this time.

**7. Budget Amendment Necessary:** Yes.

Item 494. VRS implementation costs are estimated at approximately \$68,000 in non-general funds in FY 2022 for programming necessary to make the changes contemplated by the legislation as well as updating handbooks and training materials.

**8. Fiscal Impact Estimates:** The chart below shows VRS implementation and contribution rate impacts only. The Judicial Branch may have costs to implement the bill. Costs are not available at this time.

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>General Fund</b></i>	<i><b>Non-General Fund &amp; Local Funds</b></i>
2022	\$ 68,000			\$ 68,000
2023	---		---	---
2024	---		---	---
2025	\$ 664,000		\$ 664,000	
2026	\$ 664,000		\$ 664,000	
2027	\$ 1,579,000		\$ 1,579,000	
2028	\$ 1,579,000		\$ 1,579,000	

A more detailed breakdown of estimated VRS costs and the assumptions used is shown in Item 9 below.

**9. Fiscal Implications:** The proposed legislation provides an increase in the Hybrid Retirement Program retirement multiplier to 1.7% for judicial service performed by judges who are appointed to an original term on or after July 1, 2022, and who are at least age 55 at the time of the appointment. In addition to the higher multiplier, these judges will continue to receive

the mandatory 1% employer contribution to the defined contribution component of the Hybrid Retirement Program and an employer match on voluntary contributions. Therefore, under the bill, judges who are at least age 55 when appointed to an original term on or after July 1, 2022, would receive a benefit greater than judges in Plan 1 or Plan2.

Only judges appointed to an original term on or after July 1, 2022, and who are at least age 55 at the time of appointment would be affected by the bill. Therefore, no one in the current Judicial Retirement System (JRS) would be affected. Judges first appointed on or after July 1, 2022 who are age 54 or younger would receive the 1% multiplier.

The following exhibit shows the demographics of the current JRS population by appointment date and age at appointment. While 25% of the current judges in the JRS plan were first appointed at age 55 or older, nearly 36% of all new appointments since pension reforms were enacted in 2010 have fallen into the age 55 and over category:

### **Exhibit 1**

#### **Active JRS Members by Appointment Date**

Appointment Date	Age at Date of Appointment			Total
	Less than 45	45 - 54	55 or Older	
Prior to 7/1/2010	79	68	6	153
2011	0	0	0	0
2012	4	2	4	10
2013	8	10	15	33
2014	6	13	9	28
2015	12	16	15	43
2016	11	12	7	30
2017	3	8	12	23
2018	4	3	5	12
2019	9	14	5	28
2020	11	25	22	58
2021	10	12	13	35
Prior to 7/1/2010	79	68	6	153
After 7/1/2010	78	115	107	300
Total Plan	157	183	113	453

This bill would affect only JRS members participating in the Hybrid Retirement Program appointed on or after July 1, 2022 who are age 55 or older at the time of appointment. The exhibit below provides a breakdown of judges by age at original appointment by benefit tier within the JRS plan. As shown in Exhibit 2 below, approximately 26% of judges in the Hybrid Retirement Program were younger than age 45 when first appointed, about 39% were

ages 45-54, and approximately 34% of judges in the Hybrid Retirement Program were first appointed at age 55 or older.

## Exhibit 2

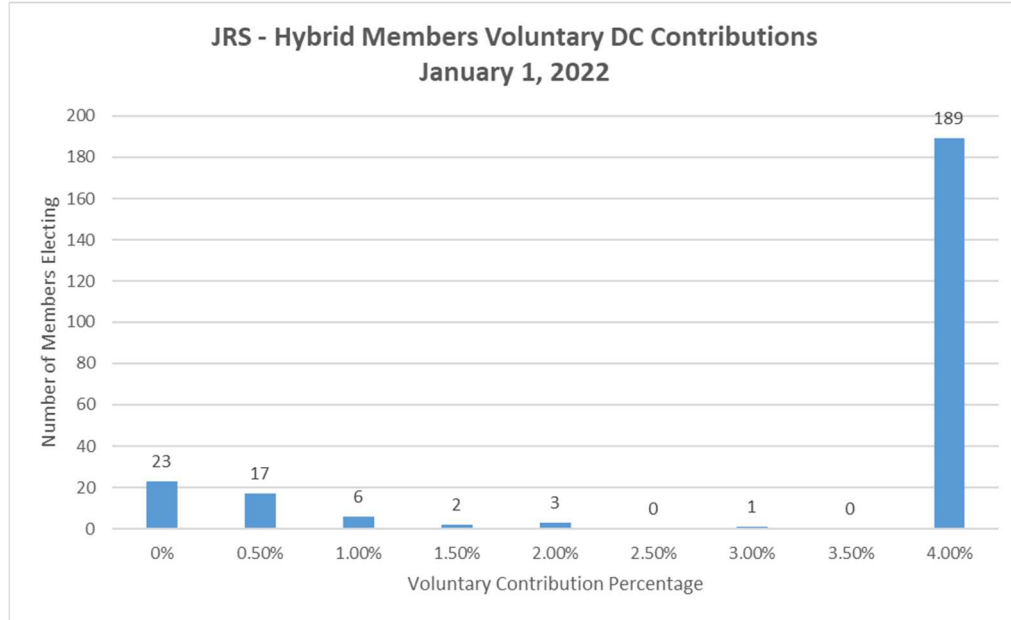
### Active JRS Members by Benefit Tier

Benefit Tier	Age at Date of Original Appointment			Total
	Less than 45	45 - 54	55 or Older	
Plan 1	85	78	12	175
Plan 2	11	14	22	47
Hybrid	61	91	79	231
Total Plan	157	183	113	453

Under current plan provisions, judges appointed to an original term commencing prior to January 1, 2013, are in Plan 1, and receive a 1.7% multiplier on all service. Judges appointed to an original term commencing on or after January 1, 2013, or who were not vested (i.e., five years of service) as of January 1, 2013, are in Plan 2, which has a 1.65% multiplier for JRS service. Judges appointed to an original term on or after January 1, 2014, are in the JRS Hybrid Retirement Program. This program provides a defined benefit component with a retirement multiplier of 1% for JRS service, as well as a defined contribution component with mandatory and matching employer contributions. The bill would increase the multiplier to 1.7% only for judges who are appointed to an original term on or after July 1, 2022, and who are at least age 55 at the time of their original appointment. These judges would retain the defined contribution of the Hybrid plan, described below, as well.

There also is a defined contribution component in the JRS Hybrid Retirement Program whereby the employer contributes a mandatory 1% of the judge's creditable compensation as well as matches a portion of any voluntary contributions a judge may make, up to 2.5%. The judge may make voluntary contributions to the defined contribution component of the program up to 4% of creditable compensation. As of January 1, 2022, over 90% of the judges in the Hybrid plan are making voluntary contributions to the Hybrid plan, with 78% of judges contributing the maximum voluntary amount of 4%. Exhibit 3 below has detail of the voluntary contribution elections. The defined benefit from the first component and the distributions from the defined contribution component comprise the retirement benefit for a judge in the JRS Hybrid Retirement Program. Judges in Plan 2 and the Hybrid Retirement Program also have different cost-of-living adjustment ("COLA") provisions that result in a maximum COLA of 3%, as opposed to the maximum 5% COLA applicable to Plan 1 judges.

### Exhibit 3



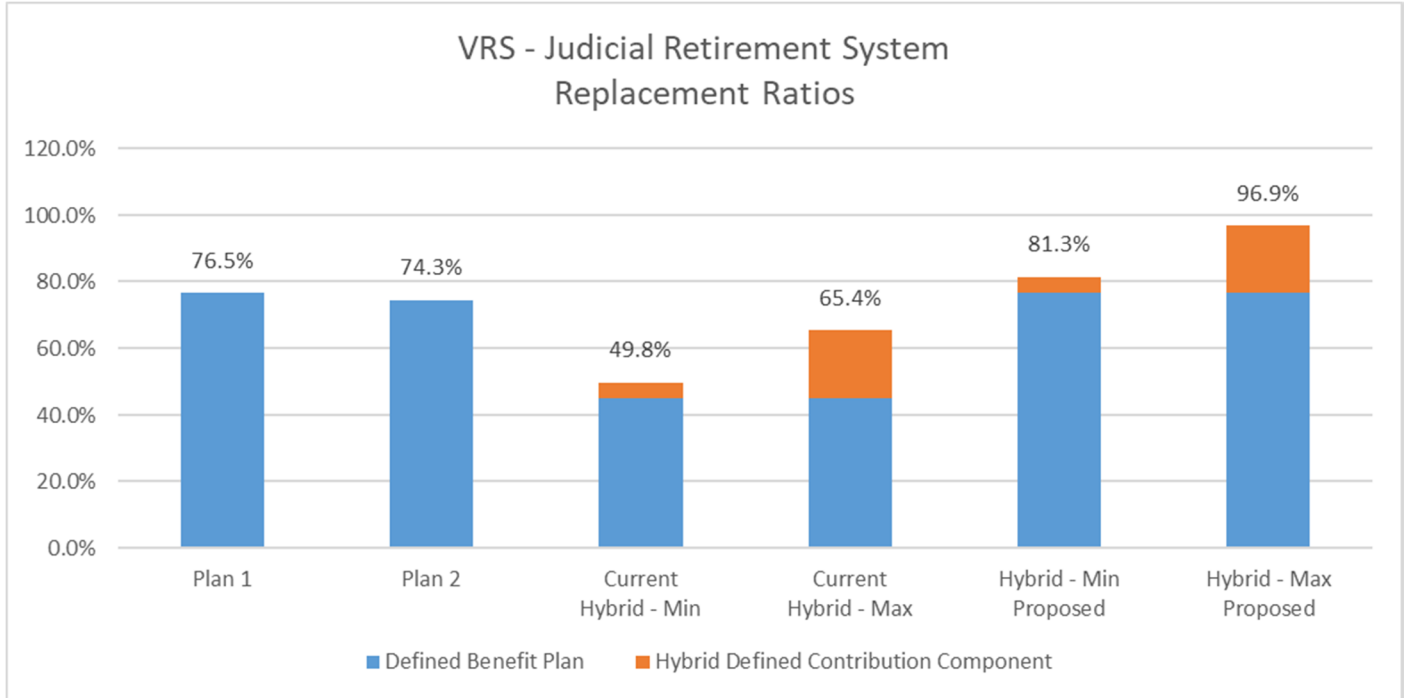
Based on the age at appointment, JRS members also receive a service weighting as part of the benefit. Effective with 2010 pension reforms, the following service weightings are applicable based on age at the time of the judge's original appointment:

JRS Service Weighting		
Under Age 45	Age 45-54	Age 55 & Over
1.50	2.00	2.50

As an example, a judge appointed at age 35 would need to work 20 years to receive 30 years of benefit service credit, whereas a judge appointed at age 45 would only have to work 15 years, and a judge appointed at age 55 would need only 12 years of service to receive 30 years of benefit service credit in the plan.

The exhibit below shows the replacement ratios associated with a judge who is appointed at age 55 under the various benefit tiers of the current JRS plan. The changes proposed in the bill would exceed benefit levels of current Plan 1 and Plan 2 JRS participants.

#### Exhibit 4



Replacement ratios for a judge appointed at age 55 and retiring at age 73 with 18 years of service include the respective weighting factors applied. The actual JRS benefit is capped at 78% of the member's average final compensation. The defined contribution component of the Hybrid plan assumes 5% investment returns prior to retirement and conversion of accumulated balance to an annuity assuming a 4.0% discount rate and 2.5% cost-of-living component.

As of June 30, 2021, the JRS plan had a funded status of 81.9% with \$133 million of unfunded liability. The proposed changes in the bill would have no immediate impact on plan liabilities or costs since it only applies to judges first appointed to an original term on or after July 1, 2022. If we assume that future appointments will continue to include approximately 40% of the members being age 55 or older at the time of appointment, then we would expect the cost of the bill to compound over time as new judges are appointed.

Exhibit 5 provides the estimated employer normal cost rate under the current plan provisions versus the provisions of the bill. Under the current plan provisions, normal cost rates will continue to decline as newly appointed judges are enrolled in the Hybrid Plan, which has a lower cost than the legacy Plan 1 and Plan 2 benefit tiers. Under the bill, the initial impact is expected to be approximately 0.76% of covered payroll, increasing to nearly 9.70% of covered payroll over the next 20 years. Because the cost of benefits for newly appointed judges over the age of 55 is expected to be larger, the blended normal cost rates will not decline as much as under the current structure. The analysis in Exhibit 5 assumes that the same appointment patterns with respect to age at appointment as well as number of appointments will continue in a similar manner going forward.

## Exhibit 5

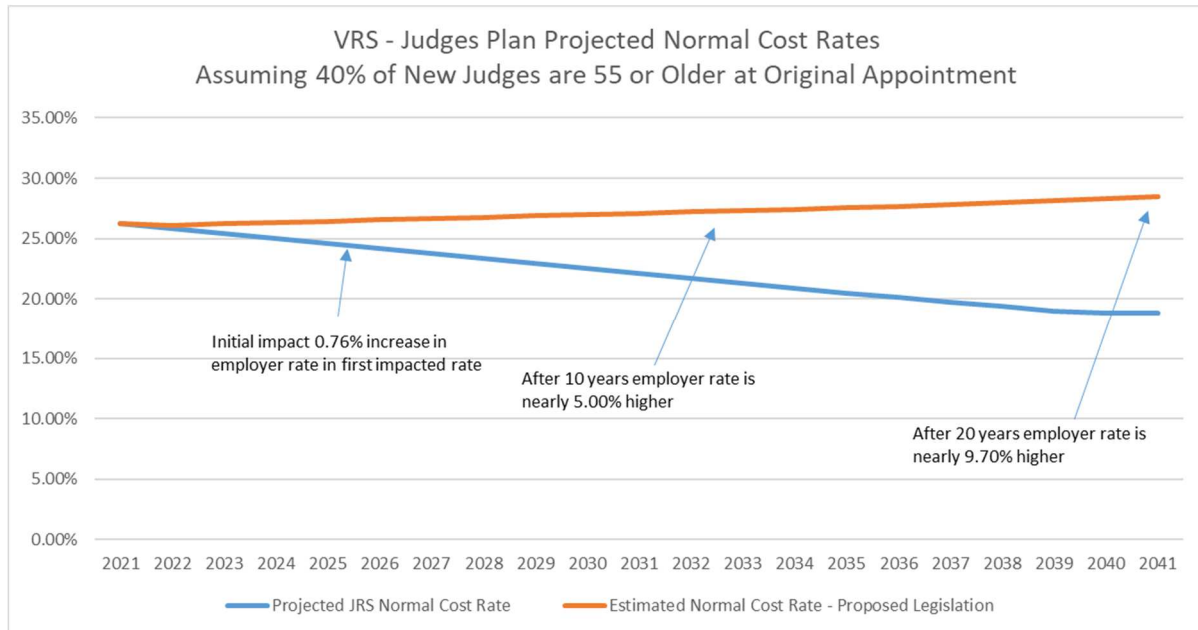


Exhibit 6 below shows the estimated future cost impacts associated with the bill assuming 40% of new judge appointments are age 55 or older. The analysis in Exhibit 6 also assumes that the same appointment patterns continue with respect to ages at appointment as well as the number of appointments each year. If the age of newly appointed judges varies from the assumed level or if appointment patterns change, costs could be higher or lower than those shown below. These costs assume that the current rates in effect for fiscal years 2023 and 2024 will not be adjusted and that the employer rate impacts will occur during the next rate-setting valuation in 2023 to be effective with the fiscal year 2025 rates.

## Exhibit 6

	<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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	-	-	-	-	-
ValORS - General Fund	-	-	-	-	-	-
JRS - General Fund	-	-	664,000	664,000	1,579,000	1,579,000
ORP/UVA - General Funds	-	-	-	-	-	-
<b>TOTAL General Fund</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 664,000</b>	<b>\$ 664,000</b>	<b>\$ 1,579,000</b>	<b>\$ 1,579,000</b>
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
ValORS - Non-General Funds	-	-	-	-	-	-
ORP/UVA - Non-General Funds	-	-	-	-	-	-
<b>TOTAL - Non-General Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Grand Totals</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 664,000</b>	<b>\$ 664,000</b>	<b>\$ 1,579,000</b>	<b>\$ 1,579,000</b>

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 and the Judicial Branch.

**11. Technical Amendment Necessary:** No.

**12. Other Comments:** The bill provides an increase in the retirement multiplier to 1.7% for judicial service performed by judges in the Hybrid Retirement Program whose original appointment is on or after July 1, 2022, and who are at least age 55 at the time of their original appointment. Judges appointed to an original term on and after July 1, 2022 who are not at least age 55 at the time of their appointment will retain the current 1% multiplier.

While judges currently receive the same benefit multiplier as all other employees in the respective benefit tiers (Plan 1, Plan 2, and Hybrid), a weighting factor of between 1.5 and 3.5 is applied to their service based on the date of the judge's original appointment or election and, on and after July 1, 2010, the judge's age at the time of such original appointment or election.

Appointed or Elected	Weighting Factor
Prior to 1/1/1995	3.5
After 1/1/1995 but Prior to 7/1/2010	2.5
On or after 7/1/2010 - Under Age 45 at Appointment	1.5
On or after 7/1/2010 - Age 45 -54 at Appointment	2.0
On or after 7/1/2010 - Age 55 or older at Appointment	2.5

The relevant existing *Code of Virginia* section is provided below.

§ 51.1-303. Creditable service.



- A. For those members in service on December 31, 1994, service as a judge shall be multiplied by a factor of 3.5, the weighted years of service factor, to calculate years of creditable service. To calculate years of creditable service for those members appointed or elected to an original term commencing on or after January 1, 1995, service as a judge shall be multiplied by the weighted years of service factor of 2.5. To calculate years of creditable service for those members appointed or elected to an original term commencing on or after July 1, 2010, the following formula shall be used: if (i) the member was less than 45 years old at the time he was appointed or elected to such original term, then service as a judge shall be multiplied by the weighted years of service factor of 1.5, (ii) the member was at least 45 years old but less than 55 years old at the time he was appointed or elected to such original term, then service as a judge shall be multiplied by the weighted years of service factor of 2.0, and (iii) the member was at least 55 years old at the time he was appointed or elected to such original term, then service as a judge shall be multiplied by the weighted years of service factor of 2.5. For purposes of this section, "original term" means the first term for which the member was appointed or elected to a position covered by the Judicial Retirement System.

**Date:** 1/24/2022

**Document:** SB382.DOC/VRS