

**Virginia Retirement System
2025 General Assembly Session
State Fiscal Impact Statement**

PUBLISHED: 2/18/2025 3:18 PM

ORIGINAL

Bill Number: SB950 H1

Patron: McDougle

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

Bill Summary: Provides that judges appointed or elected to an initial term on or after July 1, 2026 will be placed in Plan 2 and judges who were appointed or elected to an initial term on or after July 1, 2014 but before July 1, 2026 will stop accruing benefits in the Hybrid Retirement Plan and begin accruing benefits in Plan 2 for service earned on or after July 1, 2026.

Budget Amendment Necessary: Yes

Items Impacted: 469, 486

Explanation:

Item 486. VRS implementation costs are estimated at approximately \$310,000 in non-general funds in FY 2026 for programming necessary to make the changes contemplated by the legislation as well as updating handbooks and training materials. VRS would request a delayed implementation as provided in the substitute in order to design, test and implement necessary system changes.

Item 469. The contribution rate for the JRS plan would need to be increased to 34.88% upon the effective date of the bill. This represents an increase of 4.21% of covered payroll from the contribution rate set forth in the budget bills (30.67%), which maintained a slightly higher contribution rate.

Employers will not need to make additional programming changes.

Fiscal Summary:

Benefit(s) impacted: Judicial Retirement System (JRS). For judges appointed to an original term on or after July 1, 2014, provides benefits equivalent to Plan 2 for service earned on or after July 1, 2026. For judges who were appointed between July 1, 2014 and June 30, 2026, contributions in the Hybrid Retirement Plan would not be moved, rather the benefits would be layered, similar to how a judge with prior VRS service has their benefit calculated.

Impact to unfunded liability: There is minimal impact to the unfunded liabilities of the plan because this is applied prospectively.

Impact to contribution rate(s): Consistent with the effective date of the substitute, impacts to contribution rates are estimated to increase initially by approximately 4.21% of JRS covered payroll, which would require approximately \$4,224,000 more in funding for fiscal year 2027.

Specific Agency or Political Subdivisions Affected: VRS and the Judicial Branch.

VRS cost to implement: Approximately \$310,000 for FY 2026.

Employer cost to implement: The Judicial Branch will not need to make additional programming changes.

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Other VRS and employer impacts: None.

GF budget impacts: Impacts to contribution rates are estimated at \$4.2 million for FY 2027. See Fiscal Analysis for additional details and assumptions.

NGF budget impacts: \$310,000 NGF in FY 2026 for VRS implementation.

Details regarding the specific costs can be found in the “Fiscal Analysis” section.

General Fund Expenditure Impact:

<u>Agency</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>
Judicial Branch			\$4,224,000	\$4,224,000	\$4,710,000	\$4,710,000
TOTAL						

Nongeneral Fund Expenditure Impact:

<u>Agency</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>
VRS		\$310,000				
TOTAL						

Position Impact:

<u>Agency</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>
TOTAL						

Fiscal Analysis: The substitute would affect new JRS members who are elected or appointed on or after July 1, 2026. It would also affect service earned on or after July 1, 2026 by judges who had been newly appointed or elected on or after July 1, 2014. As of June 30, 2024, approximately 315 judges as well as any new judges appointed before July 1, 2026, will stop accruing benefits in the Hybrid Retirement Plan and begin accruing future benefits in Plan 2.

Under current plan provisions, judges appointed to an original term commencing prior to January 1, 2013, and who are vested by 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 Plan. This plan 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 place judges who are

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appointed or elected to an initial term on or after July 1, 2026, into Plan 2 rather than the Hybrid Retirement Plan. Judges currently in the Hybrid Retirement Plan would receive prospective service earned after the implementation date in Plan 2 rather than Hybrid Retirement Plan. At retirement, these judges would have a layered benefit consisting of:

- prior VRS service (if any),
- JRS Hybrid Retirement Plan service between January 1, 2014 and the new implementation date (if any), and
- JRS Plan 2 service from the implementation date forward,
- plus any DC funds they contributed as part of the VRS or JRS Hybrid Plan (that remain in the Hybrid 457 Deferred Compensation Plan, or the Virginia Cash Match 401(a) Plan, which together make up the DC component, and
- any employer matching funds contributed to the Commonwealth of Virginia 457 or Cash Match Plans.

Based on the age at original election or appointment, current JRS members 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 current plan. The weighting does not change under the substitute.

The DC accounts for current hybrid plan members would remain intact and the DC funds would still only be available for distribution once the member is eligible for distribution upon termination or retirement. Employer contribution rates would increase initially by approximately 4.21% of JRS covered payroll, which would require approximately \$4,224,000 annually in additional funding. The cost associated with moving hybrid eligible members to Plan 2 is expected to grow over time to approximately 10.43% higher than today’s rate. Taking into account payroll growth, this would result in an annual cost increase of approximately \$18,000,000 higher than would be expected under the current Hybrid Plan benefit structure.

Exhibit 1 provides the estimated employer normal cost rate (cost to fund benefits earned each year) under the current plan provisions versus the provisions of the substitute. Under the current plan provisions,

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normal cost rates are projected to continue to decline as newly appointed judges are enrolled in the Hybrid Retirement Plan, which has a lower cost than the legacy Plan 1 and Plan 2 benefit tiers even with the inclusion of the defined contribution match. Under the substitute, the initial impact is expected to be approximately 4.21% of covered payroll, increasing to 6.5% of covered payroll over the next 10 years and to over 7.0% after 20 years. Because the cost of prospective benefits for judges originally elected or appointed on or after July 1, 2014 is expected to be greater under the proposed structure, the blended JRS normal cost rates will not decline over time as was anticipated under the current structure.

Exhibit 1

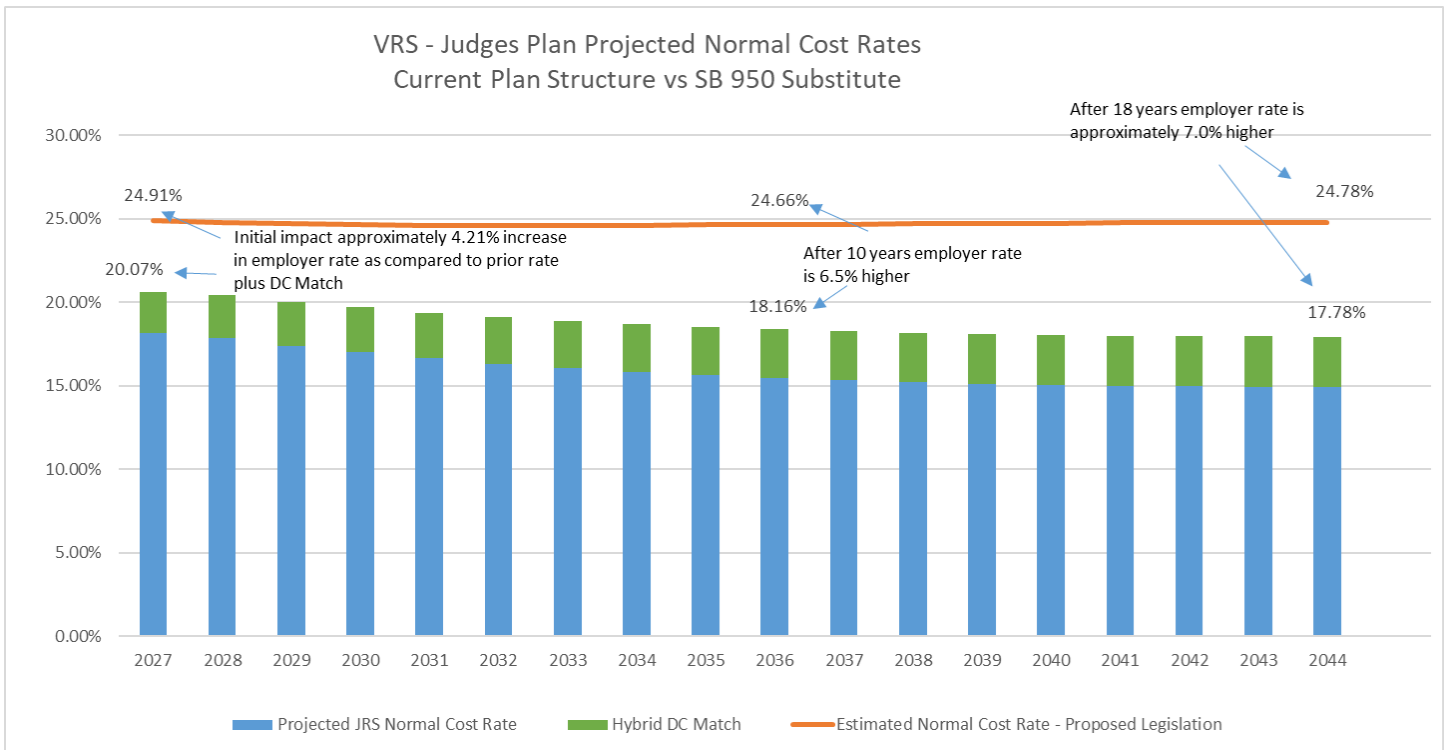


Exhibit 2 below shows the estimated future cost impacts associated with the bill.

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Exhibit 2

	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	-	-	-	-	-
VALORS - General Fund	-	-	-	-	-	-
JRS - General Fund	-	4,224,000	4,224,000	4,710,000	4,710,000	5,265,000
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ -	\$ 4,224,000	\$ 4,224,000	\$ 4,710,000	\$ 4,710,000	\$ 5,265,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
VALORS - Non-General Funds	-	-	-	-	-	-
TOTAL - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non School	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ -	\$ 4,224,000	\$ 4,224,000	\$ 4,710,000	\$ 4,710,000	\$ 5,265,000

Estimated projections based on employee data and valuation results as of June 30, 2024 and assume a level population throughout projection period. Payrolls include proposed pay increases included in budget for 2026. Payrolls are assumed to remain level beyond 2026 through remainder of the projection period.

Other: In December 2024, the Virginia Retirement System (VRS) published [HD 13 - Impact of the Hybrid Retirement Plan on Judicial Appointments](#), required by Item 484 of Chapter 2 of the 2024 Special Session I Acts of Assembly. This report reviewed the impact of the hybrid retirement system on judicial appointments and contained options for modifying the current benefit structure for judges, including an analysis of the costs and impact on the unfunded liability. This report presented four options for increasing retirements benefits:

- Increase the defined contribution plan employer match for JRS hybrid plan members to 100% of the employee voluntary contributions (up to 4% rather than up to 2.5%).
- Increase the defined benefit plan multiplier for JRS hybrid plan members to 1.1% prospectively for judges who are at least 55 at the time of initial election or appointment.
- Increase the defined benefit plan service weighting for JRS hybrid plan members to 2.75 prospectively for judges who are at least 55 at the time of initial election or appointment.
- Move judges prospectively from the hybrid plan to Plan 2.

The fiscal impact associated with each of these options, including increases to the unfunded liabilities, impact on employer contribution rates, and implementation costs, are detailed in the report.

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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