

**Virginia Retirement System
2026 General Assembly Session
Fiscal Impact Statement**

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ORIGINAL

Bill Number: HB 987

Patron: Garrett

Bill Title: Virginia Retirement System; service credit for career and technical education teachers

Bill Summary: Provides that a member of the Virginia Retirement System shall be eligible for additional years of service credit for service earned as a teacher in the field of career and technical education (CTE) for service earned on or after July 1, 2026. The amount of service credit earned shall be determined as follows: (i) for service earned as a member who is 45 years of age or older but younger than 55 years of age at the time of such service, such service shall be multiplied by the weighted years of service factor of 2.0 and (ii) for service earned as a member who is 55 years of age or older at the time of such service, such service shall be multiplied by the weighted years of service factor of 2.5.

Budget Amendment Necessary: Yes

Items Impacted: 483, 125

Explanation: Item 483: VRS would need a NGF appropriation of approximately \$401,300 for FY 2026 to cover the cost of programming and testing of variable service weighting, as well as updating employee and employer communications, with minimal ongoing costs. This does not include the potential impact to future Teacher plan contribution rates for FY 2027 in Item 469 or to the funded status of the Teacher plan, which are discussed below.

VRS requests a delayed effective date of July 1, 2027. This would allow for adequate time to develop system programming and perform applicable testing. In addition, a delayed effective date provides the agency with some flexibility in assigning existing resources to the programming and implementation of the bill's provisions which could result in lower costs by reducing the need to hire additional contractors and other resources to meet a July 1, 2026 deadline. Further, VRS's costs are specific to the implementation of this legislation if enacted. It cannot be determined at this time whether the enactment of any other bill during this session that would require implementation by VRS would increase or decrease implementation costs.

Item 125: Under the Standards of Quality (SOQ) formula, Direct Aid to Public Education would need a GF appropriation of \$26.5 million more each year beginning in FY 2027 for increased contribution rates for the Teacher plan. School divisions would require \$39.7 million more in other funding each year beginning in FY 2027 for increased contribution rates for the Teacher plan. Contribution rates for additional positions not funded under the SOQs would also be the full responsibility of the local school divisions.

Fiscal Summary:

Benefit(s) impacted: VRS retirement for CTE teachers. Provides more than one year of service credit for each year of service worked when the CTE teacher is 45 years old or older.

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Impact to unfunded liability: The bill as written should have minimal impact on unfunded liabilities since it only impacts service earned after July 1, 2026, but could have some impact due to the methodology used to allocate benefits between past and future service in determining plan liabilities. The actual impact cannot be determined until CTE teachers can be accurately identified.

Impact to contribution rate(s): The Teacher plan is a pooled plan, so the bill increases contribution requirements for all school divisions beginning in FY 2027, regardless of the number of CTE teachers a school division may have or whether they have any CTE teachers. The actual impact cannot be determined until CTE teachers can be accurately identified but based on the limited data currently available the legislation is estimated to increase contribution rates by 0.55% of covered payroll, which equates to approximately \$65.8 million more in required Teacher plan funding for FY 2027.

Specific Agency or Political Subdivisions Affected: VRS and all school divisions.

VRS cost to implement: Approximately \$401,300 for FY 2026.

Employer cost to implement: Cannot be determined at this time.

Other VRS and employer impacts: The addition of service weighting for CTE teachers will impact future Teacher plan contribution rates for all school divisions since the Teacher plan is a pooled plan.

GF budget impacts: Approximately 40% of the \$65.8 million total estimated increase, or \$26.3 million GF more in FY 2027 for the state's portion of the increase in employer contribution costs for the Teacher plan.

NGF budget impacts: Approximately \$401,300 NGF in FY 2026 for VRS implementation.

Other budget impacts: Approximately \$39.5 million more in other funding in FY 2027 for school divisions for the increase in employer contribution costs for the Teacher plan. Contribution rates for additional positions not funded under the SOQs would also be the full responsibility of the local school divisions.

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

General Fund Expenditure Impact:

Agency	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Direct Aid for Public Education		\$26,327,000	\$26,853,000	\$26,853,000	\$26,853,000	\$26,853,000
TOTAL		\$26,327,000	\$26,853,000	\$26,853,000	\$26,853,000	\$26,853,000

Nongeneral Fund Expenditure Impact:*

Agency	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
VRS	\$401,300					

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School Divisions*	\$39,490,000	\$40,280,000	\$40,280,000	\$40,280,000	\$40,280,000
TOTAL	\$401,300	\$39,490,000	\$40,280,000	\$40,280,000	\$40,280,000

Position Impact:

<u>Agency</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
TOTAL						

**Note: This table includes VRS' estimate of the increased local costs for school divisions under the SOQ funding formula. It does not include funding for contribution rates for additional positions not funded under the SOQs formula that would also be the full responsibility of the local school divisions.*

Fiscal Analysis:

Under Virginia's SOQs, Va. Code § 22.1-253.13:2, school divisions in Virginia are required to employ career and technical education (CTE) teachers. CTE is defined in Va. Code § 22.1-227.01 as follows:

As used in this article, "career and technical education" means an organized education program offering a sequence of courses that (i) may incorporate field, laboratory, and classroom instruction; (ii) emphasize career and technical occupational experiences; (iii) are designed to prepare individuals for further education and gainful employment; and (iv) are aligned with state or national program certification and accreditation standards, if such standards exist for the sequence of courses. However, clause (iv) shall not apply to any program offered by industry in cooperation with a local school board.

The job name in VRS' system or record for members of the Teacher plan does not distinguish between the subject matter taught or type of licensure or endorsement held by an individual. Without the ability to identify the applicable CTE teachers, it is currently not possible to quantify the number of CTE teachers currently employed in Virginia, let alone the ages of these teachers. This information would be required to implement the provisions of this bill and properly calculate the service credit earned by CTE teachers based on their age as well as the impact on the employer contribution rates for the pooled Teacher plan.

Based on Virginia Department of Education (DOE) data, there are more than 12,000 individuals who have received a CTE endorsement issued by DOE. However, the fact that an individual holds a CTE endorsement does not necessarily indicate that such individual is currently employed as a CTE teacher. Further, it is possible that individuals who do not hold a CTE endorsement are employed as CTE teachers.

Given the limitations of the existing data regarding CTE teachers in the Teacher plan, it is only possible to provide a high-level estimate of the fiscal impact of the bill and how it will affect the normal cost rate. The normal cost rate is the annual cost of providing retirement benefits for services performed by today's

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members. At VRS, the normal cost is a shared responsibility between the member and the employer. Ideally, all benefits would be funded through the normal cost; member contributions are static and as determined by statute, however, if benefits are increased retroactively, required contributions are not made, or actuarial losses occur, employer contributions must be increased to pay for the unfunded liability.

Creating special benefits for select members of a pooled plan creates equity issues amongst participating employers, as the cost of plan changes will be paid by all participating employers, not only those who have this classification of employee. Other methods, such as targeting pay increases or bonuses to certain individuals would result in impacted employers directly paying for higher costs rather than spreading costs across all 140 school districts.

Due to the provisions that provide weighted service, members will reach unreduced retirement age earlier which would allow members to retire earlier than they are currently able to retire. So while the provisions of the bill seem to look to reward members to stay, there is potential for it to actually incentivize some people to retire earlier. Below are some examples.

Plan 1 members can retire with an unreduced benefit at age 50 with 30 years of service, or age 65 with 5 years of service. The average age of plan 1 members in the Teacher plan is 50 with 20 years of service. This member could currently work ten more years to age 60 and would have 30 years of service which would make them eligible for an unreduced benefit. Under the proposed provisions, this member could achieve 30 years of weighted service at age 55 and retire with an unreduced benefit five years earlier.

Similarly, a Plan 2 or Hybrid member can retire with an unreduced benefit either by reaching Social Security normal retirement age with five years of service or meeting Rule of 90 (age + service = 90). A new employee hired at age 35 currently could reach rule of 90 at age 62.5 with 27.5 years of service. Under the proposed provisions this member could reach Rule of 90 at age 56.5 with 33.75 years of weighted service, six years earlier.

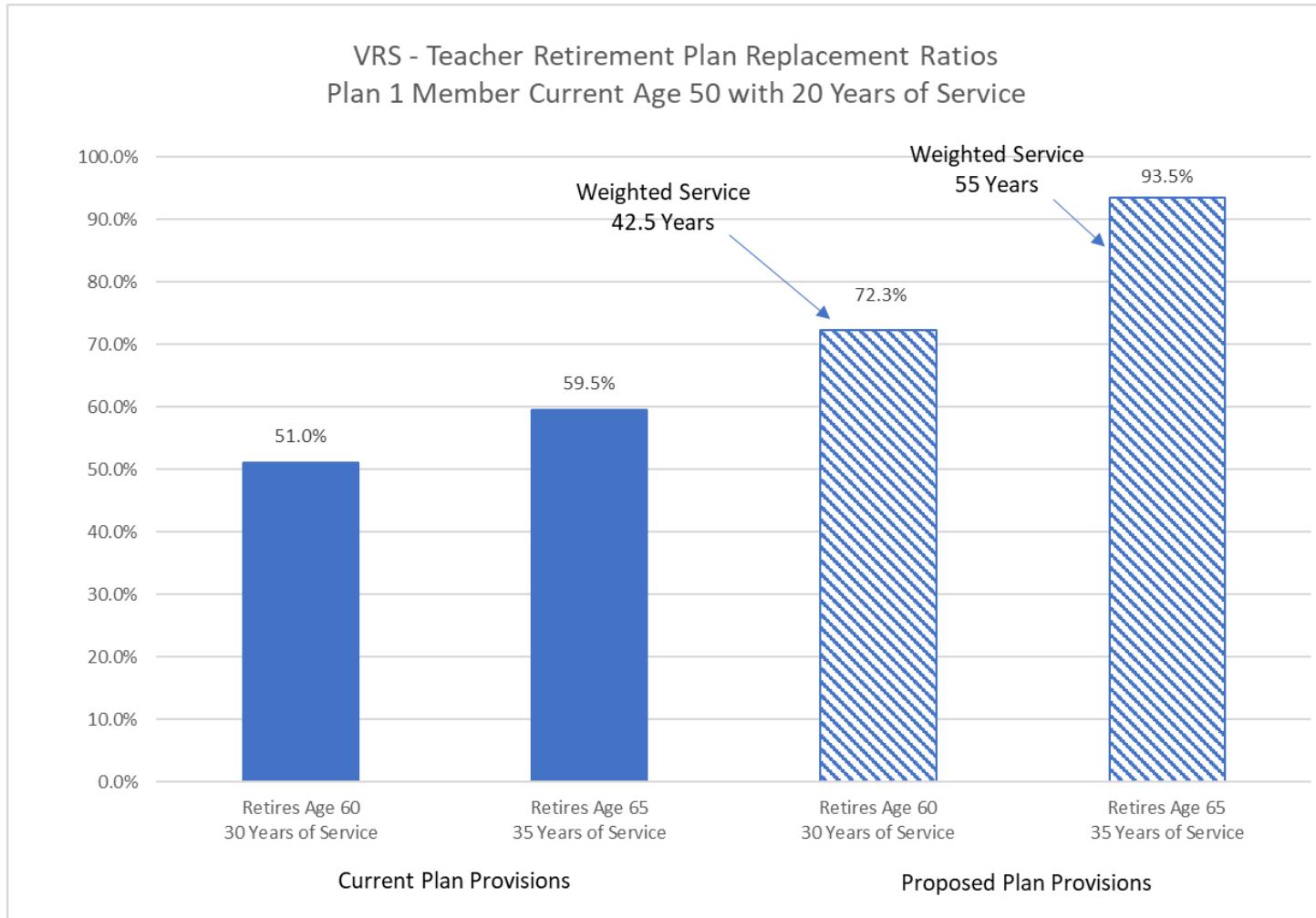
Replacement Ratio

Based on the provisions of the bill, the income replacement ratio for a CTE teacher could increase significantly resulting in retirement benefits well in excess of the current plan structure for select individuals. Depending on the amount of service a Plan 1 and Plan 2 member has prior to the effective date of the bill, these members could have replacement ratios that approach 90% to 100% of average final compensation and hybrid plan members could range from 54% to 85% of average final compensation assuming defined contribution returns average 5.0% per year. Below are examples of the potential impacts for the different benefit tiers. We provided comparisons for first unreduced retirement age (prior to considering the weighted service) and also at age 65.

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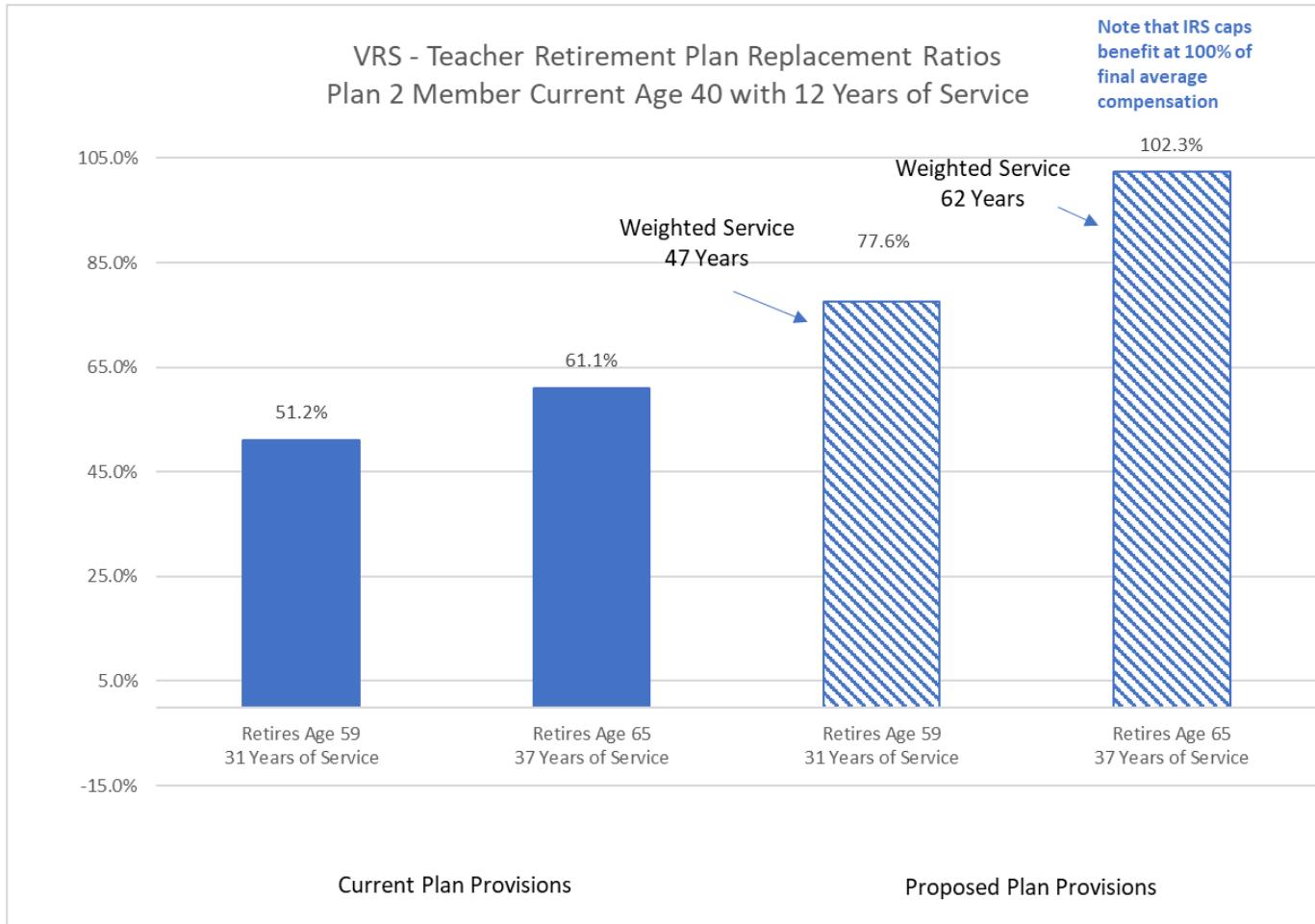
Exhibit 1

Current Teacher: Plan 1, Average Age 50 with 20 Years of Service



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Exhibit 2
Current Teacher: Plan 2, Average Age 40 with 12 Years of Service

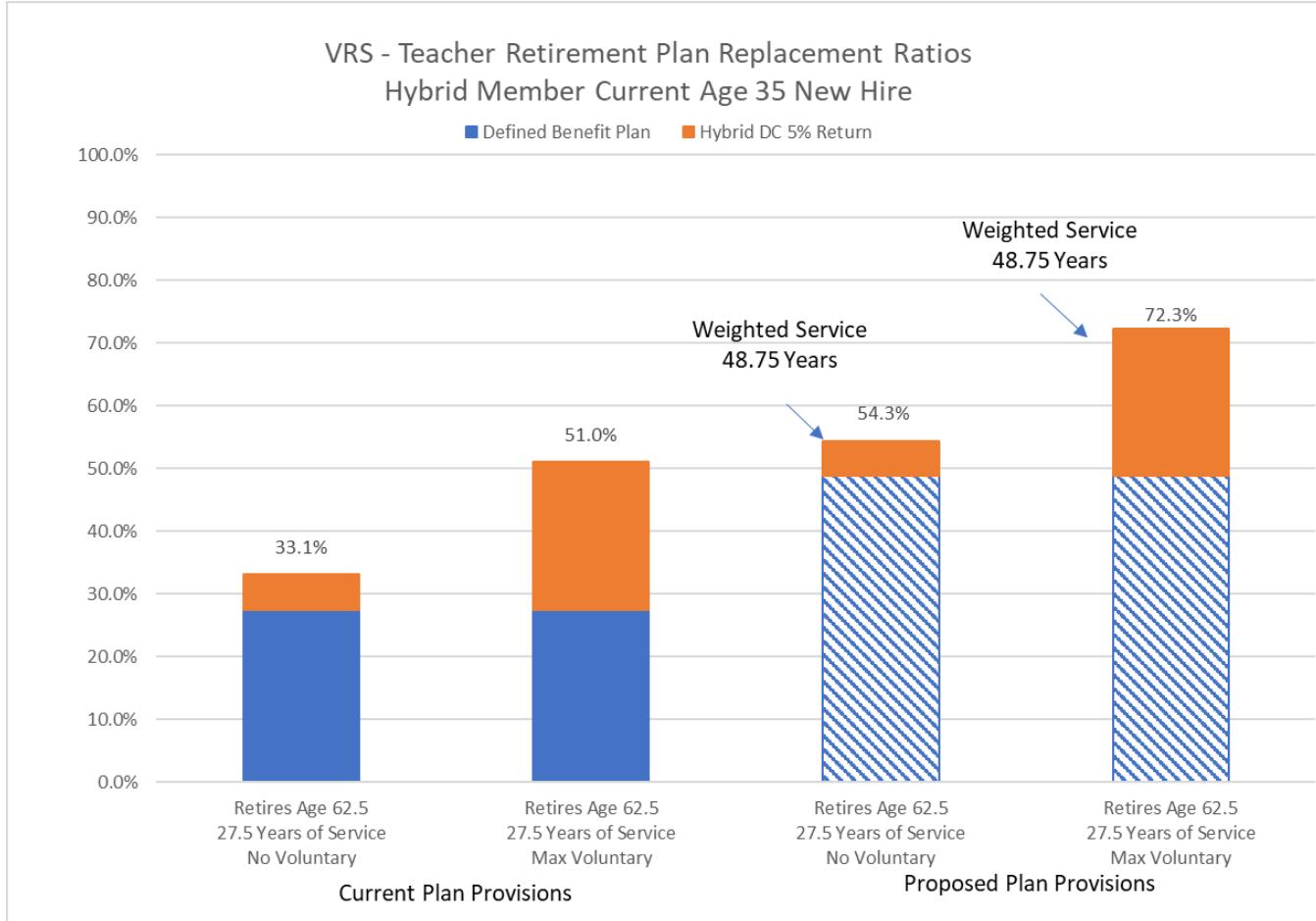


Note that while the calculated estimated benefit in the chart above at age 65 with 62 years of weighted service is 102.3%, IRS rules prohibit a retirement benefit of more than 100% of average final compensation.

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Exhibit 3

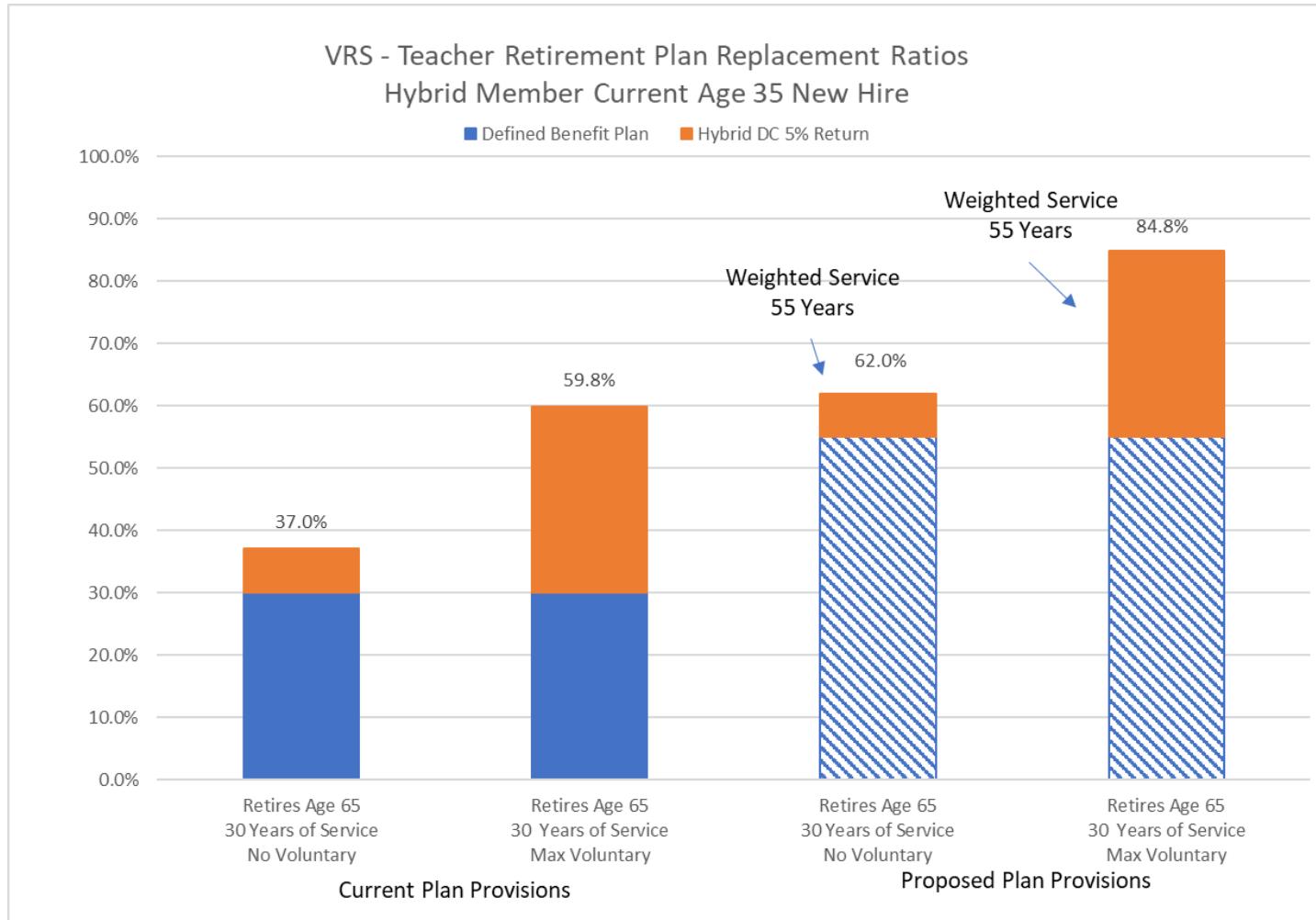
New Hire Teacher: Hybrid, Average Age 35, Hired on 7/1/25 with No Service
Retires first date eligible with Rule of 90



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Exhibit 4

New Hire Teacher: Hybrid, Average Age 35, Hired on 7/1/25 with No Service
Retires age 65



Employer Cost

Based on the increase in benefit levels, the estimated normal costs for CTE teachers would increase by approximately 183% over the current cost structure. Below is an estimate of the annual employer cost increase associated with the proposed weighted service. Since we are not able to identify the number of CTE teachers, we simply prorated the current payroll based on the headcounts. The bill is estimated to increase the blended normal cost rate of the Teacher plan by 0.55%, which would equate to an increase in funding of \$65.8 million per year.

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EXHIBIT 5

Plan	Member Count	Employer Rate	Estimated Payroll Fiscal Year 2027	Contribution Fiscal Year 2027	Estimated Annual Increase in Teacher Contributions FY 2027
Teacher Plan - Current Plan Design	160,949	12.20%	\$11,966,757,000	\$1,459,944,000	

Teacher Plan HB 987

CTE Teachers	12,000	19.62%	\$892,215,000	\$175,031,000	
Non-CTE Teachers	148,949	12.20%	\$11,074,542,000	\$1,350,730,000	
Total Teacher Plan	160,949	12.75%	\$11,966,757,000	\$1,525,761,000	\$65,817,000

Other: No other VRS members currently receive the variable service weighting contemplated in the bill.

However, this unique service weighting feature is included in the Judicial Retirement System plan.

Programming and testing of variable service weighting likely cannot be accurately completed by the July 1, 2026 effective date of the bill while maintaining the programming and testing workload required to implement bills passed in 2025.

The bill also requires that the service weighting will change depending on the age of the CTE teacher. The programming required to accomplish this is expected to be complex.

VRS requests a delayed effective date of July 1, 2027 in order to accomplish the complex programming necessary to implement the bill and test the unique aspects of the retirement benefit formula.