

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

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ORIGINAL

Bill Number: SB 419

Patron: Craig

Bill Title: Retirement systems and creditable service

Bill Summary: Awards an individual who has reached normal retirement age under the State Police Officers' Retirement System (SPORS) or Virginia Law Officers' Retirement System (VaLORS), as determined by relevant law, one additional year of creditable service for every five full years of creditable service earned (i) as a member of SPORS, (ii) as a member of VaLORS, or (iii) while employed by a locality that has elected to provide SPORS-benefits to its employees. This bill only affects those retirements that take place on or after July 1, 2027. The bill does not impact eligibility for the hazardous duty supplement.

Budget Amendment Necessary: Yes

Items Impacted: 469, 483, 417, various

Explanation:

Item 483. VRS implementation costs are estimated to be approximately \$374,500 in FY 2027 and minimal ongoing costs. This does not include the impact to current or future contribution rates or to the funded status of the plans, discussed below. The estimated costs take into account system changes that would need to be made to accurately reflect the inclusion of the additional service provided for in the bill. 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 469. VRS expects that SPORS and VaLORS contribution rates will increase beginning in FY 2027 or FY 2028 as a result of this bill.

Item 417. The State Police will require a budget amendment of approximately \$13,574,000 in FY 2028 to cover the additional employer cost associated with the higher contribution rate for SPORS based on the average payroll of members of SPORS.

Various. Employers with employees participating in VaLORS will require a budget amendment of approximately \$16,837,000 in FY 2028 to cover the additional employer cost associated with the higher contribution rate for VaLORS based on the average payroll of members of VaLORS.

Consideration should be given to beginning increased funding in FY 2027 since the additional benefit is applied to prior service and generates significant unfunded liabilities.

Fiscal Summary:

Benefit(s) impacted: Hazardous duty retirement benefit calculations under SPORS, VaLORS, or for locals under § 51.1-138 on or after July 1, 2027. Does not impact eligibility for the hazardous duty supplement. In

Virginia Retirement System
2026 General Assembly Session
Fiscal Impact Statement

some instances, the bill would allow for receipt of the health insurance credit (HIC) by retirees who would not otherwise be eligible. Will impact the amount of HIC for anyone eligible.

Impact to unfunded liability: Increases liabilities for the two statewide pension plans offering hazardous duty benefits by approximately \$258 million; SPORS unfunded liability would increase by \$119.8 million leading to a decrease in the funded status from 73.68% to 68.69% and VaLORS unfunded liability would increase by \$138.2 million leading to a decrease in the funded status from 75.20% to 71.78%. Due to the relatively low funded status of these plans, it would be prudent from a fiduciary standpoint to only enhance benefits if they can be funded upfront to avoid creating additional unfunded liabilities. Local plans that have elected enhanced hazardous duty benefits would also see meaningful increases in liability that would vary by plan based on the percentage of hazardous duty members covered and plan demographics. Local plans have funding requirements that would require them to fund benefit enhancements upfront that would potentially decrease or erode current funded status.

Impact to contribution rate(s): Increases contribution requirements beginning in FY 2028 with increases for SPORS of 7.14% and VaLORS by 3.74%. Local plans that have elected enhanced hazardous duty benefits would also see meaningful increases in contribution rates that would vary based on the percentage of hazardous duty members covered in the plans.

Specific Agency or Political Subdivisions Affected: VRS, State Police, all employers with employees participating in VaLORS, and all political subdivisions that have elected to provide hazardous duty benefits to eligible employees.

VRS cost to implement: Approximately \$374,500 in FY 2027.

Employer cost to implement: Approximate total increase of \$13,574,000 in FY 2028 and each year thereafter for SPORS, and \$16,837,000 in FY 2028 and each year thereafter for VaLORS, to cover increased employer contribution requirements. In addition, local employers that have elected enhanced hazardous duty benefits would also see increased funding requirements associated with providing this additional service. Local employers' costs will vary depending on the number of members covered under enhanced hazardous duty coverage.

Employer costs to implement this change are unavailable other than the increased contributions required.

Other VRS and employer impacts: VRS will need to reach out to employers to communicate the change to this benefit received by certain employees who retire on or after July 1, 2027.

Because this bill as written is only applicable to retirements on or after July 1, 2027, there may be recent retirees who look to take advantage of the legislation by returning to work for a short period of time and then re-retiring in order to obtain the additional years of service granted under the bill. This would add additional unfunded liabilities to the already mentioned increases.

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

VRS did not estimate the cost impact for each local employer. VRS would need to re-certify contribution rates for 241 local employers impacted to reflect the expected increase in cost that would need to be collected in FY 2028. It should be noted that the bill will also impact the unfunded liabilities of local plans. The VRS funding policy for political subdivisions includes language that requires local plans to maintain their funded status when voluntarily making plan changes. Based on analyses of the other two plans we anticipate that increases would be meaningful and it is likely that local employers will not have budgeted for these increases.

This bill will also impact health insurance credit plans by creating additional unfunded liabilities for State HIC plan and any local HIC plans that employers with hazardous duty members may have elected.

GF budget impacts: Approximately \$26.3 million in FY 2028 and each year thereafter for the increase in employer contribution costs for SPORS and VaLORS members.

NGF budget impacts: Approximately \$4.2 million in FY 2028 and each year thereafter for the increase in employer contribution costs for SPORS and VaLORS members. Approximately \$374,500 in FY 2027 for VRS implementation. Local employers who have elected enhanced hazardous duty coverage will also have budget impacts related to this bill which will vary by employer.

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

General Fund Expenditure Impact:

<u>Agency</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
SPORS Agencies			\$11,451,000	\$11,451,000	\$11,451,000	\$11,451,000
VaLORS Agencies			\$14,805,000	\$14,805,000	\$14,805,000	\$14,805,000
TOTAL			\$26,256,000	\$26,256,000	\$26,256,000	\$26,256,000

Nongeneral Fund Expenditure Impact:*

<u>Agency</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
VRS		\$374,500				
SPORS Agencies			\$2,123,000	\$2,123,000	\$2,123,000	\$2,123,000
VaLORS Agencies			\$2,032,000	\$2,032,000	\$2,032,000	\$2,032,000
TOTAL		\$	\$4,155,000	\$4,155,000	\$4,155,000	\$4,155,000

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 does not include increased costs for political subdivisions.*

Virginia Retirement System
2026 General Assembly Session
Fiscal Impact Statement

Fiscal Analysis: This bill grants additional service for time already credited, essentially creating “airtime” or “weighted service.” The bill allows for all service to be considered when calculating this airtime, therefore creating large unfunded liabilities for plans that already have sizeable unfunded liabilities that need to be paid down. In addition, the bill as written will essentially create a significant unfunded mandate for local employers who have elected enhanced hazardous duty benefits while also making it more difficult for localities to afford to elect enhanced benefits for the first time or for additional categories of employees.

It is also worth noting that a majority of this population already is provided an enhanced hazardous duty supplement, currently \$17,856 per year, to help bridge retirees until they reach Social Security retirement eligibility.

This additional service will also impact the State HIC plan, providing eligible members with a larger benefit than was funded for, thus creating additional unfunded liabilities in the State HIC plan. The State HIC plan is only 41.5% funded as of June 30, 2025. Enhancing member benefits without an immediate cash infusion to offset the increase in liability is not an actuarially sound method of funding benefit plans.

Exhibit 1 shows the estimated future cost impacts associated with the cost of the bill.

Exhibit 1

	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>	<u>FY 2031</u>	<u>FY 2032</u>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	11,451,000	11,451,000	11,451,000	11,451,000	11,451,000
VaLORS - General Fund	-	14,805,000	14,805,000	14,805,000	14,805,000	14,805,000
JRS - General Fund	-	-	-	-	-	-
Teacher - General Fund	-	-	-	-	-	-
TOTAL General Fund	\$ -	\$ 26,256,000	\$ 26,256,000	\$ 26,256,000	\$ 26,256,000	\$ 26,256,000
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	2,123,000	2,123,000	2,123,000	2,123,000	2,123,000
VaLORS - Non-General Funds	-	2,032,000	2,032,000	2,032,000	2,032,000	2,032,000
TOTAL - Non-General Funds	\$ -	\$ 4,155,000	\$ 4,155,000	\$ 4,155,000	\$ 4,155,000	\$ 4,155,000
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non-schools	-	-	-	-	-	-
TOTAL Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Totals	\$ -	\$ 30,411,000	\$ 30,411,000	\$ 30,411,000	\$ 30,411,000	\$ 30,411,000

Estimated projections based on employee data and valuation results as of June 30, 2025 and assume a level population throughout projection period. Payrolls include proposed pay increases included in budget for FY 2027 and 2028. Payrolls are assumed to remain level beyond 2028 through remainder of the projection period.

Virginia Retirement System
2026 General Assembly Session
Fiscal Impact Statement

Other: State police officers covered by SPORS, employees participating in VaLORS, and local employees who receive hazardous duty benefits are typically eligible for unreduced retirement benefits earlier than general employees (both earlier age and fewer years of service requirements), and they receive greater benefit payments for the same amount of service. In general, the three main categories of enhanced retirement benefits received by hazardous duty employees are (i) earlier age and service retirement provisions, (ii) a higher retirement multiplier used to calculate retirement benefits, and (iii) a hazardous duty supplement. There may be differences in the enhanced benefits received depending on the employer, and not all hazardous duty employees are entitled to each category of benefits. Members of SPORS or VaLORS and local employees who are eligible for enhanced hazardous duty benefits become eligible for an unreduced retirement benefit at age 50 with at least 25 years of service credit or age 60 with at least five years of service credit and become eligible for a reduced retirement benefit as early as age 50 with five years of service credit. In addition, hazardous duty members do not contribute any more towards their retirement benefits than general employees, therefore they are also paying a lower percentage of their retirement benefits as compared to a general employee.

The bill would further increase the value of retirement benefits for members who already receive enhanced retirement benefits and award an individual who has reached normal retirement age under SPORS or VaLORS, as determined by relevant law, one additional year of creditable service for every five full years of creditable service earned in a hazardous duty position while employed as a member of SPORS or VaLORS or by a locality that has elected to provide SPORS-benefits to its employees. This bill only affects those retirements that take place on or after July 1, 2027, though service earned prior to July 1, 2027, will be used to determine that number of years of additional service credit to which an employee is entitled.

Under the bill, additional years of service credit added for benefit calculations do not count towards an individual's eligibility for the hazardous duty supplement.

The tables below provide the number of SPORS, VaLORS, and local hazardous duty members who would qualify for an unreduced retirement as of June 30, 2025. Upon their retirement on or after July 1, 2027, such individuals would be entitled to the additional years of service credit provided for in the bill. The bill may result in members who have qualified for unreduced retirement to choose to retire earlier than they might have otherwise planned due to the increased retirement benefit they would receive because of the additional service credit.

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

Table 1. Local Hazardous Duty Active Population June 30, 2025

	Count	% of Active Population
Total Actives	29,565	
Eligible for Full Unreduced Retirement	1,919	6.5%
Eligible for Reduced Retirement	2,402	8.1%
Total Eligible to Retire as of June 30, 2025	4,321	14.6%

Source: VRS data

Table 2. SPORS Active Population June 30, 2025

	Count	% of Active Population
Total Actives	1,895	
Eligible for Full Unreduced Retirement	300	15.8%
Eligible for Reduced Retirement	111	5.9%
Total Eligible to Retire as of June 30, 2025	411	21.7%

Source: VRS data

Table 3. VaLORS Active Duty Population June 30, 2025

	Count	% of Active Population
Total Actives	7,488	
Eligible for Full Unreduced Retirement	523	70.0%
Eligible for Reduced Retirement	785	10.5%
Total Eligible to Retire as of June 30, 2025	1,308	17.5%

Source: VRS data

By providing additional years of service to individuals who have qualified for an unreduced retirement benefit while serving in a hazardous duty position, the bill will likely not serve to greatly impact retirement patterns. However, the bill will increase, and in some cases significantly increase, the retirement benefit that will be paid to these hazardous duty employees upon retirement.

Virginia Retirement System 2026 General Assembly Session Fiscal Impact Statement

Exhibit 2 below compares general employee benefits under the different benefit tiers to the hazardous duty benefits in SPORS and VaLORS. The exhibit depicts a member who is hired at age 30 and works 25 years and then retires. Note that for general employees, Plan 1 members can commence a benefit at age 55 with 25 years of service, but the benefit will be reduced by 30% due to not being eligible for a full unreduced benefit until they have 30 years of service. Similarly, general employees in Plan 2 and the Hybrid plan are not eligible to commence a benefit until age 60 in this scenario, so their value at age 55 would be zero.

The exhibit shows that current benefits provided to hazardous duty members in combination already provide a much higher value than general employees. The bill would increase the value of the retirement benefit in this example by 20%, further increasing the differential in benefits between the two classes of employees.

Exhibit 2- Comparison of Current Estimated Benefits Across Plans and Under the Provisions of the Bill

