

# Virginia Retirement System

## 2024 Fiscal Impact Statement

1. **Bill Number:** HB 231

**House of Origin**  Introduced  Substitute  Engrossed

**Second House**  In Committee  Substitute  Enrolled

2. **Patron:** Campbell

3. **Committee:** Appropriations

4. **Title:** Virginia Law Officers' Retirement System; extends membership to full-time animal control officers.

5. **Summary:** Allows local governments to provide enhanced retirement benefits for hazardous duty service to full-time animal control officers. The bill provides that such enhanced retirement benefits apply only to service earned in such positions on or after July 1, 2025. The bill has a delayed effective date of July 1, 2025.

6. **Summary of Impacts**

**Benefit(s) impacted:** Individual local plans that participate in VRS, not VALORS as indicated in the title. The bill allows localities to make an irrevocable election of enhanced hazardous duty benefits for animal control officers for service on or after July 1, 2025, on the same basis as enhanced benefits provided to other eligible employees for which the locality may have elected to provide hazardous duty coverage. Eligible covered Hybrid Plan employees' membership would be transferred to Plan 2.

**Impact to unfunded liability (see Item 9 for details):** Will vary by employer for those that elect the benefits for animal control officers.

**Impact to contribution rate(s) (see Item 9 for details):** Will vary by employer (due to local plan demographics and experience) for those employers that elect the benefits for animal control officers.

**Specific Agency or Political Subdivisions Affected (see Item 10):** VRS and participating local employers with animal control officers.

**VRS cost to implement (see Item 7 and Item 8 for details):** Approximately \$143,000 for FY 2025.

**Employer cost to implement (see Item 7 and Item 8 for details):** Will vary by employer.

**Other VRS and employer impacts (see Item 7, Item 9, Item 11, and Item 12 for details):** The bill may make it more difficult for jurisdictions to retain dispatchers or fill open positions if they do not elect the coverage. It may also enable employees to retire sooner because of the earlier age and service requirements with hazardous duty benefits.

**GF budget impacts (see Item 8 for details):** None.

**NGF budget impacts (see Item 8 for details):** \$143,000 NGF in FY 2025 for VRS implementation.

- 7. Budget Amendment Necessary:** Yes. In Item 484, VRS would need a NGF appropriation of approximately \$143,000 for FY 2025 to cover the cost of programming and testing, as well as updating employee and employer communications, with minimal ongoing costs. This does not include the potential impact to future local contribution rates or to the funded status of the local plans, which are discussed below.

Contribution rates required under this bill will be affected by passage of SB 130. The costs estimated here do not include that impact or additional costs to perform new valuations to make the changes that would be required by SB 130.

- 8. Fiscal Impact Estimates:** More detail on the fiscal impact is explained in Item 9 below.

- 9. Fiscal Implications:** The provisions of the bill would make animal control officers eligible to receive enhanced hazardous duty benefits for service on or after July 1, 2025, if local employers make an irrevocable election to provide the enhanced coverage. The cost of the benefits would be borne by the local political subdivision.

The VRS funding policy requires political subdivision plans to be at least 75% funded in order to elect benefit enhancements. Benefit enhancements that result in a funded status less than 75% require a lump sum contribution to bring the funded status to at least 75% funded. Consistent with current practice, employers will be required to perform an actuarial study showing the impacts on their individual plan of the additional coverage prior to electing the benefit for new classifications of employees. Impacts will vary by employer based on demographics of employees impacted by the provisions. Employers can consider the various impacts to the health of their plans as they determine whether to elect benefits. They may also opt not to elect the coverage under the bill for other reasons.

A likely potential consequence of the bill is that it may be more difficult for jurisdictions to retain animal control officers or fill open positions if they do not opt to provide the enhanced coverage as their officers would have the opportunity to seek employment with other jurisdictions that offer enhanced coverage. In addition, due to the earlier age and service provisions of enhanced hazardous duty benefits, animal control officers of localities that elect the enhanced benefits would be eligible to retire sooner than under the provisions for general employees.

In its 2023 report, *Eligibility of Public Safety Occupations for Enhanced Retirement Benefits*, <https://jlarc.virginia.gov/pdfs/reports/Rpt578.pdf>, the Joint Legislative Audit and Review Commission (JLARC) estimated that there are currently 490 active animal control officers in the Commonwealth, including some police officers and deputy sheriffs who work as animal control officers.

While the costs to provide these benefits will vary by employer due to the underlying demographics of each employer, we do know the average employer cost for political subdivisions to provide enhanced hazardous duty benefits as of the last rate-setting valuations was 22.07% of applicable payroll as compared to 6.06%, which is the average employer cost for general employees. The higher cost is due to earlier retirement eligibility, higher benefit multiplier and the hazardous duty supplement for those with at least 20 years of hazardous duty service. Prospective application of the provisions avoids adding unfunded liabilities, but the average normal cost rate (ongoing cost of the plan) associated with hazardous duty members is approximately 15% of covered payroll higher than general employees as June 30, 2023.

The bill will provide localities with the option to provide enhanced hazardous duty coverage to animal control officers. Under § 51.1-138, localities can make an irrevocable election to provide enhanced hazardous duty benefits to any or all of the various categories of employees listed. The election involves choosing between a 1.7% or a 1.85% multiplier for the retirement benefit. The hazardous duty supplement is currently equal to \$1,407 per month and continues until Social Security normal retirement age. The supplement is increased every two years based on Social Security cost of living adjustments. The VRS normal retirement age for employees eligible for enhanced hazardous duty coverage becomes age 60 rather than 65, and employees are eligible for an unreduced benefit at age 60 with at least five years of service credit or at age 50 with at least 25 years of service credit.

Therefore, even if a locality is already providing enhanced hazardous duty coverage to other eligible job classifications, it would need to follow the standard election procedures of requesting an actuarial study and then passing a new resolution to add the same benefit for animal control officers. If the employer chooses to do nothing, their animal control officers would not receive the benefit.

As this bill is permissive in nature for prospective service and political subdivision plans have their own actuarially determined contribution rates based on their individual plan experience, the increases in liabilities and contribution rates associated with this benefit enhancement will vary by employer and depend upon such elements as the number of animal control officers, their years of service, and other demographic data and information.

**10. Specific Agency or Political Subdivisions Affected:** VRS, participating local employers, and VRS members who would become eligible for hazardous duty benefits.

**11. Technical Amendment Necessary:** Yes. The bill purports to amend Va. Code § 51.1-138, which applies to local hazardous duty benefits, but the bill title and first enactment clause in the bill instead refer to Va. Code § 51.1-212. Technical amendments are needed to conform the bill title and first enactment clause to the body of the bill.

Line 4, after reenact §,

Strike

51.1-212

Insert

51.1-138

Line 4, after relating to

Strike

Virginia Law Officers' Retirement System;

Insert

Virginia Retirement System; enhanced retirement benefits for

Line 11, after That §

Strike

51.1-212

Insert

51.1-138

- 12. Other Comments:** This bill would add full-time animal control officers, as defined in § 3.2-6500, to the categories of local employees who are eligible for enhanced hazardous duty benefits, at the election of their employer, under § 51.1-138 for service beginning on or after July 1, 2025.

Local employers that participate in VRS may make an irrevocable election to provide categories of hazardous duty employees specified in § 51.1-138 with benefits equivalent to those provided under the State Police Officers' Retirement System (SPORS). Benefits for SPORS members include a supplement payable from retirement until the retiree's Social Security normal retirement age, as well as a higher multiplier of 1.85%, instead of 1.7%. Currently, local employers may elect either the 1.7% multiplier or the 1.85% multiplier. Age and service requirements for an unreduced retirement benefit also differ for those with enhanced hazardous duty benefits. SPORS normal retirement age is age 60. Eligibility for an unreduced benefit is age 60 with at least five years of service credit or at age 50 with at least 25 years of service credit.

Under this bill, only service earned as an animal control officer on or after July 1, 2025, and after a VRS-participating local employer elects the benefit would earn hazardous duty service. If the political subdivision has made an irrevocable election to provide enhanced benefits for other categories of employees, the benefits provided to animal control officers would be at the same 1.7% or 1.85% multiplier already elected.

Generally, local elections to provide hazardous duty benefits to other eligible categories of employees are retroactive and the enhanced benefit will be applied to any of the active employee's past service in the position, and such retroactive application increases the cost to the political subdivision. The bill, however, limits its application to service earned on or after

July 1, 2025, so if the benefit is elected by the employing locality, this bill would only apply to prospective service. In order to retire with the enhanced benefits, an eligible employee must generally have at least five years of hazardous duty service except in limited circumstances for employees who were in service on June 30 and July 1, 2002. Further, eligible members with enhanced benefits must have at least 20 years of service to qualify for the hazardous duty supplement.

Local employees who are not eligible for enhanced hazardous duty benefits under § 51.1-138, and who were hired for the first time on or after January 1, 2014, are in the Hybrid Retirement Plan. Under this legislation, animal control officers hired after January 1, 2014, (except for those with prior service) whose employers elect enhanced benefits for this category of employees would be moved to Plan 2 (while retaining their DC plan balances) instead of the Hybrid Plan. Animal control officers with prior service who are in Plan 1 or Plan 2 would remain in the same plan.

Whether to provide these enhanced benefits is a local election funded by each separately actuarially rated locality that participates in VRS. If the bill is enacted, any participating locality that wishes to provide enhanced hazardous duty benefits to its full-time animal control officers must adopt a resolution adding such employees to the locality's list of covered employees under § 51.1-138, if any. Adding benefits for these employees would be an individual decision by each participating locality and would not be mandatory. In general, electing these benefits would increase the locality's contribution rate and its liabilities however the prospective application would mitigate the impact.

JLARC has reviewed enhanced benefit eligibility in 2008 and in 2023. In its 2008 report, *Review of State Employee Total Compensation*, <http://jlarc.virginia.gov/pdfs/reports/Rpt378.pdf>, JLARC developed an assessment of several occupational groups and rated these groups based on level of risk and responsibility (see Appendix D, pages 156-57). In addition, JLARC developed a set of guidelines that could be used in conjunction with its risk and responsibility assessment to ascertain if a given occupation merits consideration for inclusion in enhanced benefits. While the report focused more specifically on roles within state government agencies and evaluating such roles for potential membership in VaLORS, JLARC's guidelines could be applied when reviewing the inclusion of new employee groups for coverage with enhanced hazardous duty benefits. Below is an excerpt from JLARC's report:

“...Indicators such as informal SPORS and VaLORS membership criteria and actual enhanced plan membership indicate that any employee being considered for enhanced benefits should show an elevated risk of job-related injury and be directly responsible for protecting the safety of others, especially members of the public. Based on the work conducted during this review, JLARC staff have compiled a set of guidelines that can be used in conjunction with the assessment presented Table D-2 to ascertain if a given occupation merits consideration for enhanced benefits...”

In its 2023 report, *Eligibility of Public Safety Occupations for Enhanced Retirement Benefits*, <https://jlarc.virginia.gov/pdfs/reports/Rpt578.pdf>, JLARC performed a comprehensive review of hazardous duty eligibility and benefits. The review updated the 2008 occupational risk and responsibility guidelines to encompass two general categories of the level of public safety responsibility of employees in the occupation and the physical and psychological demands of the occupation, assessed existing covered occupations using nine criteria, reviewed the appropriateness of extending enhanced benefits to additional occupations, and estimated the cost of extending enhanced benefits to additional employees. Below is an excerpt from the 2023 JLARC report:

“... Virginia has generally recognized the primary rationale for providing enhanced retirement benefits to certain public safety occupations is that the physical and psychological demands of the job make their job responsibilities more difficult to perform as individuals age.”

The 2023 JLARC report determined that “animal control officers have a moderate level of public safety responsibility and face a moderate level of demand compared with other public safety occupations.” The report also noted that only 11 of the 50 states included animal control officers under hazardous duty coverage. The 2023 JLARC report also made no recommendation on who should be covered by enhanced hazardous duty benefits.

The bill is similar to SB 218, which allows localities to elect enhanced retirement benefits for animal control officers and municipal park rangers.

**Date:** 1/25/2024

**Document:** HB231.DOC/VRS