

# Virginia Retirement System

## 2024 Fiscal Impact Statement

1. **Bill Number:** SB 396

**House of Origin**  Introduced  Substitute  Engrossed

**Second House**  In Committee  Substitute  Enrolled

2. **Patron:** McDougle

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 1.0 percent to 1.7 percent. The increase would apply only to judges who are participants in the Hybrid Retirement Plan and who are at least age 55 at the time of appointment. The bill provides that such changes apply only to service earned as a judge on or after July 1, 2025. The bill has a delayed effective date of July 1, 2025.

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 on or after July 1, 2025 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, 2025;
- a 1% multiplier for judges in the Hybrid plan appointed on or after July 1, 2025 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.

The increased multiplier only applies to service earned on or after July 1, 2025. 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):** There is not an immediate impact to the unfunded liabilities of the plan. However, the bill appears to also apply to any hybrid plan judge who would be re-appointed after the age of 55, and at that time would also be eligible for 1.7% multiplier on service earned after July 1, 2025. When this occurs, unfunded liabilities could emerge for members who move from the 1.0% multiplier to the 1.7% multiplier in the future.

**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, 2025. Based on the information contained in the June 30, 2023, actuarial valuation, it is expected that contribution rates for the JRS plan would initially increase by approximately 4.32% of covered payroll.

**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 \$88,000 for FY 2025.

**Employer cost to implement (see Item 7 and Item 8 for details):** The Judicial Branch may have certain 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 at the time of their appointment, compared to other hybrid plan judges under age 55 at the time of their appointment as well as to all Plan 2 judges. Plan 1 judges receive the 1.7% multiplier, but do not participate in the defined contribution component of the hybrid plan, thus making the new benefit tier for Hybrid judges appointed at age 55 and older greater than other judges.

**GF budget impacts (see Item 8 for details):** Impacts to contribution rates are estimated at \$4,358,000 for FY 2027-2028 and \$4,815,000 for FY 2029-2030. 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):** \$88,000 NGF in FY 2025 for VRS implementation. The Judicial Branch indicates they may have costs to implement the bill. Costs are not available at this time.

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

Item 484. VRS implementation costs are estimated at approximately \$88,000 in non-general funds in FY 2025 for programming necessary to make the changes contemplated by the legislation as well as updating handbooks and training materials.

Item 469. The contribution rate for the JRS plan would need to be increased to 34.98%. This represents an increase of 4.32% of covered payroll from the contribution rate established by VRS (30.66%), and an increase of 4.31% from the contribution rate set forth in the budget bills (30.67%) which maintained a slightly higher contribution rate.

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

**9. Fiscal Implications:** The proposed legislation provides an increase in the Hybrid Retirement Plan retirement multiplier to 1.7% for judicial service performed by judges who are at least age 55 at the time they are appointed for service earned on or after July 1, 2025. 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 Plan and an employer match on voluntary contributions. Therefore, under the bill, judges who are at least age 55 when appointed, would receive a benefit greater than judges in Plan 1 or Plan 2.

All judges in the Hybrid plan who are at least age 55 at the time of appointment, which would include re-appointments, would be affected by the bill. Judges who are age 54 or younger at the time of the appointment would continue to receive the 1% multiplier until they are reappointed at age 55 or older, at which point they will receive the 1.7% multiplier on service from July 1, 2025.

The following exhibit shows the demographics of the current JRS population by appointment date and age at appointment. While approximately 23% of the current judges in the JRS plan were first appointed at age 55 or older, nearly 31% 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 Original 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 Plan 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 30% of judges in the Hybrid Retirement Plan were younger than age 45 when first appointed, about 40% were ages 45-54, and approximately 30% of judges in the Hybrid Retirement Plan were first appointed at age 55 or older.

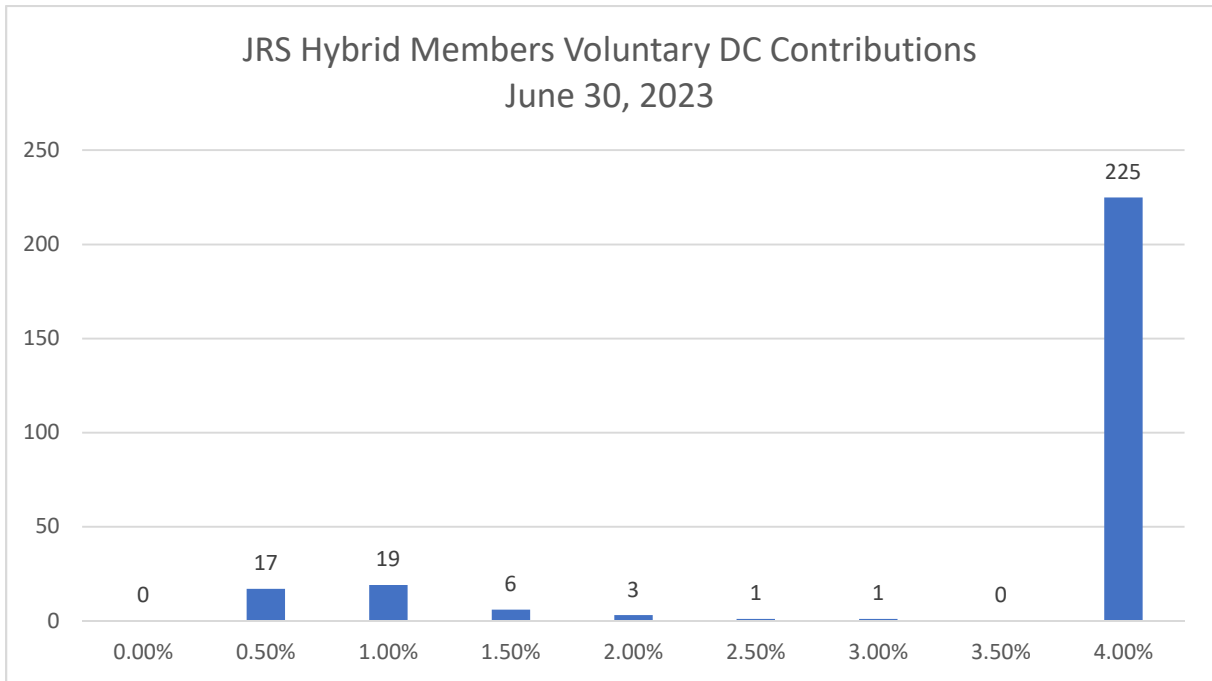
**Exhibit 2**  
**Active JRS Members by Benefit Tier**

Benefit Tier	Age at Date of Original Appointment			Total
	Less than 45	45 - 54	55 or Older	
Plan 1	74	57	5	136
Plan 2	11	13	18	42
Hybrid	84	113	83	280
Total Plan	169	183	106	458

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 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 increase the multiplier to 1.7% for service earned after July 1, 2025 for any Hybrid Plan judge who is at least age 55 at the time of an appointment (the bill does not limit these provisions to just the 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 Plan 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 plan up to 4% of creditable compensation. As of June 30, 2023, over 97% of the judges in the Hybrid plan are making voluntary contributions to the Hybrid plan, with 83% 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 Plan. Judges in Plan 2 and the Hybrid Retirement Plan 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**



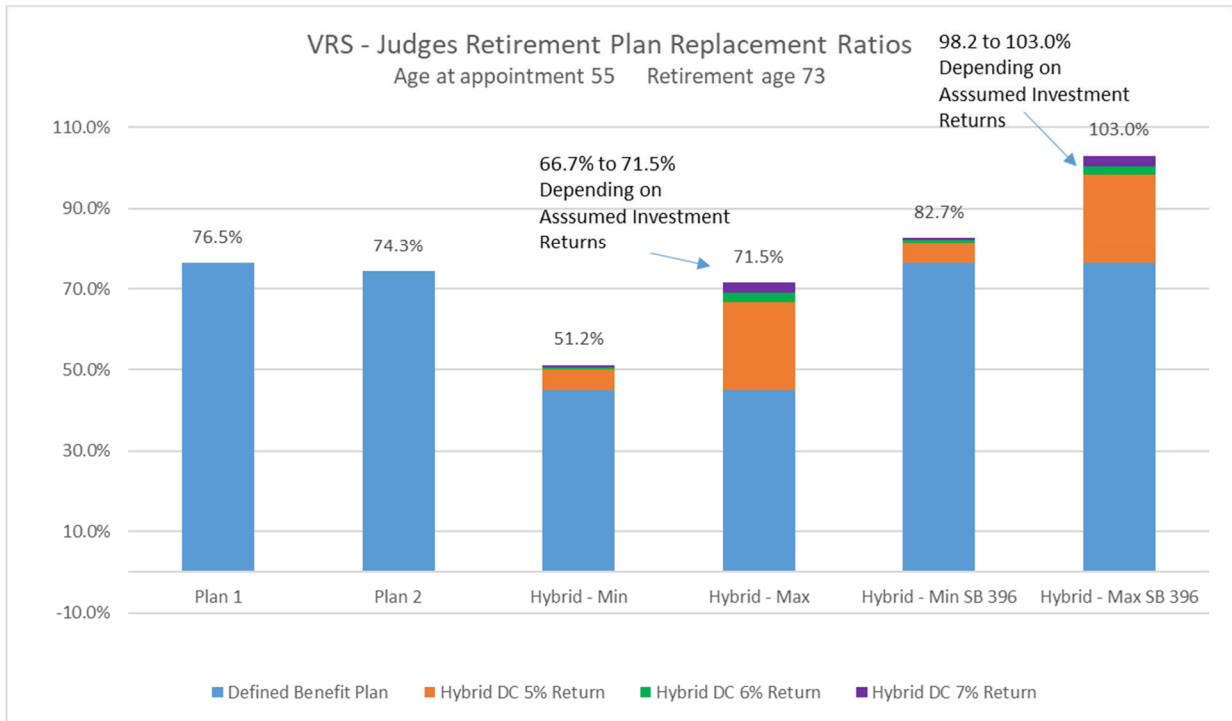
Based on the age at original appointment, JRS members also receive a service weighting as part of the benefit. Effective with 2010 pension reforms, the following service weightings are applicable based on age at the time of the judge’s original appointment:

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 payable from the defined benefit plan is capped at 78% of the member’s average final compensation. The defined contribution component of the Hybrid plan includes estimates based on assumed investment returns of 5%, 6%, and 7% 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, 2023, the JRS plan had a funded status of 84.2% with \$125.2 million of unfunded liability. Since the proposed changes are applicable to all appointment dates and not just the original date of appointment, it is assumed that all hybrid plan judges will eventually be reappointed after they attain age 55 and therefore will likely get the 1.7% multiplier on service beginning July 1, 2025. The actuarial valuation assumes that all judges will work until at least age 60 and, therefore, under this bill, the majority of judges would have a re-appointment date after age 55. In order to account for the cost of the increased multiplier, the analysis assumes all hybrid plan judges will get the 1.0% multiplier on service prior to July 1, 2025 and 1.7% on service thereafter.

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 4.32% of covered payroll, increasing to 8.87% of covered payroll over the next 20 years. Because the cost of benefits for Hybrid judges is expected to be larger under the proposed structure, the blended normal cost rates will not decline over time as under the current structure.

### Exhibit 5

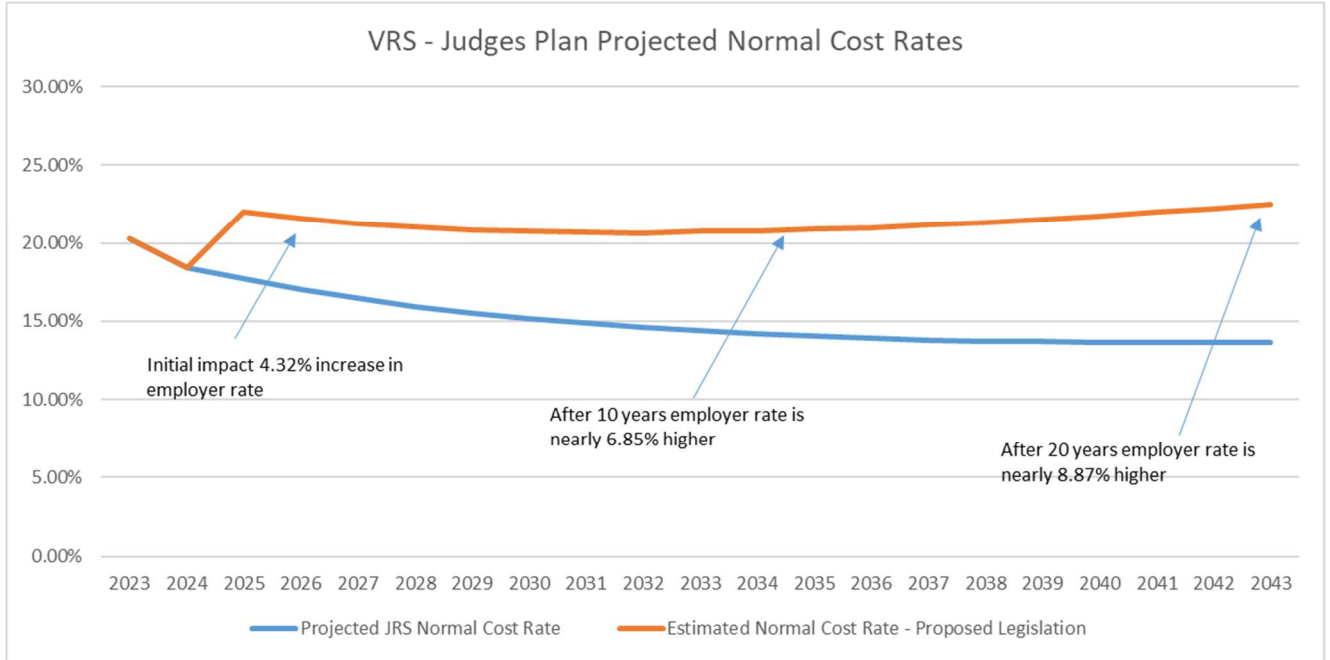


Exhibit 6 below shows the estimated future cost impacts associated with the bill. Since this bill would become effective in the second year of the biennium and hybrid plan judges would begin getting the higher multiplier on service earned after July 1, 2025, the cost impacts reflect an adjustment to the JRS plan rates effective July 1, 2024.

**Exhibit 6**

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
State - General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - General Fund	-	-	-	-	-	-
VALORS - General Fund	-	-	-	-	-	-
JRS - General Fund	3,863,000	3,902,000	4,358,000	4,358,000	4,815,000	4,815,000
Teacher - General Fund	-	-	-	-	-	-
<b>TOTAL General Fund</b>	<b>\$ 3,863,000</b>	<b>\$ 3,902,000</b>	<b>\$ 4,358,000</b>	<b>\$ 4,358,000</b>	<b>\$ 4,815,000</b>	<b>\$ 4,815,000</b>
State - Non-General Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SPORS - Non-General Funds	-	-	-	-	-	-
VALORS - Non-General Funds	-	-	-	-	-	-
<b>TOTAL - Non-General Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Teacher - Local Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non School	-	-	-	-	-	-
<b>TOTAL Local Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Grand Totals</b>	<b>\$ 3,863,000</b>	<b>\$ 3,902,000</b>	<b>\$ 4,358,000</b>	<b>\$ 4,358,000</b>	<b>\$ 4,815,000</b>	<b>\$ 4,815,000</b>

Estimated projections based on employee data and valuation results as of June 30, 2023 and assume a level population throughout projection period. Payrolls include proposed pay increases included in budget for FY 2025 and 2026. Payrolls are assumed to remain level beyond 2026 through remainder of the 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 Plan who are appointed on or after July 1, 2025, and who are at least age 55 at the time of their appointment. Judges appointed on and after July 1, 2025, who are not at least age 55 at the time of their appointment will retain the current 1% multiplier unless they are later re-appointed after age 55, in which case they will get the 1.7% multiplier on service from July 1, 2025.

**Note:** The amended language in the bill in its current form states (emphasis added):

*“Notwithstanding the foregoing, for judges who are (i) participating in the hybrid retirement program and (ii) **at least 55 years old at the time of such appointment**, the allowance shall equal 1.7 percent of the member's average final compensation multiplied by the amount of his creditable service while in the program.”*

As introduced, the bill applies to judges when they are at least 55 years old at the time of their “appointment.” The bill does not specify that the appointment or election shall be for judges appointed or elected to an original term commencing on or after July 1, 2025. This is a change from previous iterations of this bill filed in prior Sessions. Prior versions of the bill limited the application of the increased 1.7% multiplier to judges who were at least 55 years old at the time of their election to an original term. Please note that if the bill was intended to only apply to judges who are at least age 55 when elected to an original term commencing on or after July 1, 2025, the initial cost impact would be approximately 1.30% rather than 4.32%. Longer term costs



impacts (assuming a third of new judges would be over age 55 when first elected) would be expected to approach 7.00% rather than the 8.87% shown above in exhibit 5.

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:** 1/25/2024

**Document:** SB396.DOC/VRS