

Virginia Retirement System

2024 Fiscal Impact Statement

1. **Bill Number:** HB 1438

House of Origin Introduced Substitute Engrossed

Second House In Committee Substitute Enrolled

2. **Patron:** Wiley

3. **Committee:** Appropriations

4. **Title:** Pensions; enhanced retirement benefits for juvenile detention specialists.

5. **Summary:** Requires local governments to provide enhanced retirement benefits for hazardous duty service to juvenile detention specialists, as defined in the bill, beginning July 1, 2024.

6. **Summary of Impacts**

Benefit(s) impacted: Individual local plans that participate in VRS. The bill requires local employers to provide juvenile detention specialists with enhanced hazardous duty benefits comparable to those of state police officers beginning July 1, 2024 in the new §51.1-138 (D). 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, since it requires political subdivisions to provide enhanced benefits to juvenile detention specialists.

Impact to contribution rate(s) (see Item 9 for details): Will vary by employer (due to local plan demographics and experience), but the bill will result in higher contribution rates of individual local plans with juvenile detention specialists beginning July 1, 2024.

Specific Agency or Political Subdivisions Affected (see Item 10): VRS and participating local employers with juvenile detention specialists.

VRS cost to implement (see Item 7 and Item 8 for details): Approximately \$160,000 NGF in FY 2024.

Employer cost to implement (see Item 7 and Item 8 for details): Would vary by employer and could vary widely depending on whether any additional funding requirements are applicable. Would require affected employers to pay for updated rate-setting valuations to set appropriate contribution rates for fiscal year 2025-2026.

Other VRS and employer impacts (see Item 7, Item 9, Item 11, and Item 12 for details): The bill may 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): \$160,000 NGF in FY 2024 for implementation.

- 7. Budget Amendment Necessary:** Yes. In Item 500 VRS would need a NGF appropriation of approximately \$160,000 for FY 2024 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 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 this bill would require that juvenile detention specialists receive hazardous duty benefits comparable to those provided to State police officers. The bill requires employers to provide enhanced benefits to each juvenile detention specialist, and therefore does not allow an election by the employer.

The VRS funding policy requires political subdivision employer 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, this is determined by an actuarial study performed showing the impacts on their individual plan of the additional coverage (prior to electing the benefits) for new classifications of employees. However, as the bill requires that the political subdivision provide enhanced benefits to juvenile detention specialists, the terms of the bill will require employers to provide the benefit regardless of the results of an actuarial study or the VRS funding policy. While impacts will vary by employer based on demographics of employees impacted, employers will not have the option to consider the various impacts to the health of their plans, and it is possible that the bill will result in the funded status of some employer plans to fall below 75%.

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 825 active juvenile detention specialists in the Commonwealth. However, since juvenile detention specialists are currently not specifically identified by job name in VRS employer reporting, changes to the current system will be necessary to create a new job name so juvenile detention specialists can be identified and properly accounted for.

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.

The bill will require localities to provide enhanced hazardous duty coverage to juvenile detention specialists. Under § 51.1-138(B), localities can currently 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.

Typically, 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 those employees. If the employer chooses to do nothing, the employees would not receive the enhanced benefit. However, this bill requires employers to provide enhanced benefits to juvenile detention specialists and employers would not have the option to decide not to provide such benefits. 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 juvenile detention specialists, their years of service, and other demographic data and information.

If a political subdivision has already elected to provide hazardous duty benefits to other eligible employees, the political subdivision would provide the same hazardous duty benefits to its juvenile detention specialists, that is, juvenile detention specialists will receive the same multiplier (1.7% or 1.85%) as the political subdivision's other hazardous duty employees. If the political subdivision has not elected to provide hazardous duty benefits to other eligible employees, the political subdivision will be able to elect the multiplier that would apply to its juvenile detention specialists.

10. Specific Agency or Political Subdivisions Affected: VRS and all participating local employers with juvenile detention specialists.

11. Technical Amendment Necessary: Yes.

VRS is requesting that the effective date of this legislation be delayed until July 1, 2025, to allow for necessary systems adaptations and validation testing as well as communications and outreach to affected employees and employers. As several hazardous duty-related pieces of legislation are being proposed this year, changing the implementation date would provide for the effective implementation of similar concurrent legislative initiatives.

12. Other Comments: This bill would add juvenile detention specialists to the categories of local employees who are eligible for enhanced hazardous duty benefits and requires that

localities that employ juvenile detention specialists provide them with enhanced hazardous duty benefits.

Note: If the intent of the bill is to retain the current and more flexible employer election process for enhanced hazardous duty benefits, lines 86 through 88 would need to be struck.

Generally, local employers that participate in VRS may make an irrevocable election to provide categories of hazardous duty employees specified in § 51.1-138 (B) 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, when local employers elect enhanced hazardous duty benefits, the employer can 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.

Whether a locality elects enhanced hazardous duty benefits for other categories of employees in subsection B or not, the legislation requires all political subdivisions that employ juvenile detention specialists to provide enhanced hazardous duty benefits to these employees.

There is currently no job name in VRS' systems for juvenile detention specialists employed by political subdivisions, so it will be difficult to determine which employees are eligible for the benefits since employees are not reported to VRS under this job name. As a result, VRS will have to rely on employers to identify which employees are juvenile detention specialists. Further, VRS will have to create the appropriate job name in our system.

The enhanced hazardous duty benefits will be applied to an employee's prior service, if any, as a juvenile detention specialist. In order to retire with the enhanced benefits under the bill juvenile detention specialists 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.

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, juvenile detention specialists would be moved to Plan 2 (while retaining their DC plan balances) instead of the Hybrid Plan. Juvenile detention specialists with prior service who are in Plan 1 or Plan 2 would remain in the same plan.

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 occupation 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 “local juvenile detention specialists have a low level of public safety responsibility and face a moderate level of demand compared with other public safety occupations.” The report also noted that 22 of the 50 states included local juvenile detention specialists 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 HB 38, HB 300, HB 630, SB 324, and SB 466; HB 231; and SB 218 that add categories of employees to the list of eligible employees for whom local employers can irrevocably elect hazardous duty benefits. However, this bill differs in that it does not provide for an employer election of the enhanced hazardous duty benefits.

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