

VRS 2010 Legislative Summary

The Virginia General Assembly adopted several benefit plan changes for current and future VRS members during the 2010 General Assembly session.

[House Bill 560](#)-Virginia Sickness and Disability Program. Last year, the 2009 Appropriations Act provided for a one-year eligibility period for non-work related short-term disability coverage and a 60 percent cap on short-term disability income replacement during the first five years of employment for members hired or rehired on or after July 1, 2009. HB 560 codifies these changes in the *Code of Virginia* Title 51.1.

[House Bill 561](#)-Optional Life Insurance. This bill clarifies that the VRS Board of Trustees sets the maximum amount of optional life insurance. It also clarifies that members on leave without pay while on active military duty are responsible for paying their optional life insurance premiums.

[House Bill 562](#)-Cost-of-Living Adjustment (COLA). This bill clarifies that during periods of deflation, the VRS COLA adjustment will be 0 percent rather than a negative percentage that would result in a reduction in the monthly retirement benefit. Retirees become eligible for an annual COLA beginning on July 1 of the second calendar year after retirement.

[House Bill 892](#)-Refunds. This bill requires that members who are not vested are not eligible for a refund of any contributions employers may make to their member contribution accounts after July 1, 2010 or the interest accrued on those funds. Vested members will continue to receive a refund of employer-paid member contributions and member-paid contributions, plus interest. All member-paid contributions are refundable regardless of vesting.

[House Bill 1189](#) and [Senate Bill 232](#)-Plan Design Changes. This bill creates a new benefit structure for members hired or rehired on or after July 1, 2010. The new provisions are referred to as the VRS Plan 2 and the current provisions as the VRS Plan 1. "Rehired" members are those who take a refund of the funds in their member contribution account or optional retirement plan account from a previous position and return to covered employment with no service credit in VRS. Current members, deferred members and current retirees are in Plan 1. Deferred members are not currently employed but still have service credit in VRS. The following chart presents a brief comparison of the Plan 1 and Plan 2 provisions.

Effective July 1, 2010	VRS Plan 1 <i>(Members with pre-July 1, 2010 service credit or an ORP account balance)</i>	VRS Plan 2 <i>(Members hired or rehired on or after July 1, 2010 with no service credit or ORP account balance)</i>
Average final compensation	Average of the employee's 36 highest consecutive months of creditable compensation	Average of the employee's 60 highest consecutive months of creditable compensation
Member contribution, VRS defined benefit (DB) plan	Employee or employer contributes 5 percent of the employee's compensation each month to his or her member contribution account.	State employees contribute the 5 percent member contribution. School divisions and political subdivisions may elect to pick up some or all of the 5 percent member contribution for their employees. Political subdivisions that do not pay the 5 percent member contribution for current Plan 1 employees must elect to pick up the full contribution for these employees in order to pay some or all of the contribution for Plan 2 employees. Employees pay contributions on a pre-tax salary reduction basis.
Member and employer contributions, optional retirement plan (ORP)	10.4 percent employer contribution	8.5 percent employer contribution and 5 percent member contribution on a pre-tax basis. Institutions of higher education have the option to increase the employer ORPHE contribution up to 8.9 percent, provided the additional increase is paid from non-state funds.
Vesting, VRS DB plan	At 5 years of service credit	Same as Plan 1
<i>Vesting and Refunds</i>	Vested members are eligible for a full refund of their member contribution account balance including interest. Non-vested members are eligible for any funds they contributed, plus accrued interest. They also are eligible for any contributions made by their employer before July 1, 2010 and corresponding interest. Non-vested members are not eligible for a refund of any contributions made by their employer after July 1, 2010 or the interest on these contributions.	Same as Plan 1. NOTE: Non-vested Plan 2 members will not have pre-July 1, 2010 contributions.
Vesting, ORP	Immediate	Same as Plan 1

Retirement multipliers	<p>VRS (state, school division and political subdivision non-hazardous duty employees): 1.7 percent</p> <p>SPORS: 1.85 percent</p> <p>VaLORS: 1.7 percent or 2.0 percent, depending on member's election</p> <p>Sheriffs: 1.85 percent</p> <p>Political subdivision hazardous duty employees: 1.7 percent or 1.85 percent, depending on employer's election</p>	Same as Plan 1. NOTE: VaLORS members under Plan 2 retire under the 2.0 percent multiplier with no eligibility for the hazardous duty supplement.
Normal retirement age	Age 65	Normal Social Security retirement age
	SPORS, VaLORS and Political Subdivision Hazardous Duty Members: Age 60	Same as Plan 1
Earliest unreduced retirement eligibility	VRS: Age 65 with at least five years of service credit or age 50 with at least 30 years of service credit	VRS: Normal Social Security retirement age with at least five years of service credit or when age and service equal 90 (e.g. age 60 with 30 years of service credit)
	SPORS, VaLORS and Political Subdivision Hazardous Duty Members: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit	Same as Plan 1
	JRS: Age 65 with weighted service equal to at least five years of service credit or age 60 with weighted service equal to at least 30 years of service credit	Same as Plan 1
Earliest reduced retirement eligibility	VRS: Age 55 with at least five years of service credit or age 50 with at least 10 years of service credit	VRS: Age 60 with at least five years of service credit
	SPORS, VaLORS and Political Subdivision Hazardous Duty Members: Age 50 with at least five years of service credit	Same as Plan 1
	JRS: Age 55 with weighted service equal to at least five years of service credit.	Same as Plan 1
Cost-of-Living Adjustment (COLA) <i>(effective</i>	Matches first 3 percent increase in the Consumer Price Index-Urban and one-half of the remaining increase up to a maximum	Matches first 2 percent increase in the Consumer Price Index-Urban and one-half of the remaining increase up to a maximum

<i>July 1 of the second calendar year after retirement)</i>	COLA of 5 percent, when provided	COLA of 6 percent, when provided
Purchase of Prior Service	Three-year eligibility period to purchase prior service at 5 percent; actuarial equivalent rate after three years	Effective January 1, 2011: One-year eligibility period to purchase prior service at normal cost; actuarial equivalent rate after one year Exception: Provisions for VRS refunded service, no-cost military leave and sick leave conversion are the same as Plan 1.

Most Plan 2 provisions are effective July 1, 2010. There are two exceptions:

- New employees with written employment contracts executed before March 15 who begin covered employment on or after July 1 are in Plan 1. Employees whose contracts are executed between March 16 and June 30 and begin employment on or after July 1, 2010 will be in Plan 2. Employees whose contracts are executed between March 16 and June 30 and begin employment before July 1, 2010 will be in Plan 1.
- Effective January 1, 2011, the eligibility period to purchase prior service, other than refunded service, changes from three years to one year for employees in Plan 2. The cost basis during the one-year eligibility period also changes from 5 percent of compensation or average final compensation to an approximate normal cost rate to be determined by the VRS Board of Trustees and its actuary. Purchases after the eligibility period will continue to be based on the full actuarial cost calculated on an individual basis.

Senate Bill 95-Short-Term Disability for State Police. State police officers covered under the Virginia Sickness and Disability Program (VSDP) who incur a work-related injury in the line of duty will be eligible for income replacement at 100 percent of their pre-disability income for six months. Depending on certification by the Superintendent of State Police, they may be eligible for another six months of short-term disability at 100 percent of their pre-disability income. State police officers who remain disabled after 12 months will be eligible for long-term disability at an income replacement of 60 percent of their pre-disability income.

State Budget Summary: VRS-Related Provisions

Cash Match Reduction. Participants in the 457 Plan or the 403(b) plan will receive a maximum cash match of \$10 per pay period in fiscal year 2011. The match will return to the current level of up to \$20 per pay period in fiscal year 2012. It is unchanged for the remainder of fiscal year 2010.

Furlough. State employees must take one day of unpaid leave during the current fiscal year, which ends June 30. For most state employees, the furlough day will occur May 28; this date may vary for some employers. Although the furlough will result in a salary reduction, your employer will report your full compensation and contributions to VRS as if there were no furlough. Members on short-term disability through the Virginia Sickness and Disability Program (VSDP) during the furlough will continue receiving their current VSDP benefit during the furlough.

New Severance Program. The 2010 General Assembly established the Transitional Benefits Program that allows school divisions and VRS-participating political subdivisions to elect to provide a transitional severance benefit or an enhanced retirement benefit to employees who are involuntarily separated from employment. Involuntary separation is a layoff because of a budget reduction, agency reorganization, workforce downsizing or other causes not related to job performance or misconduct. The program is effective through June 30, 2012. The General Assembly may continue the program in subsequent budgets or establish it as a permanent program under the *Code of Virginia*.

Teachers, other school employees (cafeteria workers, bus drivers and maintenance workers) or political subdivision employees are eligible for benefits under the program. Sheriffs, treasurers, commissioners of revenue, commonwealth attorneys and circuit court clerks are not eligible for the Transitional Benefits Program. If you elect the Transitional Benefits Program, the cost of enhanced retirement benefits for any employee who retires under the program will be factored into your future employer contribution rate.

Additional information will be announced in Employer Update and on the [VRS Web site](#).

Line of Duty Act (LODA). State and political subdivision employers with employees covered under LODA will pay contributions for the cost of the program beginning in FY 2012. VRS will conduct a census of covered members including volunteers serving in fire departments and rescue squads in order to conduct an actuarial valuation of the program and to establish employer contribution rates for FY 2012. The Department of Accounts will continue to administer benefits for beneficiaries and their families. VRS will assume responsibility for actuarial services, rate setting, premium collection and money management. On or before July 1, 2011, local governments will be granted a one-time irrevocable election to opt out of the program and elect to finance its ongoing benefit obligations locally.

Contribution Rates

The following charts show contribution rates for state-funded pension programs. The first chart represents retirement rates for the rest of fiscal year 2010:

	Actual FY 2010 ¹	Enrolled Budget April 2010	Enrolled Budget May 2010	Enrolled Budget June 2010
Retirement²				
State-VRS	11.26%	5.00%	5.00%	8.13%
SPORS	25.05%	5.00%	5.00%	15.02%
VaLORS	19.23%	5.00%	5.00%	12.11%
JRS	39.51%	5.00%	5.00%	22.25%
Teacher-VRS	13.81%	5.00%	5.00%	5.00%
Political Subdivisions-VRS ³	Various	No Change	No Change	No Change
Group Life Insurance				
State ⁴	0.79%	0.00%	0.00%	0.00%
Teacher	0.79%	0.00%	0.00%	0.00%
Political Subdivisions ⁵	0.79%	0.00%	0.00%	0.00%
Health Insurance Credit				
State	1.00%	0.00%	0.00%	0.50%
Teacher	1.04%	0.00%	0.00%	0.00%
Political Subdivisions ³	Various	No change	No change	No change
VSDP	1.00%	0.00%	0.00%	0.50%

¹The FY 2010 rates are the original rates and do not reflect the suspension of payments in the 4th quarter

²Includes the 5.00% employee contribution. State rates for June are one-half the employer rate, plus 5.00%.

³Political subdivisions also include school cafeteria workers, bus drivers and maintenance workers.

⁴The state rate for June 2010 was reduced to zero to provide consistency with other employers in the pool.

⁵The political subdivision rate for April, May and June 2010 was reduced to zero to provide consistency with other employers in the pool.

Contribution rates for local governments remain as approved by the Board of Trustees last fall. Total contributions collected by VRS in FY 2009 amounted to about \$2.1 billion. Under the rates set in the FY 2011 budget, VRS anticipates about \$1.5 billion in contributions. Contribution rates include the 5 percent member contribution. The following chart shows retirement rates for FY2011 and 2012:

	Current Rates FY 2010*	Enrolled Budget FY 2011*	Enrolled Budget FY 2012*
State Employees	11.26%	7.13%	7.08%
Teachers	13.81%	8.93%	10.16%
VaLORS	19.23%	10.12%	10.07%
SPORS	25.05%	12.76%	12.73%
JRS	39.51%	33.81%	33.65%
ORP**	10.40%	10.40% / 8.50%	10.40% / 8.50%

*Current FY 2010 rates are based on assumptions applied in the 2009 Appropriations Act (8% rate of return, 3% inflation rate and a 30-year amortization). These rates do not reflect the suspension of payments in the 4th quarter. Rates other than ORP include the 5% member contribution.

**For any person who becomes a member with no prior service credit on or after July 1, 2010, the ORP contribution will be at least 8.5% but no more than 8.9% of creditable compensation. The portion of the employer contribution in excess of 8.5% cannot be funded from general funds. The rate will still be 10.40% for existing employees.

Other Post-Employment Benefit (OPEB) Contribution Rates

Employer contribution rates for the VRS Group Life Insurance Program, Virginia Sickness and Disability Program and Retiree Health Insurance Credit Program (OPEBs) are shown in the following chart. Total contributions collected by VRS for OPEB programs in FY 2009 totaled about \$353 million. Under the rates set in the FY 2011 budget, VRS anticipates collecting about \$104 million.

	Current Rates FY 2010*	Enrolled Budget FY 2011	Enrolled Budget FY 2012
Group Life Insurance			
State Employee	0.79%	0.28%	0.28%
Teacher**	0.79%	0.28%	0.28%
Health Insurance Credit			
State Employee	1.00%	0.10%	0.10%
Teacher	1.04%	0.60%	0.60%
VSDP	1.00%	0.00%	0.00%

*FY 2010 rates are the original rates and do not reflect the suspension of payments in the 4th quarter.

**For FY 2010, the state reimbursement for teachers is 0.27%. For FY 2011 and FY 2012, the state reimbursement for teachers will be 0.28%.