

## **Response to Questions on the FY 2013 Budget**

**Request By:** Supervisor Smyth

**Question:** Please provide additional information on the changes to the Virginia Retirement System (VRS) and the impact they cause on the FCPS budget. Please provide detailed cost estimates and include options for phasing the changes in over a period of years.

**Response:** The following response was prepared by Fairfax County Public Schools (FCPS):

The attached retirement presentation provides the following:

1. Summary of retirement rates
2. Virginia Retirement System (VRS) changes
3. VRS benefit changes
4. FCPS' recommended solution to address the state mandate
5. Information on a phased implementation which is not recommended

# BUDGET FY 2013

Fairfax County, Virginia

## Potential Impact of Virginia Retirement System Changes

Board Update – April 12, 2012



[www.fcps.edu](http://www.fcps.edu)

# Retirement Plans

<b>Employer and Employee Combined Retirement Rates</b>		
<b>Program</b>	<b>FY 2012</b>	<b>FY 2013</b>
Virginia Retirement System (VRS)	11.33%	16.66%
ERFC	8.34%	8.34%
VRS and ERFC Combined	19.67%	25.00%
FCERS - Plan B	22.53%	24.38%

## VRS & ERFC

- VRS participation is mandatory for full-time educational and administrative employees (80% of FCPS employees). Employees in VRS are currently required to also participate in ERFC. VRS and ERFC combined were implemented to be comparable to FCERS Plan B.

## FCERS

- Part-time educational and administrative employees, as well as support positions including bus drivers, custodians, and food service workers, participate in FCERS which is the retirement program overseen by Fairfax County Government.

# Virginia Retirement System Changes

- Requires employers to have the employee pay the 5% employee share
  - May phase in implementation over 5 years for current employees
  - Requires new employees to pay the entire 5% in FY 2013
- For current employees, the cost of paying the 5% employee share must be offset by a 5% salary increase
- Several benefit calculation changes apply and negatively impact comparability with FCERS benefits

# Summary of VRS Benefit Changes

Virginia Retirement System Benefits Highlights - As Projected				
Benefit Item	VRS Plan 1 Vested as of 1/1/13	VRS Plan 1 Non-Vested as of 1/1/13	VRS Plan 2	VRS Plan 3 Hybrid
Date Effective <sup>1</sup>	Hired prior to 1/1/08	Hired 1/1/08 to 6/30/10	Hired 7/1/10 to 12/31/13	Hired 1/1/14 or after
Benefit Multiplier <sup>2</sup>	1.70	1.65	1.65	1.00
Final Compensation Calculation	High 36 Months	High 60 Months	High 60 Months	
Cost of Living Adjustment <sup>3</sup>	Capped at 5%	Capped at 3%	Capped at 3%	
Unreduced Retirement	Age 65 and 5 years of service or age 50 with 30 years of service	Normal Social Security age with 5 years of service or age and service = 90 (i.e. 55 and 35)	Normal Social Security age with 5 years of service or age and service = 90 (i.e. 55 and 35)	
Reduced Retirement	Age 55 with 5 years of service or age 50 with 10 years of service	At age 60 with 5 years of service	At age 60 with 5 years of service	
Defined Contribution Match	Doesn't Apply	Doesn't Apply	Doesn't Apply	1% match for the first 1% employee voluntary contribution and then 0.5% for each 1% voluntary above 1%, capped at a total match of 3.5% from the employer

This chart was created from a legislative summary. For state approved benefit changes, visit <http://www.varetire.org/>

<sup>1</sup> The purchase of prior service can impact plan participation and/or vesting status.

<sup>2</sup> For benefits earned after January 1, 2013.

<sup>3</sup> Any person with less than 20 years service who takes early retirement would not receive a cost-of-living adjustment until one year after reaching normal retirement age. Employees within five years of eligibility for an unreduced benefit as of 1/1/13 are grandfathered.

# FCPS Recommendation

- Implement VRS shift fully in FY 2013
  - This would avoid a bifurcated system between employees hired before and after July 1, 2012
  - Allows FCPS to maintain one set of salary scales
  - Results in administrative efficiency
  - Does not defer the liability to be addressed in future years

# FCPS Employee Paid Benefit Rates

FCPS Employee Benefit Rates			
Program	FY 2012	FY 2013 Without Recommendation	FY 2013 With Recommendation
Virginia Retirement System	0.00%	5.00%	5.00%
ERFC	4.00%	4.00%	2.00%
VRS and ERFC Combined	4.00%	9.00%	7.00%
FCERS Plan A or Plan B	4.00% or 5.33%	4.00% or 5.33%	4.00% or 5.33%

- All contracted employees would receive a 5% salary increase
- This will be offset by having VRS participants pay the 5% employee share
- The employee share for ERFC will then be reduced by 2% and the employer share will increase by the same amount

# Hypothetical Example - Employee

Hypothetical Example of the 5% Employee Share of VRS Moved from Employer to Employee <sup>1</sup>						
Employee Impact of the State Mandate	Salary after COLA	Cost of Living Adjustment	VRS Employee Share Paid by Employer	VRS Employee Share Paid by Employee	ERFC Employee Rate	Impact to Employee
Current Est.	\$ 50,000		5.00%		4.00%	\$ 48,000
State Mandate	\$ 52,500	5.00%		5.00%	2.00%	\$ 48,825

<sup>1</sup>Does not include the impact of taxes and other salary sensitive benefits.

- Employees will receive a 5% COLA and then contribute 5% of their salary to VRS for the employee share
- The employee contribution for ERFC will be reduced by 2%, resulting in an increase in take home pay of less than 1.7% after accounting for the impact of salary sensitive benefits



# Fiscal Impact of Recommendation

- The fiscal impact is \$52 million, excluding rate increases
  - Providing all contracted employees with a 5% salary increase offset by having VRS participants pay the 5% employee share will cost FCPS nearly \$25 million in FY 2013
    - \$15 million results from the impact to salary sensitive benefits for VRS participating employees
    - \$10 million results from the impact of the salary increase on FCERS participants – most of which are FCPS' lowest paid employees – needed to maintain equity and one set of salary scales regardless of retirement plan participation
  - Reducing the employee share for ERFC by 2% and having FCPS' share increase by the same amount will cost approximately \$26 million in FY 2013
    - This results in an increase in employees take home pay of less than 1.7%
    - Additional funding of \$6.6 million is needed to provide a total increase of 2.18%
  - Providing hourly employees with a 1% increase will cost approximately \$1 million

## Phase-In Option – Not Recommended

- Increases cost to FCPS
  - Costs will increase due to the impact of compounded increases to the salary base required for the shift over time
- Creates a bifurcated system between employees hired before July 1, 2012 and after July 1, 2012
  - Doubles the number of existing salary scales in FY 2013
  - Results in substantial administrative burden and additional administrative costs
- Will be further complicated by the implementation of the VRS hybrid plan effective January 1, 2014

## Fiscal Impact of Not Recommended Phase-In

- FY 2013 – 2% VRS shift, 2% ERFC shift, and 2% salary increase for all employees will cost \$37.5 million
  - All employees will see an increase of 2%
- To complete the required VRS shift over the next three years the following new funding will be needed each year:
  - Approximately \$5.5 million in FY 2014, FY 2015, and FY 2016
  - Shifting 1% per year will result in a salary decrease for VRS/ERFC participants unless they are provided with an additional salary increase to offset the impact from salary sensitive benefits
  - Results in 4 years of differing contribution rates for VRS between current and future employees