Retirement System Review: Virginia Code Requirements

Board of Supervisors Personnel Committee Meeting

Philip Hagen, Senior Budget Analyst

June 13, 2017
Agenda

- History of Virginia Retirement System Plan Design Changes
- Requirements under Virginia Code
  - Two-Thirds Requirement
  - Participation in VRS
  - Optional DC Plan
- Discussion
Virginia Retirement System

History of Plan Design Changes
Virginia Retirement System Plan 1
Employees hired prior to July 1, 2010

<table>
<thead>
<tr>
<th></th>
<th>Non-Uniformed</th>
<th>Uniformed Public Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Normal (Unreduced) Retirement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 50 with 30 years or Age 65 with 5 years</td>
<td></td>
<td>Age 50 with 25 years or Age 60 with 5 years</td>
</tr>
<tr>
<td><strong>Average Final Compensation</strong></td>
<td>3 years</td>
<td>3 years</td>
</tr>
<tr>
<td><strong>Defined Benefit Multiplier</strong></td>
<td>1.70%</td>
<td>1.70% or 1.85%</td>
</tr>
<tr>
<td><strong>Defined Contribution</strong></td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>
## Virginia Retirement System Plan 2

**Employees hired between July 1, 2010 and December 31, 2013**

<table>
<thead>
<tr>
<th></th>
<th>Non-Uniformed</th>
<th>Uniformed Public Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Normal (Unreduced) Retirement</strong></td>
<td>Rule of 90 or Normal Social Security Retirement Age with 5 years</td>
<td>Age 50 with 25 years or Age 60 with 5 years</td>
</tr>
<tr>
<td><strong>Average Final Compensation</strong></td>
<td>5 years</td>
<td>5 years</td>
</tr>
<tr>
<td><strong>Defined Benefit Multiplier</strong></td>
<td>1.65%</td>
<td>1.70% or 1.85%</td>
</tr>
<tr>
<td><strong>Defined Contribution</strong></td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

June 13, 2017
## Virginia Retirement System Hybrid Plan

### Employees hired after January 1, 2014

<table>
<thead>
<tr>
<th>Non-Uniformed</th>
<th>Uniformed Public Safety¹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mandatory Employee Contribution</strong></td>
<td>5% (4% DB / 1% DC)</td>
</tr>
<tr>
<td><strong>Voluntary Employee Contribution to DC Plan</strong></td>
<td>Up to 4%</td>
</tr>
<tr>
<td><strong>Employer Match to DC Plan</strong></td>
<td>Between 1 and 3.5%</td>
</tr>
<tr>
<td><strong>Normal (Unreduced) Retirement</strong></td>
<td>Rule of 90 or Normal Social Security Retirement Age with 5 years</td>
</tr>
<tr>
<td><strong>Average Final Compensation</strong></td>
<td>5 years</td>
</tr>
<tr>
<td><strong>Defined Benefit Multiplier</strong></td>
<td>1%</td>
</tr>
</tbody>
</table>

¹ Uniformed public safety employees hired after January 1, 2014, are members of VRS Plan 2.
Requirements under Virginia Code

Virginia Code § 51.1-800
Two-Thirds Requirement

- Virginia Code § 51.1-800(A)
  - Every county and city, and every town having a population of 5,000 or more, shall provide a retirement system for those officers and employees listed in subsection B either
    i. by establishing and maintaining a local retirement system which provides a service retirement allowance to each employee who retires at age sixty-five or older which equals or exceeds two-thirds of the service retirement allowance to which the employee would have been entitled had the allowance been computed under the provisions of the Virginia Retirement System or
    ii. by participating directly in the Virginia Retirement System.
Two-Thirds Requirement Prior to July 2010

Non-Uniformed Employees

- Virginia Retirement System Plan 1: 1.7% DB
- Fairfax Employees' Plan A: 1.8% DB
- Fairfax Employees' Plan B: 2.0% DB

Uniformed Public Safety Employees

- Virginia Retirement System Plan 1: 1.85% DB
- Fairfax Police Officers: 2.8% DB
- Fairfax County Uniformed: 2.5% DB
Two-Thirds Requirement July 2010 – Dec 2013

Non-Uniformed Employees

- Virginia Retirement System Plan 2: 1.65% DB
- Fairfax Employees’ Plan A/C: 1.8% DB
- Fairfax Employees’ Plan B/D: 2.0% DB

Uniformed Public Safety Employees

- Virginia Retirement System Plan 2: 1.85% DB
- Fairfax Police Officers: 2.8% DB
- Fairfax County Uniformed: 2.5% DB
Two-Thirds Requirement After January 2014

Non-Uniformed Employees
- Virginia Retirement System Hybrid Plan: 1% DB, 1.8% DC
- Fairfax Employees' Plan C: 1.8% DB
- Fairfax Employees' Plan D: 2.0% DB

Uniformed Public Safety Employees
- Virginia Retirement System Plan 2: 1.85% DB
- Fairfax Police Officers: 2.8% DB
- Fairfax County Uniformed: 2.5% DB
Virginia Code does not provide guidance on how to use the VRS Hybrid Plan as the benchmark for the two-thirds requirement.

- Does the requirement apply to both the DB and DC components?
- For the DC component, what assumptions should be used for:
  - Elective contributions?
  - Investment earnings?
  - Mortality?

Virginia Code also does not provide guidance on how to measure a County defined contribution or hybrid plan against the two-thirds requirement.
Two-Thirds Requirement

- The County Attorney recommends that VRS Plan 2 continue to be used as the baseline for the two-thirds requirement.

- Legislative action is necessary to provide guidance on:
  - The use of the VRS Hybrid Plan as the baseline
  - The evaluation of local defined contribution and hybrid plans relative to the two-thirds requirement
Participation in VRS

- The County could join VRS as an alternative to meeting the two-thirds requirement for new employees.
  - Non-uniformed employees would be covered under the VRS Hybrid Plan.
    - Portability between jurisdictions that participate in VRS
    - Portability of DC portion of the benefit
  - Uniformed public safety employees would be covered under VRS Plan 2.
    - Portability between jurisdictions that participate in VRS
  - The County would lose control over decisions involving funding and benefit levels, which can impact the County’s bond ratings.
- Similar to FCPS and the City of Alexandria, a secondary plan could be established if the Board desires to provide benefits in addition to those provided by the VRS Hybrid Plan.
Optional DC Plan

- Virginia Code § 51.1-800(D)
  - A county, city, or town shall not be required to provide retirement benefits to an employee who enters into an agreement with the local government for inclusion in a deferred compensation plan when the agreement specifically prohibits inclusion in any other retirement system established by the county, city, or town.
Optional DC Plan

- The County could require that employees elect either:
  - Membership in a retirement system that satisfies the two-thirds requirement or
  - Participation in a deferred compensation plan.
- Although not required by code, an employer match would be necessary as an incentive for employees to choose the DC plan over the existing retirement systems.
- Significant enrollment in the DC plan could impact the funding requirements of the existing retirement systems.
Summary

- Virginia Code - Two-Thirds Requirement
  - Legislative action to provide guidance on benchmarking hybrid and defined contribution plans
  - Participation in VRS, potentially offering supplemental plan
  - Offer DC plan as an option