VRS Reform Conference Report

HB 1130, SB 497 & SB 498
Employee Contribution: Teacher and Local Employees

- SB 497 conference report would require teachers, local government employees and employees of constitutional officers to pay the 5% employee contribution
  - It would mandate school divisions and localities to provide a 5% salary offset for all employees for whom they are currently paying the 5%
- Provisions would allow school boards the option of phasing in the change over 5 years; i.e. 1:1
  - This option is not available for local and constitutional employees
DB Benefit Reforms

• Conference report includes benefit reforms primarily focused at non-vested employees (those with less than 5 years of service)

• One item impacting all employees is that anyone who retires with a reduced retirement (i.e. not meeting the unreduced retirement provisions) will not be eligible for a COLA until such times as they would normally be eligible to retire
  – Phase in provision excludes employees who will be eligible for unreduced retirement by January 1, 2018
Reforms to DB Plan

• Retirement benefits for all non-vested employees will be based on:
  – Shift from 3-year to 5-year average final compensation for benefit calculation
  – A reduced benefit multiplier from 1.7% to 1.65% for service not yet earned
    • Covers all state and college employees, local employees, teachers, constitutional officers’ employees and judges
    • Excludes state police officers, local public safety (i.e. fire and police who receive enhanced retirement benefits) and other state public safety workers (i.e. correctional officers)
  – Caps cost-of-living adjustment at 3 percent
    • Currently formula guaranteed the 1st 2% of CPI and allowed for a ½% increase for each additional 1% of inflation, capped at 6%
    • This effects all employee groups, including public safety and deputy sheriffs
Creates a New Hybrid Plan

• Legislation would place all new hires into mandatory hybrid DB/DC plan starting in 2014
  – Covers all state and college employees, local employees (including fire and police who are not covered by enhanced benefits), teachers, constitutional officers’ employees and judges
  – Excludes state police officers, other state public safety workers (i.e. correctional officers), and local public safety (i.e. fire and police who receive enhanced retirement benefits)
• Benefit includes a 1.0% benefit multiplier for the Defined Benefit component along with the Defined Contribution component provisions
  – Employees are required to contribute 4% of their salary towards the defined benefit portion of the plan
• Defined Contribution Component provisions include a mandatory 1% employee contribution to be matched by a 1% employer
• Employee has the option of contributing an additional 4% with the employer match as follows:
  – 1% or 1% for first 1% of voluntary
  – 0.5% for each 1.0% voluntary employee contribution above 1% capped at a total of 3.5% from employer
  – Language in bill would automatically increase the mandatory employee contribution every 3 years until it reaches the 5% level though it includes an opt-out clause
• Vesting Period for DC component of hybrid is 50% after 2 years, 75% after 3 years, and 100% after 4 years
VRS Rate Funding

• Conference Committee report included language which phased in the VRS board recommended rates over the next 4 biennium

<table>
<thead>
<tr>
<th>Percent of Board</th>
<th>FY 13/14</th>
<th>FY 15/16</th>
<th>FY 17/18</th>
<th>FY 19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers</td>
<td>69.53%</td>
<td>79.69%</td>
<td>89.84%</td>
<td>100.00%</td>
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<tr>
<td>SPORS</td>
<td>67.56%</td>
<td>78.37%</td>
<td>89.19%</td>
<td>100.00%</td>
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<tr>
<td>VALORS</td>
<td>75.82%</td>
<td>83.88%</td>
<td>91.94%</td>
<td>100.00%</td>
</tr>
<tr>
<td>JRS</td>
<td>83.98%</td>
<td>89.32%</td>
<td>94.66%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

• Includes language authorizing the VRS to develop an employer surcharge to ensure that there is a recovery mechanism to recover unfunded liabilities in the VRS against state agencies (primarily colleges and universities) whose employees migrate to a defined contribution plan