

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% for 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

Percent of Board

<u>Rate Funded</u>	<u>FY 13/14</u>	<u>FY 15/16</u>	<u>FY 17/18</u>	<u>FY 19/20</u>
Teachers	69.53%	79.69%	89.84%	100.00%
SPORS	67.56%	78.37%	89.19%	100.00%
VALORS	75.82%	83.88%	91.94%	100.00%
JRS	83.98%	89.32%	94.66%	100.00%

- 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