



VIRGINIA HOUSE  
APPROPRIATIONS  
COMMITTEE

CHAIRMAN LUKE E. TORIAN

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# COMPENSATION AND RETIREMENT 101

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# COMPENSATION & RETIREMENT AREAS OF RESPONSIBILITY

- Virginia Retirement System Retirement programs
  - Defined Benefit Programs
  - Hybrid Plan
  - Defined Contribution Programs for Higher Education and Political Appointees
- State Employee and State-Supported Local Employee Salary Adjustments
  - Includes Constitutional Officers' Career Development Programs which provide salary supplements for employees who meet training requirements
- Public Employee Health Insurance program
  - State employee plan for state employees, their families and retirees (approximately \$2.7 billion in FY 2025)
  - Local Choice plan run by DHRM for some localities, authorities, and school boards (about 230 local entities)

# COMPENSATION & RETIREMENT AREAS OF RESPONSIBILITY

- Other Post Employment Benefits
  - Group Life Insurance
  - Retiree Health Credit
  - Virginia Sickness and Disability Program (provides sick leave, short term disability, and long-term disability benefits)
- Deferred Compensation Plan and Cash Match
- Line of Duty Act
  - Administered by DHRM and VRS
  - Provides a Death Benefit and Health Insurance to public safety workers who die or are permanently disabled in the line of duty
- Workers Compensation Benefits for public employees

# OVERVIEW OF VIRGINIA RETIREMENT SYSTEM

- Constitution of Virginia (Article X, § 11) requires that the General Assembly maintain:
  - “...a retirement system for state employees and employees of participating political subdivisions and school divisions.... The retirement system shall be subject to restrictions, terms, and conditions as may be prescribed by the General Assembly”
- Virginia Retirement System (VRS) established in 1942 to administer a statewide retirement system
  - 380,132 active members as of May 31, 2025
  - 23.9% are state employees, 43.5% are teachers and 32.5% from political subdivisions
- VRS also administers the Virginia Sickness and Disability Program (VSDP), group life insurance, retiree health insurance credit, disability retirement benefits, long-term care insurance, the deferred compensation plan, and the alternative defined contribution retirement plans for college faculty and political appointees

# VRS HAS 3 BASIC STATE EMPLOYEE PLANS

- Plan 1 – Employees who were members prior to July 1, 2010 and had at least 60 months of creditable service as of January 1, 2013
- Plan 2 – Employees who entered the system on or after July 1, 2010 or who had less than 60 months of creditable service as of January 1, 2013
- Hybrid – Employees who entered the system on or after January 1, 2014, or prior employees who elected to transition to the hybrid
  - SPORS and VaLORS are not included in hybrid
  - Effective July 1, 2025 JRS members are not included in the hybrid
- Over 52% percent of active members are in Hybrid as of May 31, 2025

# VIRGINIA RETIREMENT SYSTEM PLAN 1

	<b>Regular VRS Benefit – PLAN 1</b>
Employee Group	Most state employees, teachers, and most employees of political subdivisions
Regular Unreduced	65 Years of Age & 5+ Years of Service
Early Unreduced	50 Years of Age & 30+ Years of Service
Vesting Period	5 years
Benefit Multiplier	1.7%
Average Final Compensation (AFC)	Average of highest 3 consecutive years of salary
Formula	Benefit = 1.7% x Years of Service x AFC
Cost of Living Adjustment	Equal to CPI up to 3%; Between 3% and 7% - COLA increases 0.5% for every 1% increase in CPI Cannot exceed 5%
Employee Contribution	5.0%

# PRIMARY PROVISIONS OF PLAN 2

## Provisions that Do Not Apply to Hazardous Duty Plans

- Replaces 50/30 reduced retirement with “Rule of 90”
  - Years of service plus Age must be equal to or greater than 90 to be eligible for retirement
  - Only applies to regular VRS employees
- Reduces benefit multiplier from 1.7% to 1.65% for service earned after January 1, 2013

## Provisions that Do Apply to Hazardous Duty Plans

- Shifts from 3-years to 5-years the average final compensation (AFC) calculation used to determine benefits
- Caps cost-of-living adjustment at 3 percent
  - Guarantees the first 2% of CPI and allows for a ½% increase for each additional 1% of inflation

# HYBRID PLAN

- Covers all state employees, local employees (including fire and police who are not covered by enhanced benefits), teachers, constitutional officers' employees and judges hired after January 1, 2014
  - 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 (DB) component along with the Defined Contribution (DC) component provisions
  - Employees are required to contribute 4% of their salary towards the defined benefit portion of the plan
- DB component follows Plan 2 provisions for Rule of 90 and COLA

# DC COMPONENT HYBRID PLAN

- DC provisions include a mandatory 1% employee contribution to be matched by a 1% employer contribution
- Employee has the option of contributing an additional 4% with the employer match as follows:
  - 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
  - Code language automatically increases the mandatory employee contribution every 3 years until it reaches the 5% level although 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

# OVERVIEW OF STATE HAZARDOUS DUTY PLANS

	SPORS	VaLORS
Employee Group	State Police & Elected Sheriffs	Other state law enforcement employees
Regular Unreduced	60 Yrs of Age 5 Yrs of Service	60 Yrs of Age 5 Yrs of Service
Early Unreduced	50 Yrs of Age 25 Yrs of Service	50 Yrs of Age 25 Yrs of Service
Hazardous Duty Supplement	\$14,664/yr until full Soc Sec	\$14,664/yr until age 65
Multiplier	1.85% of AFC	2.0% w/o Supplement (all new employees) or 1.7% with supplement

\* Hazardous duty supplement is adjusted annually for inflation

# VALORS

## Members of VaLORS

- Members of the Capitol Police Force;
- Campus police officers;
- Conservation police officers in the Department of Game and Inland Fisheries;
- Special agents of the Department of Alcoholic Beverage Control;
- Law-enforcement officers employed by the Virginia Marine Resources Commission;
- Correctional officers as the term is defined in § 53.1-1, and including correctional officers employed at a juvenile correction facility as the term is defined in § 66-25.3;
- Any parole officer appointed pursuant to § 53.1-143 (Adult Parole Officer); and,
- Any commercial vehicle enforcement officer employed by the Department of State Police

# OVERVIEW OF JRS

	Plan 1	Plan 2
Employee Group	Judges including SCC and WCC (All Tiers)	
Regular Unreduced	65 Yrs of Age & 5 Yrs of Service (All Tiers)	
Early Unreduced	60 Yrs of Age & 30 Yrs of Service (All Tiers)	
Service Multiplier	2.5 years per year service (was 3.5 if elected prior to 1995)	Based on age when you become a judge: Less than 45 = 1.5 per year Age 45 - 54 = 2.0 per year Age 55 or Higher = 2.5 per year
DB Benefit Multiplier	1.7% per yr. of service times AFC	1.65% per yr. of service times AFC

\* The DB benefit for judges earned under JRS is capped at 78% of AFC, can earn up to 100% of AFC if combined with service from other VRS retirement plans

# JRS EXAMPLES UNDER PLAN 2

## Scenarios Showing How Long Judges Must Serve if Elected with No Prior VRS Service

Age Elected to Bench	40	44	50	54	57
Service Multiplier	1.5	1.5	2	2	2.5
Years Needed to Reach 30 Years of Weighted Service	20	20	15	15	12
Age When 30 Years of Weighted Service is Reached	60	64	65	69	69

- By comparison, under plan 1, a judge with 20 years of real service would have 50 years of weighted service and would be above the 78% retirement cap

# 3 PRIMARY FACTORS DRIVE THE COST OF PENSION PROGRAMS

- The General Assembly is responsible for plan design and benefit levels, including the benefit multiplier, the service and age requirements for retirement eligibility, the average final compensation calculation, and the method for calculating the cost-of-living adjustment for retirees
- Past investment returns impact the funded status of the plan and drive the calculation of the contribution rates
- Assumptions adopted by the VRS Board and VRS actuaries impact the pension valuation process

# POLICY ASSUMPTIONS: FUNDED STATUS AND CONTRIBUTION RATES

- The VRS Board adopts policy assumptions related to:
  - The assumed rate of return (ROR) and the long-term rate of inflation (which impacts the pension's funded status and the contribution rates)
  - The amortization period for the unfunded liability (which impacts the contribution rates)
- VRS' actuaries use these policy assumptions, other actuarial assumptions, plan design, member demographics, and the actuarial value of current assets to calculate funded status and contribution rates for the next biennium
  - Other assumptions include retirement rates, separation before retirement rate, disability rate, and death rate
  - Actuaries also make assumptions regarding salary increases, total payroll growth, and retiree cost of living adjustments, all of which are tied to the long-term inflation assumption

# VRS BOARD OF TRUSTEES HAS LOWERED THE ASSUMED RATE OF RETURN 3 TIMES

	Assumed Rate of Return	Inflation	Amortization Period
Prior to 2004	8.00%	3.00%	30 year closed - effective 1996 - 22 years remaining as of 2004 level percent of pay
2005	7.50%	2.50%	30 year closed - effective 1996 - 21 years remaining as of 2005 level percent of pay
2008	7.50%	2.50%	Moved to 20-year open rolling amortization level percent of pay
2010	7.00%	2.50%	20-year open rolling amortization level percent of pay
2011	7.00%	2.50%	* Reset to 30 Years for unfunded less the deferred contributions. Will decrease by 1 each year to reach minimum of 20 years.
2013	7.00%	2.50%	* 30 years closed for unfunded as of 6/30/13 - level percent of pay. New gains/losses are amortized over 20-year closed periods level percent of pay
2019	6.75%	2.50%	* 30 years closed for unfunded as of 6/30/13 - level percent of pay - 24 years remaining as of 2019. New gains/losses are amortized over 20 year closed periods level percent of pay

# ASSUMED RATE OF RETURN IMPACTS FUNDED STATUS

	2019 Valuation Before ROR Change	2019 Valuation After ROR Change	Decrease
<b><u>Pension Plans</u></b>			
State	78.6%	74.5%	-4.1%
Teacher	75.7%	73.5%	-2.2%
SPORS	74.7%	72.7%	-2.0%
VaLORS	69.1%	67.2%	-1.9%
JRS	84.4%	82.6%	-1.8%

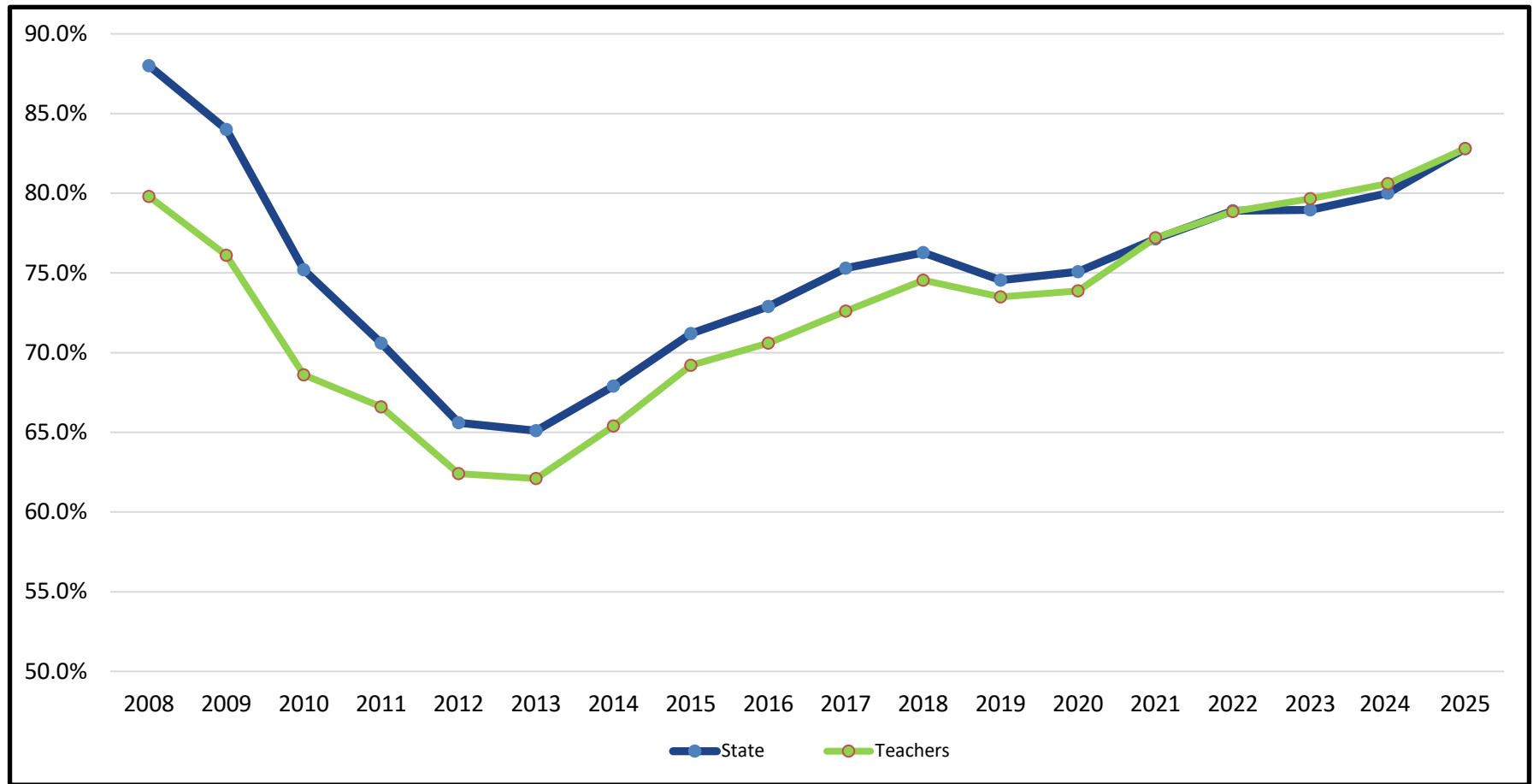
# ALSO INCREASES “NORMAL” COST

- VRS contribution rates calculation driven by the “normal cost rate” and the “unfunded liability”
- The “normal cost rate” is the portion of the rate attributable to the value of the benefit being earned during the current year for the current employees

## (2019 Valuation)

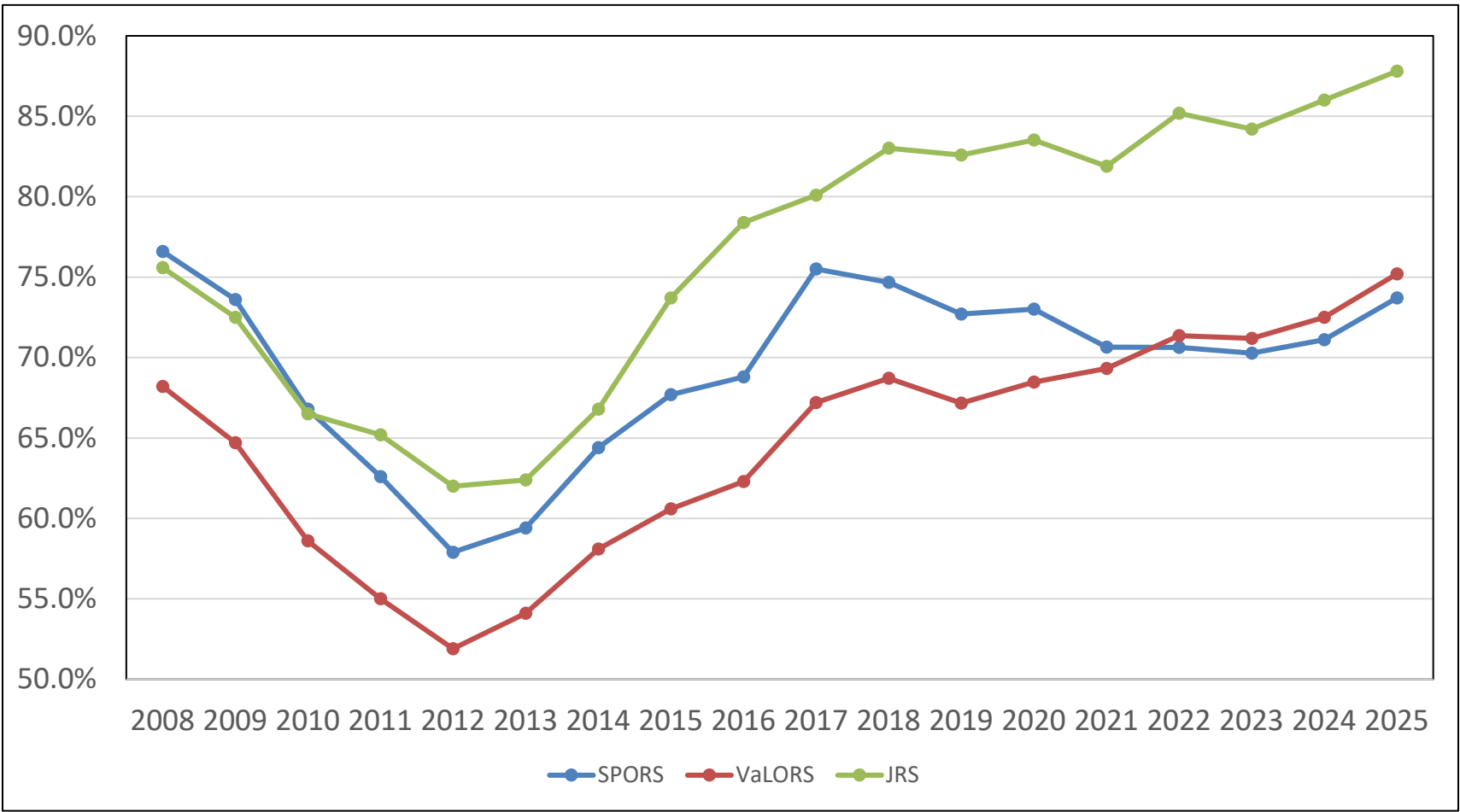
Employer "Normal Cost Rate"	State Employee Plan 7.0% ROR	State Employee Plan 6.75% ROR	Teacher Plan 7.0% ROR	Teacher Plan 6.75% ROR
Plan 1 & Pan 2 Combined	5.66%	6.24%	7.16%	7.92%
Hybrid	<u>2.28%</u>	<u>2.58%</u>	<u>2.53%</u>	<u>2.91%</u>
Blended Rate Across Plans	4.32%	4.79%	5.70%	6.33%
<b>Increase</b>		<b>0.47%</b>		<b>0.63%</b>

# FUNDED STATUS HAS IMPROVED SIGNIFICANTLY SINCE DECLINES OF “GREAT RECESSION”



\* Based on actuarial value of systems.

# SIMILAR RECOVERY FOR SMALLER SYSTEMS



# MODIFICATIONS TO RATE PROCESS CALCULATION

- Initially after the implementation of the hybrid plan, the calculation of the employer contribution rates were calculated with a blended rate
  - “Normal cost” is the estimated cost of the DB benefit being earned that year
  - Cost related to payment for amortized charge for unfunded liability
  - Estimated weighted average cost of DC component for hybrid
- HB 473 of the 2022 General Assembly separated the DC rate from the actuarial rate development process
  - For state agencies, funding for the DC component is now made based on the estimated cost of the agency's DC charges, which is dependent on the current number of Hybrid employees and those employees’ current DC elections
  - DOE has included an 1.17% add-on to SOQ calculation for the 2026-28 biennium for the DC component

# VRS RETIREMENT RATES

	<b>FY 2026</b>	<b>Biennium 2026 – 28</b>	<b>Funded Status</b>
VRS (State Employees)*	12.52%	11.07%	82.8%
State Police Officers Retirement System (SPORS)	31.32%	31.67%	73.7%
VA Law Officers Retirement System (VALORS)	24.60%	22.60%	75.2%
Judicial Retirement System (JRS)*	30.67%	30.49%	87.8%
VRS (Teachers)*	14.21%	12.20%	82.8%

- Rates for the plans which include members covered with a hybrid benefit, (state employees, JRS and teachers) do not include cost for the DC component within the rate

# VIRGINIA'S DEFINED CONTRIBUTION PLANS

- Virginia offers the option of participating in the VRS DB plan or a DC plan, often referred to as an ORP (Optional Retirement Plan) to three groups of employees:
  - Higher education administrative, research and teaching faculty;
  - Political appointees; and
  - School superintendents
  - Recently some higher education institutions have created “university staff” positions and included them in an ORP
- The employer contributes, for Plan 1 employees, 10.4% of the employee’s income into the DC plan
- For Plan 2, the employer contributes 8.5%, with universities having the option to increase up to 8.9% if they aren’t using general funds

# STATE EMPLOYEE HEALTH INSURANCE PROGRAM

- State employee plan for state employees, their families and retirees (approximately \$2.1 billion in FY 2025)
  - Involves 2 separate pools, one pool with employees, their dependents and early retirees (\$1,417.5 million in expenditures in FY 2022) and one pool with Medicare eligible retirees
- Expenditure Growth has been sporadic in recent years

(\$ in millions)

	<b>Expenditures</b>	<b>% Increase</b>
FY 2022	\$1,602.6	3.7%
FY 2023	\$1,714.3	7.0%
FY 2024	\$1,929.9	12.6%
FY 2025	\$2,073.6	7.4%

# STATE EMPLOYEE HEALTH INSURANCE PROGRAM PREMIUMS

	FY 2026 Monthly Premium		FY 2027 Proposed Monthly Premium	
	Employer	Employee	Employer	Employee
Cove Care Single	\$830	\$91	\$938	\$103
Cova Care Family	\$2,179	\$306	\$2,461	\$346
Cova Care Dual-Minor	\$1,488	\$231	\$1,681	\$261
Cova Care Dual-Spouse	\$1,488	\$214	\$1,681	\$242

# LINE OF DUTY ACT

- Provides a Death Benefit and Health Insurance to public safety workers who die or are permanently disabled in the line of duty

## Employees Eligible for Line of Duty Benefits

Law-enforcement officers	Members of recognized fire companies and rescue squads
Virginia National Guard	Correctional officers
ABC special agents	Game wardens
Commissioned forest wardens	Virginia Marine Resources Commission employees with power to arrest
Department of Conservation and Recreation conservation officers	Regional jail officers and jail farm superintendents
DMV enforcement division sworn employees	Police chaplains
Local employees performing emergency management duties for declared state of emergency	Department of Emergency Services hazardous materials officers

# BENEFIT LEVELS FOR LINE OF DUTY ACT

- Initially program offered a death benefit of \$10,000
- In 1995 benefit was increased to \$50,000 for “direct & proximate death” and \$25,000 for a “presumptive clause death benefit” tied to the workers compensation presumption clause
- Benefit has since been increased and is currently \$100,000 for “direct & proximate death” and is \$75,000 for the “presumptive clause death benefit” clause
- In 2000 the program began providing health care coverage to disabled public safety employees and to the spouses and dependents of deceased public safety employees, if the employee's death or disability occurred in the course of his employment
  - Cost of program is driven by health insurance cost which is over 90% of the cost of the program
  - The program paid premiums to keep recipients in the same health care plan as at the time of their disability or death
  - JLARC review in 2014 noted that the cost of the program doubled from FY 2006 to FY 2013, growing at a rate of 14% annually

# LODA - SIGNIFICANT FUNDING AND POLICY CHANGES

- Prior to the 2010 Appropriation Act the Line of Duty program was funded with a direct general fund appropriation administered by the Department of Account
- Language in the 2010 Appropriation Act established the funding mechanism for the program where the Department of Accounts charged a premium to localities and state agencies for each employee who is potentially eligible to receive LODA benefits
  - Localities were given the option of paying the premium or opting out of the state-run program and providing the exact same benefits to their employees on a directly
- A second major reform occurred based on the enactment of HB 1345 of the 2016 General Assembly Session
  - Transfer administration of the program to VRS and DHRM
  - DHRM established a LODA health insurance pool with the same benefits as the state employee plan
  - Modified some of the conditions for continued eligibility and administrative processes

# LODA – CURRENT PROGRAM

- The Governor's introduced budget includes funding for an annual LODA premium rate of \$1,385 per employee potentially eligible for benefits
  - VRS charges this premium to state agency and localities who elected to stay in state run program and use these funds to pay death benefit payments and DHRM for health insurance premiums for individuals eligible for the health benefit
  - "Non-participating employers", localities that opted out of the state program, pay death benefits for their employees directly and pay premiums to DHRM for health insurance beneficiaries directly
- Current estimates show there are approximately 16,685 full-time state employees who would be eligible for benefits based on their positions and 486 part-time employees
  - This count results in total annual premiums charged for state employees of slightly over \$15.0 million to fund the LODA benefits (death benefits and health insurance), of which \$13.6 million is GF
- The introduced budget request a \$35.4 million NGF annual appropriation for the LODA health insurance program which includes funding for state agencies, localities in the state-run plan and the localities not in the state-run plan

# WORKERS' COMPENSATION BENEFITS

- DHRM administers the Workers Compensation Benefit for State Employees
  - Funding is provided to the agencies for their expense that is charged to them by DHRM
- There is a direct linkage between “presumption clauses” for first responders under the Workers Compensation Act and eligibility for benefits under the Line of Duty, therefore any legislation expanding the presumption clauses has a fiscal impact on the Line of Duty Act

# COMMITTEE RESPONSIBILITIES FOR EMPLOYEE COMPENSATION

- Subcommittee makes recommendations for salary adjustments for State Employees and State Supported Local Employees
  - Includes University employees
  - Includes constitutional officers' employees
- Budget includes funding for the General Fund impact of salary adjustments
  - NGF costs are the responsibility of the agency, and often must be funded within their existing revenues (e.g. DMV)
  - Exceptions for DGS and VITA where internal service fund rates are adjusted to reflect the cost of salary increases

# STATE SUPPORTED LOCAL EMPLOYEES

- State also supports funding for certain local employees as outlined below
- Pay raises provided to state employees often are given to state-supported local employees as well

Sheriffs and Regional Jails	Local Social Services Agencies
Commonwealth's Attorneys	Community Service Boards
Circuit Court Clerks	Centers for Independent Living
Treasurers	Juvenile Justice-Block Grant
Commissioners of the Revenue	Juvenile Justice-Prevention
Finance Directors	Juvenile Justice-Court Services Units
Registrars	Local Criminal Justice Services
Election Boards	Arlington Local Health
	Fairfax Local Health