



2012

PENSION REFORM Legislation

APRIL 2012

Pension Reform Legislation Effective July 1, 2012

Senate Bill 497 Political Subdivision and School Board Member Contributions

School division and political subdivision employees whose employers currently pay all or part of the 5 percent contribution on their behalf will begin paying the member contribution effective July 1, 2012, on a salary reduction basis. Employers have the option to elect to phase in the amount the employee pays at a minimum of 1 percent in each of the next five years. The bill provides for an offsetting salary increase in the amount the employee begins paying on July 1. All Plan 1 and Plan 2 employees who are hired or re-employed on or after July 1, 2012, must pay the entire 5 percent member contribution with no phase-in option.

Pension Reform Legislation Effective January 1, 2013

House Bill 1130/Senate Bill 498: Defined Benefit Retirement Plan Changes

Defined Benefit Plan Feature

Average Final Compensation

Average final compensation, as part of the retirement benefit calculation, will be based on the average of the employee's 60 consecutive months of highest compensation as a covered employee.

Member Group

Applies to the following Plan 1 employees who will not be vested on January 1, 2013:

- General state employees, school division employees and general political subdivision employees
- Employees covered under the State Police Officers' Retirement System (SPORS) and the Virginia Law Officers' Retirement System (VaLORS), and political subdivision employees who have enhanced hazardous duty coverage
- Judges
This provision already applies to Plan 2 members.

Exempt: Plan 1 members who will be vested by January 1, 2013

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Pension Reform Legislation Effective January 1, 2013

House Bill 1130/Senate Bill 498: Defined Benefit Retirement Plan Changes

Defined Benefit Plan Feature

Retirement Multiplier

The retirement multiplier for service retirement and disability retirement will be 1.65% for service earned, purchased or granted on or after January 1, 2013.

Service earned, purchased or granted before this date will come under the current 1.7% multiplier in calculating the retirement benefit.

Earliest Retirement Eligibility Dates

For unreduced retirement:

- Normal Social Security retirement age with at least five years of service credit; or
- When age and service equal 90 (e.g., age 60 with 30 years of service credit).

For reduced retirement: Age 60 with at least five years of service credit.

Purchase of Prior Service

If purchased within the eligibility period, the cost will be based on an approximate normal cost rate. Approximate normal cost is the average cost of one year of VRS service credit.

Member Group

Applies to:

- Plan 1 general state employees, school division employees and general political subdivision employees who will not be vested on January 1, 2013
- All vested and non-vested Plan 2 general state employees, school division employees and general political subdivision employees
- Judges appointed or elected to an original term on or after January 1, 2013

Exempt:

- Plan 1 members who will be vested by January 1, 2013
- Employees covered under SPORS and VaLORS, and political subdivision employees who have enhanced hazardous duty coverage
- Judges appointed or elected to an original term before January 1, 2013

Applies to: Plan 1 general state employees, school division employees and general political subdivision employees who will not be vested on January 1, 2013

This provision already applies to Plan 2 members.

Exempt:

- Plan 1 members who will be vested by January 1, 2013
- Employees covered under SPORS and VaLORS, and political subdivision employees who have enhanced hazardous duty coverage
- Judges (no change to current age/service provisions)

Applies to the following Plan 1 employees who will not be vested on January 1, 2013:

- General state employees, school division employees and general political subdivision employees
- Employees covered under SPORS and VaLORS, and political subdivision employees who have enhanced hazardous duty coverage
- Judges

This provision already applies to Plan 2 members.

Exempt: Plan 1 members who will be vested by January 1, 2013

Pension Reform Legislation Effective January 1, 2013

House Bill 1130/Senate Bill 498: Defined Benefit Retirement Plan Changes

Defined Benefit Plan Feature

Cost-of-Living Adjustment (COLA) Effective Date

For members who retire with a reduced benefit with less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following their unreduced retirement eligibility date.

This provision does not apply to disability retirement or involuntary separation from employment.

COLA Calculation

The COLA calculation will change to a maximum COLA of 3 percent in retirement.

Member Group

Applies to: All vested and non-vested Plan 1 and Plan 2 employees, including employees covered under JRS, SPORS and VaLORS and political subdivision employees who have enhanced hazardous duty coverage

Exempt: Employees who will be within five years of qualifying for an unreduced benefit on January 1, 2013

Note: The COLA for members retiring with an unreduced benefit or with a reduced benefit with at least 20 years of service credit will go into effect on July 1 after one calendar year from the actual date they retire.

Applies to: Plan 1 employees who will not be vested on January 1, 2013, and all vested and non-vested Plan 2 employees, including employees covered under JRS, SPORS and VaLORS and political subdivision employees who have enhanced hazardous duty coverage.

Exempt: Plan 1 members who will be vested by January 1, 2013

Pension Reform Legislation Effective January 1, 2014

House Bill 1130/Senate Bill 498: Mandatory Hybrid Retirement Plan

Any employee who is hired for the first time in a covered position, with no VRS creditable service, on or after January 1, 2014, will be enrolled in a new mandatory hybrid retirement plan. This legislation includes judges appointed or elected to an original term on or after January 1, 2014. Members of SPORS and VaLORS, and political subdivision employees who have enhanced hazardous duty coverage, are exempt from this bill. A hybrid retirement plan combines the features of a defined benefit plan and a defined contribution plan. Current members in Plan 1 and Plan 2 may elect to transfer to the hybrid retirement plan during a one-time 90-day election period after January 1, 2014. This will be an irrevocable election.