

**PROPOSALS TO IMPROVE THE STATE'S
RETIREMENT PROGRAMS**

**REPORT
Of
THE VIRGINIA ADVISORY LEGISLATIVE COUNCIL
To
THE GOVERNOR
And
THE GENERAL ASSEMBLY OF VIRGINIA**



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PROPOSALS TO IMPROVE THE STATE'S RETIREMENT SYSTEMS

REPORT OF THE VIRGINIA ADVISORY LEGISLATIVE COUNCIL

Richmond, Virginia
December 29, 1969

To: HONORABLE MILLS E. GODWIN, JR., Governor of Virginia

and

THE GENERAL ASSEMBLY OF VIRGINIA

I. INTRODUCTION

Since the establishment of the Virginia Supplemental Retirement System (VSRS) and the Virginia State Police Officers Retirement System (VSPORS), these Systems have been reviewed from time to time by the Virginia Advisory Legislative Council to see if improvement could be made. Past Council surveys have resulted in amendments intended to make both retirement programs more responsive to the needs of the members and beneficiaries and generally to provide larger, more extensive benefits.

At the 1968 Regular Session of the General Assembly, over twenty measures to amend the provisions governing these Systems were introduced but not enacted. The decision to postpone action on these measures was predicated on a general understanding which developed during the Session that major revisions in the VSRS and VSPORS should be thoroughly studied and examined to determine their comparative benefits to the members and beneficiaries of the Systems and their cost to the State. Senate Joint Resolution No. 63, which was agreed to by the Senate in 1968, stated that thorough study of the cost and actuarial factors involved in major revisions in the Systems should precede enactment of any revisions and called for a careful examination of the Systems and measures introduced during the Session affecting the Systems. Governor Godwin referred this Resolution and study to the Council in April 1968 following the Session since the House had failed to adopt the Resolution. A separate Senate Joint Resolution No. 38, which requested the Council to study the feasibility of providing retirement coverage to personnel of the State's institutions of higher education through the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), was also introduced and failed of adoption. The Governor referred this study to the Council as a part of the basic study called for by Senate Resolution No. 63. The full text of the Governor's letters and the Resolutions appears in Appendix I.

(We note that the Council has also prepared a report issued separately concerning a new Judicial Retirement System and has thus examined all of the State's retirement programs during the interim with a view to achieving a fair balance and practical uniformity among them.)

Pursuant to these directives, the Council initiated a major study of the basic State Systems. The firm of Bowles, Andrews & Towne, Inc., actuaries and management consultants, which serves as the actuaries to the VSRS and the VSPORS, was directed to evaluate the impact of most of the changes proposed by legislation introduced but not adopted in the 1968 Regular Session,

the suggested changes presented to the Council by letter and at an informative and lengthy public hearing held in the Capitol December 6, 1968, and several proposals suggested by Charles H. Smith, Director of the Systems. The actuaries reviewed these numerous items to determine the effect their adoption would have on the actuarial soundness of the Systems, in terms of costs involved and with regard to the impact on current participants and beneficiaries.

The Council has carefully reviewed the reports and analyses of the actuaries and the comparative merits of the proposals and now submits the following Report and recommendations:

II. RECOMMENDATIONS AND FINDINGS

A. *Funding Concepts and Provisions for the Systems*

- (1) *Recommendation:* That the funding method under which the employer contribution rates are determined be changed so as to fund outstanding accrued liability over a period of 40 years rather than over a period of somewhat less than 20 years as at present.
- (2) *Recommendation:* That, in the event the Board of Trustees can find it prudent to do so, the rate of the State's contribution to fund the Systems should be calculated with a higher assumed net investment yield of $4\frac{1}{2}\%$ rather than the $3\frac{1}{2}\%$ yield presently assumed.
- (3) *Recommendation:* That the beneficial effects of the changes recommended in (1) and (2) above be utilized to offset the costs of liberalizations in benefits recommended below in this Report.
- (4) *Recommendation:* That the present members' contribution rate, which is $5\frac{1}{2}\%$ of annual compensation in excess of \$1,200, be maintained without change even though past revisions in the Systems to increase benefits have been accompanied by corresponding increases in members' contribution rates.

From the very outset of this study, the Council has been concerned, and conscious of the General Assembly's concern, with the increasing cost of the overall State retirement program. The Appropriation Act for the 1968-70 biennium committed \$132.7 million of State funds to pay for the retirement, group life insurance and social security programs. The request of the Board of the VSRS for the 1970-72 biennium is \$183.3 million to meet these State commitments. This tremendous increase in cost is attributable to many factors—increases in social security costs, an expanding State employee and public school teacher force and increasing salary scales—factors which are generally beyond the control of the General Assembly as it must take cognizance of inflation and the demand for additional State and teaching services when it acts on these programs. Even before we could approach the question of improving the benefits and coverage of the VSRS and VSPORS, we had to recognize the inevitable impact of these other factors which influence the cost of these programs.

We began the study, therefore, with the hope that needed reforms in these programs could be accomplished without further increases in their current costs and in the 1970-72 budget request. Thus we felt that our study had to be a comprehensive examination of the Systems in their entirety and include the funding concepts behind them and that we could not simply look at the merits of each proposal by itself to determine whether it may be desirable. One of the first primary questions which we asked the actuaries to examine was whether the present funding concepts are realistic today and might be improved. Our first three recommendations are the result of their response to

this inquiry and our careful review of the funding concepts on which the VSRS and VSPORS are based.

Basically, these three recommendations call for what we believe to be a proper and sound reform in the funding provisions to place them on a more current and realistic basis. We believe that the State should revise the bases upon which it calculates the amounts it will contribute each year to the trust funds for our Systems so that it will be contributing only what is absolutely necessary to keep the funds actuarially sound and needed to meet the State's obligations to participants and beneficiaries. The revisions we propose mean that the State will be able to pay no more at present into the funds for the purpose of assuring that future benefits will be paid since we can today reasonably assume that our Systems and the trust funds backing them will be of long duration and that the funds will earn more interest, in light of past experience.

The impact which these reforms will have on current State cost will compensate for the increase in current cost attributable to the changes in benefits which we believe are needed now and are recommending below in this Report. We recommend that these funding reforms be used solely for the purpose of providing necessary improvements in the Systems and are, therefore, supporting the budget request of the Board of Trustees for the 1970-72 biennium as it stands.

We can best explain these recommendations by first describing present funding concepts. Our Systems are backed by trust funds which consist of three basic parts: (1) employee contributions; (2) State contributions which when added to the employee contributions will provide enough to pay retirement benefits to those employees when they retire in the future (these State contributions are based on the assumption that interest will be earned on these funds between now and the time the employees retire); and (3) additional State contributions to pay for items or obligations incurred by the State because of unusual circumstances (such as an increase in benefits) or incurred when the Systems were established, so that the cost of such circumstances cannot be calculated when the State makes its regular annual contribution. For example, if the Systems were established for one employee only and he were hired in 1960 with the understanding that he would be paid a retirement benefit, he might pay \$10 each year under item (1) above and the State pay \$10 each year under item (2) above so that by 1990 the trust fund will contain \$600 plus accumulated interest which would be enough to pay his benefits, hypothetically speaking. But if the State in 1980 says we will pay you greater benefits because of inflation, it will be necessary for the State to start putting in an extra payment in 1980 under item (3) above to make up for the fact that it was not contributing enough between 1960 and 1980 to pay for those extra benefits come 1990.

Our first recommendation concerns this item (3) contribution which can be technically described as the State's contribution for "unfunded accrued liability." This liability or debt is what the State has to pay into or owes to the trust funds to cover such unusual obligations as those incurred when the Systems were first established and the State agreed to pay benefits based on prior service before employees or the State were contributing on a regular basis or those incurred whenever the State provides for more liberalized benefits. Under almost every retirement system, there is such an "unfunded accrued liability."

The unfunded accrued liability may be thought of as an interest-bearing "debt" owed by the employing authority to the retirement fund. Like many other debts, the rate at which the obligation is discharged is at least partially within the control of the debtor. The greater the annual payment, the faster the debt will be liquidated, and vice-versa.

Under the VSRS, the unfunded accrued liability is, in effect, being paid off at present by annual installments equal to about 8% of the outstanding liability at the start of each year. Theoretically, a continuation of accrued liability payments at this rate would be expected to eliminate almost all of the unfunded accrued liability in less than 20 years, taking into account that the outstanding liability is automatically increased each year by interest thereon before it is reduced by the annual payment.

In the case of a retirement system for public employees, for which system perpetual existence can be reasonably assumed, it seems unduly conservative to plan to fund the accrued liability over so short a period as less than 20 years. The State's annual contribution to the VSRS could be substantially reduced if the liability were to be funded over a longer period. The view of the accounting profession is that a 40-year funding program is not unreasonable for retirement plans in business and industry. It is proposed that in future the State's annual contributions to the VSRS and to the VSPORS be computed on the basis of funding any unfunded accrued liability over a period of 40 years.

Our second recommendation affects items (2) and (3) above—both the regular State contribution and the State contribution for unfunded accrued liability. A basic component of our retirement programs and funds is the interest which the funds earn on all contributions. All these contributions or assets are invested and yield income. The employee contribution rate is fixed by statute, but the State's rates are calculated for each year and are based in part on what the assets are expected to earn. For a given level of benefits, the greater the investment income that can be reasonably anticipated, the smaller the annual contributions required of the State. Conversely, for a given level of contributions, the greater the anticipated level of investment income, the more liberal the benefit scale that can be safely provided.

As the result of the well-considered investment policy practiced by the Systems' Board of Trustees, the rate of yield on the Systems' assets has been steadily increasing so that it currently is slightly in excess of 5% per annum. Accordingly, it is now prudent to anticipate a higher future investment return than has been used in computing the State's annual contributions to the Systems in recent years. It is expected that the Board will adopt, for the purpose of computing employer contribution rates to the Systems, the assumption that the future net investment yield on the assets of the Systems will not be less than 4½% per annum rather than the 3½% assumption currently used. The result will be that the State will need to contribute less and we will anticipate the earnings on our assets rather than waiting for those earnings to be realized before utilizing them.

Our third recommendation simply proposes that the reduction in State contributions brought about by adopting our first two recommendations be applied to cover the costs of the additional benefits we are proposing below, rather than be utilized to reduce the State's level of annual contributions. We believe these current cost reductions for the State should be passed on to our employees through improvements in the Systems.

The combined result of these two factors—the extension of the period for funding the accrued liability and the increase in the assumed investment yield on the assets of the System—is such that the actuaries for this study and of the VSRS and VSPORS have determined that the liberalizations in the benefits of the System as hereinafter recommended can be affected without any increase in cost to the State for the 1970-72 biennium over the amount therefor already included in the budget request of the Board of Trustees of the Systems. We note that these two factors do not result in a reduction in the actual long-range cost of the Systems which will be the sum of all benefits to be paid out, but only in the current cost to the State of funding the ultimate cost. The

long-range cost will be determined, in the last analysis, by experience under the Systems.

Our fourth recommendation concerns employee contributions and relates directly to our proposal that the benefits of funding reform should be passed on to our employees and participants in the Systems. We do not recommend any increase in the employee contribution rate which at this time equals 5½% of annual compensation in excess of \$1,200. We recognize that in the past increased benefits have customarily been accompanied by an increase in the member contribution rate, but we believe that the present rate is fair and that in this instance we are proposing an acceptable alternative method to finance the improvements in benefits we are proposing.

Proposals were considered by the actuaries and Council to reduce the employee contribution rate. In view of past practice, a reduction in that rate at the same time benefits are increased would be a radical departure from established policy. Moreover, this type of reform is not one directed to improving benefits which we suggest is of primary importance today.

B. Cost of Living Post-Retirement Adjustments

- (1) *Recommendation:* That, in order to maintain the purchasing power of the retirement allowances presently being paid to pensioners, a cost of living adjustment should be provided beginning July 1, 1970 to pensioners retired under the VSRS, VSPORS and under the Virginia Retirement System (VRS) prior to 1952, and that such additional allowance should be determined as a percentage of the recipient's regular allowance corresponding to the percentage increase that has taken place in the Consumer Price Index from the year the allowance commenced (or from 1952 for VRS allowances) to 1969.
- (2) *Recommendation:* That the regular allowance on which the additional allowance should be based, in each case, should be the allowance in effect June 30, 1970, after adjustment to reflect any 1970 change in the retirement allowance formula.
- (3) *Recommendation:* That for every future biennium, consideration should be given to changes that have occurred in the Consumer Price Index during the preceding two-year period, in order to decide whether any increases or decreases are appropriate with respect to the additional cost of living allowances then being paid, and whether the commencement of any other additional allowances are indicated for new retirees.
- (4) *Recommendation:* That the payment of such additional cost of living allowances should be financed through the retirement allowance account with respect to VSRS and VSPORS members and through Trust Fund B for VRS pensioners; that the total budget appropriation for each biennium should include, in addition to the anticipated basic employer contribution under each System, an amount equal to the additional allowances expected to be paid in the biennium; and that this practice should be applicable in future biennia as well as for 1970-72, based on the approved amounts of additional allowances for such biennia, with respect to retirants of all years.

We believe that this set of recommendations constitutes the most important and pressing reform we are proposing. Several of the proposals referred to the actuaries for analysis focused on this problem area.

The continual erosion of the value of the dollar has an especially serious effect on pensioners whose income is at a fixed dollar level. Wage earners are not so directly affected by inflation since wage levels tend to reflect price levels. Since the State Systems provide for retirement allowances based on

the average earnings of the member's five highest years, the Systems now provide adequately against inflation up to the time of a member's retirement.

After retirement, the situation is different since the salary on which benefits are based is fixed. Members who retire prior to 1952 under the old VRS, when retirement benefits were greatly lower than at present since no Social Security was available, have been granted periodic increases in their allowances by the General Assembly on a more or less arbitrary basis. With respect to members who have retired since 1952, only some have shared in the VRS increases through application of guarantee provisions. Most of these persons, however, have received only the increases resulting from the 1960 and 1966 amendments to the System. Since these also applied to active employees it cannot be said that they were a complete answer to the problem of inflation.

From 1952 to 1969, the U. S. Consumer Price Index increased by 40%. For example, a pension that had \$100 purchasing power in 1952 was worth only \$71.42 in 1969. Many employers (including, as noted, the Commonwealth with respect to pre-1952 retirees) have considered it necessary to supplement, or increase, from time to time, the pensions being paid to their retired employees. Similarly, there have been increases in Social Security benefits. These have all been in accordance with the view that a pension program to be really effective must provide a retired employee with adequate purchasing power rather than a predetermined number of dollars.

Pension planners in business and industry appreciate the importance of these problems. Some pension plans have been set up, or amended, to incorporate the variable annuity principle. Other employers have attacked the problem more directly by incorporating into their pension plans an "escalator clause" whereby the amount of an individual's pension payable in any period bears a relationship to the amount paid in the preceding period corresponding to the change from one period to the next in the Consumer Price Index.

The Consumer Price Index has consistently increased over the years and there seem to be no concrete grounds for believing that any change in this trend will materialize. If an employer is willing to accept the responsibility for maintaining the purchasing power of his pensioners' retirement income, it seems reasonable that some sort of escalator clause be written into his pension plan, to assure present and prospective pensioners that they will be insulated, at least partially, against the injurious effects of inflation. Such a procedure formalizes the periodic increases that the employer would very likely feel called upon to provide periodically after increases in the cost of living actually occur.

The trend in the Consumer Price Index since 1952 is shown in the following table.

TREND OF UNITED STATES CONSUMER PRICE INDEX

Base period: 1957-1959					
<i>Year</i>	<i>Index</i>	<i>Yearly Percentage Increase</i>	<i>Year</i>	<i>Index</i>	<i>Yearly Percentage Increase</i>
1952	92.5		1961	104.1	1.0%
1953	93.2	0.8%	1962	105.4	1.2
1954	93.6	0.4	1963	106.7	1.2
1955	93.3	-0.3	1964	108.1	1.3
1956	94.7	1.5	1965	109.9	1.7
1957	98.0	3.5	1966	113.1	2.9
1958	100.6	2.7	1967	116.3	2.8
1959	101.5	0.9	1968	121.2	4.2
1960	103.1	1.5	1969	129.5	7.0

We are proposing that the Systems be amended to provide for a cost of living adjustment which will take the form of an additional allowance. This allowance will be calculated for the next biennium by taking the allowance paid the pensioner, including any adjustments provided for by action at this Session, and multiplying it by the percentage increase in the CPI from his retirement date (from 1952 for VRS allowances) to 1969. If X retired in 1960 and receives a retirement allowance of \$100 July 1, 1970 and assuming for purposes of illustration a percentage increase of 20% in the Index from 1960 to 1969, X's cost of living allowance will be \$20. To take the example further, if the Index increases 1% in the 1970-72 biennium, his additional allowance should be recalculated for the next biennium to reflect this increase—or should a decrease occur, to reflect the decrease with the proviso, of course, that such decrease could not reduce or affect his basic allowance.

These cost of living supplements or allowances should be calculated each biennium, financed by current appropriations, and paid through the appropriate retirement allowance accounts. Because of the particularly unpredictable nature of the changes in the Index, we do not believe the cost of these supplements should be considered as part of the basic State cost which is estimated on an actuarial basis and funded over a long period. It would be impossible to predict with accuracy today what the cost of such supplements will be in 1990 for employees working today and retiring in 1985 and to fund such costs on a realistic basis. The estimated cost of this proposal for the coming biennium is \$3.5 million, and we believe this additional benefit to be financed this biennium by funding reforms, is sound and necessary to give our present pensioners the equivalent purchasing power intended for them when they retired.

C. Major Retirement Allowance Formula Changes

- (1) *Recommendation:* That the basic retirement allowance formula be amended to provide an allowance equal to $1\frac{1}{2}\%$, rather than $1\frac{3}{8}\%$, times years of service times average final compensation (which excludes \$1,200) applicable to all persons retiring on or after July 1, 1970, to result in a generally applicable percentage increase of approximately 9.1% in the retirement allowances of members paid under the Systems.
- (2) *Recommendation:* That a comparable increase be provided for persons retired under the VSRS, VSPORS or VRS prior to July 1, 1970.
- (3) *Recommendation:* That a ceiling be placed on the benefit payable to any pensioner so that no basic retirement allowance, exclusive of cost of living adjustments, shall exceed 75% of his average final compensation (which excludes \$1,200).

This proposal constitutes the most important change we are proposing in terms of dollar benefits to active and retired State employees. The level of benefits payable to persons who retire at the normal retirement age is the most important feature in any retirement plan. Under most retirement programs the benefit formula is designed so that plan benefits together with the primary Social Security benefits will, in total, provide an adequate but not an excessive retirement allowance when compared with the individual's pre-retirement compensation level. It should be pointed out that it is an advantage to the State to keep benefits for persons with higher salaries adequate since these individuals are the ones who give the State its vital administrative leadership.

In modern pension planning, a retirement plan benefit formula is usually judged to be satisfactory if the combined benefits, from the plan and Social Security, amount for a career employee to 60%-70% of his earnings in the

period just before retirement. The percentage is sometimes a little higher for employees with extremely long periods of service. For employees with less than 30-35 years of service, the percentages usually would be lower since in such cases most employers do not feel responsible for providing in full for the employee's retirement needs, inasmuch as part of the employee's working period was spent elsewhere. At the lowest earnings levels a somewhat higher percentage-of-salary benefit level may be and often is provided than applicable to the higher paid, since it is the actual dollar amount of income and not a mathematical percentage which determines whether a retirement benefit is sufficient for subsistence.

Our present basic formula, described as (a) herein, for computing the service retirement allowance under the VSRS is as follows:

$$(a) \quad 1\frac{3}{8}\% \times (AFC - \$1,200) \times YCS$$

Where AFC is the member's average final total pay (during consecutive years)

and YCS is the member's number of years of creditable service.

The most direct methods for changing the present basic benefit formula so as to increase the plan benefits are to increase the percentage accrual rate above 1 $\frac{3}{8}$ % to 1 $\frac{1}{2}$ % as we propose, described as (b) herein, or to remove the \$1,200 earnings deduction, described as (c) herein. Both proposals have been made to the Council and analyzed by the actuaries. These two proposals may be described by the following formulas:

$$(b) \quad 1\frac{1}{2}\% \times (AFC - \$1,200) \times YCS; \text{ and}$$

$$(c) \quad 1\frac{3}{8}\% \times AFC \times YCS.$$

In order to evaluate how the criteria for a satisfactory retirement program are met under these two benefit formulas and the present formula and in order to compare the benefit levels they develop, a number of benefit illustrations are given in the following Table for various combinations of average final total compensation (\$4,200, \$6,000 and \$12,000) and service (20, 30 and 40 years). The top part of the table presents indices which represent total plan income as a percentage of average final total compensation while the bottom portion shows comparable indices for total plan income combined with estimated primary Social Security benefits.

In order to predict the amount of primary Social Security benefit applicable in any case, a year for retirement must be assumed. For purposes of these illustrations, it has been assumed that retirement would occur in 1980. Also, since Social Security benefits are based on actual earnings levels, past and future, it has been assumed that annual earnings have increased and will increase at the rate of 2% per year.

TABLE: RETIREMENT INCOME EXPRESSED AS A PERCENTAGE OF AVERAGE FINAL COMPENSATION

	AFC: \$4,200			AFC: \$6,000			AFC: \$12,000		
	Years of Service			Years of Service			Years of Service		
	20	30	40	20	30	40	20	30	40
<i>Formula</i>	<i>Plan Benefit Only, Excluding Social Security</i>								
(a)	20	29	39	22	33	44	25	37	50
(b)	21	32	43	24	36	48	27	41	54
(c)	28	41	55	28	41	55	28	51	55

<i>Formula</i>	AFC: \$4,200			AFC: \$6,000			AFC: \$12,000		
	Years of Service			Years of Service			Years of Service		
	20	30	40	20	30	40	20	30	40
(a)	56	65	75	54	65	76	43	56	68
(b)	57	68	79	56	68	80	46	59	73
(c)	63	77	91	59	73	87	46	60	74

In order to interpret the indices in the Table, the criteria for a satisfactory benefit formula should be kept in mind: the plan benefit plus Social Security should produce a total retirement income of 60%-70% of final average earnings for career employees, and the percentage range should apply as nearly as possible to both high and low paid employees.

The figures in the lower part of the Table have to be analyzed to see which of the benefit formulas studied would best satisfy these criteria.

The present formula (a) falls slightly short of the norm for higher paid employees for whom we believe more consideration must be given. The \$12,000 a year person with 30 years of service does not reach the 60% level but only 56%. Under our proposed (b), he reaches 59% and by eliminating the \$1,200 exclusion under (c) he reaches 60%. Looking at the second criterion of overall range, (a) means a range of 43 to 76, (b) a range of 46 to 80 and (c) a range of 46 to 91. Looking at both criteria, formula (b), our proposal, best achieves a reasonable retirement program by reaching very near the 60% goal for career employees and producing a fairly compact percentage range.

As shown above, the elimination of the \$1,200 exclusion under (c), which simply means adding a flat dollar amount of benefits across the board, results in a disproportionate increase for lower paid employees. This disproportion would be further accentuated if (b) and (c) were combined to provide a formula of $1\frac{1}{2}\% \times \text{AFC} \times \text{YCS}$.

We were concerned with two points in developing recommendations to improve the formula: first, achieving a balanced formula and fair benefit in terms of retirement planning which our proposal to increase the $1\frac{3}{8}\%$ factor to $1\frac{1}{2}\%$ accomplishes; and second, recommending a proposal which involves reasonable cost increases and we find that our proposal also best meets this second goal.

The benefit increases we propose under formula (b) will require \$22 million for the 1970-72 biennium in State VSRS and VSPORS contributions, which can be financed through the funding changes described above. If formula (c) were adopted and the \$1,200 exclusion eliminated, the cost would be \$37 million to the State and the combination of both proposals would cost \$59 million. Thus, we view our proposal as sound both in terms of retirement planning and in terms of costs involved. Part of the cost of the (c) proposal could be met by extending the $5\frac{1}{2}\%$ employee contribution to the first \$1,200 of pay, but this additional \$66 per year contribution would be most burdensome for lower paid employees, and we believe this approach is undesirable.

To summarize, our three recommendations provide that the basic allowance will be increased by changing the $1\frac{3}{8}\%$ factor in the formula to $1\frac{1}{2}\%$ for the benefit of present and future members retiring on and after July 1, 1970, that a comparable increase in benefits be provided for all individuals retired under the Systems prior to July 1, 1970 and that a ceiling be placed on the basic retirement allowance so that no such allowance shall exceed 75%

of average final pay in excess of \$1,200. This last recommendation constitutes a very limited control factor and this 75% limit would not prevent a retiree from having greater total benefits than 75% of his average final pay, since the ceiling would apply only to the basic allowance and not to social security benefits or cost of living adjustments.

D. Minor Retirement Allowance Formula Changes

- (1) *Recommendation:* That the rate of interest to be credited in the future to members' accumulated contributions be increased from the present 2% per annum to 4%.
- (2) *Recommendation:* That the service requirement for deferred retirement (after termination of employment) be reduced from ten years to five years.
- (3) *Recommendation:* That members who rejected membership in the VRS in 1942, or who received a refund of their accumulated contributions in 1952 when the present System was being established or upon termination of employment at any time, be permitted to re-establish credit for all service for which credit has been lost, by making a contribution, based on their current annual compensation and on the current VSRS contribution rate, for each year of service since June 30, 1942, for which credit is being reestablished, plus 2% interest. (This provision was previously in effect between July 1, 1966 and October 1, 1967.)
- (4) *Recommendation:* That any member who rejected VRS membership in 1942 and subsequently served in the armed forces of the United States while on leave of absence from covered employment, be granted VSRS credit for such military service at no cost to the member, provided that he returned to covered employment within 90 days after discharge, that his discharge was not dishonorable and that his membership has been continuous.
- (5) *Recommendation:* That the "social security supplement" that is payable under the VSPORS for State police officers who retire prior to age 65 be increased from \$135 per month to \$170, to better reflect the monthly primary social security benefit currently available to persons who commence drawing such benefit upon attainment of age 65.
- (6) *Recommendation:* That, in cases of service-connected death when the survivor's allowance is computed, the amount of the social security "offset" should be limited to social security benefits payable to the specific recipient of the allowance. (The allowance presently is 50% of the member's average final total compensation, reduced by Workmen's Compensation benefits and all social security benefits payable as a result of the member's social security coverage.)
- (7) *Recommendation:* That, in cases of service-connected disability, the member's accumulated contributions should be refunded in addition to paying the retirement allowance provided for.

We refer to these recommendations as minor in nature because of their relatively limited impact on the participants in and beneficiaries of the Systems when compared to our basic proposals outlined earlier, but these changes are nevertheless important insofar as they improve the Systems by strengthening benefits and increasing the equitability of coverage.

These changes can also be termed minor in the sense that they are relatively inexpensive when compared with the anticipated costs of the recommended change in the retirement allowance formula to increase the 1 $\frac{3}{8}$ % fac-

tor to 1½% and the potential cost of the post-retirement cost of living adjustments. The increase in the State's biennial contribution that would be required to implement all of the foregoing recommendations in this section is difficult to estimate with precision. However, the best cost estimates currently available for these changes are, on a biennial basis:

(1)	Increase in interest credit:	\$4,000,000
(2)	Deferred retirement with five years of service:	500,000
(3), (4)	Additional service credits: Less than	1,000,000
(5)	Increase in VSPORS supplement:	100,000
(6), (7)	Changes in service-connected death and disability provisions:	Minimal

Again, we anticipate that these costs can be covered within the framework of the Board of Trustees' budget request for 1970-72 as tempered by the funding proposals and changes discussed earlier.

Because of the diverse nature of these recommendations, we will describe the effect of each one separately.

(1) *Increase in interest credit*

Criticism of the present provision whereby 2% interest is credited on member's accumulating contributions stems primarily from the feeling that it is inequitable for the State to credit a substantially lower interest rate than it earns especially when a member's withdrawal means an element of gain to the System. It is felt that if a member leaves the System and withdraws his accumulated contributions or dies prior to retirement, he or his estate should receive the accumulated contributions enhanced by realistic interest earnings.

We can appreciate the equities of this approach to the interest question, especially in the case of death prior to retirement when the family's income is eliminated or curtailed, and we are recommending an increase to 4% to provide interest increments more in line with the interest yields presently being realized on these funds.

Two aspects of this matter should be underscored. First, our recommendation is prospective in nature and applies only to future contributions. To apply this increased rate retroactively would not be proper since the System did not always earn over 4%. Also, a major administrative task would be involved in going back through the records to reconstruct each member's new amount of accumulated contributions. Second, insofar as the future goes, our recommendation to adopt a 4% rate should be considered with the accompanying understanding that this rate should be subject to future change, depending upon the System's future experience with respect to the yield on its investments. It should also be noted that the only effect of this proposal with respect to a retiring member is to increase his potential for a refund of contributions.

(2) *Deferred retirement with five years of service*

The primary benefit now payable in the event a member terminates employment is a refund of his own contributions with accumulated interest. However, members with 10 or more years of creditable service at time of termination may decline this refund in order to receive a deferred retirement allowance at age 60 or older based on service at time of termination. This recommendation would permit the choice of a deferred allowance in lieu of a contribution refund after only 5 years of service.

The disadvantages of this proposal include the cost (which it is estimated by the actuaries to be no more than, and possibly much less than, \$500,000 biennially), the administrative burden and the slight chance that employment

terminations might increase. With regard to all of these items, it is our belief that experience will tend to minimize these problems and that most employees leaving service will elect the cash refund rather than a deferred annuity.

The advantages which we believe outweigh these considerations and argue for this proposal are that the proposal lends more flexibility to the program by giving more employees the chance to choose the deferred annuity and thus increases employee morale and that the proposal comports with the growing trend of increasing "portability" of benefits which is preferable to permitting purchases of credit for out-of-state service. The first reason is self-explanatory. The second, particularly because of its relevance to TIAA-CREF coverage to be discussed later, deserves some explanation.

There is much talk these days about portability of benefits. Pensions are thought of as portable if an employee's right to receive benefits vests and is not lost when he changes jobs. Thus a state employee moving from state to state and working five years in each state would at age 60 or 65 start receiving small pension checks from each state in a situation where portability prevails. If there was no portability and each of those states required 15 years for vesting as Virginia did until 1966 or 10 years as at present, he would probably have his contributions back but no benefit of state contributions and no pension check. So portability is an advantage to employees in a mobile labor market, and the growing trend to establish more portable retirement systems exists today largely because labor is more mobile.

An alternative to early vesting or portability which some have suggested is to permit persons coming into Virginia to purchase credit for service outside the State. On first glance it appears that this proposal, because it directly concerns recruiting people to Virginia, is better than portability which concerns most directly those leaving the State. However, we see the following problems with permitting purchase of credit for out-of-state service:

- (a) What would be done in the case of a person who forfeited a deferred annuity credit in another state by withdrawing his own contributions?
- (b) How much service credit would a person who earned only a partially vested deferred benefit in another state be permitted to purchase?
- (c) What would be done in the case of a person with service in two (or more) other states, especially if in one state a deferred benefit was earned but not in another?
- (d) How would the person's out-of-state service record be verified?
- (e) In the case of persons who worked not only for another state at some time but also for a city or for a private employer, what would be done?

These questions make it clear that the proposal would create a considerable and a complex administrative problem. In addition, the charge to be levied against the person for the service credit might well be high enough to discourage any purchases at all.

We believe the proper solution is to move with other states towards establishment of portable benefits through more liberal vesting provisions and that this promises to be the simplest, most practical means to deal with the problem of mobility in our labor market. It should also be noted that all our employees now have portable benefits through social security coverage.

(3) and (4) *Additional service credits*

Our cost estimate for these proposals is stated in terms of a maximum of \$1 million since that is the highest biennial cost we can anticipate and because there is no way to predict with any precision the number of persons who will

want to take advantage of these opportunities to purchase credit in the Systems. The actual cost could prove to be less.

We are proposing a reopening of the same offer, which was made previously between July 1, 1966 and October 1, 1967, to permit certain members of the VSRS to purchase credit for past service not regularly creditable under the VSRS. When the old VRS was repealed in 1952 and the VSRS established, members of the abolished VRS were given the alternative of (a) transferring their accumulated VRS contributions to the new VSRS and getting credit for all prior service or (b) taking a cash refund for VRS accumulated contributions and forfeiting all right to credit service prior to March 1, 1952. A number of present VSRS members took the refund in 1952 and would now like to reestablish credit for pre-1952 service; others now in the VSRS, who rejected membership in the old VRS, would like to purchase credit for prior service; and others who are now members of the VSRS and had previously withdrawn contributions from the present VSRS when terminating employment in the past would like to be able to purchase credit for such past VSRS service.

We think these requests are reasonable, will contribute to a sounder retirement program for a number of members, and will encourage prior employees to consider reentry into State and teaching service.

The terms of the offer in 1966 and 1967 should apply so that those who repurchased credit during that period will not be placed in an unfair position. The terms for the repurchase should be payment of an amount equal to the contributions that would have been made during the period for which credit is sought based on current annual compensation times the present 5½% contribution rate plus 2% interest from the beginning of the period since June 30, 1942 to the present.

The second related proposal we are recommending is to permit credit without payment, for past military service by VSRS members who rejected VRS membership in 1942 and subsequently served in the armed forces while on leave from service under the System. This reform is designed to provide like treatment for all members insofar as military service is concerned. Members who did not reject membership in the abolished VRS have already received credit, without cost, for their military service periods. Insofar as a question of equity is concerned with respect to persons who were able to and did receive military service credit only by paying for their rejected service, there is a compensating factor in that these members do have credit for the rejected, as well as the military, service. Requirements which must be met to take advantage of this credit are stated in Recommendation (4) above.

(5) *Increase in VSPORS supplement*

Under the VSPORS, State police, because of the nature of their work, can and are required to retire at an earlier age than regular VSRS members. A special supplement is provided between ages 55 and 65 to a retired State police officer in the amount of \$135 monthly to take the place of the social security benefits to which he is not then entitled. The purpose of this supplement is to help make a member's total retirement allowance from his VSPORS pension and social security as level as possible and to avoid a marked change at age 65 when social security benefits begin. Since social security benefits have increased substantially, it is necessary to increase the pre-age 65 additional benefit if a level benefit is to be maintained. We are recommending an increase to \$170 monthly to reflect recent social security increases.

(6) and (7) *Service-connected death and disability provisions*

Under the VSRS and VSPORS, the language of the present law states that the qualifying survivor or survivors of a member who died prior to re-

tirement from a cause connected to his job, shall be paid an allowance limited in part, by social security payable as a result of the member's social security coverage. This limit can be inequitable when social security payments attributable to the decedent are payable to persons other than System beneficiaries.

We are recommending a simple change of language to provide that such allowances will be limited only to the extent such social security benefits go to System beneficiaries so that their allowances will not be unfairly limited.

In the case of service-connected disability and retirement for VSRS and VSPORS members, we are recommending that the member's accumulated contributions be refunded to him at the time of retirement. A similar immediate payment is now made to the estate of a member in the case of a service connected death. Moreover, since the disability retirement allowance is limited in part by payments receivable under Workmen's Compensation, it is appropriate to refund such contributions so that the member who receives a retirement allowance reduced to little or nothing by the Workmen's Compensation deduction will not feel he has contributed to a System for no purpose.

E. Changes Related to Structure and Administration of the Systems

- (1) *Recommendation:* That the membership of the Board of Trustees be reduced from nine members to five.
- (2) *Recommendation:* That a retired member be permitted to elect a second joint and survivor option (with an appropriate further actuarial reduction in the amount of the allowance) in the event that his contingent annuitant predeceases him.
- (3) *Recommendation:* That participating political subdivisions be permitted to elect to provide retirement benefits, equivalent to those provided State police officers, for their law enforcement officers and others in comparably hazardous positions provided they assume the expenses involved.
- (4) *Recommendation:* That participating political subdivisions refrain from supplementing VSRS benefits at the local level; and that, in the event they establish supplements or provide supplements to new employees, all employer costs, including those for teachers, be charged to them.

These four recommendations do not involve specific cost elements, but concern the provisions governing the administration, operation and scope of the Systems.

(1) *Board of Trustee membership*

The Systems are now administered by a nine-member Board of Trustees. Five members are appointed by the Governor while four are ex officio. Of the nine members, five are State employees, namely, all of the ex officio members and one of those appointed. The Governor's other appointees include one teacher and three non-System members.

It is our recommendation that the Board be restored to its former five member size and that it should consist of the five members appointed by the Governor without the ex officio members. This change will tend to make the administration of the VSRS more objective since three members will have no direct interest in any System benefits. This is a desirable goal. When the membership of the Board includes many who may also be recipients of System benefits, impartiality in administration may not be attained to the greatest ex-

tent possible. While there would be only one representative from the State employees and only one from the teachers, it seems that representation by one capable person should be sufficient. Furthermore, we question whether or not a greater representation of any particular group on the Board would make any difference in how that group might fare under the Systems. The Board's responsibility is to administer the Systems as provided for in the enabling legislation. Any substantive changes in the Systems are the result of legislation and decisions by the General Assembly rather than by Board as the administrative agency for the Systems.

(2) *Second joint and survivor option*

Under the joint and survivor options now available, a retired member's benefit remains unchanged after the contingent annuitant dies and ceases altogether when the member dies. It seems in such cases that the member has taken a lower income for life without getting anything in return. Permitting the member to name a new contingent annuitant will preserve a death benefit, although it must be realized that this additional death benefit would be purchased by the member by means of a further reduction in his own income.

We are recommending that this option be provided as an elective variation of the present joint and survivor options, rather than by adding new options or by replacing the present ones. The second contingent annuitant can be named by a retiree within one year after the death of the first contingent annuitant, and the member's previously reduced income can be then actuarially reduced again to reflect the new election. This proposal has the following advantages for the member: First, if the member decides not to name a new contingent annuitant, he does not suffer a further reduction in his income, whereas this second reduction would be inherent and effective from the date of the member's retirement if the election had to be made at retirement; and, second, the member is free to name whomever he wishes as a new contingent annuitant under this approach, whereas he would have to make this decision at the time he retires if the election were required at that time.

From the State's financial point of view, the chances for selection against the System are somewhat increased under our proposal because surviving members in poor health would be more inclined to name a second contingent annuitant than would those in good health, so that the system would, in effect, be paying greater death benefits than otherwise. Of course, this type of anti-selection is already being experienced to some extent by the Systems with respect to elections made at retirement date. How much cost to the State which such anti-selection involves is impossible to say. Many other factors besides health can influence a member's choice of option. We do believe, however, that the dollar amount is probably insignificant compared to the total State cost.

(3) *Local option coverage for law enforcement personnel*

Presently the VSRS and VSPORS are intended to provide a uniform system of retirement benefit coverage for their members except as required to recognize particular job situations. Localities are given the option to participate in the VSRS to provide coverage for local employees, but not in the VSPORS.

We are recommending that the provisions governing local participation be amended so that localities participating in the VSRS be given the further option to elect to provide VSPORS-type benefits for their law enforcement officers and personnel whose duties are comparably hazardous to those of State police. So long as the rationale for the distinction based on job differences between State employees and State police is valid, it should apply as well at the local level.

(4) *Local supplementary systems*

The existence of additional retirement benefit programs in some localities participating in the VSRS contributes to a discriminatory situation among political subdivisions in that persons employed in comparable positions but in different subdivisions could be anticipating quite different retirement benefits.

Moreover, the fact that the State bears employer costs for providing teacher retirement benefits means that local funds are freed for other purposes. We question whether funds so freed should be utilized, in part, to provide supplementary retirement benefits.

The State pays the employer cost based on the total local salary scale which is under local control, for the VSRS, Social Security, and Group Life Insurance for local school board employees qualifying as "teachers". To show the effect of this State aid to localities, the Table below is an estimate of how such aid would be allocated by counties and cities, based on the VSRS 1970-1972 biennium budget request of \$113,716,115 for this group and assuming the percentage of all such school boards' cost of instruction, applicable to each locality for the period, will be the same as the experience indicated in the Department of Education, "Cost of Instruction Report for the Year 1967-1968". (The State also shares in the employer costs for constitutional officers, but this State contribution is not reflected in the Table which follows.)

TABLE

<i>County</i>		<i>County</i>	
Accomack	\$ 643,383.	Franklin	\$ 574,403.
Albemarle	851,631.	Frederick	568,785.
Alleghany	284,268.	Giles	440,718.
Amelia	183,595.	Gloucester	289,191.
Amherst	423,865.	Goochland	235,063.
Appomattox	214,537.	Grayson	226,898.
Arlington	4,543,141.	Greene	93,077.
Augusta	1,047,314.	Greensville	400,974.
Bath	105,813.	Halifax	730,774.
Bedford	754,177.	Hanover	803,336.
Bland	97,114.	Henrico	3,753,905.
Botetourt	401,566.	Henry	1,084,761.
Brunswick	431,519.	Highland	62,021.
Buchanan	752,823.	Isle of Wight	476,266.
Buckingham	258,499.	James City (a)	
Campbell	938,272.	King George	156,633.
Caroline	329,811.	King & Queen	123,518.
Carroll	410,299.	King William	132,059.
Charles City	173,372.	Lancaster	197,229.
Charlotte	312,503.	Lee	612,475.
Chesterfield	2,783,270.	Loudoun	895,321.
Clarke	196,843.	Louisa	314,743.
Craig	60,463.	Lunenburg	287,747.
Culpeper	358,285.	Madison	160,226.
Cumberland	157,497.	Mathews	137,358.
Dickenson	420,056.	Mecklenburg	717,037.
Dinwiddie	499,703.	Middlesex	158,498.
Essex	176,124.	Montgomery	705,063.
Fairfax	15,227,179.	Nansemond	862,537.
Fauquier	668,560.	Nelson	268,859.
Floyd	189,224.	New Kent	125,508.
Fluvanna	172,052.	Northampton	294,945.

County

Northumberland	\$ 232,242.
Nottoway	378,720.
Orange	322,681.
Page	335,372.
Patrick	305,635.
Pittsylvania	1,443,967.
Powhatan	143,078.
Prince Edward	165,889.
Prince George	536,092.
Prince William	2,721,818.
Pulaski	600,216.
Rappahannock	93,588.
Richmond	162,489.
Roanoke	1,877,521.
Rockbridge	493,380.
Rockingham	1,023,274.
Russell	605,344.
Scott	500,942.
Shenandoah	497,190.
Smyth	615,295.
Southampton	428,107.
Spotsylvania	384,747.
Stafford	514,099.
Surry	103,516.
Sussex	311,082.
Tazewell	1,003,988.
Warren	285,632.
Washington	798,185.
Westmoreland	236,234.
Wise	938,135.
Wythe	488,229.
York	789,722.

Town

Abingdon	\$ 111,976.
Cape Charles	41,995.
Colonial Beach	49,114.
Fries	53,970.
Poquoson	127,624.
Saltville	101,730.
West Point	83,274.

City

Alexandria	\$ 2,661,867.
Bristol	403,886.
Buena Vista	156,837.
Charlottesville	878,230.
Chesapeake	2,685,201.
Clifton Forge	120,937.
Colonial Heights	349,370.
Covington	275,091.
Danville	1,094,427.
Fairfax	-----
Falls Church	373,375.
Franklin	240,851.
Fredericksburg	315,983.
Galax	150,048.
Hampton	2,927,337.
Harrisonburg	359,775.
Hopewell	550,568.
Lexington	149,889.

(a) See Williamsburg City

(b) Includes James City County

City

Lynchburg	\$ 1,645,188.
Martinsville	592,518.
Newport News	3,361,050.
Norfolk	6,537,141.
Norton	120,221.
Petersburg	1,111,757.
Portsmouth	2,398,091.
Radford	204,814.
Richmond	5,579,163.
Roanoke	2,381,181.
South Boston	152,323.
Staunton	547,907.
Suffolk	259,819.
Virginia Beach	3,845,515.
Waynesboro	536,820.
Williamsburg (b)	525,152.
Winchester	364,005.

These figures give an indication of the amounts involved and the extent of State aid in this area.

We are recommending that a political subdivision be required to assume all employer cost when it establishes a supplementary system or permits additional memberships in existing supplemental systems after July 1, 1970 so that the subdivision will be aware of the real costs involved and discouraged, though not proscribed, from such action.

III. PROPOSALS CONSIDERED BUT NOT ADOPTED

A. *TIAA-CREF*

If the proposal to make coverage under TIAA-CREF available to professional personnel at Virginia institutions of higher education were adopted, professional personnel at such institutions who are regular full-time members of the faculty or staff and whose duties include teaching, research, administration or the performance of professional services, including professional librarians, would be given an opportunity to elect coverage under an Optional Retirement Program (ORP). The ORP could be provided through the Teachers Insurance and Annuity Association of America, Inc. (TIAA) and the College Retirement Equities Fund (CREF).

Any person electing coverage under the ORP would have to terminate his VSRS membership. Persons who have completed ten years of service under VSRS at time of election would retain a vested right to their VSRS benefits earned while a VSRS member. Those lacking ten years of service would have no such vested benefit, but their own accumulated VSRS contributions could be withdrawn and deposited in the ORP for use in purchasing benefits thereunder.

Under the ORP which we have evaluated, each person would contribute 6% of his regular compensation. It has been proposed that the State would make a matching 6% contribution. A percentage of the combined contribution (100%, 75%, 50%, or 25%, as elected by the participant) would be applied to purchase a TIAA retirement annuity for the participant, while any remainder would be used to buy a CREF retirement annuity certificate for him. Benefits purchased by member contributions would be fully vested, but whether or not the proposed State contributions would also be fully vested under all circumstances is an open question.

Whether retaining membership in the VSRS in preference to adopting the proposed TIAA-CREF program would be to a person's advantage or not depends on many things. Insofar as member benefits are concerned, there is no easy way to compare them since each person's situation differs. Involved here are the vested VSRS benefit, if any; the age; the salary; and, if the ORP were available and elected, the amount used to buy CREF coverage and the future performance thereunder. Since the proposed ORP involves higher member and State contributions than now required under VSRS, it is possible that the dollar amount of retirement allowance would exceed present VSRS benefits. However, if some of the proposed changes in the VSRS were to be adopted, it could happen that the VSRS benefits become higher. Also, even now the fringe VSRS benefits are valuable and whether anything comparable would be available under the proposed ORP is not clear.

Perhaps the main advantage to a member who might elect the ORP is the increased portability of his pension coverage. Changes in employment location, whether within or between states, would not necessitate discontinuance of coverage if the employment position were eligible for TIAA-CREF coverage. Our proposal to reduce the vesting period to five years and thus increase porta-

bility offsets this advantage of the ORP to a considerable extent, however. From the Virginia employer's point of view, the complete portability of the ORP could be an advantage since it might make it easier to obtain from other states qualified personnel who now have TIAA-CREF coverage and want to keep it. On the other hand, if the ORP were made available, a considerable degree of anti-selection should be expected, in that persons in poor physical condition would remain under VSRS in order to retain eligibility for death and disability benefits while those in good health would be less apt to. This would tend to produce a higher VSRS normal contribution rate.

The question also arises of how to justify the State's contributing a different amount toward the retirement benefit program of one group of VSRS employees than it does for another such group. It is this element of discrimination that makes adoption of the proposal on an equitable basis difficult and undesirable in our opinion.

It should also be realized that the State could incur certain additional pension expenses if the TIAA-CREF coverage were made available. For example, a number of persons at the University of Virginia are now participating in such a program which is financed in part by an endowment fund. Should the proposed ORP be made available with the State paying a sizeable contribution, then in all likelihood the State and not the endowment fund would be expected to pay for the employer cost for the University of Virginia program in the future. Should this happen, any reduction in the State's VSRS contribution would be offset by the inheritance of a pension bill for a new group of employees, in addition to the proposed 6% State contribution for the persons who transfer from the VSRS to the ORP.

With respect to overall cost of the ORP, the actuaries have made the following computations, utilizing 1968 payroll figures, based on estimates of personnel who might elect ORP coverage:

	<i>All State Employees</i>	<i>State Employees Excluding those who Might Elect the ORP</i>
(1) State's Annual Contribution	\$ 7,864,606	\$ 7,291,853
(2) Total Member Compensation	270,308,786	232,249,841
(3) Contributions as % of Payroll	2.91%	3.14%

If the proposal under consideration were adopted and if the assumptions made with respect to those persons who would elect the ORP were borne out by actual experience, the State's VSRS contribution would decrease in dollar amount by about \$573,000, although the contribution rate as a percentage of remaining covered payroll would increase from 2.91% to 3.14%. The \$573,000 cost decrease is 1.51% of the payroll of \$38,060,000 which might be expected to be involved in the transfer of membership to the ORP. This is considerably less than the 6% contribution rate which the proposed ORP would require from the State, so that it appears that the State would have to pay more to support this special coverage and so be discriminating against State employees generally.

B. Other Proposals

We have, by implication or directly, dealt with most of the proposals made to us in discussing our positive recommendations. For example, the proposal to eliminate the \$1,200 exclusion is considered in connection with our recommendation above to raise the 1 $\frac{3}{8}$ % factor in the basic formula to 1 $\frac{1}{2}$ %. Similarly, suggestions concerning matters relating to employee contribution rates, purchase of prior service credit and the like have been discussed above.

Two important matters which are not discussed above but which were examined by the actuaries and Council concern the group life insurance program and coverage for part-time employees. It is believed that the present group life insurance program constitutes a sound and well-designed aspect of the State's overall benefit structure. Changes in this program, such as an increase in the State contribution or extension of the benefit program to hospitalization, are matters which we believe deserve special study. Cost factors and the special nature of this program as distinct from the retirement programs make a separate study appropriate.

Questions regarding part-time employees have arisen largely because of the number of part-time teachers being employed in connection with kindergartens. We reviewed possible means to extend coverage to such personnel but found that the cost factors, when coupled with the real technical problems inherent in extending coverage to less than full-time personnel, argue forcefully against any extension of coverage at this time. An example of the problems in this area can be found in the case of a VSRS retiree who might take a part-time covered position. Should his retirement allowance be suspended or reduced? In this area, we believe the inequities and disadvantages of extending coverage outweigh any benefits to be gained.

IV. CONCLUSION

Legislation to effect the changes we are suggesting is carried in Appendix II.

We commend the actuaries and Mr. Smith and his staff of the VSRS for their careful analysis of proposals and helpful advice.

The program we are suggesting includes beneficial and needed changes developed on a basis whereby they are self-financing. We hope they will be received and considered favorably by the General Assembly during this coming Session.

Respectfully submitted,

C. W. Cleaton, Chairman
J. C. Hutcheson, Vice-Chairman
Russell M. Carneal
Robert C. Fitzgerald
J. D. Hagood
Edward E. Lane
Garnett S. Moore
Lewis A. McMurrin, Jr.
Sam E. Pope
Arthur H. Richardson
William F. Stone
James M. Thomson
Edward E. Willey

APPENDIX I

STUDY DIRECTIVES

GOVERNOR'S LETTER OF APRIL 5, 1968
SENATE JOINT RESOLUTION No. 63
GOVERNOR'S LETTER OF APRIL 9, 1968
SENATE JOINT RESOLUTION No. 38

COMMONWEALTH OF VIRGINIA
GOVERNOR'S OFFICE
RICHMOND

April 5, 1968

Chairman
Virginia Advisory Legislative Council
c/o Division of Statutory Research
State Capitol
Richmond, Virginia

Dear Sir:

Senate Joint Resolution No. 63 was offered in the 1968 session of the General Assembly calling for a study of the Virginia Supplemental Retirement Act and the State Police Officers' Retirement System.

The resolution passed the Senate March 8th and was communicated to the House, but apparently through inadvertence was not reported by the House committee and therefore failed of final passage.

The need for the study was generally recognized by members of the House, and I am of the opinion that except for the oversight would have received their approval.

In view of these circumstances and desirability of such a study, I respectfully request the VALC to conduct the study as indicated in Senate Joint Resolution No. 63, and make a report to the Governor and the General Assembly of 1970.

Sincerely yours,

/s/ MILLS E. GODWIN, JR.

am

cc: Mr. Charles H. Smith

SENATE JOINT RESOLUTION NO. 63

Creating a commission to make a study of the Virginia Supplemental Retirement System and the State Police Officers' Retirement System.

Whereas, there have been a number of bills presented at the 1968 Regular Session of the General Assembly of Virginia proposing amendments both to the Virginia Supplemental Retirement Act and to the provisions of the Code which establish the State Police Officers' Retirement System; and

Whereas, it is recognized that any substantial change in the provisions of either of these systems can have drastic effects on the costs and actuarial soundness of the systems; and

Whereas, it is obvious that any change should be given careful study and evaluation before enactment into law; now, therefore, be it

Resolved by the Senate of Virginia, the House of Delegates concurring, That there is hereby created a Commission to make a study of the Virginia Supplemental Retirement Act and of the provisions of law providing for the State Police Officers' Retirement System. The Commission shall give general consideration to the operations of these two systems, the costs involved and the benefits provided thereby, and particular reference to such proposals as have been made at the current session of the General Assembly for changes in these laws. The Commission shall be composed of seven persons appointed by the Governor, who shall designate the chairman thereof. Members of the Commission shall receive no compensation for their services but shall be paid their necessary expenses incurred in the performance of their duties for which, and for payment of any other expenses of the Commission, there is hereby appropriated from the contingent fund of the General Assembly a sum sufficient, estimated at five thousand dollars. All agencies of the State shall assist the Commission on its request. The Commission shall complete its study and make a report containing its findings and recommendations to the Governor and the General Assembly not later than November one, nineteen hundred sixty-nine.

COMMONWEALTH OF VIRGINIA
GOVERNOR'S OFFICE
RICHMOND

April 9, 1968

Chairman
Virginia Advisory Legislative Council
c/o Division of Statutory Research
State Capitol
Richmond, Virginia

Dear Sir:

This is in reference to my letter of April fifth requesting the VALC to conduct a study of the Virginia Supplemental Retirement Act and the State Police Officers' Retirement System as indicated in Senate Joint Resolution No. 63 which was offered at the 1968 session of the General Assembly.

Also introduced, but failed to pass, was Senate Joint Resolution No. 38 calling for a study of the feasibility of establishing TIAA-CREF retirement coverage for professional personnel in State institutions of higher education.

The State Council of Higher Education is very much interested in a study of this retirement program for professional personnel at our State colleges and universities, and I, too, feel the matter is worthy of consideration.

I, therefore, respectfully request that the VALC conduct the study as indicated in Senate Joint Resolution No. 38 as a part of or in addition to Senate Joint Resolution No. 63 and make a report to the Governor and the General Assembly of 1970.

Sincerely yours,

/s/ MILLS E. GODWIN, JR.

bwn

cc: Mr. Charles H. Smith
Dr. Prince W. Woodard

SENATE JOINT RESOLUTION NO. 38

Directing the Virginia Advisory Legislative Council to study the feasibility of establishing TIAA-CREF retirement coverage for professional personnel in the State institutions of higher education.

Whereas, the future recruitment of outstanding faculty and staff members and the retention of the current professional personnel in the several State institutions of higher education is critical to the continued development of the State system of higher education in Virginia; and

Whereas, the retirement program available to faculty members in institutions of higher education is an influential factor in attracting and retaining personnel; and

Whereas, an increasing number of institutions of higher education throughout the nation provide TIAA-CREF (Teachers Insurance and Annuity Association of America and College Retirement Equities Fund) faculty retirement programs which permit the transfer of coverage when an individual moves from one participating institution to another; and

Whereas, the Council of Presidents of the State-Aided Institutions of Higher Learning in Virginia and the State Council of Higher Education for Virginia feel that TIAA-CREF retirement coverage would substantially benefit higher education in Virginia; now, therefore, be it

Resolved by the Senate of Virginia, the House of Delegates concurring, That the Virginia Advisory Legislative Council is directed to study the feasibility of providing TIAA-CREF retirement coverage for professional personnel in all State institutions of higher education. The Council shall consider the advantage, if any, of TIAA-CREF coverage; the relationship of such a program to the Virginia Supplemental Retirement System, including the State's contribution to a TIAA-CREF program; and, if such a program is deemed desirable, procedures whereby it may be smoothly and orderly initiated. All State agencies and institutions of higher education shall assist the Council in its study. The Council shall complete its study and make its report containing its findings and recommendations to the Governor and General Assembly not later than October one, nineteen hundred sixty-nine.

APPENDIX II

LEGISLATION

BILL AMENDING VSRS PROVISIONS
BILL AMENDING VSPORS PROVISIONS

A BILL to amend and reenact §§ 51-111.18, 51-111.37, 51-111.41:1, 51-111.45, 51-111.47, 51-111.49, 51-111.53, 51-111.54, 51-111.55, 51-111.57, 51-111.58, 51-111.58:1, 51-111.60, 51-111.62, 51-111.67:7 and 51-111.70:1, as severally amended, of the Code of Virginia, relating to the Virginia Supplemental Retirement System, to group life insurance policies for certain employees and to additional retirement benefits for certain teachers and State employees; to amend the Code of Virginia by adding a section numbered 51-111.60:1, relating to post-retirement supplements to be paid under the provisions governing the System; and to repeal §§ 51-111.38:10 through 51-111.38:16 of the Code of Virginia, relating to participation by the United States Property and Fiscal Office for Virginia in the System.

Be it enacted by the General Assembly of Virginia:

1. That §§ 51-111.18, 51-111.37, 51-111.41:1, 51-111.45, 51-111.47, 51-111.49, 51-111.53, 51-111.54, 51-111.55, 51-111.57, 51-111.58, 51-111.58:1, 51-111.60, 51-111.62, 51-111.67:7 and 51-111.70:1, as severally amended, of the Code of Virginia be amended and reenacted; and that the Code of Virginia be amended by adding a section numbered 51-111.60:1; as follows:

§ 51-111.18. Members of Board; powers of former retirement system.—The Board shall consist of * five members to be appointed by the Governor, subject to confirmation by the General Assembly. * One *member* shall be a teacher, one a State employee, and the others neither teachers nor State employees nor otherwise in the employ of any government. The appointive members in office on * *the effective date of this act* shall continue in office until their terms expire, respectively, and as and when the term of * *such a* member expires, his successor shall be appointed by the Governor for a term of four years. Every appointment to fill a vacancy shall be for the unexpired term. No * member shall be eligible to serve for or during more than two successive four-year terms; but after the expiration of the remainder of an unexpired term to which appointed, two additional four-year terms may be served by such a member if appointed thereto. * The Governor may suspend or remove any * member at his pleasure. The Board shall be vested with the powers and duties of the Board of Trustees of the abolished system to the extent such powers and duties were created or continued by the act abolishing the said system, or by other legislation *.

Each member of the Board who is not a full-time officer or employee of any government shall receive as his compensation * *twenty-five* dollars per day for each day actually spent in the discharge of his duties, but no such member shall receive as compensation in the aggregate more than * *five* hundred dollars in any one year. Members shall be reimbursed for the expenses incurred by them in the performance of their duties.

§ 51-111.37. Benefits.—Employees who become members under this article and on behalf of whom contributions are paid as provided in this article shall be entitled to benefits under the retirement system, *provided, however, that for any such employees who are employed in law enforcement positions comparably hazardous to that of a State police officer, the employer may, by resolution legally adopted and approved by the Board, elect to provide benefits equivalent to those provided for State police officers of the Department of State Police, as set out in §§ 51-144(15), 51-150, 51-151, 51-152, 51-153, 51-154, 51-155, 51-156, and 51-157 in lieu of the benefits that would otherwise be provided hereunder.*

Notwithstanding anything to the contrary, the retirement system shall not be liable for the payment of any retirement allowances or other benefits on account of the members or beneficiaries of any employer under this article, for which reserves have not been previously created from funds contributed by such employer or the members for such benefits.

§ 51-111.41:1. Prior service or membership credit for certain members.—(a) Any member may be credited with prior and/or membership service which might otherwise have been credited, except for one or more of the following:

(i) Rejection of membership in the abolished system under § 51-47 or the retirement system under § 51-111.32;

(ii) Cessation of membership under § 51-49 of the abolished system and/or under § 51-111.29 of this chapter because of the withdrawal of his accumulated contributions under § 51-109 of the abolished system or under § 51-111.58 of this chapter; or

(iii) Withdrawal of his accumulated contributions under § 51-111.68 of the Code of Virginia; provided such member pays, * while in service or within ninety days after termination of service, an amount equal to the contributions that he would have made during the entire period to be credited (exclusive of any such period prior to June thirty, nineteen hundred and forty-two and exclusive of any period subsequent to June thirty, nineteen hundred forty-two during which the member was in the armed forces of the United States) on the assumption that the member contribution rate specified in § 51-111.46 (a) as of the date of payment had been in effect during the entire such period and that his creditable compensation as of the date of payment (or as of the last date in service, if the member is not in service at date of payment) had been received during the entire such period, together with interest thereon at the rate of two percent per annum compounded annually from the end of each respective fiscal year to which the contribution applies to the first day of the month during which payment is made. Such interest payment, and the amount of contributions paid, shall be credited to the account of the member in the members' contribution account.

(b) In order for the additional service provided for in subsection (a) of this section to be considered in the computation of any retirement allowance payable in the event of a member's retirement under § 51-111.56, the member shall have submitted at the time payment or repayment is made, a medical report satisfactory to the Medical Board showing that the member was at such time of sound mind and body.

(c) An administrative charge of five dollars shall be paid by the member to the retirement system when requesting a cost estimate of the amount of any payment required under subsection (a) of this section.

(d) Any State employee or teacher member of the retirement system in service or within ninety days after termination of service with full time salaried service as a State employee, or a teacher, prior to July one, nineteen hundred forty-two, and heretofore not credited therewith, shall, upon application, be credited with such prior service, provided, since becoming a member of the retirement system, five or more years of membership service has been credited such member, and, provided, further, that if the member's contributions were withdrawn under § 51-111.68 of the Code of Virginia, § 51-109 of the abolished system, or § 51-111.58 of this chapter, credit for all of the member's service since July one, nineteen hundred forty-two has been established or reestablished as provided in subsection (a) of this section.

(e) Any member granted a leave of absence subsequent to June thirty, nineteen hundred sixty-six for educational purposes may receive credit for up to one year of service during any period or periods of such leave on the purchase basis set forth in subsection (a) of this section.

(f) Any State employee member elected to a covered position by a joint vote of the two Houses of the General Assembly of Virginia and which position was for a period excluded under the abolished system, may be credited with service during such period by paying the member contributions which would have been payable, except for the exclusion.

(g) Any clerk of a county court who is a member of the retirement system, or any member of the retirement system who since July one, nineteen hundred sixty, has been a State employee member and who has not withdrawn, since becoming a member of the retirement system or the abolished system, his accumulated contributions may, if in service, be credited with full time service as a clerk of a county court prior to July one, nineteen hundred sixty; provided, that such credit for the period between July one, nineteen hundred

fifty-nine, and July one, nineteen hundred sixty, shall be allowed a member only if he pays, prior to July one, nineteen hundred sixty-three, the employee contributions which would have been payable had his position been included in the retirement system during such period.

§ 51-111.45. Service in armed forces.—(a) Any person who was a member of the abolished system and in the armed forces of the United States on March one, nineteen hundred fifty-two, or any member of the retirement system subsequently entering the armed forces of the United States, being on leave of absence from such service of the State or of the Virginia public free schools or any other employer under this chapter and not withdrawing accumulated contributions shall be entitled to have included as creditable service his period of service in the armed forces of the United States provided his discharge therefrom was not dishonorable and he reenters service within one year after discharge.

(b) Any member in service who rejected membership in the abolished system and subsequently entered the armed forces of the United States, being on leave of absence from the service of the State or of the Virginia public free schools, shall be entitled to have included as creditable service his period of service in the armed forces of the United States, provided his discharge therefrom was not dishonorable, he reentered service within one year after discharge ** and said service has been continuous since becoming a member.*

§ 51-111.47. Employer contributions.—(a) Each employer shall contribute an amount equal to the *sum of the “normal contribution,” the “accrued liability contribution,” if any, and the “supplementary contribution,” if any.*

(b) The normal contribution for any employer for any period shall be determined as a percentage, equal to the normal contribution rate of the total covered compensation for such period of the members employed by such employer in such period, reduced by an amount calculated to be equal to the estimated excess, if any, of the net investment income during such period on the assets of the system allocable to the members employed by such employer over the amount of net investment income thereon assumed in the computation of the normal contribution rate.

* (c) The normal contribution rate for any employer shall be determined as the percentage ** represented by the ratio of (i) the annual normal cost to provide the benefits, other than post-retirement supplements as provided for in § 51-111.60:1, of the retirement system with respect to members employed by such employer, computed in accordance with recognized actuarial principles on the basis of methods and assumptions approved by the Board, in excess of the part thereof provided by such members' contributions, to (ii) the total annual compensation of such members. The normal contribution rate for each employer shall be determined after each valuation and remain in effect until a new valuation is made.*

(d) *The accrued liability contribution for any employer for any period shall be determined as a percentage, equal to the accrued liability contribution rate, of the total compensation for such period of the members employed by such employer in such period.*

(e) *The accrued liability contribution rate for any employer shall be determined as the percentage represented by the ratio of (i) the level annual contribution necessary to amortize the unfunded accrued liability with respect to such employer over a period of forty years, computed in accordance with recognized actuarial principles on the basis of methods and assumptions approved by the Board, to (ii) the total annual compensation of such members.*

The accrued liability contribution rate for each employer shall be determined after each valuation and shall remain in effect until a new valuation is made.

(f) The unfunded accrued liability with respect to any employer as of any valuation date shall be determined, in accordance with recognized actuarial principles on the basis of methods and assumptions approved by the Board, as the excess of (i) the then present value of the benefits, other than post-retirement supplements as provided for in § 51-111.60:1, to be provided under the retirement system in the future with respect to members employed by such employer and to former members formerly employed by such employer over (ii) the sum of the assets of the retirement system then currently on hand in the members' contribution account with respect to such members and in the employer's retirement allowance account, plus the then present value of the stipulated contributions to be made in the future by such members, plus the then present value of the normal contributions expected to be made in the future by the employer.

(g) The supplementary contribution for any employer for any period shall be determined as a percentage, equal to the supplementary contribution rate, of the total compensation for such period of the members employed by such employer in such period.

(h) The supplementary contribution rate for any employer shall be determined as the percentage represented by the ratio of (i) the average annual amount of post-retirement supplements as provided for in § 51-111.60:1 which it is anticipated will become payable during the period to which the rate will be applicable with respect to former members formerly employed by such employer, to (ii) the total annual compensation of the members employed by such employer. The supplementary contribution rate for each employer shall be determined after each valuation and shall remain in effect until a new valuation is made.

*(i) The Board shall certify to the Comptroller, and to each employer contributor other than the State, the applicable normal contribution rate, accrued liability contribution rate and supplementary contribution rate, and * any changes made therein from time to time.*

** (j) The aggregate employer total contributions payable into the retirement allowance account shall be at least sufficient, when combined with the applicable amount then held in the account, to provide the benefits payable from the account during the current year.*

** (k) At least thirty days prior to each regular session of the General Assembly, the Board shall certify to the Governor the respective amounts which will become due and payable to the retirement system from the State treasury during the biennium next following. The amounts so ascertained shall be included in the appropriation bill which is submitted to the General Assembly.*

** (l) In the case of all teachers whose compensation is paid exclusively out of funds derived from local revenues and appropriations from the general fund of the State treasury, and in the case of all State employees whose compensation is paid exclusively by the State out of the general fund of the State treasury, the State shall be the sole contributor, and all such contributions shall be paid out of the general fund. In the case of any teacher whose compensation is paid out of funds derived in whole or in part from any special fund, or from a contributor other than the State or some political subdivision thereof, then in any year, there shall be paid out of the general fund only such proportion of the contributions on behalf of such employee as that part of such employee's compensation paid out of local revenues and funds derived from the general fund for that year bears to his total compensation for that*

year, and the remainder of such contributions shall be paid out of such special fund or by such other contributor in proportion to that part of the employee's compensation derived therefrom. In the case of a State employee whose compensation is paid in whole or in part out of any special fund, or by any contributor other than the State, then contributions on behalf of such employee in any year shall be paid out of such special fund, or by such other contributor, in proportion to that part of the employee's compensation derived therefrom for that year. The governing body of each county, city and town is hereby authorized to make such appropriations from the funds of such county, city or town as shall be necessary to pay its proportionate share of contributions on account of every State employee whose compensation is paid in part by such county, city or town.

§ 51-111.49. Members' contribution account.—(a) The members' contribution account shall be the account to which all members' contributions and interest allowances as provided in this chapter shall be credited; from this account shall be paid the accumulated contributions of a member required to be returned to him upon withdrawal, or paid in the event of his death before retirement.

(b) In the case of all members paid directly out of the State treasury, the Comptroller shall, at the end of each payroll period, transfer to the members' contribution account from each fund in the State treasury out of which the salary of any member is paid, an amount equal to the aggregate amount of the deductions made for the preceding payroll period from the salaries of all members paid out of such fund in the State treasury. The Comptroller shall forward a record of all such transfers to the Board. In all other cases the employer, or the department, agency or institution, by which any member's compensation is paid, shall, at the end of each payroll period, transmit to the State Treasurer its warrant for the payment of an amount equal to the aggregate amount of the deductions made for such payroll period from the salaries of all members paid by such employer, department, agency or institution, for the preceding payroll period. The funds collected by the Treasurer on account of such warrants shall be credited to the members' contribution account. The Treasurer shall transmit to the Comptroller and to the Board a record of all moneys so collected.

(c) Each contribution provided for in § 51-111.46 and each payment made under § 51-111.41:1, to the extent provided for therein, shall be credited to the individual account of the contributing member.

(d) Each individual account of the members' contribution account shall, *prior to the fiscal year beginning July one, nineteen hundred seventy*, be credited annually with interest at the rate of two per centum per annum on the accumulated contributions of the member; *each such account shall, effective the fiscal year beginning July one, nineteen hundred seventy, be credited annually with interest at the rate of four per centum per annum on the accumulated contributions of the member*; provided however that interest shall accrue on any such contribution beginning at the end of the fiscal year in which each such contribution was made.

* (e) Upon the retirement of a member, his accumulated contributions shall be transferred from the members' contribution account to the retirement allowance account.

§ 51-111.53. Service retirement.—(a) *Normal retirement.*—Any member in service at his normal retirement date may retire at any time then or thereafter upon written notification to the Board, made by the member or his employer, setting forth at what time the retirement is to become effective, pro-

vided that such effective date shall be after his last day of service but shall not be more than ninety days prior to or subsequent to the filing of such notice.

(b) *Early retirement.*—Any member in service on or after his sixtieth birthday, or, at the time he has complied with the requirements for retirement set forth in chapter 36 of the Code of 1919 as it existed immediately prior to July one, nineteen hundred forty-two, in the case of a teacher who would have qualified for service retirement prior to his normal retirement date under the provisions of the abolished system and in either case prior to his normal retirement date, may retire upon written notification to the Board, made by the member or his employer, setting forth at what time the retirement is to become effective, provided that such effective date shall be after his last day of service and after the filing of such notice but shall not be more than ninety days subsequent to the filing of such notice.

(c) *Deferred retirement for members terminating service.*—Any member having terminated service (i) prior to July one, nineteen hundred sixty-six after fifteen or more years of creditable service or (ii) subsequent to June thirtieth, nineteen hundred sixty-six and prior to June thirtieth, nineteen hundred seventy after ten or more years of creditable service or (iii) subsequent to June thirtieth, nineteen hundred seventy after five or more year creditable service, may retire under the provisions of paragraphs (a) or (b) above, provided that he shall not have withdrawn his accumulated contributions prior to the effective date of his retirement, and except that any requirements as to the member being in service shall not apply; provided further however that no member shall be entitled to the benefits of this paragraph if his employer certifies that his service was terminated because of dishonesty, malfeasance or misfeasance in office; such certification may be appealed to the Board, and its decision shall be final.

§ 51-111.54. Retirement on attaining sixty-five or seventy years of age.—Any member who is a State employee or a teacher, both as defined in § 51-111.10, and who attains seventy years of age shall be retired forthwith; provided that the employer may provide for the compulsory retirement of his employees at any age from sixty-five to seventy; and provided that, upon the request of his employer in the case of a teacher, or the head of the department, institution or agency by which he is employed, in the case of a State employee, he may remain in service not longer than the last day of the fiscal year during which he attains seventy years of age; and provided further that this section shall not apply to (a) any member who is appointed by the Governor or to any member appointed by the Attorney General as an assistant Attorney General; * or, any member who is a physician employed by the Department of Mental Hygiene and Hospitals, if his retention in service is approved by the Commissioner of Mental Hygiene and Hospitals, and (b) any member who is the clerk or deputy clerk of a court *. Notwithstanding the foregoing provisions, the Governor may, in his discretion, in the case of a member appointed by him who has attained the age of seventy years, retain such member in service as a consultant if in the opinion of the Governor such member has by reason of long service and experience become specially fitted to perform duties essential to the administration of the affairs of the State. The salary of any such consultant shall be fixed by the Governor.

§ 51-111.55. Service retirement allowance.—(a) Retirement allowance.—Upon retirement as provided in § 51-111.53, on or after July one, nineteen hundred * seventy, a member shall receive an annual retirement allowance payable monthly to him for life, subject to the provisions of subsection * (f) of this section, determined in accordance with paragraph (1) or (2), whichever is applicable, and paragraph (3), if applicable:

(1) Normal retirement under § 51-111.53(a).—An * *allowance* equal to one and * *one-half* per centum of his average final compensation multiplied by his number of years of creditable service, subject to the provisions of subsection * (c) * of this section, *provided, however, that in no event shall such allowance exceed seventy-five per centum of his average final compensation.*

(2) Early retirement under § 51-111.53(b).—An * *allowance* which shall be determined in the same manner as for retirement at his normal retirement date with years of creditable service and average final compensation being determined as of the date of his actual retirement, * *with* the amount of the retirement allowance so determined being reduced on an actuarial equivalent basis for the period that the actual retirement date precedes the normal retirement date, subject * to the provisions of subsection * (d) of this section; provided further that the retirement allowance of a member retiring on or after his sixtieth birthdate and with at least thirty years of creditable service shall not be so reduced.

(3) *Additional allowance.*—In addition to the allowance payable under * *paragraph (1) or paragraph (2)* of this section, a member shall receive an additional allowance which shall be the actuarial equivalent for his attained age at time of retirement, of the excess, if any, of his accumulated contributions transferred from the abolished system to the retirement system, including interest credited since such transfer to the date of retirement, over the amount obtained by accumulating at the rate of two per centum compounded annually, annual amounts equal to four per centum of his annual creditable compensation at the date of abolition of the Virginia Retirement System for a period equal to his period of membership in the abolished system and with interest credited at two per centum annually from the date of such transfer to the date of retirement.

(b) *Special guarantee.*—*In the case of any beneficiary retired for service on or after March one, nineteen hundred fifty-two and prior to July one, nineteen hundred seventy, the annual retirement allowance payable on and after July one, nineteen hundred seventy shall be equal to the larger of (i), twelve-elevenths of the allowance that would have been paid theretofore except for the application of provisions corresponding to those contained in subsections (c) and (d) of this section and (ii), the allowance theretofore paid.*

(c) Normal retirement guarantee.—Subject to the provisions of subsection * (e) of this section, the retirement allowance payable upon normal retirement to a former member of the abolished system who transferred his accumulated contributions to the retirement system as provided in § 51-111.41 and who has not withdrawn such contributions prior to retirement shall not be less than the excess, if any, of the service retirement allowance to which the member would have been entitled under the provisions of the abolished system if he had continued contributions in the amount in effect at the date of abolition of such system or, in the case of a member with thirty or more years of creditable service, the larger of such allowance or the minimum retirement allowance *excluding post-retirement supplements of the type provided for in § 51-111.60:1, but* including increases provided by the General Assembly of Virginia, payable to former members of the abolished system who retired for service with thirty or more years of creditable service under the provisions of the retirement acts in effect prior to March one, nineteen hundred fifty-two, over the annual primary social security benefits under the federal Social Security Act to which the member becomes entitled at his retirement date.

(d) Early retirement guarantee.— Subject to the provisions of subsection * (e) of this section, the retirement allowance payable upon early retire-

ment to a former member of the abolished system who transferred his accumulated contributions to the retirement system as provided in § 51-111.41 and who has not withdrawn such contributions prior to retirement, and who would have qualified prior to normal retirement for a service retirement allowance under the abolished system, shall, prior to the member's sixty-fifth birthday, not be less than the service retirement allowance that would have been payable under the provisions of the abolished system, nor after the member's sixty-fifth birthday shall it be less than the excess, if any, of the larger of such allowance or the minimum retirement allowance, *excluding post-retirement supplements of the type provided for in § 51-111.60:1, but* including increases provided by the General Assembly of Virginia, payable to former members of the abolished system who retired for service under the provisions of the retirement acts in effect prior to March one, nineteen hundred fifty-two, over the annual primary social security benefits under the federal Social Security Act to which the member becomes entitled at his sixty-fifth birthday, or to which he would have become entitled at such birthday except for having elected to have his social security benefits commence at an earlier date.

* (e) Determination of retirement allowance.—For the purposes of subsections (c) and (d) * of this section, the retirement allowance shall be determined on the assumption that the retirement allowance is payable to the member alone and that no optional retirement allowance as provided in § 51-111.60 is elected

* (f) Beneficiary serving in position covered by this chapter.—Should a beneficiary of a service retirement allowance under this chapter or the abolished system be at any time in service as an employee in a position covered for retirement purposes under the provisions of this or any chapter other than Chapter 3.1 (§ 51-111.1 et seq.) of this title, if the State contributes any of the employer *salary cost for the position*, his retirement allowance shall cease while so employed.

§ 51-111.57. Disability retirement allowance.—(a) Allowance payable on retirement.—Upon retirement as provided in § 51-111.56 on or after July one, nineteen hundred * *seventy*, a member shall receive an annual retirement allowance payable monthly during his lifetime and continued disability equal to one and * *one-half* per centum of his average final compensation multiplied by the smaller of:

- (i) twice the number of his years of creditable service; or
- (ii) the number of years of creditable service he would have completed at age sixty if he had remained in service to that age, or in the case of a member who has already attained age sixty, the number of his years of creditable service at date of retirement;

subject * to the provisions of subsections (b), (c) and (d) of this section, *provided, however, that in no event shall such allowance exceed seventy-five per centum of his average final compensation.*

In the case of any beneficiary retired for disability on or after March one, nineteen hundred fifty-two and prior to * *July one*, nineteen hundred * *seventy* who has attained his sixty-fifth birthday prior to * *July one*, nineteen hundred * *seventy*, and whose retirement allowance has been recomputed as a service retirement allowance, the annual retirement allowance payable on and after July one, nineteen hundred * *seventy* shall be equal to * *twelve-elevenths* of the allowance theretofore paid. In the case of any such beneficiary who has not attained his sixty-fifth birthday prior to * *July one*, nineteen hundred * *seventy*, and whose allowance is not computed under a specific provision relating to a "law enforcement officer disability allowance," the allow-

ance payable *on and* after July one, nineteen hundred * *seventy* shall be equal to the allowance theretofore paid subject to the provisions of subsection (c) of this section, until his sixty-fifth birthday. On and after the sixty-fifth birthday of such a beneficiary, the allowance payable shall be equal to the service retirement allowance for normal retirement determined in accordance with paragraph (1) of subsection (a) of § 51-111.55, except that subsection (c) * of § 51-111.55 shall not apply, on the assumption that his creditable compensation on the date of disability retirement continued in the same amount up to his sixty-fifth birthday and on the assumption that years of creditable service at normal retirement included both the creditable service prior to disability retirement and the period of disability retirement.

(b) Disability retirement guarantee.—The disability retirement allowance payable to a former member of the abolished system who transferred his accumulated contributions to the retirement system and who has not withdrawn such contributions prior to such retirement, shall be at least an amount which, when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date, would equal the disability retirement allowance to which the individual would have been entitled under the provisions of the abolished system.

(c) Minimum disability retirement allowance.—Notwithstanding the provisions of subsection (a) of this section, the amount of annual retirement allowance as determined under this section shall, effective six months after retirement date and subject to the provisions of subsection (e) of this section, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date would equal one thousand dollars or twenty-five per centum of average final compensation, whichever is larger, provided further the annual amount of the combined retirement system allowance and primary social security benefit for any member retired or retiring and credited with twenty or more years of service at the time of retirement shall, effective six months after retirement date, and subject to the provisions of subsection (e) of this section, not be less than the retirement allowance payable *excluding post-retirement supplements of the type provided for in § 51-111-60:1*, but including increases provided by the General Assembly of Virginia, to former members retired for disability under the provisions of the retirement acts in effect prior to March one, nineteen hundred fifty-two.

(d) Special disability retirement guarantee.—Notwithstanding the provisions of subsection (a) of this section, if a member retires after June thirty, nineteen hundred sixty-six for disability under the provisions of subsection (b) of § 51-111.56, the amount of annual retirement allowance as determined under this section shall, subject to the provisions of subsections (e) and (f) of this section, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date would equal two-thirds of the sum of the member's average final compensation plus twelve hundred dollars.

(e) Determination of retirement allowance.—For the purposes of this section, the retirement allowance shall be determined on the assumption that the retirement is payable to the member alone and that no optional retirement allowance is elected.

(f) Reduction of allowance by amount of payments under Workmen's Compensation Act.—Any allowance payable to a member under this section shall be reduced by the amount of any payments under the Virginia Workmen's Compensation Act and the excess of the allowance, if any, shall be

paid to such member. When the time for payments of the compensation under such act has elapsed, the member shall thereafter receive the full amount of such allowance payable monthly during his lifetime and continued disability. *

§ 51-111.58. Withdrawal before retirement.—(a) If a member has ceased to be an employee, otherwise than by death or by retirement under the provisions of this chapter, he shall be paid, on demand *or as soon thereafter as practicable*, but not later than ninety days * *after demand*, the amount of his accumulated contributions reduced by the amount of any retirement allowances previously received by him under any of the provisions of this chapter or the abolished system.

(b) *Notwithstanding any provision in subsection (a) above to the contrary a member who retires under the provisions of subsection (b) of § 51-111.56 shall be refunded the amount of his accumulated contributions.*

§ 51-111.58:1. Death before retirement.—(a) Should a member die at any time before retirement, and if no benefits are payable under subsection (b) of this section, the amount of his accumulated contributions, reduced by the amount of any retirement allowance previously received by him under this chapter or the abolished system, shall be paid to such person, if any, as he has nominated by written designation signed and acknowledged by such member before some person authorized to take acknowledgments and filed with the Board, otherwise to his executors or administrators. Any such designation may be changed by the member by the written designation of some other person, signed, acknowledged and filed as aforesaid.

(b) Should a member in service die at any time before retirement and after either attaining his sixtieth birthday or completing at least thirty years of creditable service and if no benefits are payable under subsection (c) of this section there shall be paid a retirement allowance to the person nominated as provided in subsection (a) of this section if such person is the wife, husband, mother or father of the member; such retirement allowance shall be continued during the lifetime of such person and shall be, (1) in the case of a member who dies prior to attaining his sixty-fifth birthday, an allowance equal to one-half of the decreased retirement allowance that would have been payable to the member had the member retired under the provisions of subsection (b) of § 51-111.53 on the date of his death after having elected to have his allowance payable under the joint and last survivor option described in subsection (a) (2) of § 51-111.60 so that one-half thereof would be continued after his death to such person, assuming, in the case of a member who had not attained his sixtieth birthday at his date of death, that the requirement of having attained his sixtieth birthday was not included in the provisions of subsection (b) of § 51-111.53, and that the retirement allowance payable in such event would be reduced on an actuarial equivalent basis for the period by which the date of death preceded the date the member would have attained his sixtieth birthday; or, (2) in the case of a member who dies after attaining his sixty-fifth birthday, an allowance equal to the deceased retirement allowance that would have been payable to the member had the member retired under the provisions of subsection (a) of § 51-111.53 on the date of his death after having elected to have his allowance payable under the joint and last survivor option described in subsection (a) (2) of § 51-111.60 so that the same amount would be continued after his death to such person. Provided that in the determination of the allowance that would have been payable to the member had the member retired on the date of his death, the provisions of subsections (b), (c) and (d) of § 51-111.55 shall not apply; and provided further that if such person so elects in writing under seal and duly acknowledged, the amount of the member's accumulated contributions, reduced by the amount of any retirement allowance previously received by him under this chapter or the

abolished system, shall be paid to such person in lieu of any other benefits under this subsection.

(c) Should a member die in service at any time before retirement from a cause compensable under the Virginia Workmen's Compensation Act, an annual retirement allowance shall be paid to the widow or widower, if any, of such member. In the event no compensation is finally awarded under the Virginia Workmen's Compensation Act with respect to the death of a member, due to legal proceedings or otherwise resulting in settlement from the person or persons causing such death, the Virginia Industrial Commission, upon request of the Board, shall for the purpose of this section determine whether such member's death was from a cause compensable under the Virginia Workmen's Compensation Act. If such member leaves no widow or widower, or the widow or widower dies or remarries, then the child or children under the age of eighteen years, if any, of the deceased member, shall be paid an allowance until such child or children die or attain the age of eighteen years, whichever shall first occur. If more than one child survives the deceased member, the allowance shall be divided among them in such manner as the Board may determine. If the deceased member leaves neither widow, widower nor child or children under the age of eighteen years, then such allowance shall be paid to the member's parent or parents wholly dependent upon him for support, divided in such manner as the Board may determine, during the life or lives of such parent or parents.

The retirement allowance, payable hereunder to a qualifying survivor or survivors, shall be the annual amount, payable monthly, which when added to the social security benefit payable to *such qualifying survivor or survivors* as result of coverage of the member under the federal Social Security Act and the compensation payable under the Virginia Workmen's Compensation Act for the death of the member, shall be equal to one-half of the sum of the member's average final compensation and twelve hundred dollars. *

Any beneficiary entitled to the entire amount of a retirement allowance under the provisions of this subsection as a result of the death of a member shall be entitled to waive his rights to such allowance by written notification to the Board within ninety days after the death of such member in order to make available a retirement allowance under the provisions of subsection (b) of this section.

§ 51-111.60. Optional benefits.—(a) Each member shall have the right at any time, not subsequent to the later of the effective date of the member's retirement or the date of written notification to the Board of the retirement of the member, to elect to have his retirement allowance payable under one of the options set forth in this section in lieu of the retirement allowance otherwise payable to him upon retirement under any of the provisions of this chapter. The amount of any such optional retirement allowance shall be the actuarial equivalent of the amount of such retirement allowance otherwise payable to him. The member shall make such an election by written request to the Board and such an election shall be subject to the approval of the Board.

(1) *Straight life option.*—A member may elect to receive an increased retirement allowance in lieu of any death benefits as provided in § 51-111.59.

(2) *Joint and last survivor option.*—A member may elect to receive a decreased retirement allowance during his lifetime and have such retirement allowance (or one-half thereof if so designated) continued after his death to another person during the lifetime of such person; provided, however, that if the member's retirement is for disability, the election of the retirement allowance to be continued after the member's death shall be limited to one-half of the decreased retirement allowance received by the member during his life-

time. In case of such an election death benefits that might otherwise be provided under § 51-111.59 shall not be payable upon the death of the member. This option may not be elected by a member if the social security option of paragraph (a) (3) hereof has previously been elected.

(3) *Social security option.*—If a member retires for service prior to his normal retirement date, he may elect to receive an increased retirement allowance up to his normal retirement date and a decreased retirement allowance thereafter, thereby providing a more nearly level retirement allowance when such decreased retirement allowance is added to his anticipated primary benefits under the federal Social Security Act. The election of this option shall automatically revoke any previous election under the joint and last survivor option of paragraph (a) (2) hereof.

(4) *Other options.*—Some other benefits may be paid either to the member or to such person or persons as he shall select.

(b) The election by a member of any one of the options stated in this section shall be null and void if the member dies prior to retirement, and the election of a member of the option stated in paragraph (a) (2) hereof shall be null and void if the designated person dies before the member's retirement.

(c) A member who has elected any one of the options stated in this section may, at any time prior to the later of the effective date of the member's retirement or the date of written notification to the Board of retirement of the member, revoke such an election by written notification to the Board.

(d) Notwithstanding the provisions of subsections (a) and (b) of this section, a retired member who has elected the option provided under paragraph (2) of subsection (a) of this section, may elect a second joint and survivor option, subject to a further actuarial reduction in the amount of the retirement allowance, in the event his contingent annuitant predeceases him.

§ 51-111.60:1. *Post-retirement supplements.*—(a) *In addition to the allowances payable under § 51-111.55, § 51-111.57, § 51-111.58:1 and § 51-111.60 of this chapter, post-retirement supplements shall be payable in accordance with the provisions of this section to the recipients of such allowances. Such supplements shall be subject to the same conditions of payment as are such allowances.*

(b) The amounts of the post-retirement supplements provided for hereunder shall be determined as percentages of the allowances supplemented hereby. Said percentages shall be determined by reference to the increase, if any, in the United States Average Consumer Price Index for all items, as published by the Bureau of Labor Statistics of the United States Department of Labor, from its monthly average for the calendar year in which the allowance initially commenced as a result of the death or retirement of a member of the system to its monthly average for the calendar year immediately prior to the calendar year as of which the amount of the post-retirement supplement is determined.

(c) Amounts of post-retirement supplements shall be determined initially as of July one, nineteen hundred seventy, and successively biennially thereafter except as may be otherwise determined by the General Assembly of Virginia. No change in the amount of any post-retirement supplement shall be effected between determination dates except as necessary to reflect changes in the amount of the allowance being supplemented, to the end that any post-retirement supplement shall remain a constant percentage of the respective allowance being supplemented, nor shall any new post-retirement supplement be commenced except as of a determination date. The post-retirement supplement determined as of any determination date shall become effective

tive as of the payment date next following such determination date, and shall be in lieu of any post-retirement supplements previously payable, which shall thereupon be terminated.

§ 51-111.62. Reduction of disability retirement allowance.—Whenever a beneficiary of a disability retirement allowance is prior to his normal retirement date engaged in, or is able to engage in, gainful occupation or work paying more than the difference between his disability retirement allowance and *the sum of his average final compensation plus twelve hundred dollars*, the Board may reduce such retirement allowance to an amount which, together with the amount earnable by the beneficiary equals the amount of *the sum of his average final compensation plus twelve hundred dollars*, or, at the option of the Board, equals the amount of *the sum of his average final compensation plus twelve hundred dollars* adjusted to allow for increases in the cost of living since the date of retirement. In determining the net amount considered to be earnable by the beneficiary, the Board may take into account the amount of any medical expenses directly incurred by the beneficiary to reduce or eliminate the cause of disability.

§ 51-111.67:7. Policies to provide for accounting to Board; special contingency reserve.—Each policy purchased by the Board pursuant to the provisions of this article shall provide for an accounting to the Board not later than ninety days after the end of each policy year, which shall set forth, in a form approved by the Board, (1) the amounts of premiums actually accrued under the policy from its date of issue to the end of such policy year, (2) the total amount of all mortality and other claim charges incurred for that period, and (3) the amounts of the insurer's expenses and risk charges for such period. Any excess, or portion of such excess, of the total of item (1) over the sum of items (2) and (3) may, with the approval of the Board, be held by the insurance company issuing the policy as a special contingency reserve to be used by such insurance company for charges under such policy only, such reserve to bear interest at a rate to be determined in advance of each policy year by the insurance company issuing the policy, which rate shall be approved by the Board as being consistent with the rates generally used by such company for similar funds held under other group life insurance policies, *and any portion of such excess not so held by the insurance company shall be held by the Board to be used for charges under such policy only*; provided, that if and when the Board determines that such special contingency reserve has attained an amount estimated by it to make satisfactory provision for adverse fluctuations in future charges under the policy any further such excess shall inure to the benefit of the Commonwealth and other employers participating in the insurance as determined by the Board.

§ 51-111.70:1. Additional benefits for teachers and State employees retired under such plans.—(a) On and after July one, nineteen hundred and sixty-two the amount of the retirement allowance otherwise payable thereafter, including any increase in such allowance payable under § 51-111.70, to any former teachers or State employees retired under the provisions of chapter 36 of the Code of 1919 as it existed immediately prior to July one, nineteen hundred and forty-two or the provisions of the repealed Virginia Retirement Act, and who, in the case of service retirement, have attained sixty-five years of age, shall be increased by twelve and one-half per centum.

(b) On and after July one, nineteen hundred and sixty-four each retired teacher and State employee included under paragraph (a) hereof shall have his retirement allowance increased by ten per centum of the total amount otherwise payable under paragraph (a).

(c) On and after July one, nineteen hundred and sixty-six each retired teacher and State employee included under paragraph (a) hereof shall have his

retirement allowance increased by twenty-two and two-tenths per centum of the total amount otherwise payable under paragraphs (a) and (b).

(d) On and after July one, nineteen hundred and sixty-eight each retired teacher and State employee included under paragraph (a) hereof shall have his retirement allowance increased by ten per centum of the total amount otherwise payable under paragraphs (a), (b) and (c).

(e) *On and after July one, nineteen hundred seventy, each retired teacher and State employee included under paragraph (a) hereof shall have his retirement allowance increased by nine and one-tenth per centum of the total amount otherwise payable under paragraphs (a), (b), (c) and (d).*

2. That §§ 51-111.38:10 through 51-111.38:16 of the Code of Virginia be repealed.

3. That the provisions of this act shall be in force and effect on and after July one, nineteen hundred seventy.

A BILL to amend and reenact §§ 51-146, 51-148, 51-150, 51-151, 51-153, 51-155 and 51-156, as severally amended, of the Code of Virginia, relating to the Virginia State Police Officers Retirement System; and to amend the Code of Virginia by adding a section numbered 51-157.1, relating to post-retirement supplements to be paid under the System.

Be it enacted by the General Assembly of Virginia:

1. That §§ 51-146, 51-148, 51-150, 51-151, 51-153, 51-155 and 51-156, as severally amended, of the Code of Virginia be amended and reenacted; and that the Code of Virginia be amended by adding a section numbered 51-157.1; as follows:

§ 51-146. Creditable service.—(a) Prior service credit of any member shall include service rendered prior to July one, nineteen hundred and fifty except that prior service credit for those members who elected not to be included in membership of the Virginia Retirement System shall be subject to the provisions of subsection (b). The accumulated contributions of a member under the Virginia Retirement System shall, for purposes of this chapter, be considered to have been made hereunder.

(b) Any member who elected not to be included in membership of the Virginia Retirement System shall be credited with his period of service, if any, prior to July one, nineteen hundred and forty-two, but not for the period between that date and July one, nineteen hundred and fifty except by making a payment as provided in subsection (c), provided that if the member's contributions were withdrawn under § 51-109 of the Virginia Retirement System or § 51-155 or corresponding previous provisions of this chapter, credit for all of the member's service since July one, nineteen hundred and forty-two has been established or reestablished as provided in subsection (c) of this section.

(c) Any member may be credited with prior and/or membership service which might otherwise have been credited except for one or more of the following:

(i) Rejection of membership in the Virginia Retirement System;

(ii) Cessation of membership under former § 51-49 of the Code and/or under § 51-145 or corresponding previous provisions of this chapter because of withdrawal of his accumulated contributions under former § 51-109 of the Code or under § 51-155 or corresponding previous provisions of this chapter; provided such member pays, * while in service or within ninety days after termination of service, an amount equal to the contributions that he would have

made during the entire period to be credited (exclusive of any such period prior to June thirty, nineteen hundred and forty-two and exclusive of any period subsequent to June thirty, nineteen hundred and forty-two during which the member was in the armed forces of the United States) on the assumption that the member contribution rate specified in § 51-147 as of the date of payment had been in effect during the entire such period and that his creditable compensation as of the date of payment (or as of the last date in service, if the member is not in service at date of payment) had been received during the entire such period, together with interest thereon at the rate of two per centum per annum compounded annually from the end of each respective fiscal year to which the contribution applies to the first day of the month during which payment is made. Such interest payment, and the amount of contributions paid, shall be credited to the account of the member in the member's contribution account.

(d) In order for the additional service provided for in subsection (c) of this section to be considered in the computation of any retirement allowance payable in the event of a member's retirement under § 51-152, the member shall have submitted at the time payment or repayment is made, a medical report satisfactory to the Medical Board showing that the member was at such time of sound mind and body.

(e) An administrative charge of five dollars shall be paid by the member to the retirement system when requesting a cost estimate of the amount of any payment required under subsection (c) of this section.

(f) Any member who, after July one, nineteen hundred and fifty, entered or enters the armed forces of the United States on leave of absence from service, and who does not withdraw his accumulated contributions, shall be entitled to have included as creditable service his period of service in such armed forces provided his discharge therefrom was not dishonorable and he reenters service within one year after discharge. Any member who rejected membership in the Virginia Retirement System and subsequently, on leave of absence from service, entered the armed forces of the United States, shall be entitled to have included as creditable service his period of service in such armed forces provided his discharge therefrom was not dishonorable, he reenters service within one year after discharge and * *said service has been continuous since becoming a member.*

(g) If within five years after ceasing to be employed as a State police officer, provided he has not been paid his accumulated contributions, the member accepts employment in a position not covered by this chapter but covered under the Virginia Supplemental Retirement Act, he shall be entitled to credit for his previous creditable service under this chapter upon transfer of his accumulated contributions to the members' contribution account in the Virginia Supplemental Retirement System. In such cases, future retirement rights shall be as set forth in the Virginia Supplemental Retirement Act.

(h) Service qualifying for credit under the provisions of the Virginia Supplemental Retirement Act shall be included as creditable service for the purposes of this chapter, provided the requirements as set forth in the act for crediting such service thereunder have been complied with by the member and any payment required thereunder credited in the member's contribution account.

§ 51-148. Contributions by State.— * The State shall contribute * an amount equal to the *sum of the* "normal contribution," * *the* "accrued liability contribution," *if any, and the* "supplementary contribution, *if any, which amount* shall be determined and paid as provided in * § 51-111.47 and in such other provisions of the Virginia Supplemental Retirement Act as may be applicable to employer contributions.

§ 51-150. Service retirement generally.—(a) Any member in service at his normal retirement date shall be retired forthwith, unless the member has not at that time completed twenty-five years of creditable service, in which case he shall be retired upon the attainment of his sixty-fifth birthday or the completion of twenty-five years of creditable service, whichever first occurs.

(b) Any member in service on or after his fifty-fifth birthday may retire upon written notification to the Board, given by the member or his employer, setting forth at what time the retirement is to become effective, provided that such effective date shall be after his last day of service and after the filing of such notice but shall not be more than ninety days subsequent to the filing of such notice.

(c) Any member having terminated service (*i*) prior to July one, nineteen hundred sixty-six after fifteen or more years of creditable service, or (*ii*) subsequent to June thirty, nineteen hundred sixty-six and prior to June thirty, nineteen hundred seventy after ten or more years of creditable service or (*iii*) subsequent to June thirty, nineteen hundred seventy after five or more years of creditable service, may retire under the provisions of paragraph (a) or (b) above, provided that he shall not have withdrawn his accumulated contributions prior to the effective date of his retirement, and except that any requirements as to the member being in service shall not apply; provided further however that no member shall be entitled to the benefits of this paragraph if his employer certifies that his service was terminated because of dishonesty, malfeasance or misfeasance in office; any such certification may be appealed to the Board, and its decision shall be final.

§ 51-151. Service retirement allowance.—(a) Upon retirement as provided in § 51-150, on or after July one, nineteen hundred * *seventy*, a member shall receive an annual retirement allowance, payable monthly to him for life, subject to the provisions of subsection (e) of this section, determined in accordance with paragraph (1) or (2), whichever is applicable:

(1) Normal retirement under § 51-150 (a).—An * *allowance* equal to one and * *one-half* per centum of his average final compensation multiplied by his number of years of creditable service subject, however, to the provisions of subsections (b) and (c) of this section, *provided, however, that in no event shall such allowance exceed seventy-five per centum of his average final compensation.*

(2) Early retirement under § 51-150 (b).—An * *allowance* which shall be determined in the same manner as for retirement at his normal retirement date with years of creditable service and average final compensation being determined as of the date of his actual retirement, and the amount of the retirement allowance so determined being reduced on an actuarial equivalent basis for the period that the actual retirement date precedes the normal retirement date subject, however, to the provisions of subsections (b) and (c) of this section; provided further that the retirement allowance of a member retiring on or after his fifty-fifth birthday and with at least thirty years of creditable service shall not be so reduced.

(b) In addition to the allowance payable under subsection (a) of this section, a member shall receive an additional annual allowance, payable monthly, for each month after his fifty-fifth birthday and prior to his sixty-fifth birthday, equal to * *two thousand* * *forty* dollars; provided, however, that this subsection shall not apply to any member who qualifies for retirement under subsection (c) of § 51-150 and is credited with less than twenty years of service.

(c) Subject to the provisions of subsection (d) of this section, the retirement allowance payable under this section to any member who was in service

on June thirty, nineteen hundred * *seventy* shall, prior to his sixty-fifth birthday, be not less, in the case of a member who retires on or after his normal retirement date, than an amount equal to two per centum of the sum of the member's average final compensation and twelve hundred dollars multiplied by his years of creditable service not in excess of twenty-five years or, in the case of a member who retires prior to his normal retirement date, than an amount similarly determined but reduced on an actuarial equivalent basis for the period by which the actual retirement date precedes the normal retirement date, nor after his sixty-fifth birthday shall it be less than the excess, if any, of such amount over the annual primary social security benefits under the federal Social Security Act to which he became entitled at his sixty-fifth birthday, or to which he would have become entitled at such birthday except for having elected to have his social security benefits commence at an earlier date.

(d) For the purposes of subsection (c), the retirement allowance shall be determined on the assumption that it is payable to the member alone and that no optional form of retirement allowance as provided in § 51-111.60 is elected. If a beneficiary does not qualify for, or loses, primary social security benefits to which he is entitled under the federal Social Security Act because of his failure to make application therefor, entering into covered employment, or otherwise, such primary social security benefits shall nevertheless be considered as being received by such beneficiary for the purposes of subsection (c).

(e) Should a beneficiary of a service retirement allowance under this chapter be at any time in service as an employee in a position covered for retirement purposes under the provisions of this or any chapter other than chapter 3.1 (§ 51-111.1 et seq.) of this title, if the State contributes any of the employer *salary cost for the position* his retirement allowance shall cease while so employed.

(f) In the case of any member retired prior to July one, nineteen hundred * *seventy*, for service, the retirement allowance payable on or after July one, nineteen hundred * *seventy* shall be equal to the larger of an amount or amounts computed in accordance with the preceding subsections of this section and the amount or amounts of the allowance that would have been payable except for the provisions of this subsection.

§ 51-153. Disability retirement allowance.—(a) Upon retirement as provided in § 51-152 on or after July one, nineteen hundred * *seventy*, a member shall receive an annual retirement allowance payable monthly during his lifetime and continued disability equal to one and * *one-half* per centum of his average final compensation multiplied by the smaller of:

- (i) Twice the number of his years of creditable service; or
- (ii) The number of years of creditable service he would have completed at age sixty, if he had remained in service to that age; subject, however, to the provisions of subsections (b) and (c) of this section, *provided, however, that in no event shall such allowance exceed seventy-five per centum of his average final compensation.*

In the case of any beneficiary retired for disability prior to July one, nineteen hundred * *seventy* who has not attained his sixtieth birthday as of that date, the allowance payable after July one, nineteen hundred * *seventy* shall be equal to the allowance theretofore paid, subject to the provisions of subsection (b) of this section, until his sixtieth birthday. On and after the sixtieth birthday of such a beneficiary, the allowance payable shall be equal to the service retirement allowance for normal retirement determined in accordance with paragraph (1) of subsection (a) of § 51-151, subject to the provisions of subsections (b) and (c) of § 51-151, on the assumption that credita-

ble compensation on the date of disability retirement continued in the same amount up to his sixtieth birthday and on the assumption that years of creditable service at normal retirement included both the creditable service prior to disability retirement and the period of disability retirement.

(b) Notwithstanding the provisions of subsection (a) of this section, the amount of annual retirement allowance as determined under this section shall, effective six months after retirement date and subject to the provisions of subsection (d) of this section, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date would equal one thousand dollars or twenty-five per centum of average final compensation, whichever is larger, provided further the annual amount of the combined retirement system allowance and primary social security benefit for any member retired or retiring and credited with twenty or more years of service at the time of retirement shall, effective six months after retirement date, and subject to the provisions of subsection (d) of this section, not be less than the retirement allowance payable *excluding post-retirement supplements of the type provided for in § 51-157.1, but including increases provided by law*, to former members retired for disability under the provisions of the retirement acts in effect prior to March one, nineteen hundred and fifty-two.

(c) Notwithstanding the provisions of subsection (a) of this section, if a member retires for disability under the provisions of subsection (b) of § 51-152, the amount of annual retirement allowance as determined under this section shall, subject to the provisions of subsections (d) and (e) of this section, be at least an amount which when added to the primary social security benefits to which the member may become entitled under the federal Social Security Act in effect at his retirement date would equal two-thirds of the sum of the member's average final compensation plus twelve hundred dollars.

(d) For the purposes of this section the retirement allowance shall be determined on the assumption that the retirement allowance is payable to the member alone and that no optional retirement allowance is elected. If a beneficiary does not qualify for, or loses, primary social security benefits to which he is entitled under the federal Social Security Act because of his failure to make application therefor, entering into covered employment, or otherwise, such primary social security benefits shall nevertheless be considered as being received by such beneficiary for the purposes of this section.

(e) Any allowance payable to a member under this section shall be reduced by the amount of any payments under the Virginia Workmen's Compensation Act and the excess of the allowance, if any, shall be paid to such member. When the time for payments of the compensation under such Act has elapsed, the member shall thereafter receive the full amount of such allowance payable monthly during his lifetime and continued disability.

(f) The payment of any disability allowance hereunder shall be subject to the provisions of §§ 51-111.61, 51-111.62 and 51-111.63 to the extent applicable.

§ 51-155. Withdrawal before retirement.—(a) If a member has ceased to be an employee, otherwise than by death or by retirement under the provisions of this chapter, he shall be paid, on demand or as soon thereafter as practicable, but not later than ninety days * after demand, the amount of his accumulated contributions reduced by the amount of any retirement allowances previously received by him under any of the provisions of this chapter.

(b) Notwithstanding any provision in subsection (a) above to the contrary, a member who retires under the provisions of subsection (b) of § 51-152 shall be refunded the amount of his accumulated contributions.

§ 51-156. Death before retirement.—(a) Should a member die at any time before retirement, and if no benefits are payable under subsection (b) of this section, the amount of his accumulated contributions, reduced by the amount of any retirement allowance previously received by him under this chapter, shall be paid to such person, if any, as he has nominated by written designation signed and acknowledged by such member before some person authorized to take acknowledgements and filed with the Board, otherwise to his executors or administrators. Any such designation may be changed by the member by the written designation of some other person, signed, acknowledged, and filed as aforesaid.

(b) Should a member die in service at any time before retirement and after either attaining his fifty-fifth birthday or completing at least thirty years of creditable service and if no benefits are payable under subsection (c) of this section, there shall be paid a retirement allowance to the person nominated as provided in subsection (a) of this section, if such person is the wife, husband, mother or father of the member; such retirement allowance shall be continued during the lifetime of such person and shall be an allowance equal to one half of the deceased retirement allowance that would have been payable to the member had the member retired under the provisions of § 51-150 on the date of his death after having elected to have his allowance payable under the joint and last survivor option described in subsection (a) (2) of § 51-111.60 so that one half thereof would be continued after his death to such person. Provided that in the determination of the allowance that would have been payable to the member had the member retired on the date of his death, the provisions of subsections (b) and (c) of § 51-151 shall not apply, and provided further, that if such person so elects in writing under seal and duly acknowledged, the amount of the member's accumulated contributions, reduced by the amount of any retirement allowance previously received by him under this chapter, shall be paid to such person, in lieu of any other benefits under this subsection.

(c) Should a member die in service at any time before retirement from a cause compensable under the Virginia Workmen's Compensation Act, an annual retirement allowance shall be paid to the widow or widower, if any, of such member. In the event no compensation is finally awarded under the Virginia Workmen's Compensation Act with respect to the death of a member, due to legal proceedings or otherwise resulting in settlement from the person or persons causing such death, the Virginia Industrial Commission, upon request of the Board, shall for the purpose of this section determine whether such member's death was from a cause compensable under the Virginia Workmen's Compensation Act. If such member leaves no widow or widower, or the widow or widower dies or remarries, then the child or children under the age of eighteen years, if any, of the deceased member, shall be paid an allowance until such child or children die or attain the age of eighteen years, whichever shall first occur. If more than one child survives the deceased member, the allowance shall be divided among them in such manner as the Board may determine. If the deceased member leaves neither widow, widower nor child or children under the age of eighteen years, then such allowance shall be paid to the member's parent or parents wholly dependent upon him for support, divided in such manner as the Board may determine, during the life or lives of such parent or parents.

The retirement allowance, payable hereunder to a qualifying survivor or survivors, shall be the annual amount, payable monthly, which when added to the social security benefit payable *to such qualifying survivor or survivors* as result of coverage of the member under the federal Social Security Act and the compensation payable under the Virginia Workmen's Compensation Act for the death of the member, shall be equal to one half of the sum of the member's average final compensation plus twelve hundred dollars. *

Any beneficiary entitled to the entire amount of a retirement allowance under the provisions of this subsection as a result of the death of a member shall be entitled to waive his rights to such allowance by written notification to the Board within ninety days after the death of such member in order to make available a retirement allowance under the provisions of subsection (b) of this section.

§ 51-157.1. Post-retirement supplements.—In addition to the allowances payable under §§ 51-151, 51-153, 51-154 and 51-156 of this chapter, post-retirement supplements shall be payable in accordance with the provisions of § 51-111.60:1.

2. That the provisions of this act shall be in force and effect on and after July one, nineteen hundred seventy.

