

**REPORT OF THE  
VIRGINIA RETIREMENT SYSTEM ON**

**The Portability of  
State Pension Benefits for  
Professional Educators**

**TO THE GOVERNOR AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



**HOUSE DOCUMENT NO. 10**

**COMMONWEALTH OF VIRGINIA  
RICHMOND  
1992**

## PREFACE

The following study was conducted under the authority of House Joint Resolution 52 which was approved by the 1990 Session of the General Assembly. Although the study was to be presented to the General Assembly during the 1991 Session, the Patron, Delegate Alson H. Smith, Jr., graciously agreed with the Virginia Retirement System that the study be delayed because of activity related to the issue of pension portability at the Federal level.

This study was conducted by the staff of the Virginia Retirement System (VRS). Information in the **BACKGROUND** section of this report borrows from and freely quotes a 1989 study by the Government Finance Officers Association (GFOA) and the National Association of State Retirement Administrators (NASRA) titled, Pension Portability and Preservation for State and Local Governments.

The VRS acknowledges the cooperation received from school divisions throughout the Commonwealth in responding to the survey.

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## EXECUTIVE SUMMARY

House Joint Resolution 52 directed the Virginia Retirement System (VRS) to study the portability of state pensions for professional educators. The issue of pension portability for teachers and in fact for all employees is not new. To some extent social security coverage, five year vesting in Virginia and tax sheltered annuities under 403(b) of the IRS Code provide limited portability. In the absence of interstate agreements and/or federal intervention portability beyond this extent is not likely to occur.

The language in HJR 52 indicated a need to provide portability to alleviate the potential shortage of educators in Virginia. A survey conducted by the VRS indicated that the lack of pension portability was not a serious issue for either recruiting or retaining teachers.

While portability from state to state is a desirable end if it can be accomplished equitably there does not appear to be a significant problem that requires General Assembly action at this time.

## INTRODUCTION

House Joint Resolution 52 was approved by the 1990 Session of the General Assembly for the purpose of studying the portability of state pension benefits for professional educators. The Resolution recognizes portability to be a means of helping to alleviate shortages of professional educators in areas of increasing student enrollment and educator retirements.

The issue of portability is not unique to Virginia. Any workable system of interstate portability of pension benefits must be addressed by interstate agreements or be federal action, the latter of which is not desirable. The scope of this study will be to determine the need for action on the part of the Commonwealth at this time and recommendation for future considerations.

It should be noted here that the issue of pension portability is not unique to educators nor is interstate portability a lone issue. Within Virginia, there are many public employees who are mobile and who could be advantaged by a system of portability. There are local government employees in local retirement plans as opposed to the VRS who could be advantaged by portability agreements between VRS and the local plans, as well as VRS members who could also be advantaged by such agreements. Comments in this study will, however, be confined to educators.

## BACKGROUND

Pension portability, most literally means the ability of workers to carry their pensions with them when they leave their employer. There are basically three kinds of portability--portability of benefits, portability of assets and portability of service.

Portability of benefits generally refers to vesting. If an individual is vested in some or all of his or her benefits then that employee is entitled to some portion of those benefits at retirement age. If the individual is not vested then he or she forfeits any right to those benefits. Teachers in Virginia are vested after five years of continuous service in the system. Portability of assets refers to the ability of an employee to obtain a cash distribution of the current value or vested future benefits either in a lump sum cashout or in the form of a transfer to another retirement arrangement. If benefits are cashed out on a lump sum basis, research indicates that recipients are not likely to voluntarily reinvest these assets in another retirement arrangement. Portability of service refers to the ability to count years of service earned under the plan of a prior employer when determining the pension benefits to be provided under a more recent employer.

Many portability features like vesting, transfer of service credits or rollovers also contribute to the preservation of retirement income. Others like lump sum cashouts actually tend to reduce retirement income because workers are more likely to consume the lump sum than reinvest it.

In July of 1988 the U.S. Department of Labor commissioned the Hay-Huggins Company to research the effect of job mobility on pension benefits. The purpose of the study was to identify the basic components of portability losses, to estimate the magnitude of each source of loss and to evaluate several general approaches for increasing the portability of pensions. Hay-Huggins defines portability loss as the loss of part or all of the value of the pension benefit because a worker terminates employment with an employer prior to retirement. Portability losses due to job changes may arise 1) because workers fail to become vested in their plan's benefits before changing jobs, 2) because workers are covered by plans that yield lower benefits per year of service for workers who terminate employment prior to retirement or 3) because workers receive cash value of their pension benefits and use the cash for current consumption. Another portability loss that was not identified by Hay-Huggins is that resulting from inflation eroding the accrued benefit of a previous pension plan for which the employee had a vested benefit.

Currently all full time salaried permanent teachers which includes administrative, clerical and instructional personnel of public school boards are required to participate in the Virginia Retirement System. Their benefits are based on a formula which has as its major components years of service and average final salary (the highest consecutive three years of salary). The minimum requirements for retirement that a teacher must meet are age 55 with at least five years of creditable service thus the five year vesting period in Virginia. It appears that the major concern in the issues to be studied under HJR 52 relate to the ability of Virginia teachers to maintain the value of their pension plans should they leave Virginia and teach in another state. Another issue is related to those teachers who are hired from another state and whose pensions in those states may be diminished by the fact that they are not given credit for service in another state toward their Virginia benefit. Still another issue is whether or not the absence of portability of pension benefits is adverse to the ability of public school boards in Virginia to recruit qualified instructional personnel.

#### **CURRENT LEGAL ENVIRONMENT**

Section 51.1-125 of the Code of Virginia identifies persons composing membership in the Retirement System. One category of members is identified as "all persons who become employees after

March 1, 1952..." Section 51.1-101 of the Code defines "employee" as "...any teacher..." "Teacher" is defined as "...any person who is regularly employed full time on a salaried basis as a professional or clerical employee of a county, city or other local public school board." By statute public school teachers must participate in the Virginia Retirement System.

Section 51.1-153 of the Code provides that any teacher who has attained age 55 with five or more years of creditable service may retire. Section 51.1-155 of the Code identifies the calculation of the retirement benefit allowance according to a formula described in the **BACKGROUND** section of this report. Section 51.1-161 identifies the conditions under which an employee may withdraw contributions prior to retirement. The essence of this section is that any employee upon termination may withdraw the contributions in their member contribution account and in doing so forfeits any benefits attributable to the period of time during which those contributions were made.

Teachers in Virginia have two options then by law when they terminate employment. If they are eligible to receive a retirement benefit they may elect to do so upon termination or they may elect to defer that benefit to a later date. They may also elect to withdraw contributions in their member accounts which could cause a forfeiture of all retirement benefits or a reduction of their retirement benefits by an amount equivalent to the accruals based upon the service that was rendered during the period the refunded contributions were contributed. Section 51.1-142 of the Code provides that any member who has received such a refund may purchase the period of time that was represented by the refund at 5% of their current salary if they have returned to a covered position.

Section 51.1-143 of the Code provides for any member of the System with at least five years of creditable service to purchase credit for the service rendered in another retirement system of another state or of a political subdivision or public school system within another state if that service is not used to calculate a retirement benefit under that retirement system. The member must pay an amount equal to 15% of their current salary for each year to be credited under this provision.

#### **STUDY RESULTS**

As noted in the **INTRODUCTION** to this report the issue of portability is not unique to Virginia and is an issue that requires cooperation among the various state pension systems if true portability is to be achieved. Portability continues to be an issue discussed by various national organizations representing pension administrators throughout the country including the National Association of State Retirement Administrators, the National Council on Teacher Retirement and the Government Finance

Officers Association.

The preponderance of language in HJR 52 indicated that there was a need to provide portability to alleviate the potential shortage of educators in Virginia and to attract qualified educators to areas where increasing enrollments are occurring. In order to determine the magnitude of this need VRS conducted a survey of the various school divisions throughout Virginia (Appendix A). The results of the survey are as follows.

**Survey Results:** Of the 149 school divisions and joint committees for control that were surveyed by the Virginia Retirement System 92 or approximately 69% responded. Of those 92, 77 had an annual turnover rate of 10% or less among their teachers. When asked if they experienced recurring problems in recruiting and/or retaining staff 60 or approximately 2/3 of the total respondents indicated that they did not have recurring problems. The remaining respondents that indicated that recruiting and retaining staff was a problem only 11 indicated that the lack of pension portability from state to state was a problem. As a collateral piece of information that was gathered the states of North Carolina, West Virginia and Pennsylvania were named by most school divisions as being the states from which they primarily recruit and hire new teachers outside of Virginia.

While there is clearly the potential for the loss of pension benefits as teachers move from state to state there is little that the Commonwealth can do in isolation to protect teachers from those losses. The most desirable alternatives are those which will require interstate cooperation and contacts. As indicated earlier in this report several national organizations of pension administrators are continuing to review the issue of portability as they meet annually. There is also some activity at the Federal level related to this issue.

As it relates to the recruitment of educators to alleviate shortages within Virginia, portability does not appear to be an overwhelming factor that would diminish the ability of school systems to recruit or retain qualified teachers.

The issue of portability for educators as well as other governmental employees is one that bears future consideration and continuing study. If the need is noted for a better system of portability to alleviate teacher shortages in the future then there are alternatives available that can be addressed at that time. However there does not currently appear to be an overriding problem in recruiting and retaining teachers statewide although isolated instances do exist. While portability from state to state is a desirable end if it can be accomplished equitably there does not appear to be a significant problem that requires General Assembly action at this time.



1990 SESSION  
ENGROSSED

HP4119568

HOUSE JOINT RESOLUTION NO. 52

House Amendments in [ ] - February 13, 1990

[ ~~Establishing a joint subcommittee Requesting the Virginia Supplemental Retirement System~~ ] to study the portability of state pension benefits for professional educators.

Patron—Smith

Referred to the Committee on Rules

WHEREAS, the recruitment and retention of qualified instructional personnel are critical to maintaining and improving the quality of public education in the Commonwealth; and

WHEREAS, recent studies predict future shortages of professional educators due to increased student enrollments and educator retirements; and

WHEREAS, the interstate mobility of professional educators may help alleviate this projected shortage; and

WHEREAS, although teachers are granted a minimum retirement allowance pursuant to § 51-111.60:4 of the Code of Virginia, the pension benefits of educators who transfer to other states may decline in value; and

WHEREAS, these diminishing benefits may discourage qualified educators from seeking employment in the Commonwealth's system of public education; and

WHEREAS, while establishing a system of credit for retirement benefits earned in another state may bring some of these educators into the Commonwealth, the present service credit purchase provisions in many states are complex and expensive; and

WHEREAS, the National Governors Association has advocated state action to deal with the portability of state pension benefits; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That [ a joint subcommittee is established to study the portability of state pension benefits for professional educators.

The joint subcommittee shall consist of five members, to be appointed as follows: three members from the House Appropriations Subcommittee on Retirement to be appointed by the Speaker of the House and two members from the Senate Finance Subcommittee on Retirement to be appointed by the Senate Committee on Privileges and Elections.

All agencies of the Commonwealth shall provide assistance upon request as the joint subcommittee may deem appropriate.

The joint subcommittee shall complete its study in time to submit its findings and recommendations to the Governor and the 1991 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for processing legislative documents.

The indirect costs of this study are estimated to be \$11,400; the direct costs of this study shall not exceed \$3,600. The Virginia Supplemental Retirement System is requested to study the portability of state pensions for professional educators.

The System shall complete its work in time to submit its findings and recommendations to the Governor and the 1991 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents. ]

**VIRGINIA RETIREMENT SYSTEM  
PORTABILITY OF STATE RETIREMENT BENEFITS**

School Board \_\_\_\_\_

1. How many professional educators (teachers and administrators) do you employ? \_\_\_\_\_
2. What is your typical turnover rate? \_\_\_\_\_
3. Over the last three (3) years, approximately how many educators have you hired from outside of Virginia?  
\_\_\_\_\_
4. From which state(s) outside of Virginia do you primarily recruit and/or hire new teachers? \_\_\_\_\_
5. Do you have recurring problems in recruiting and/or retaining staff? \_\_\_\_\_
6. If your response to question 5 is yes, is the availability of the portability of pension benefits from state to state a factor? \_\_\_\_\_

Name and Phone No. of person completing this survey:

Name \_\_\_\_\_

Phone No. \_\_\_\_\_

Please complete and return by Friday, September 27 to:

W. G. Harris  
VRS  
P.O. Box 3-X  
Richmond, VA 23207