

**REPORT OF THE
VIRGINIA RETIREMENT SYSTEM**

**TO ESTABLISH A SINGLE STATEWIDE
RATE OR RATES FOR LOCAL
CONSTITUTIONAL OFFICERS AND
THEIR EMPLOYEES**

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



SENATE DOCUMENT NO. 47

**COMMONWEALTH OF VIRGINIA
RICHMOND
1995**



COMMONWEALTH of VIRGINIA

Virginia Retirement System

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February 21, 1995

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Members of the General Assembly
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Ladies and Gentlemen:

I am pleased to report my findings and recommendation related to establishing a single statewide rate or rates for local Constitutional officers and their employees participating in the Virginia Retirement System.

This report was requested as part of Senate Bill 2008, adopted by the 1994 Special Session I of the General Assembly.

If you have questions as you deliberate over these findings and my recommendation, please do not hesitate to call me for assistance.

Thank you for your continuing support.

Sincerely,

A handwritten signature in cursive script that reads "Bill Leighty".

William H. Leighty
Director

cc: The Honorable Michael E. Thomas

PREFACE

The following study was conducted under the authority of Senate Bill 2008, approved by the General Assembly and Governor as a result of a Special Session of the legislature.

This study was conducted by the staff of the Virginia Retirement System (VRS). Any questions concerning the study should be addressed to:

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EXECUTIVE SUMMARY

Senate Bill 2008 provided for the Director of the Virginia Retirement System (VRS) to report and make recommendations to the 1995 Session of the General Assembly regarding the manner in which the System establishes employer contribution rates for local officers and make recommendations related to establishing a single statewide rate or rates for such local officers.

Local officers are defined for retirement purposes as "the treasurer, commissioner of the revenue, attorney for the Commonwealth, clerk of a circuit court, or sheriff of any county or city, or deputy or employee of any such officer." Local officers are considered employees of the county or city for retirement purposes and are reported to the VRS by the county or city. They are included in the actuarial valuations along with other employees of the particular county or city in order to determine the employer contribution rate for their respective locality. The Commonwealth, through the State Compensation Board, reimburses the locality for its retirement costs for State approved positions and salary. The rate used for reimbursement is the lower of the locality's VRS employer contribution rate or the employer contribution rate paid by the State for its employees.

INTRODUCTION

Senate Bill 2008 provided that the Director of the Virginia Retirement System (VRS) report and make recommendations to the 1995 Session of the General Assembly regarding the manner in which the System establishes employer contribution rates for local officers and make recommendations related to establishing a single statewide rate or rates for such local officers.

BACKGROUND

Local officers are defined for retirement purposes as "the treasurer, commissioner of the revenue, attorney for the Commonwealth, clerk of a circuit court, or sheriff of any county or city, or deputy or employee of any such officer."

Local officers are considered employees of the county or city for retirement purposes and are reported to the VRS by the county or city. They are included in the actuarial valuations along with other employees of the particular county or city in order to determine the employer contribution rate for their respective locality. The Commonwealth, through the State Compensation Board, reimburses the locality for its retirement costs for State approved positions and salary. The rate used for reimbursement is the lower of the locality's VRS employer contribution rate or the employer contribution rate paid by the State for its employees.

There have been times in the past when it would have been advantageous for either the State or a locality, or both, for local officers to be identified as a separate group for VRS funding purposes. This is particularly true in the case of sheriffs and their deputies when special benefits for law enforcement officers have been requested.

In 1994, for the first time, the General Assembly provided a benefit to local officers and allowed localities the election of providing that same benefit to their non local officer employees. The General Assembly's action was a result of its resolve not to place unfunded mandates on localities. The benefit was provided in Senate Bill 2008. Recognizing the implications that their action might have relative to future benefit enhancements, the General Assembly required that the VRS provide it with recommendations relative to the funding of benefits for local officers, including the use of a common rate statewide, similar to the practice for teachers.

CURRENT LEGAL ENVIRONMENT

Local officers are defined in §51.1-124.3 of the Code as "the

treasurer, commissioner of the revenue, attorney for the Commonwealth, clerk of a circuit court, or sheriff of any county or city, or deputy or employee of any such officer." Further, §51.1-130 of the Code provides for political subdivisions to cover their eligible employees under the VRS. Eligible employees are defined in §51.1-132 of the Code as "Officers and employees..." (Emphasis added). Additionally, §51.1-125 of the Code defines persons composing membership in the System as "...persons who become employees..." §51.1-124.3 defines employee as "...any...officer, or employee of a locality participating in the Retirement System." (Emphasis added). Therefore, when a locality elects to participate in the VRS, any local officers are covered as a condition of their employment.

§51.1-145 of the Code provides for the VRS to determine an employer contribution rate for each locality for its employees to fund the current and future benefits paid to its employees. There is no mention of separate rates for separate classes of employees within an employer.

It has been the longstanding administrative policy of the VRS, based on the aforementioned Code sections, that each local employer be given a single employer contribution rate for all of its employees.

ALTERNATIVES

Discussions with legislative staff involved in the drafting of SB 2008, specifically the provisions requiring this report, indicate that separate rates for local officers would be desirable in many cases. In some cases, separate rates for certain local officers within a locality, i.e. sheriffs and their deputies, would be desirable. There are several ways to accomplish this objective.

One Employer--One Rate: This is the current method of providing employer contribution rates for local officers. Under this method, local officers are included with the other employees of the county or city when rates are determined. While this does not accomplish the objective of separate rates, it continues to be an alternative and has the least administrative impact on VRS and employers.

One Employer--Multiple Rates: This method is similar to the method described above, with the exception that a separate rate for local officers would be established for each county or city. While this would accomplish the objective of separate rates, it would be quite cumbersome administratively to have multiple rates under one employer reporting code.

One Employer--Statewide Pooled Rate: The State, for all intents and purposes, is one employer, and, with the exception of several large agencies, all State employees are reported to VRS through the Department of Accounts. As with teachers, State employees are

valued in the aggregate and one employer contribution rate is paid for all State employees.

If a central reporting entity could be identified, e.g. the State Compensation Board, that entity could report local officers to the VRS with one statewide contribution rate. Again, this would accomplish the objective of separate rates for local officers, but would necessitate placing an agency between VRS and the localities to aggregate the data. This additional step would add no value to the process.

Separate Employers--Statewide Pooled Rate: The VRS currently values teachers as a statewide pool and establishes a statewide pooled employer contribution rate for all school divisions. Each school division reports on a monthly basis to VRS for its employees, but all school divisions pay the same employer contribution rate. The same method could be used for local officers.

Local officers could be valued in the aggregate by the VRS actuary and an employer contribution rate established. The locality would submit a separate report of local officers monthly to VRS under a separate reporting code using the uniform rate. If desirable, sheriffs and their deputies could also be broken out and given a separate aggregate rate. They would also be reported by the locality on a separate report.

The advantage to this method is that the costs for local officers could be identified more readily and reimbursement facilitated. In the case of providing benefits to this defined group vis a vis SB 2008, the administration of benefits by VRS would be made easier. The disadvantage of this method lies in the monthly reporting. Both the VRS and the locality would be required to process additional monthly reports. For VRS, recordkeeping would be minimally affected.

Separate Employers--Separate Rates: This method is the same as that described above with the exception that each locality would have a separate rate and separate reporting code for its local officers. While this would more accurately reflect the cost of benefits for the local officers, localities with relatively few local officers might experience volatility in their rates from valuation to valuation.

The nature of setting employer contribution rates is such that when a larger group is divided into smaller groups, rates may either increase or decrease, depending on the size and demographics of the groups. If, in fact, local officers are separated from a locality for rate determination, the locality's rate may increase or decrease. By the same token, the rate paid for the local officers may be higher or lower than the locality's rate. Regardless of the rates determined for each group, however, as long

as a single aggregate statewide rate is not used for local officers, the total amount paid by a locality to the VRS for benefits for all of its employees, including local officers, should remain the same.

RECOMMENDATION

If the General Assembly wishes to change the current practice of including local officers in a single employer contribution rate with the other employees of a county or city, then the VRS recommends the same methodology used for public school teachers, i.e. separate employer reporting codes for local officers in a locality with one statewide employer contribution rate. Although it might initially result moderately higher costs for some localities and lower costs for others, over time the rates should be less volatile. The concept of a pooled rate is familiar to localities because it is the method used to set rates in school divisions. Because it would only require one actuarial valuation and VRS currently handles school board reporting under this method, this method would be the least costly for the VRS to administer.