

*Report of the  
House Appropriations  
Subcommittee*

*on*

*Compensation & Retirement*



*House Bill 29  
&  
House Bill 30*

*February 20, 2000*

**Respectfully Submitted by the House Appropriations Subcommittee  
on Compensation & Retirement:**

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**Lacey E. Putney, Chairman**

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**Robert Tata**

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**Joe T. May**

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**L. Preston Bryant , Jr.**

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**Lionell Spruill, Sr.**

# **REPORT OF THE SUBCOMMITTEE**

## **on**

# **COMPENSATION & RETIREMENT**

Mr. Chairmen and Members of the Committee:

When we arrived here one month ago, the number one budget issue confronting this Committee -- and perhaps the entire House of Delegates -- was a teacher pay raise.

While the ultimate decision on teacher pay raises rests with the local school board, the state must be willing to offer financial incentives to encourage the desired action. If we are going to ask more of our teachers, we must be willing to fairly compensate them for their work. There is no job more challenging than educating our children, nor one that is more important to our future. Thus, we must continue to assess teacher salaries and step up to the plate, if we want to hire and retain the best teachers.

As you well know, state employees will receive a 2.4% salary increase next December under the Governor's proposed budget, along with local employees in our Constitutional offices and other state-supported local programs. The Compensation subcommittee does not believe that we can do any less for our school teachers.

Therefore, we recommend that the state provide its share of a 2.4% salary increase for teachers, effective December 1, 2000, at a cost of \$89 million.

Now, that's a big pill to swallow -- but it's an important one. From the first days of the session, we knew that finding \$89 million would be a substantial challenge.

But, I'm happy to say that we have found a solution that makes good, sound financial sense, and it is one that helps our localities in more ways than one.

Specifically, by using the most current Virginia Retirement system data that is available to us, we can save \$113 million in retirement costs at

the state level and a larger amount at the local level. But, let me step back and tell you how we reached that conclusion.

We began our budget review by examining all of the compensation adjustments contained in the budget, including the contribution rates adopted by the Virginia Retirement system.

As you may know, the VRS adopted rates last June for the 2000-2002 biennium, completing their work in time for the data to be available during the fall budget development cycle. The VRS traditionally has set rates on a biennial basis, using the asset valuation for the year that precedes the budget development cycle -- in this case for the year ending June 30, 1998.

Also, in the past, the VRS factored into its rates the liability from benefit changes on this same biennial basis, so the asset and liability sides went hand-in-hand for the subsequent two years. However, as we examined the VRS rates for next biennium, we found that the asset and liability sides have been decoupled. The VRS Board has made an effort in its current rate setting to pick up liabilities from benefit changes in a more timely fashion -- and that is good!

For example, the 2000-2002 retirement rates reflect benefit changes enacted during the 1998 and 1999 sessions for the 50/30 early retirement option, the new law enforcement retirement program (VALORS), and the change in the retirement multiplier.

I applaud the VRS Board for taking advantage of the more sophisticated information systems that let us calculate and factor this data into our models more rapidly.

However, it also makes sense to use the most up-to-date information on the asset side of the equation. We in the General Assembly are not constrained by dates in the budget development cycle, and we can look at the asset value as of June 30, 1999, rather than June 30, 1998.

From our perspective, it still makes sense to look at assets and liabilities in tandem. So, with this in mind, we asked the JLARC actuary, the William M. Mercer Company, to use the best data available on both sides of the equation and to recalculate rates based on the June 30, 1999 asset value. There is no change in the way rates are calculated -- we simply use more current data.

This updated calculation results in rates that would save the general fund over \$113 million over the next biennium, and would produce even greater savings for localities. It is with these savings that we propose to fund the teacher salary increase.

You may ask if we are deviating from an industry standard. The answer is no. Most states operate on a real time basis and update their retirement rates every year. Virginia is one of only a few states that do biennial rate setting, and we recommend that the VRS Board move to annual valuation in the future.

### *Other Compensation Actions*

In addition to our salary package, the subcommittee recommends three other significant budget actions related to compensation. Last week, the House passed HB 623, which will provide a fifty cents per month, per year of service, increase in the health insurance credit for retired state employees, teachers, local social service employees and Constitutional officers and their employees. This increase will result in a maximum credit of \$135 for state employees, \$90 for teachers and \$60 per month for local social service employees and Constitutional officers and their employees. The net cost of this legislation is \$3.9 million, and we ask that you approve this amount.

For active state employees, the Subcommittee recommends that the state begin to contribute to the cost of dental insurance. Currently, employees are required to pay 100% of the cost of coverage. The Subcommittee recommends that \$6.5 million be provided each year in order to pay 40% of the dental premium for our employees. This will result in monthly savings of \$7.00 for single coverage, \$13.00 for employee plus one, and \$19.00 for employees with family coverage.

Finally, last year the General Assembly adopted a matching component for our state employee deferred compensation program. The matching program will begin on April 1<sup>st</sup> of this year, and will provide up to \$10 per pay period. The Subcommittee recommends that the state match for this important program be increased to \$20 per pay period, effective July 1, 2000, at a cost of \$5.0 million per year.

Mr. Chairmen, that covers the major recommendations of our Subcommittee.

In closing, I would like to thank the two of you, along with the members of the Subcommittee, for their hard work and the long hours spent reviewing legislation and developing a compensation package for our employees.

I now ask for the Committee's adoption of the Subcommittee report.

## Budget Amendment Recommendations Compensation and Retirement Subcommittee

<u>Amendment</u>	2000 - 2002 BIENNIAL TOTAL	
	<u>General</u>	<u>Non-General</u>
	<u>Fund</u>	<u>Fund</u>

### Compensation Supplements

Teacher Pay Raise - 2.4% on December 1, 2000	88,965,832	
Matching Defered Com - \$20 per pay period	10,000,000	
Employee Dental Insurance - 40% of employee premium	13,216,700	
Volunteer Fire & Resue Fund - VRS administrative cost	100,000	
Registrar Salary Increase - \$2,500 increase per year	729,000	
Health Credit Increase \$0.50 - state employees	4,729,717	
Health Credit Increase \$0.50 - teachers	3,398,019	
Health Credit Increase \$0.50 - Social Serv. & Constit. Emp.	574,500	
Health Credit Increase no prefunding - state employees	(2,055,562)	
Health Credit Increase no prefunding - teachers	(2,205,882)	
VRS - 6/30/99 Valuation state employees	(54,611,095)	
VRS - 6/30/99 Valuation teachers	(58,484,568)	
Classified Salary - recal with tuition and fees	(5,015,832)	
Classified Health Insurance - recal with tuition and fees	(2,979,044)	
DOC - Turnover and vacancy	(5,383,524)	
DJJ - Turnover and vacancy	(616,000)	
Remove language on Cafeteria Benefits/Defined Contri. Plan		
Study of "Cashing-out" annual leave	Language	
Constitutional Officers Pay Plan Reform	Language	
Vehicle Milage Reimbursement - \$0.325 per mile	Language	
Total Cost of Compensation Package	-\$9,637,739	\$0