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6-8-10

City of Alexandria, Virginia

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MEMORANDUM

**DATE:** JUNE 2, 2010  
**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL  
**FROM:** JAMES HARTMANN, CITY MANAGER   
**SUBJECT:** PAYMENT OF VIRGINIA RETIREMENT SYSTEM (VRS)  
CONTRIBUTIONS FOR NEW CITY EMPLOYEES

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**ISSUE:** Payment of VRS contributions for new City Employees.

**RECOMMENDATION:** That City Council refer the issue of having City employees hired after July 1, 2010, pay all or a portion of the required member contribution (five percent of salary) for the Virginia Retirement System to the City Council Pension/Compensation Committee for review and discussion over the summer and at Council's fall retreat.

I recommend that Council defer taking action on changing the VRS contribution for new employees until next spring when it can be considered in the context of the FY 2012 budget deliberations.

If Council wishes to change the VRS contribution for FY 2011, it would be necessary to adopt a resolution on this at the June 22 Council meeting

**DISCUSSION:** The purpose of this report is to provide Council with background information on changes in VRS contribution requirements for certain local government employees. The fiscal impact section of this memo outlines the cost impact of the change in City employee contributions. At the recently completed General Assembly Session, legislation (HB 1189) was enacted to make a number of changes to the Virginia Retirement System (VRS); nearly all of these apply only to new employees hired on or after July 1, 2010 (VRS calls these employees Plan 2 employees; Plan 1 employees are those who joined VRS prior to July 1, 2010).<sup>1</sup> For the most part, these are changes that are mandatory and involve no options for local governments (e.g., the early retirement age is changed, as is the average salary on which retirement pay is

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<sup>1</sup> HB 273 was another VRS bill, this one enacted at the request of the City. It would allow the City's deputy sheriffs, EMTs and fire marshals to retire at 50 (the current age is 55), if the City chose to implement this provision. The annual cost, however, would be in excess of \$1 million annually and the City has not identified a funding source for this change. Staff is not recommending that the City move forward with this provision at this time.

based). A list of the major changes affecting local government employees in HB 1189 is included as Attachment 1. Staff notes that these changes will result in a reduction in VRS benefits available to employees hired on or after July 1, 2010. Because the VRS benefits are reduced, staff also expects to see a reduction in the funds that the City must pay toward VRS retirement for these employees in future years.

One provision of the new legislation is not mandatory: localities can decide whether to have their new employees pay part or all of the employee member contribution.<sup>2</sup> Employers can mandate that their new employees pay between one and five percent (this percentage must be a whole number) of their salary toward their VRS retirement; or a locality can pay the full member contribution (five percent of an individual's salary), as the City already does (and must continue to do) for existing employees. Attachment 2 includes a Memorandum and related materials from VRS on this issue.

Prior to July 1, 2010, any locality that wishes to have its new employees (those hired on or after July 1, 2010, who were not already in another VRS-covered position, or had not achieved and retained a vested status in VRS<sup>3</sup>) pay all or a portion of the employee contribution required for VRS positions can do so by passing a resolution and notifying VRS. Annually, a locality may change the amount of employee contribution that a Plan 2 employee must pay for the upcoming fiscal year, but all Plan 2 employees must be treated the same (i.e., an employee hired in 2012 cannot be required to pay a different percentage than one hired in 2011).

While some of the HB 1189 changes (primarily those pertaining to early retirement) will not apply to public safety employees (in the case of Alexandria, deputy sheriffs, EMTs, and fire marshals), they must be treated like all other VRS-covered City employees with respect to the payment of the member contribution under Plan 2.

Council can determine whether new employees should pay a portion of their VRS contribution only for City positions; the Alexandria School Board must make this determination for School employees.

Recent changes to City employee benefits. A number of changes have been made to employee benefits in recent years, especially for new employees. These include:

- New employees, as of July 1, 2010, pay 20 percent of the cost of their health insurance; several years ago, they paid none.
- New employees pay two percent of their salary into the City's Supplemental Retirement System; prior to 2009, no employee paid any portion of their salary into this System.

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<sup>2</sup> VRS contributions on behalf of an employer are made up of two parts. The employee contribution by law is five percent of an employee's salary. Until the early 1980's, this was paid in all cases by the employee. In the early 1980's, the State and most localities began paying this in lieu of an annual salary increase for the year that the employer committed to the payment of the employee contribution. The employer contribution is set by the VRS Board semiannually at a level determined by the VRS actuary to be sufficient to cover the cost of the retirement program, less the employee contribution.

<sup>3</sup> A person becomes vested after a total of 5 years in one or more VRS-covered positions, and can retain that status if he leaves VRS-covered employment but does not withdraw his contributions.

- Employees now pay \$0.22/\$1,000 salary for life insurance; this is nearly 10 times the rate that was paid as recently as 2005.
- New employees hired on or after July 1, 2008, receive no City subsidy for group life insurance; employees hired prior to this date receive this benefit.
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Attachment 3 shows the various benefits and changes in more detail.

What other Northern Virginia localities are planning to do. Staff has contacted adjoining localities to see whether they plan to have new employees pay the member contribution or a portion thereof. Since Arlington and Fairfax Counties do not provide retirement benefits through VRS (although their school employees, like all school employees in Virginia, are covered by VRS), this is not an issue for them. Although some Northern Virginia localities are considering whether they will require new employees to pay a portion of their salary toward VRS, we were unable to identify any that have made the decision to do so. Attachment 4 is a table that shows current and planned employee retirement contribution rates for Northern Virginia localities. Although the table indicates that the three non-VRS localities (Arlington, Fairfax County, and Falls Church) require employees to contribute toward their retirement, staff is unable to state (due to the substantial varying structural complexities among systems) whether their retirement benefits are more generous, less generous, or equal to City of Alexandria retirement benefits.

**FISCAL IMPACT:** In FY 2009, the City hired about 100 employees into VRS-covered positions; for FY 2010, about half that many VRS-covered positions are expected to be filled, based on the number of new hires to date. If FY 2011 new hires approximate the number for FY 2010, the savings to the City will be approximately \$30,000 to \$35,000 for each one percent of salary paid to VRS by new employees, or about \$150,000 to \$175,000 if new employees are required to pay the full five percent member contribution. In future years, as the percentage of staff hired after July 1, 2010, increases, the savings would also increase.

Staff also expects future VRS savings even if new employees are not required to pay the member contribution, since other changes in the law (e.g., making employees wait longer to retire) should eventually result in lower VRS rates for the City.<sup>4</sup>

No fiscal savings were assumed for the FY 2011 budget from requiring new employees to pay a portion of their VRS member contribution.

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<sup>4</sup> The City's VRS rates for FY 2011 and FY 2012 will be 12.78% for general employees, which includes the 5% member contribution. The City's VRS rate was 11.66% in FY 2008; 12.06% in 2009; and 12.07% in 2010. These increases were due in part to the decrease in the value of VRS assets, following the decrease in the value of stocks in recent years. The rates for the City Supplemental, Police, and Fire retirement systems will also rise in FY 2012, as will the cost for the retirement plan for deputy sheriffs, fire marshals, and EMTs.

Issues for Council's consideration. Council may wish to consider the following issues in deciding whether to require new employees to pay a portion of their VRS:

- Requiring new employees to pay a portion of their VRS contribution will save revenue for the City—a small amount at first, but greater amounts in later years as more current workers are replaced by new employees.
- If other localities in the region do not change their required employee contributions, it will make the City less competitive as an employer.
- Requiring employees to pay into VRS may exacerbate any pay parity issues between Police and Fire employees (non-VRS) and Sheriff's employees (VRS).
- New employees must already pay two percent of their salary for the City's Supplemental Retirement System; if they are required to pay the full five percent VRS member contribution, seven percent of their salary would be paid toward retirement.
- Council is unable to require ACPS employees to pay into VRS; should it require City employees to do so, equity questions about City employees versus School employees are likely to arise.

**ATTACHMENTS:**

Attachment 1: Major Changes to VRS for Local Government Employees Hired on or after July 1, 2010

Attachment 2: Memorandum from VRS Regarding Contributions from New Members

Attachment 3: History of Recent Changes to Employee Contributions Toward Benefits; Post Retirement Benefits

Attachment 4: Northern Virginia Employee Pay Survey

**STAFF:**

Bruce Johnson, Chief Financial Officer

Bernard Caton, Legislative Director

Cheryl Orr, Director, Department of Human Resources

## Attachment 1

### Major Changes to VRS for Local Government Employees Hired on or after July 1, 2010

1. The average final compensation for new employees will be determined by the employee's average salary for the highest 60 consecutive months of VRS creditable service (current law which will continue to be applicable to existing employees, defines "average final compensation" as the compensation of a member during his 36 highest consecutive months of creditable service).
2. The normal retirement date for new employees will be the same as Social Security retirement date (generally between 66 and 67, depending on a person's year of birth), not 65 (the normal retirement date for existing employees is defined as a member's sixty-fifth birthday).
3. Persons may retire early with full benefits only if their age and years of service added together equal 90, or they have reached age 60 and have 5 or more years of service (current employees can retire at age 50 with 30 or more years of service, or age 55 with 5 or more years of service; current employees can also retire early with reduced benefits at age 50 with 10 or more years of service, but this benefit will not be available to new employees).
4. COLAs (annual cost of living increases in benefits to retirees) for new hires will be equal to the first 2%, and half of the next 8%, of changes to the CPI (COLAs for existing members will continue to be equal to the first 3%, and half of the next 4%, of changes to the CPI).
5. Local governments and school boards can decide whether to require new VRS covered employees to pay 1 to 5% of their salary toward their VRS retirement (existing employees for whom localities have been paying the required 5 percent employee contribution, which includes almost all localities, cannot be required to pay any of the employee contribution).

# Attachment 2



Virginia  
Retirement  
System

P.O. Box 2500, Richmond, Virginia 23218-2500

Toll free: 1-888-VARETIRE (827-3847)

Web site: [www.varetire.org](http://www.varetire.org)

E-mail: [vrs@varetire.org](mailto:vrs@varetire.org)

## Memorandum

TO: Administrative Heads and Fiscal Officers

FROM: Robert P. Schultze, Director, Virginia Retirement System

DATE: May 24, 2010

SUBJ: **Member Contribution Pick-Up Guide Resolution**

The Virginia General Assembly, in its 2010 session, passed legislation implementing new plan provisions for employees hired or rehired on or after July 1, 2010 with no prior Virginia Retirement System (VRS) service. The new plan is called the VRS Plan 2. The legislation stipulates that Plan 2 employees will pay the 5 percent member contribution through salary reduction on a pre-tax basis according to Internal Revenue Code §414(h). However, you may elect to pay some or all of the 5 percent member contribution on behalf of your Plan 2 employees. To do so, you must submit a resolution to VRS.

Attached is a guide resolution. Here are your options regarding payment of the member contribution:

- Your employees pay the 5 percent member contribution. This option does not require action by your governing body. Check the first box in the attachment, fill in the blank with the name of your political subdivision and sign by **June 30, 2010**. The resolution is due to VRS **by no later than August 1, 2010**.
- You elect to pick up between 1 percent and 5 percent of the member contribution with the balance paid by your employee. Check the second box in the attachment and have your governing body complete and duly authorize the rest of the resolution by **June 30, 2010**. The resolution is due to VRS **by no later than August 1, 2010**.
- You elect to pick up the full 5 percent member contribution on a six-year, phase-in schedule. To implement this option, contact one of the individuals listed below for a separate guide resolution (not attached). Your governing body must complete and duly authorize this resolution by **June 30, 2010**. The resolution is due to VRS **by no later than August 1, 2010**.

Once you elect a payment option for member contributions, send the resolution to the attention of the VRS Employer Representatives listed below **by no later than August 1, 2010**. If we do not receive your resolution by August 1, VRS will hold your payroll and contact you to see if you have elected an option. If your governing body does not approve a pick up of member contributions before June 30, your employees will pay the 5 percent member contribution on a pre-tax salary reduction basis. Your payroll system will need to accommodate this. Once your governing body sends a resolution to VRS electing one of the above options, VRS will process the payroll to reflect your governing body's decision regarding member contributions.

The decision you make regarding member contributions remains in effect for fiscal year 2011 (July 1, 2010 – June 30, 2011). Your election remains in effect until you submit another resolution. Any change becomes effective the beginning of the next fiscal year. Payment decisions affect all Plan 2 members hired on or after July 1, 2010.

### Resources:

Contact VRS Employer Representatives:

- Rohn Brown at [rbrown@varetire.org](mailto:rbrown@varetire.org) or (804) 775-3228
- Marie Daniels at [mdaniels@varetire.org](mailto:mdaniels@varetire.org) or (804) 344-3197

View more information about the new plan design provisions in the June issue of *Employer Update*, available on the VRS Web site at [www.varetire.org](http://www.varetire.org). Select the Employer tab.

Enclosure

MSLETT

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An Independent Agency of the Commonwealth

The Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2" employees). The legislation amended VA Code § 51.1-144 to provide that Plan 2 employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h). Internal Revenue Code § 414 (h) provides that a governmental employer may "pick-up" mandatory employee contributions and thereby cause the contributions to be made on a pre-tax basis. The formal written action required by Internal Revenue Code § 414 (h) to effect the pick-up has been taken by the General Assembly with the Governor's signature.

The legislation also permits each county, city, town, local public school board or other local employer to pick-up, in whole or in part (in 1 percent increments), the 5 percent member contribution as an additional benefit not paid as salary. The employer's optional payment of the 5 percent member contribution may be phased in over a period approved by the VRS Board not to exceed 6 years and may only be made on a uniform basis for all its Plan 2 employees. The formal written action required by Internal Revenue Code § 414 (h) to effect the pick-up using the alternatives permitted by the legislation must be taken by the governing body of the specific employing entity and must be effective only on a prospective basis.

Please indicate, by selecting one option below, how member contributions will be paid:

- This is to acknowledge that \_\_\_\_\_ (Employer Name) will have the employees pay the 5 percent member contribution according to the terms of the legislation. This action does not require action by your governing body. \_\_\_\_\_ (Authorized Signature) \_\_\_\_\_ (Date)
- This is to acknowledge that \_\_\_\_\_ (Employer Name) elects to pick-up some or all of the 5 percent member contributions as detailed in the following duly approved resolution.

## RESOLUTION

### **Authorization to Pick-up the Employee's Contribution to VRS Under § 414(h) of the Internal Revenue Code For Plan 2 Employees**

WHEREAS, the Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2 Employees"). The legislation stipulates that Plan 2 Employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h) on a pre-tax basis; and

WHEREAS, the legislation allows certain employers, including the \_\_\_\_\_, (Employer Name) to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary; and

WHEREAS, the election to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary shall, once made, remain in effect for the applicable fiscal year (July 1 - June 30) and shall continue in effect beyond the end of such fiscal year absent a subsequent resolution changing the way the 5 percent member contribution is paid; and

**Attachment 3--History of Recent Changes to Employee Contributions Toward Benefits; Post Retirement Benefits**

Benefit	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Health Insurance</b>						
% of Premium Shared by Employee	0%	3.30%	6.60%	10%	10%	13%
		<i>New Hires: 10%</i>	----->			<i>New Hires: 20%</i>
<b>Life Insurance</b>		<i>effective 12/1/06</i>	<i>effective 12/1/07</i>	<i>effective 12/1/08</i>	<i>effective 12/1/09</i>	
Basic	.028/\$1,000	.20/\$1,000	.20/\$1,000	.20/\$1,000	.22/\$1,000	not yet determined
Dep Opt 1	\$1.25/mo	\$1.20/mo	\$1.20/mo	\$1.20/mo	\$1.32/mo	
Dep Opt 2	\$2.50/mo	\$2.40/mo	\$2.40/mo	\$2.40/mo	\$2.64/mo	
LTD Pan 2	\$0.11%	\$0.06%	\$0.06%	\$0.06%	\$0.066%	
	of insured earnings	of insured earnings	of insured earnings	of insured earnings	of insured earnings	
<b>Pension</b>						
General Govt						
VRS	0%	0%	0%	0%	0%	0%
Supp	0%	0%	0%	0%	<i>New Hires: 2%</i>	----->
Sheriff						
VRS	0%	0%	0%	0%	0%	0%
Supp	0%	0%	0%	0%	0%	0%
Police/Fire	8%	8%	8%	8%	8%	8%
<b>Post-Retirement Benefits</b>						
Health Insurance Subsidy	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)
			<i>New Hires: See table below*</i>			----->
Group Life Insurance	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary
			<i>New Hires: No longer eligible for this benefit-----&gt;</i>			

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**\*City Health Insurance Subsidy Percent  
For Retired Employees based on Years of Service**

Years of Service	Subsidy 4%/Year	Maximum Subsidy/Month
Less Than 5	None	None
5 to 10	20% to 40%	\$52 to \$104
11 to 15	44% to 60%	\$114 to \$156
16 to 20	64% to 80%	\$166 to \$208
21 to 25	84% to 100%	\$218 to \$260



WHEREAS, employee contributions that are picked-up as an additional benefit not paid as salary are not considered wages for purposes of VA Code § 51.1-700 et seq. nor shall they be considered salary for purposes of VA Code § 51.1-100 et seq.; and

WHEREAS, the \_\_\_\_\_ (Employer Name) desires to pick-up and pay its Plan 2 Employees' member contributions to VRS as an additional benefit not paid as salary in an amount equal to (1%) (2%) (3%) (4%) (5%) of creditable compensation; and

WHEREAS, VRS tracks such picked-up member contributions and is prepared to treat such contributions as employee contributions for all purposes of VRS.

NOW, THEREFORE, IT IS HEREBY RESOLVED that effective the first day of \_\_\_\_\_ **[stated month must be after the date this Resolution is adopted]**, the \_\_\_\_\_ (Employer Name) shall pick-up member contributions of its Plan 2 Employees to VRS as an additional benefit not paid as salary in an amount equal to (1%) (2%) (3%) (4%) (5%) of creditable compensation subject to the terms and conditions described above; and it is further

RESOLVED that such contributions, although designated as member contributions, are to be made by the \_\_\_\_\_ (Employer Name) in lieu of member contributions; and it is further

RESOLVED that nothing herein shall be construed so as to permit or extend an option to VRS members to receive the picked-up contributions made by the \_\_\_\_\_ (Employer Name) directly instead of having them paid to VRS.

Adopted in \_\_\_\_\_, Virginia this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Authorized Signature      Title

### Attachment 4-NoVa Employee Pay Survey - May 25, 2010

VRS	Jurisdiction	Employee Current Contribution	Will new employees be required to pay a portion of salary toward retirement?
Yes	Alexandria	0%	to be determined
Yes	Fairfax City	0%	currently no decision
Yes	Herndon	0%	currently no decision
Yes	Leesburg	0%	0%
Yes	Loudoun County	0%	0%
Yes	PW County	0%	Not Recommended
Yes	Vienna	0%	0%
NO	Arlington County	4%	continue 4%
NO	Fairfax County	4% or 5.33% (two plans)	continue 4%/5.33%
NO	Falls Church	0%	1.60%


Note: new Alexandria employees contribute 2% toward Supplemental retirement.

REVISED

City of Alexandria, Virginia

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6-8-10

MEMORANDUM

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I recommend that Council defer taking action on changing the VRS contribution for new employees until next spring when it can be considered in the context of the FY 2012 budget deliberations.

**If Council wishes to defer any change to current practice, and continue paying the member contribution for all employees for FY 2011, staff will docket a resolution on this at Council's June 22 meeting.**

**DISCUSSION:** The purpose of this report is to provide Council with background information on changes in VRS contribution requirements for certain local government employees. The fiscal impact section of this memo outlines the cost impact of the change in City employee contributions. At the recently completed General Assembly Session, legislation (HB 1189) was enacted to make a number of changes to the Virginia Retirement System (VRS); nearly all of these apply only to new employees hired on or after July 1, 2010 (VRS calls these employees Plan 2 employees; Plan 1 employees are those who joined VRS prior to July 1, 2010).<sup>1</sup> For the most part, these are changes that are mandatory and involve no options for local governments (e.g., the early retirement age is changed, as is the average salary on which retirement pay is

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**ATTACHMENTS:**

- Attachment 1: Major Changes to VRS for Local Government Employees Hired on or after July 1, 2010
- Attachment 2: Memorandum from VRS Regarding Contributions from New Members
- Attachment 3: History of Recent Changes to Employee Contributions Toward Benefits; Post Retirement Benefits
- Attachment 4: Northern Virginia Employee Pay Survey

**STAFF:**

Bruce Johnson, Chief Financial Officer  
Bernard Caton, Legislative Director  
Cheryl Orr, Director, Department of Human Resources

## Attachment 1

### Major Changes to VRS for Local Government Employees Hired on or after July 1, 2010

1. The average final compensation for new employees will be determined by the employee's average salary for the highest 60 consecutive months of VRS creditable service (current law which will continue to be applicable to existing employees, defines "average final compensation" as the compensation of a member during his 36 highest consecutive months of creditable service).
2. The normal retirement date for new employees will be the same as Social Security retirement date (generally between 66 and 67, depending on a person's year of birth), not 65 (the normal retirement date for existing employees is defined as a member's sixty-fifth birthday).
3. Persons may retire early with full benefits only if their age and years of service added together equal 90, or they have reached age 60 and have 5 or more years of service (current employees can retire at age 50 with 30 or more years of service, or age 55 with 5 or more years of service; current employees can also retire early with reduced benefits at age 50 with 10 or more years of service, but this benefit will not be available to new employees).
4. COLAs (annual cost of living increases in benefits to retirees) for new hires will be equal to the first 2%, and half of the next 8%, of changes to the CPI (COLAs for existing members will continue to be equal to the first 3%, and half of the next 4%, of changes to the CPI).
5. Local governments and school boards can decide whether to require new VRS covered employees to pay 1 to 5% of their salary toward their VRS retirement (existing employees for whom localities have been paying the required 5 percent employee contribution, which includes almost all localities, cannot be required to pay any of the employee contribution).

# Attachment 2



Virginia  
Retirement  
System

P.O. Box 2500, Richmond, Virginia 23218-2500  
Toll free: 1-888-VARETIR (827-3847)  
Web site: [www.varetire.org](http://www.varetire.org)  
E-mail: [vrs@varetire.org](mailto:vrs@varetire.org)

## Memorandum

TO: Administrative Heads and Fiscal Officers

FROM: Robert P. Schultze, Director, Virginia Retirement System

DATE: May 24, 2010

SUBJ: **Member Contribution Pick-Up Guide Resolution**

The Virginia General Assembly, in its 2010 session, passed legislation implementing new plan provisions for employees hired or rehired on or after July 1, 2010 with no prior Virginia Retirement System (VRS) service. The new plan is called the VRS Plan 2. The legislation stipulates that Plan 2 employees will pay the 5 percent member contribution through salary reduction on a pre-tax basis according to Internal Revenue Code §414(h). However, you may elect to pay some or all of the 5 percent member contribution on behalf of your Plan 2 employees. To do so, you must submit a resolution to VRS.

Attached is a guide resolution. Here are your options regarding payment of the member contribution:

- Your employees pay the 5 percent member contribution. This option does not require action by your governing body. Check the first box in the attachment, fill in the blank with the name of your political subdivision and sign by **June 30, 2010**. The resolution is due to VRS **by no later than August 1, 2010**.
- You elect to pick up between 1 percent and 5 percent of the member contribution with the balance paid by your employee. Check the second box in the attachment and have your governing body complete and duly authorize the rest of the resolution by **June 30, 2010**. The resolution is due to VRS **by no later than August 1, 2010**.
- You elect to pick up the full 5 percent member contribution on a six-year, phase-in schedule. To implement this option, contact one of the individuals listed below for a separate guide resolution (not attached). Your governing body must complete and duly authorize this resolution by **June 30, 2010**. The resolution is due to VRS **by no later than August 1, 2010**.

Once you elect a payment option for member contributions, send the resolution to the attention of the VRS Employer Representatives listed below **by no later than August 1, 2010**. If we do not receive your resolution by August 1, VRS will hold your payroll and contact you to see if you have elected an option. If your governing body does not approve a pick up of member contributions before June 30, your employees will pay the 5 percent member contribution on a pre-tax salary reduction basis. Your payroll system will need to accommodate this. Once your governing body sends a resolution to VRS electing one of the above options, VRS will process the payroll to reflect your governing body's decision regarding member contributions.

The decision you make regarding member contributions remains in effect for fiscal year 2011 (July 1, 2010 – June 30, 2011). Your election remains in effect until you submit another resolution. Any change becomes effective the beginning of the next fiscal year. Payment decisions affect all Plan 2 members hired on or after July 1, 2010.

### Resources:

Contact VRS Employer Representatives:

- Rohn Brown at [rbrown@varetire.org](mailto:rbrown@varetire.org) or (804) 775-3228
- Marie Daniels at [mdaniels@varetire.org](mailto:mdaniels@varetire.org) or (804) 344-3197

View more information about the new plan design provisions in the June issue of *Employer Update*, available on the VRS Web site at [www.varetire.org](http://www.varetire.org). Select the Employer tab.

Enclosure

MSLETT

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The Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2" employees). The legislation amended VA Code § 51.1-144 to provide that Plan 2 employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h). Internal Revenue Code § 414 (h) provides that a governmental employer may "pick-up" mandatory employee contributions and thereby cause the contributions to be made on a pre-tax basis. The formal written action required by Internal Revenue Code § 414 (h) to effect the pick-up has been taken by the General Assembly with the Governor's signature.

The legislation also permits each county, city, town, local public school board or other local employer to pick-up, in whole or in part (in 1 percent increments), the 5 percent member contribution as an additional benefit not paid as salary. The employer's optional payment of the 5 percent member contribution may be phased in over a period approved by the VRS Board not to exceed 6 years and may only be made on a uniform basis for all its Plan 2 employees. The formal written action required by Internal Revenue Code § 414 (h) to effect the pick-up using the alternatives permitted by the legislation must be taken by the governing body of the specific employing entity and must be effective only on a prospective basis.

Please indicate, by selecting one option below, how member contributions will be paid:

- This is to acknowledge that \_\_\_\_\_ (Employer Name) will have the employees pay the 5 percent member contribution according to the terms of the legislation. This action does not require action by your governing body. \_\_\_\_\_ (Authorized Signature) \_\_\_\_\_ (Date)
- This is to acknowledge that \_\_\_\_\_ (Employer Name) elects to pick-up some or all of the 5 percent member contributions as detailed in the following duly approved resolution.

## RESOLUTION

### **Authorization to Pick-up the Employee's Contribution to VRS Under § 414(h) of the Internal Revenue Code For Plan 2 Employees**

WHEREAS, the Virginia General Assembly, in its 2010 session passed legislation creating a separate retirement plan for employees hired on or after July 1, 2010 (hereafter referred to as "Plan 2 Employees"). The legislation stipulates that Plan 2 Employees will pay their 5 percent member contribution and that, absent other action by the employer, such contribution will be paid through salary reduction according to Internal Revenue Code § 414 (h) on a pre-tax basis; and

WHEREAS, the legislation allows certain employers, including the \_\_\_\_\_, (Employer Name) to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary; and

WHEREAS, the election to pick-up and pay all or a portion of the member contributions on behalf of its Plan 2 Employees as an additional benefit not paid as salary shall, once made, remain in effect for the applicable fiscal year (July 1 - June 30) and shall continue in effect beyond the end of such fiscal year absent a subsequent resolution changing the way the 5 percent member contribution is paid; and

WHEREAS, employee contributions that are picked-up as an additional benefit not paid as salary are not considered wages for purposes of VA Code § 51.1-700 et seq. nor shall they be considered salary for purposes of VA Code § 51.1-100 et seq.; and

WHEREAS, the \_\_\_\_\_ (Employer Name) desires to pick-up and pay its Plan 2 Employees' member contributions to VRS as an additional benefit not paid as salary in an amount equal to (1%) (2%) (3%) (4%) (5%) of creditable compensation; and

WHEREAS, VRS tracks such picked-up member contributions and is prepared to treat such contributions as employee contributions for all purposes of VRS.

NOW, THEREFORE, IT IS HEREBY RESOLVED that effective the first day of \_\_\_\_\_ [stated month **must be after the date this Resolution is adopted**], the \_\_\_\_\_ (Employer Name) shall pick-up member contributions of its Plan 2 Employees to VRS as an additional benefit not paid as salary in an amount equal to (1%) (2%) (3%) (4%) (5%) of creditable compensation subject to the terms and conditions described above; and it is further

RESOLVED that such contributions, although designated as member contributions, are to be made by the \_\_\_\_\_ (Employer Name) in lieu of member contributions; and it is further

RESOLVED that nothing herein shall be construed so as to permit or extend an option to VRS members to receive the picked-up contributions made by the \_\_\_\_\_ (Employer Name) directly instead of having them paid to VRS.

Adopted in \_\_\_\_\_, Virginia this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Authorized Signature      Title

**Attachment 3--History of Recent Changes to Employee Contributions Toward Benefits; Post Retirement Benefits**

Benefit	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Health Insurance</b>						
% of Premium Shared by Employee	0%	3.30%	6.60%	10%	10%	13%
		<i>New Hires: 10%</i>	----->			<i>New Hires: 20%</i>
<b>Life Insurance</b>		<i>effective 12/1/06</i>	<i>effective 12/1/07</i>	<i>effective 12/1/08</i>	<i>effective 12/1/09</i>	
Basic	.028/\$1,000	.20/\$1,000	.20/\$1,000	.20/\$1,000	.22/\$1,000	not yet determined
Dep Opt 1	\$1.25/mo	\$1.20/mo	\$1.20/mo	\$1.20/mo	\$1.32/mo	
Dep Opt 2	\$2.50/mo	\$2.40/mo	\$2.40/mo	\$2.40/mo	\$2.64/mo	
LTD Pan 2	\$0.11%	\$0.06%	\$0.06%	\$0.06%	\$0.066%	
	of insured earnings	of insured earnings	of insured earnings	of insured earnings	of insured earnings	
<b>Pension</b>						
General Govt						
VRS	0%	0%	0%	0%	0%	0%
Supp	0%	0%	0%	0%	<i>New Hires: 2%</i>	----->
Sheriff						
VRS	0%	0%	0%	0%	0%	0%
Supp	0%	0%	0%	0%	0%	0%
Police/Fire	8%	8%	8%	8%	8%	8%
<b>Post-Retirement Benefits</b>						
Health Insurance Subsidy	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)	\$260/month (\$3,120 annual max)
			<i>New Hires: See table below*</i>			----->
Group Life Insurance	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary	2x salary at retirement, ultimately decreasing to 25% of salary
			<i>New Hires: No longer eligible for this benefit</i>			----->

**\*City Health Insurance Subsidy Percent  
For Retired Employees based on Years of Service**

Years of Service	Subsidy 4%/Year	Maximum Subsidy/Month
Less Than 5	None	None
5 to 10	20% to 40%	\$52 to \$104
11 to 15	44% to 60%	\$114 to \$156
16 to 20	64% to 80%	\$166 to \$208
21 to 25	84% to 100%	\$218 to \$260

### Attachment 4-NoVa Employee Pay Survey - May 25, 2010

VRS	Jurisdiction	Employee Current Contribution	Will new employees be required to pay a portion of salary toward retirement?
Yes	Alexandria	0%	to be determined
Yes	Fairfax City	0%	currently no decision
Yes	Herndon	0%	currently no decision
Yes	Leesburg	0%	0%
Yes	Loudoun County	0%	0%
Yes	PW County	0%	Not Recommended
Yes	Vienna	0%	0%
NO	Arlington County	4%	continue 4%
NO	Fairfax County	4% or 5.33% (two plans)	continue 4%/5.33%
NO	Falls Church	0%	1.60%

Note: new Alexandria employees contribute 2% toward Supplemental retirement.