"Looking Toward Tomorrow's City"

Virginia Beach Vision, Inc.

Statement of Position
<u>Public Employee Benefits</u>
Adopted 2-9-10

The City of Virginia Beach and other municipalities across the Commonwealth are experiencing continued and disproportionate cost increases annually to sustain the current public employee benefits package yet are unable to address these costs independent of action by the Virginia General Assembly.

The practice in the private sector over the last decade has been to turn away from defined benefit retirement programs in favor of defined contribution plans. This plan conversion is not an option for the City of Virginia Beach and other local governments in Virginia without General Assembly approval.

The cost of Virginia Beach's annual contribution to the state's VRS Pension and Life Insurance plan has increased from just over $26 million in 2002 to almost $50.5 million in 2009. The current plan depends on a 100% city paid contribution plus a city paid employee matching contribution. As a percent of payroll, the city's pension contributions have growth from about 11% of total payroll costs in 2003 to over 17% of total costs in 2009. This escalation in cost is not sustainable.

Municipal governments must be given the flexibility by the Virginia General Assembly to adjust their employee benefits programs to address rising costs by transitioning to plans that are sustainable in future years.

Specifically, Virginia Beach Vision encourages the following actions:

- **Defined Contribution retirement plan option:**
  The Virginia General Assembly should permit any locality or school board to establish a defined contribution retirement plan in lieu of any other retirement plan within VRS and require participation by all employees hired after such plan is established.

  Changes would apply only to new hires and not to employees already enrolled in the retirement system. While a phased implementation will not result in immediate cost savings to local government, it is necessary to begin to put in place a public retirement plan that is fiscally sustainable.

- **Retirement Age adjustment:**
  The General Assembly should increase the minimum age for the VRS unreduced retirement allowance from 50 to 55 for employees hired after July 1, 2010. Existing general employees will continue to be eligible for early unreduced retirement at age 50 with 30 years of service. For future employees, this formula should be adjusted to age 55 for general employees with 30 years of service and from the current age 50 with 25 years of service for hazardous duty employees to 55 years of age with 25 years of service.

- **COLA adjustments:**
  The General Assembly should reduce the Cost of Living Adjustment (COLA) calculation maximum for its VRS plans, prospectively for new hires after July 1, 2010. Currently, the COLA is the first 3% of inflation plus one-half of such additional increase up to 7%. The new limit should be the first 2% of inflation plus one-half of such additional increase up to 6%. Practically speaking, the current maximum is 5% and the new maximum will be 4%.

- **Employee contributions to retirement:**
  The state legislature should provide local governments and school boards the flexibility to choose the level of member employee contributions at any rate between 0 and 5%. This requires the legislature to repeal the current language that makes prior actions of the employer to pick-up member contributions irrevocable.

- **City personnel layoffs:**
  Given the budgetary pressures being experienced by the City, it is possible that personnel layoffs will become necessary. If so, the City should eliminate its "last in-first out" policy in favor of a policy reflective of performance-based personnel evaluations.