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Fiscal Note

March 15, 2024 Chris Rupe, Associate Fiscal Officer

H.585 – An act relating to amending the pension system for sheriffs and certain deputy sheriffs

As recommended by the House Committee on Government Operations & Military Affairs - Draft 2.3

Bill Summary

The bill would enable eligible sheriffs and deputy sheriffs who participate in the Vermont State Employees' Retirement System (VSERS) to enroll in the Group G pension plan. The bill would automatically enroll eligible sheriffs and deputies first hired on or after January 1, 2025 in Group G, and permit eligible sheriffs and deputies employed as of December 31, 2024 to make an irrevocable election to transfer from Group F to Group G. By enrolling in Group G, these members would be provided with normal retirement eligibility with 20 years of service – an option that many other law enforcement personnel already have under VSERS Group C and VMERS Group D.

Fiscal Impact

This bill is not expected to have a significant impact to the State's obligations to the VSERS retirement system. County sheriff's departments that participate in VSERS – not the State – directly fund the employer pension costs for their participating deputies, and Group G is designed to be "cost neutral" to the employer. To fund the cost of Group G's enhanced benefit, members in active Group G service would pay a VSERS contribution rate 4.68% higher than they would have paid if they remained in Group F.

Background and Details

H.585 would apply to all sheriffs, and to deputy sheriffs who are employed by county sheriff's departments that participate in VSERS who have attained Level II or III law enforcement certification and are required to perform law enforcement duties as the primary function of their employment. As of a September 1, 2022 data survey provided by the Office of the State Treasurer, there were 77 members in this cohort in active service – referred to as "covered sheriffs and deputies" in this fiscal note – though the present number may be somewhat higher than this earlier estimate.

H.585 would not apply to full-time State-paid transport deputy sheriffs who are currently enrolled in VSERS Group C, or to any deputies employed by sheriff's departments that participate in the Vermont Municipal Employees' Retirement System (VMERS).

Significant discrepancies exist across Vermont law enforcement agencies with respect to pension benefits. The VSERS Group F benefit structure is less generous than the VSERS Group C benefit structure that applies to

State law enforcement personnel and State-paid transport deputies, and the VMERS Group D benefit that applies to many local law enforcement personnel.[1] Each of the latter two plans provides for a 2.5% multiplier and unreduced retirement eligibility at age 50 with 20 years of service, whereas VSERS Group F provides for a 1.67% multiplier with unreduced retirement eligibility at age 65 with five years of service or if age plus years of service total 87 or more ("rule of 87").

Current Law – Group F

Under current law, covered sheriffs and deputies are enrolled in VSERS Group F – the largest group in the State pension system. Newly hired Group F members earn a benefit multiplier of 1.67% per year of credited service, with a maximum benefit of 60% of average final compensation (reached with approximately 36 years of service). A Group F member is eligible for normal retirement at age 65 with five years of service, or if the rule of 87 applies.

Table 1: **VSERS Groups F and G Comparison**

	Group F	Group G
Benefit Multiplier	1.67% per year of credited service after 1/1/91	2.5% per year of credited service in Group G
Maximum Benefit Payable	50% of Average Final Compensation if hired prior to 7/1/08 60% of Average Final Compensation if hired on or after 7/1/08	50% of Average Final Compensation (new hires) Existing Group F provisions for transferring members
Approximate Benefit with 20 years of service	33.33% of Average Final Compensation	50% of Average Final Compensation
Normal Retirement Eligibility	Age 62 with five years of service, or with 30 years of service if hired before 7/1/08 Age 65 with five years of service, or rule of 87 if hired on or after 7/1/08	Age 55 with 20 years of service, or Age 65 with five years of service (new hires) Existing Group F provisions for transferring members

Proposed Change – Group G

Group G is a VSERS benefit group created by Act 114 (2022) for certain Department of Corrections employees and other State employees who staff facilities for offenders, justice-involved youth, or patients in the care of the State.

Group G provides a benefit structure more closely aligned to the benefit structures of VSERS Group C and VMERS Group D. Group G members earn a benefit multiplier of 2.5% per year of credited service in Group G, with a maximum benefit of 50% of average final compensation (reached with 20 years of service). Newly hired Group G members are eligible for normal retirement at age 55 with 20 years of service, or at age 65 with 5 years of service.

Group G was designed to be cost-neutral to the employer, with the cost to fund the enhanced benefit paid by active Group G members. As a result, Group G members pay a contribution rate 4.68% greater than the rates in effect for Group F (see Table 2). Under Groups F and G, member contribution rates are based on the salary distribution of the combined active payroll of the two groups. Act 114 (2022) phased in higher member contribution rates over multiple years, based on salary quartile.

Table 2: **VSERS Groups F and G Member Contribution Rates**

		Group F	Group G
< 25th salary percentile	FY 2025 and after	6.65%	11.33%
25th – 50th salary percentile	FY 2025 and after	8.15%	12.83%
50th – 75th salary percentile	FY 2025	8.15%	12.83%
	FY 2026 and after	8.65%	13.33%
>75th salary percentile	FY 2025	8.15%	12.83%
	FY 2026	8.65%	13.33%
	FY 2027 and after	9.15%	13.83%

Under H.585, eligible sheriffs and deputies hired into those positions on or after January 1, 2025 would be enrolled in Group G, rather than Group F. Those who are currently in Group F would have an option to irrevocably transition to Group G on or before December 1, 2024 (or within 30 days of hire for those first hired on or after December 1, 2024 but before January 1, 2025). Members who transition to Group G would retain most other terms of their Group F benefit structure without modification, but future service credit earned after enrolling in Group G would accrue under the higher 2.5% benefit multiplier. The higher multiplier

[1] Group C also has a mandatory retirement at age 57, which would be problematic to apply to independently elected sheriffs.

would not apply retroactively to service performed prior to enrolling in Group G. Covered deputies employed by offices currently participating in the VMERS system would not be permitted to transfer into VSERS, so there would be no expected transfer of liability from one retirement system to another.

Fiscal Impact

H.585 is not expected to have a significant impact on the State's financial obligations to VSERS. However, it would result in eligible active sheriffs and deputies paying a pre-tax contribution rate 4.68% higher in Group G than they otherwise would by remaining in Group F.

- Sheriff's departments fund the employer share of VSERS costs for their covered deputies. These costs do not fall directly to the State budget. Rather, each employing sheriff's department is assessed a contribution rate to VSERS based on each department's payroll of VSERS members – for fiscal year 2024, this pension assessment is 17.36%.

- Group G is designed to be "cost neutral" to the employer. As members accrue service under the higher benefit multiplier of Group G, the accrued liabilities of the VSERS pension system will increase above status quo. Group G was designed to fund the present value of these higher benefits through a 4.68% higher member contribution than would be paid under Group F, making it "cost neutral" to the employer. The estimated cost of the Group G benefit, and the required member contribution necessary to fund it, are based on underlying actuarial assumptions about employee retirement and net turnover behavior, payroll and salary growth, membership characteristics, demographic projections, and economic trends. These actuarial assumptions have not been significantly revised since the initial Group G cost estimates were performed in 2022 but could change in future years in response to evolving experience trends and economic outlooks.

H.585 would have no expected impact to the State's Other Post-Employment Benefits (OPEB) liabilities. These covered deputy sheriffs are not presently entitled to postretirement health or other insurance benefits through VSERS, and H.585 would not extend those benefits to them under Group G.