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November 05, 2025

The Honorable Glenn Youngkin, Governor
The Honorable Luke Torian, Chair, House Appropriations Committee
The Honorable L. Louise Lucas, Chair, Senate Finance and Appropriations Committee

Subject: Biennial Compensation Report – 2025

Pursuant to the Code of Virginia and Chapter 725 of the 2025 Acts of Assembly, the attached report reflects a review of state employee compensation in comparison to other employers.

Section I of the report is pursuant to § 2.2-1202 B. of the Code of Virginia which requires that:

> *B. The Director of the Department shall, on or before September 1 of each odd-numbered year, submit a report on (i) the classified job roles that should receive higher salary increases based on identified recruitment and retention challenges, (ii) the appropriate amount by which the salary of such classified job roles should be increased, and (iii) cost estimates for funding any salary increases to the Governor and the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance and Appropriations.*

Section II of the report is in accordance with the directives found in Items 74.K.1 and K.2, Chapter 725 of the 2025 Acts of Assembly, which require that:

> *K.1. As a part of the Department's biennial report on employee compensation, recruitment and retention pursuant to § 2.2-1202, Code of Virginia, the Director of the Department of Human Resource Management, with support from the Virginia Retirement System (VRS), shall include an evaluation of total compensation, including retirement benefits for law enforcement officers employed by the Commonwealth and covered under the VaLORS retirement system. The analysis shall consider (i) current levels of compensation and benefits, specifically access to hazardous duty plans relative to Virginia State Police and local police officers; (ii) recruitment and retention issues faced by these Departments caused by any differences in compensation and benefits identified in (i); and (iii) recommendations and the associated fiscal impact to change compensation and benefits.*
>
> *2. Additionally, the Department and the VRS shall complete an analysis to determine whether the elimination of the traditional Virginia Retirement System defined benefit pension has affected the Commonwealth's ability to retain and recruit government employees and include their findings in the biennial report.*

Section III of the report is in accordance with the directive found in Item 74.K.3, Chapter 725 of the 2025 Acts of Assembly, which requires that:

> *3. The Department shall separately solicit input from the Department of Education and the VRS on their assessments on whether the elimination of the traditional Virginia Retirement System defined benefit pension has affected the Commonwealth's ability to retain and recruit teachers. The Department shall submit this as a separate report at the same time as the biennial report referenced in paragraph K.1.*

DHRM, with assistance from Deloitte Consulting LLP ("Deloitte"), benchmarked 200 Commonwealth occupations using market pay data representing private and public sector comparators. DHRM led all facets of the study and leveraged the multiple sources of published compensation surveys Deloitte maintains for the government and private sectors that reflect organizations with which the Commonwealth competes for employee talent.

The 2025 study data show that Commonwealth employee base salaries, on average, fall 16% below the private sector and 5% below the public sector median. Statewide salary adjustments of 18% (2022 to 2025) yielded improvement relative to the public sector market but select classified employee salaries currently fall below market median. A significant number of benchmarked position employee base salaries fall within what would be considered a competitive salary range (+/- 20% of market median).

Years without any salary adjustments in the past have made it difficult for state agencies to build a proactive and sustainable approach to addressing compensation, recruitment and retention concerns. The method of awarding flat rate increases and select compression adjustments continues to stress the classified salary structure and has accelerated compression issues in Pay Bands 1 through 4.

The compensation methodology recommended as part of the 2020 mandated Compensation Workgroup to address these issues has not been fully implemented and continues to remain a relevant approach. Reconsideration of the workgroup's recommendations should be explored as a means to provide relief from the ongoing stress on the compensation infrastructure.

This report presents the 2025 study findings and options DHRM is considering to address increasingly problematic challenges with employee compensation, recruitment, and retention.

Please let me know if you have any questions or if you would like to receive any additional information.

Sincerely,

Janet L. Lawson

CC: The Honorable M. Lyn McDermid, Secretary of Administration
The Honorable Stephen E. Cummings, Secretary of Finance
Michael Maul, Director, Department of Planning and Budget

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Virginia Department of Human Resource Management

Biennial Compensation Report

Section I

Market Position Analysis of the Commonwealth's Classified Workforce

Data as of October 2025

Report Issued November 5, 2025

Table of Contents

Executive Summary

DHRM benchmarked the salaries of 200 Commonwealth working titles for the 2025 Biennial compensation study. The study focused on a review of salary data representing private sector companies and public sector organizations with annual revenues and annual budgets, respectively, greater than $50 billion. A portion of the positions selected for the study were identified as hard-to-fill roles within the Commonwealth. The remainder of the positions selected for the study illustrate a representative sample of classified roles across the range of (i) Commonwealth occupational families and career groups and (ii) the Commonwealth salary bands used to maintain the salaries of classified roles.

As noted above, the study focused on Commonwealth employee base salaries compared to market. The study has not compared the total compensation of classified Commonwealth employees – the value of salaries and benefits – to market.

The Commonwealth is also reviewing the impact of changes to the Commonwealth retirement plan on compensation for Commonwealth employees. The effects of the retirement plan modifications are outside the scope of the salary study and will be discussed in Section II of the report.

The 2025 Biennial Compensation Report produced the following data:

- On average, Commonwealth base salaries among the positions benchmarked fall below the private and public sector market data by 16% and 5%, respectively.
- One-half of the benchmarked job title salaries are within 20% of the market median salary data, which designates market-competitive salaries consistent with practice. Salaries do not have to be equal to a market target to be considered market-competitive but within a defined range around the market target.
    - Average salaries in 50% of the Commonwealth job titles benchmarked are within 20% of the private sector median salary data.
    - Average salaries in 60% of the Commonwealth job titles benchmarked are within 20% of the public sector/government industry median salary data.
- On an occupational family basis, Commonwealth employee base salaries in benchmarked roles compare to market as follows:
    - Private Sector Data vs Commonwealth Base Salaries
        - Farthest Below Market Median: Natural Resources & Applied Sciences (n=1 title; -39%), Public Safety (n=12 titles; -34%), and Trades & Operations (n=1 title; -28%)
        - Closest to Market Median: Engineering & Technology (n=21; -4%)
        - Farthest Above Market Median: On an overall average basis, no

Commonwealth occupational family falls above market median, but average salaries in 10 benchmarked Commonwealth titles are more than 20% above the market median salary.

- Public Sector Data vs Commonwealth Base Salaries
  - Farthest Below Market Median: Natural Resources & Applied Sciences (n=1 title; -30%), Trades & Operations (n=1 title; -18%) Administrative Services (n=102 titles; -14%)
  - Closest to Market Median: Educational & Media Services (n=34 titles; -10%) and Public Safety (n=10 titles; -10%)
  - Farthest Above Market Median: Engineering & Technology (n=21; +11%)

- Statewide salary adjustments of 18% (2022 to 2025) have brought base salaries closer to the public sector data. Additionally, targeted increases among select agencies to starting salaries have resulted in base salaries, on average, exceeding the market 25th percentile public sector data by 9 percent. However, the targeted salary increases are not as impactful when looking at the overall population. Of the Commonwealth employees that are in a benchmarked position, the average base salaries fall more than 20% below the 25th percentile public sector data.
- Variance to the private sector has increased. Overall average variance with the median dropped 3 percentage points, from -13% in 2023 to -16% in 2025.
  - The average base salaries of Commonwealth employees in 45 benchmarked roles currently fall more than 20% below the 25th percentile general industry/private sector data.
  - Median base salary increases in the private sector were 4% in 2024 and 3.5% in 2025. Average base salary increases in the public sector were 4.8% in 2024 and 4.2% in 2025. In the Commonwealth, classified employees received 3% salary increases each year in 2024 and 2025.

Note: There is variation in the Commonwealth job titles benchmarked each year the study has been conducted, *i.e.*, the same job titles have not been benchmarked each year. This component of a market review can limit a longitudinal study of the market competitiveness of salaries for specific positions from one study to the next. However, this component of the benchmark study approach is consistent with leading market practice and is generally seen as a best practice to provide an all-around view of market competitiveness in an organization's pay program over time.

- A lack of consistency and standardization in Commonwealth working titles continues to hamper the market salary study (see table 1). The Commonwealth continues to provide agencies with a great deal of flexibility in using working titles in addition to the Commonwealth's broader set of job code titles to capture unique position requirements by agency. However, this lack of job title standardization leads to inefficiency in salary benchmarking – it expands the list of job titles to consider for the market study which at the same time limits DHRM's ability to capture the full range of Commonwealth positions that can be compared alongside the Commonwealth working titles included in the biennial salary study. DHRM has a goal of standardizing the classified job titles to increase the efficiency with which the salary study is conducted.

In general, variations in appropriated salary adjustments have presented some challenges for Commonwealth agencies when it comes to building a proactive and sustainable approach to addressing compensation concerns. The design of the Commonwealth salary bands has contributed to the market-alignment challenges.

- The statewide adjustment method of awarding the same salary increase to classified employees across the Commonwealth exacerbates the market misalignment of classified employee salaries. It also prevents the Commonwealth from awarding outstanding employee performance, which contributes to retention issues DHRM and agency leaders often see with classified employees at the 5-year tenure mark.
- Annual salary increases for Commonwealth classified employees have lagged the market rate of increases in the public and private sectors. As a result, the variance to market median private sector salaries has grown and it has improved by only a few percentage points in comparison to the market median public sector salaries.
- The current classified salary bands, the design of which has not changed in 25 years, hamper the Commonwealth's ability to pay competitive starting salaries.
- Established minimum wage increases that will be implemented in January 2026 may further exacerbate salary compression in the first four salary bands.
- The market-aligned salary increase methodology recommended as part of the 2020 mandated Compensation Workgroup to address these issues has not been adopted. This approach is still relevant for the current market. Therefore, DHRM is once again recommending this methodology be implemented to help alleviate market misalignment and to enable Commonwealth agencies the autonomy to address position-specific recruitment, retention, and salary compression challenges.

Introduction
Purpose

The 2019 Session of the General Assembly of the Commonwealth of Virginia ("the Commonwealth") enacted amendments clarifying the goals and process of managing the compensation of the Commonwealth's classified workforce. As a result, the Governor and the General Assembly of the Commonwealth tasked the Department of Human Resource Management ("DHRM") with developing and implementing an updated, collaborative, and data-driven approach that provides ongoing reporting and recommendations for the efficient and effective management of compensation for the classified workforce. [1]

The Commonwealth has been experiencing various challenges with its compensation program for classified roles connected to its 25-year-old broadband salary structure. This limits the Commonwealth's ability to be an employer of choice.

DHRM has compared the base salaries of 200 classified Commonwealth positions to market base salary data representing the public and private sectors. DHRM is using the market data findings to analyze current and identify update options for the Commonwealth employee base salary adjustments.

The market data finding from this year's study were gathered from multiple published compensation surveys.

Background

The Commonwealth's Compensation Philosophy, codified in 2001, states that the "*goal of the Commonwealth to compensate its employees at a rate comparable to the rate of compensation for employees in the private sector of the Commonwealth in similar occupations, and consistently recruit and retain the most suitably qualified employees*."

Pursuant to § 2.2-1202 of the Code of Virginia:

B. The Director of the Department shall, on or before September 1 of each odd-numbered year, submit a report on (i) the classified job roles that should receive higher salary increases based on identified recruitment and retention challenges, (ii) the appropriate amount by which the salary of such classified job roles should be increased, and (iii) cost estimates for funding any salary increases to the Governor and the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance.

DHRM has compared the base salaries of a sample of difficult-to-fill and retain classified Commonwealth positions to benchmark base salary data representing the private and public sectors. In addition to including difficulty-to-fill and retain classified positions, DHRM

[1] See Appendix A for more details on the recently enacted amendments to the Code of Virginia regarding managing the compensation of the Commonwealth's classified workforce.

confirmed the positions were a fair representation of positions across Occupational Families and salary bands. DHRM used these representative positions to benchmark for this year's study and is using the market study findings to answer these key questions:

- How do base salaries for a sample of classified Commonwealth roles where attraction and retention struggles exist compared to private and public sector salaries?

- What are the projected base salary increases for the private and public sectors in 2025?

The market data for this year's compensation study, which includes projections for base salary increases, are gathered from multiple published compensation surveys. Market comparisons are based on an analysis of position duties and responsibilities; comparisons to market are not made solely on a job title basis.

Commonwealth Classification Structure and Position Selection Methodology

The Commonwealth's classified workforce is composed of just over 58,000 employees across 159 agencies and seven occupational families.

A Commonwealth classified role or job code title describes a broad group of occupationally related positions that represent different levels of work and career progressions. Roles are further defined by individual agencies through working titles aligned to specific position responsibilities. The current classification structure and the diverse nature of services provided by the Commonwealth's agencies leads to multiple and wide-ranging occupations represented within a single job code.

Table 1 shows how different Commonwealth agencies use various position working titles within the same job code title and how the same position working title is used within different job code titles by different agencies.

Table 1

Job Code	Job Code Title	Position Working Title	Agency	Grade
19013	Admin and Office Spec III	Assistant Accountant	ARS	3
19013	Admin and Office Spec III	Accountant	BRC	3
19031	Financial Services Spec I	Accountant Senior	DJJ	4
19031	Financial Services Spec I	ACCOUNTANT	VDH	4
19031	Financial Services Spec I	Accountant	GMU	4
19031	Financial Services Spec I	Senior Accountant	RBC	4
19031	Financial Services Spec I	Accountant	SWV	4
19032	Financial Services Spec II	Senior Accountant	GMU	5
19032	Financial Services Spec II	Accountant	DFS	5

To develop the list of job titles to include in the 2025 benchmark study, this study used Commonwealth Time to Fill data to identify Commonwealth occupations that took the longest to fill across the Commonwealth's general population of classified roles. The Commonwealth defines "Time to Fill" as the number of days it took to fill current classified positions during calendar year 2024. Among the positions benchmarked, "Time to Fill" extends to a maximum of 669 days.

The population of benchmarked roles for the 2025 study includes a diverse mix of management, professional, support, and technical positions aligned across the full range of Commonwealth salary bands covering classified roles.

Report Findings

Compensation Benchmark Study and Base Salary Increases

DHRM benchmarked the salaries of 200 occupations (i.e., a position designation representing a combination of Commonwealth employee role title and Standard Occupational Classification ("SOC") description) covering nearly 5,500 of 58,000 total employees using market data representing similarly-sized private companies and public sector organizations. DHRM is using the benchmark study to compare the following:

- Commonwealth employee salaries to market base salary data, and
- Historical base salary increases for Commonwealth classified employees to market base salary increase data.

Key findings from the study are shown in Figures 1, 2 and 3:

Figure 1

Salaries – Average Market Variance

- ***Market 25th Percentile Variance***
  - Private sector: -4%
  - Public sector: +9%
- ***Market Median Variance***
  - Private Sector: -16%
  - Public Sector: -5%
- ***Market 75th Percentile Variance***
  - Private Sector: -27%
  - Public Sector: -18%

Figure 2

Salaries – Average Market Variance

- ***Occupational Family Basis***
  - Market Median **Private Sector** Variance – Low & High
    - - 39% - Natural Resources and Applied Sciences
    - - 4% - Engineering & Technology
  - Market Median **Public Sector** Variance – Low & High
    - - 30% - Natural Resources & Applied Sciences
    - + 11% in Engineering & Technology

Figure 3 [2]

Salary Increases

- In 2024, classified Commonwealth employees received a 3% salary increase (effective June 10, 2024)
- In 2025:
  - A 3% across-the-board salary increase was delivered to classified Commonwealth employees (effective June 10, 2025)
  - Select employees also received a 1.5% one-time bonus (delivered June 16, 2025)
- Median actual salary increase budgets in the **private sector** were 4.0% in 2024 and 3.5% in 2025: median projections are 3.5% for 2026
- Average actual salary increase budgets in the **government sector** were 4.8% in 2024 and 4.2% in 2025; projections are 4.0% for 2026
- In 2021, Deloitte suggested the Commonwealth appropriate funds each year for annual salary increases to address market variances; the Commonwealth has yet to formalize and implement an annual salary increase process

[2] *Market Data Source: WorldatWork 2025-2026 Salary Budget Survey.*

Project Methodology

DHRM used the approach shown in Table 2 to identify Commonwealth occupations with recruitment and retention challenges, understand base salary program competitiveness, and analyze historical base salary increases compared to market.

Table 2

Base Salary Analysis Inputs and Outputs

Inputs	Select jobs to benchmark using: + Position recruitment and retention data + The number of incumbents in each occupation; where appropriate, benchmark occupations covering a large number of employees + Career tracks; benchmark a diverse mix of management, professional, support, and technical positions + Job levels; benchmark a diverse mix of entry, mid-level and senior level positions + Salary bands; benchmark a representative sample of roles within each salary band Identify market data sources and use: + Reputable published salary surveys covering a wide range of Commonwealth positions + Data representing comparable organizations based on sector (i.e., government/public sector entities and the private sector) and size (i.e., similar annual budgets) + National data; geographic differentials, which are used to reflect the cost of labor in specific locations, were not applied to the market data Commonwealth Role Descriptions: + The market data used represent similar positions based on primary duties and responsibilities, job level, and scope of responsibility reflected in role descriptions [3]
Outputs	Market base salary data that reflect: + Government/public sector + Private sector (i.e., the general industry) + 25^{th}, 50^{th}, and 75^{th} percentiles representing each sector Market data comparisons; Commonwealth employee salaries compared to: + Government/public sector base salary data + Private sector/general industry base salary data

[3] See Appendix B for more details on the market review methodology, including the salary surveys used to gather data for the market study.

Compensation Market Review

Base Salary Findings – Overall Variance to Market: Current

Commonwealth employee salaries that include the 3% increase awarded to classified employees in June 2025 have been compared to market data illustrating the 25th, median/50th, and 75th percentiles of private and public sector data.

Commonwealth agencies have historically applied market-based differentials to national market data to recognize differences in the local cost of labor and recruiting difficulties for select occupations in certain locations. Differentials were not applied to the market data compiled for this analysis.

Table 3 shows, on average, current Commonwealth base salaries in the benchmarked roles:

- Approximate the 25^{th} percentile of the 2025 private sector market data
- Fall between the 25^{th} and 50^{th} percentile 2025 public sector market data

Table 3

Overall Variance to Market Median					
Private Sector Market Data			**Public Sector Market Data**		
Base Salaries			**Base Salaries**		
25^{th} Percentile	***Median***	***75^{th} Percentile***	***25^{th} Percentile***	***Median***	***75^{th} Percentile***
-4%	**-16%**	**-27%**	**+9%**	**-5%**	**-18%**

The positive variance to the 25^{th} percentile public sector data show the positive impact of targeted increases to starting base salaries.

The negative variance to the market median illustrates the need for market-aligned annual salary increases and a market-aligned salary structure relative to the public and private sectors. This in turn will help the Commonwealth address the current salary compression that exists among the classified workforce.

Base Salary Findings – Overall Variance to Market: Trends

Chart 1 below shows how Commonwealth salaries, on average, have compared to market during the past three market studies.

When compared to the **general industry data**, Chart #1 shows that Commonwealth employee salaries got closer to market in 2023 compared to 2021 (i.e., the overall average variance versus market median decreased) but moved further from market in 2025 (i.e., the overall average variance versus market median increased).

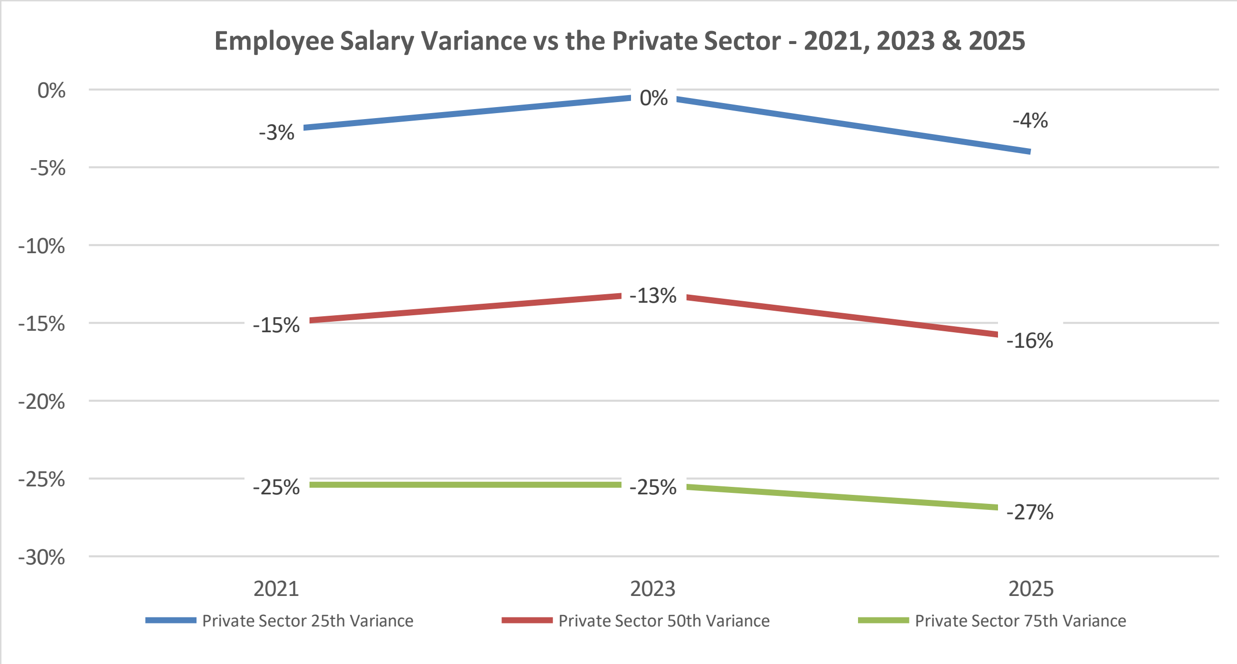


Chart 1

When compared to the **government industry data**, Chart #2 shows that Commonwealth employee salaries got closer to market in 2023 and again in 2025.

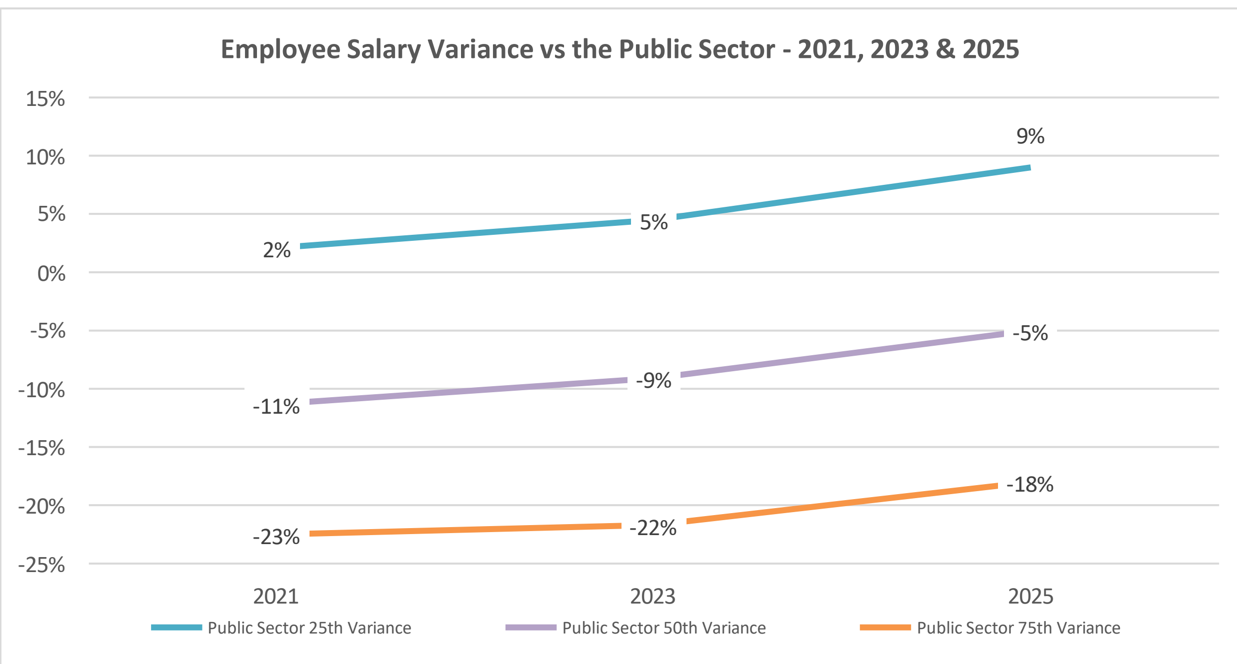


Chart 2

Base Salary Findings – Significant Variance to Market

Table 4 shows the number of positions with base salaries significantly (i.e., more than 20%) greater than or less than the market median data:

- Average employee salaries in 50% of the benchmarked roles are more than 20% **above** or more than 20% **below private sector** market median base salary
- Average employee salaries in 40% of benchmarked roles are more than 20% **above** or more than 20% **below public sector** market median base salary

Table 4

Private Sector Market Data				Public Sector Market Data			
Base Salaries				Base Salaries			
More Than 20% Above Market Median	% Of Total Benchmark Roles	More Than 20% Below Market Median	% Of Total Benchmark Roles	More Than 20% Above Market Median	% Of Total Benchmark Roles	More Than 20% Below Market Median	% Of Total Benchmark Roles
10	**5.0%**	**89**	**44.5%**	**24**	**12%**	**56**	**28%**

Base Salary Findings – Variance by Occupational Family & Career Group

Table 5 shows the how average salaries in benchmarked roles compare to market median salaries when the data is arrayed by Commonwealth occupational family. Highlights include the following:

- Average employee salaries in Administrative Services, Health & Human Services, Natural Resource & Applied Sciences, Public Safety and Trades & Operations are more than **20% below market median private sector salaries**.
- Average employee salaries in Natural Resources & Applied Sciences are more than **20% below market median public sector salaries**.
- Average employee salaries in Engineering & Technology generally align to the market median private sector salaries.

Table 5

		Market Data Variance	
		Private Sector	Public Sector
Commonwealth Occupational Family	Number of Benchmark Roles	Median Base Salary Data	Median Base Salary Data
Administrative Services	102	-24%	-14%
Educational and Media Services	34	-18%	-10%
Engineering and Technology	21	-4%	+11%
Health and Human Services	29	-21%	-12%
Natural Resources and Applied Sciences	1	-39%	-30%
Public Safety	12	-34%	-10%
Trades and Operations	1	-28%	-18%
Overall	**200**	**-16%**	**-5%**

Table 6 shows how average salaries in benchmarked roles compare to market median salaries when the data is arrayed by Commonwealth Career Group. Highlights include the following:

- Average employee salaries in Education & Support Services are the farthest below the private and public sector market medians.

- Average employee salaries in Hearing & Legal Services are the farthest above the private and public sector market medians.
- Average employee salaries in Administration & Office Support, Information Technology Specialist, and Training and Instruction approximate the market median private sector salaries.
- Average employee salaries in Engineering Technology, Pharmaceutical Services and Physician Services are within 5% of the market median public sector salaries.

Table 6

			Market Data Variance	
			Private Sector	Public Sector
Commonwealth Career Group	*Sample Working Title*	*Number of Benchmark Titles*	*Median Base Salary Data*	*Median Base Salary Data*
Administration and Office Support	AOS III-HR Assistant	48	-27%	-19%
Architecture and Engineering Services	Engineer Senior Roadway Design	6	1%	21%
Counseling Services	72023aCasework Cnslr	9	-23%	-12%
Direct Services	42401 Dental Asst	11	-22%	-14%
Education and Support Services	HEALTH EDUCATOR	6	-47%	-41%
Emergency Services	Dispatcher Supervisor	5	-35%	-25%
Engineering Technology	Inspector Sr Const	6	-10%	2%
General Administration	Office Manager/Admin Asst	22	-24%	-15%
Health Care Compliance	Risk Manager	2	-29%	-19%
Hearing and Legal Services	Adjudication Specialist	1	8%	23%
Human Resources Services	HR Local Generalist	5	-20%	-9%
Information Technology Specialists	Programmer Analyst	9	-2%	10%
Law Enforcement	SCOP Officer I | Captain	6	-30%[4]	6%
Life and Physical Science	Scientist	1	-39%	-30%
Nursing/Physician Assistance Services	42143 Reg Nurse Supv Sr	2	-14%	-9%
Pharmaceutical Services	Pharmacist	1	-11%	2%
Physician Services	42213 Physician	4	-15%	-5%
Procurement Services	Capital Procurement Manager	1	-46%	-39%
Program Administration	Program Administrator	25	-19%	-7%
Public Relations and Marketing	Communications Coordinator	8	-31%	-28%
Public Safety and Compliance [5]	Health Compliance Officer Appr	1	-36%	-31%
Training and Instruction	33064aBus Software App Tchr	20	-3%	7%
Transportation Operations	Operator Maintenance	1	-28%	-18%
Overall		**200**	**-16%**	**-5%**

[4] There is private sector market data for one of the six law enforcement job titles in the study.
[5] Commonwealth Public Safety roles are eligible to receive additional pay and/or differential rates to bridge the gap to market.

Salary Increase Guidelines

Historical Background

DHRM compared the Commonwealth's general base salary increases to historical base salary increase market data since 1995. [6] Table 7 shows both cumulative and an average salary increase by the Commonwealth, Private Industry and the Public Sector. Chart 4, which shows annual salary increases for the Commonwealth and median (or average when median data is not available) annual salary increases on a general industry basis and for the government industry since 1995, shows that annual Commonwealth base salary increases have generally been irregular since the mid-1990s. This includes no general increases or pay structure changes for Commonwealth employees in 2001, 2002, 2008, 2009, 2010, 2012, 2014, 2018, and 2020. The 2011 increase was an offset for the newly legislated 5% employee required VRS contribution. There was no additional increase for 2011.

	Commonwealth of Virginia[1]	Private Industry	Public Sector
Cumulative Salary Increases: 1995 - 2025	83.00%	109.40%	107.35%
Average Salary Increases: 1995 - 2025	2.68%	3.53%	3.46%

Table 7

[1] Does not include targeted or agency specific increases.

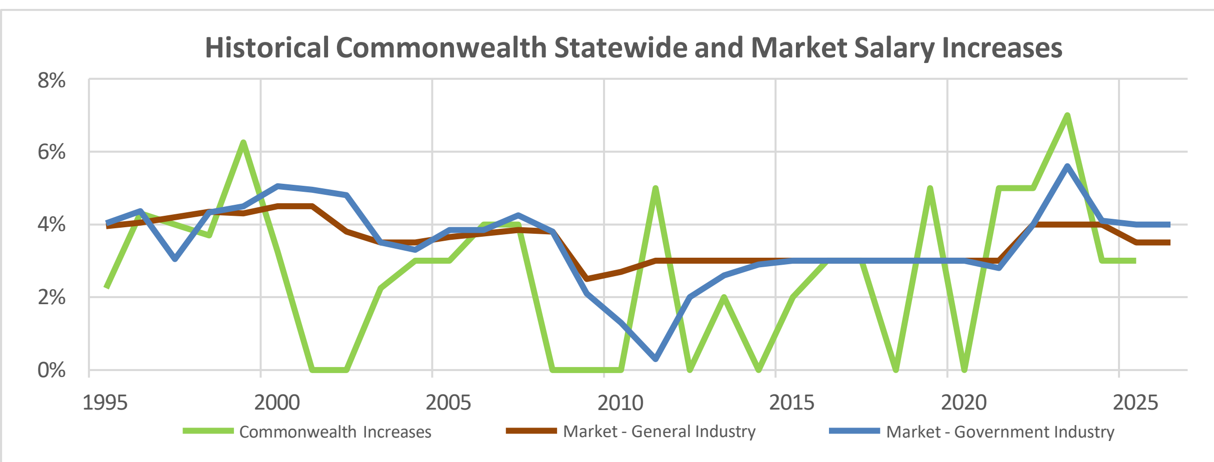


Chart 4

[6] Source: Historical WorldatWork Salary Budget Surveys.

2026 Projections

Table 8 shows 2026 projections for salary increase budgets in Private and Public Sectors. [7]

Estimated Commonwealth Classified Average Statewide 2026 Salary Increase	Projected Private Industry Average 2026 Salary Increase	Projected Public Sector Average 2026 Salary Increase
Not Available	3.5%	4%

Table 8

Chart 6 shows 2026 projections for salary increase budgets in various industries. [7]

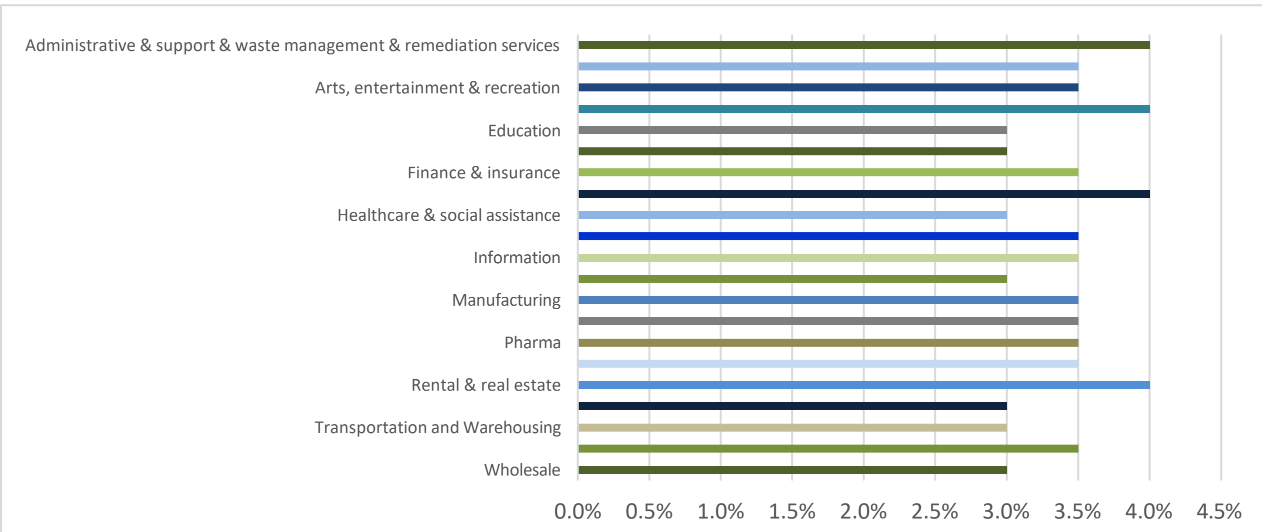


Chart 6

[7] Source: WorldatWork Salary Budget Survey 2025-2026 (July 2025).

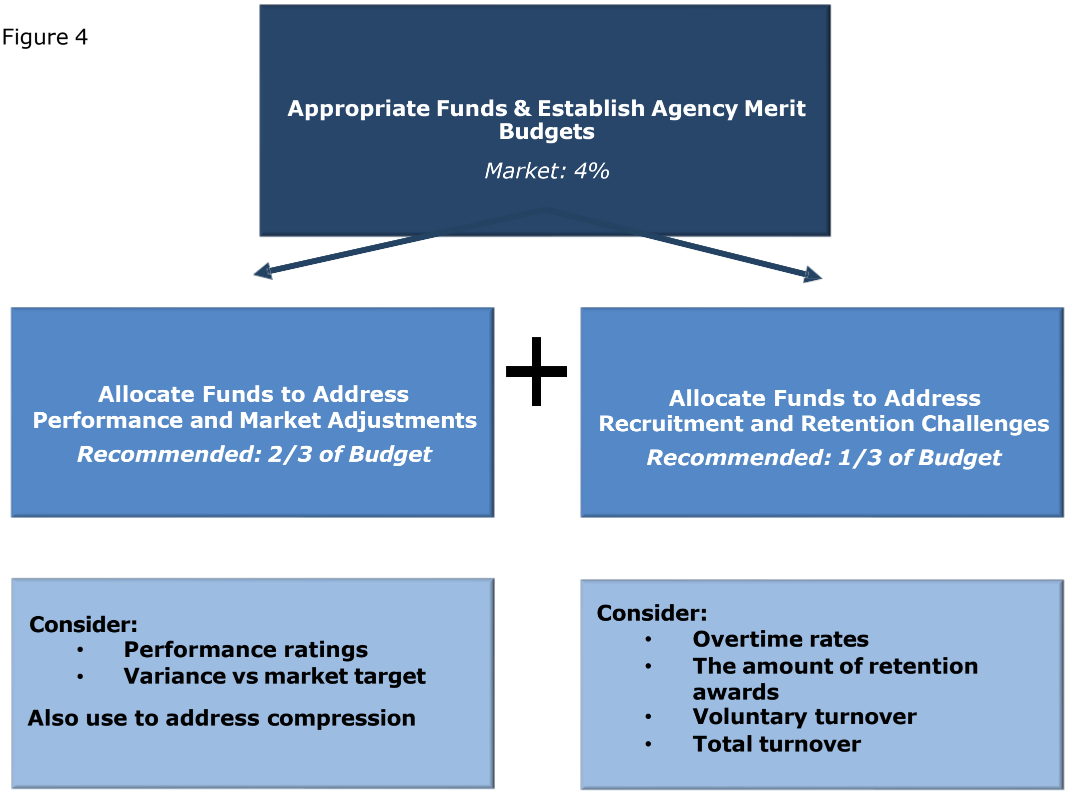
Salary Increase Guidelines – Considerations for Change

Annual Process Update Options

In 2020, Deloitte showed how the Commonwealth could implement an annual base salary increase process like the high-level example shown in Figure 4 to address market variances. This process, which still aligns with leading market practice today, focuses on the following:

1. Appropriate funds each year for annual base salary increases, which is commonly done in the private sector.
2. Use market data for merit budgets to determine an annual general Commonwealth merit budget. Merit budgets that trail market rates have the potential to perpetuate the Commonwealth base salary lag relative to market.
3. Allocate budgets to each agency for annual base salary increases.
4. Instruct agencies to award increases based on performance, market position and recruitment and retention considerations. The governing authorities of the State Institutions of Higher Education and Independent agencies have an approved performance-based provision in the Acts of Assembly for non-covered staff for that may be used as a model for classified employees.
5. Revise the Commonwealth Job Architecture and Pay Structure to better align with private and public sector market. Once established, adjust the salary structure with one-half of the authority of the statewide increase or on different cycle to begin reducing compression and incorporate in the ongoing compensation philosophy.

Figure 4



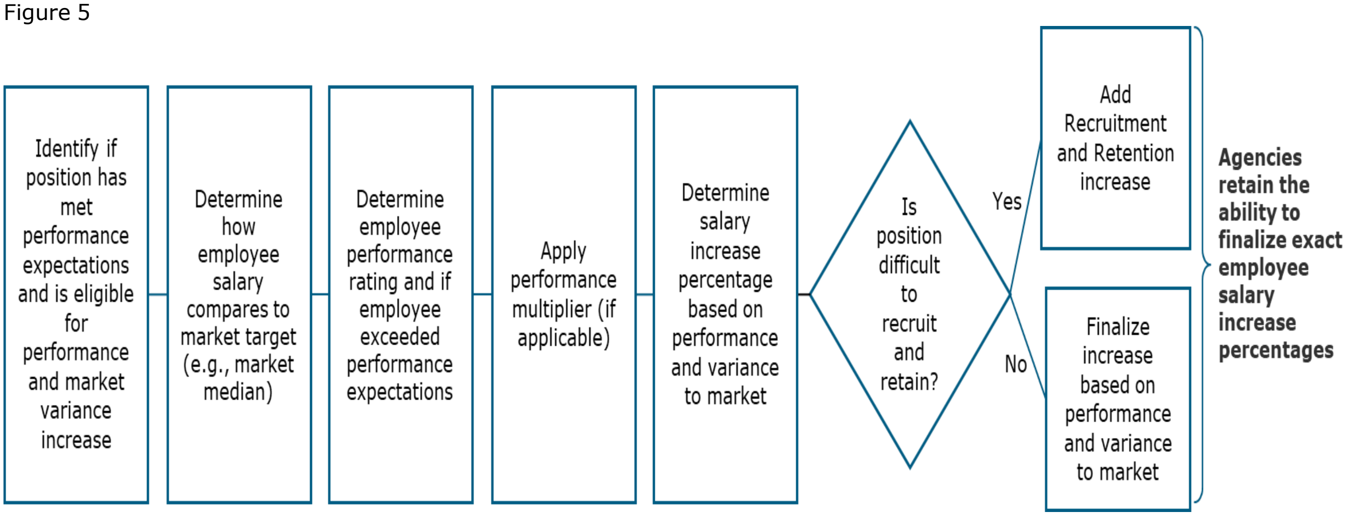
See Appendix C for base salary increase market data details.

At the time this report was delivered, the Commonwealth continues to use a biennial base salary increase budget development process.

Agency Recommendations

The agency recommendations communicated in previous studies remain consistent with leading market practice for salary increases. Under this approach, individual Commonwealth agencies have the ability to make base salary increase decisions on an individual employee basis that take the market into consideration. Under the proposed recommendations shown in Figure 5, agencies will be instructed to review employee performance, compare employee pay to market, and consider unique recruitment and retention needs to award base salary increases.

Figure 5



An efficient and effective comparison of employee salary to market, however, requires a market-aligned salary structure and the standardization of classified employee working titles.

Illustrative Example

Table 7 shows how the base salary increase guidelines would work. In this example:

1. An employee is compensated below the market median base salary and meets all performance expectations.
2. The employee received the second highest performance rating.
3. The employee's occupation has experienced recruitment and retention challenges.

1

Table 7 **Employee Salary versus Market Median Merit Range**	
Above	1.0% - 1.95%
Below	**2%**

2

Performance Multiplier	
Performance Rating	**Multiplier**
Highest Rating	1.15x
2nd Highest Rating	**1.05x**
3rd Highest Rating	1.00x
4th Highest Rating	0.95x
Lowest Rating	0.85x

3

Recruitment and Retention Challenge Merit Addition	
No	0%
Yes	**1%**

Proposed Salary Increase: = (2% x 1.05) + 1% = 3.1%

The Commonwealth has yet to implement an annual base salary increase process for agencies like the example shown above.

Salary Increase Process – Additional Considerations for Change

In addition to market base salary data for a sample of Commonwealth classified job titles and market base salary increase data, this report contains recommendations for annual base salary increase processes changes using market base salary and base salary increase data. It also notes how that process can be enhanced by addressing where the design of other compensation structures and job classification systems result in workforce challenges.

To keep pace with market competitors, annual employee increases should be consistent and prioritized. DHRM recommends that appropriated employee adjustments be included as part of the biennial budget development process based on reported market movement. This will allow the Commonwealth to move to a sustainable and steady methodology to address compression, recruitment, and retention risks.

When considering the wide range of labor market areas and positions covering the Commonwealth workforce, DHRM further recommends the Commonwealth adopt a modern and market-based approach to base salary adjustments. DHRM also recommends agencies maintain the ability to award variable increases based on established metrics such as a performance multiplier component and a market variance component (see examples shown above). This will give each agency discretion to address unique workforce challenges while protecting the stability and integrity of overall compensation strategies and structures. This will support the financial viability of the Commonwealth's compensation approach and maximize the workforce impact.

In addition to a market-aligned base salary budgeting and increase processes, DHRM has determined the Commonwealth needs to redesign its more than 25-year-old system of base salary bands. In 2024, DHRM reviewed the structures other state governments and similarly-sized organizations in the private sector use to manage salaries and noted how the Commonwealth falls short of its talent goals as a result of its base salary management challenges. The Commonwealth's current system of base salary bands hinders many talent recruitment activities and results in various employee retention challenges that DHRM would like to address with a market-aligned base salary management structure. DHRM is planning to further explore how the Commonwealth could update its base salary management system to address this workforce challenge.

DHRM is also planning to review and identify where the redesign of its job classification system can further enhance the market alignment of the compensation program covering classified positions. At present, the manner in which Commonwealth jobs are titled hinders the Commonwealth's ability to research what the market pays classified positions, which ultimately impacts the Commonwealth's ability to attract and retain the key talent the Commonwealth needs to fulfill agency and department missions. A standardized and market-aligned system of job titles will also help the Commonwealth understand where its talent and workforce needs are greatest. These insights are invaluable for strategic and informed workforce decisions about the Commonwealth's workforce.

All three areas – base salary budgeting, base salary structure management, and job structure management – play key roles in shaping the work of classified employees at the Commonwealth. These processes need to be reviewed and redesigned, where appropriate, to make sure the Commonwealth government is an employer of choice that can compete with large employers in the private sector that continue to grow and expand their workforces.

Appendix A: Enacted Amendments

The 2019 Session of the General Assembly of Virginia enacted amendments to the Code of Virginia clarifying the goals and processes of managing the compensation of the Commonwealth's classified workforce.[8]

Be it enacted by the General Assembly of Virginia:

1. That § 2.2-1202 of the Code of Virginia is amended and reenacted as follows:

§ 2.2-1202. Review of employee compensation; biennial report on employee recruitment and retention.

A. It is a goal of the Commonwealth to compensate its employees at a rate comparable to the rate of compensation for employees in the private sector of the Commonwealth in similar occupations, and consistently recruit and retain the most suitably qualified employees. To achieve this goal, the Director of the Department (of Human Resource Management) shall annually review (i) recruitment and retention trends, (ii) the functions performed by each classified job role, (iii) the number of employees and distribution of classified job roles across state agencies, and (iv) how the salaries for each classified job role compare to salaries paid by other employers in the Commonwealth and, as appropriate, to comparable salaries at a regional or national level.

B. The Director of the Department shall, on or before September 1 of each odd-numbered year, submit a report on (i) the classified job roles that should receive higher salary increases based on identified recruitment and retention challenges, (ii) the appropriate amount by which the salary of such classified job roles should be increased, and (iii) cost estimates for funding any salary increases to the Governor and the Chairmen of the House Committee on Appropriations and the Senate Committee on Finance.

[8] Source: 2019 Session of the General Assembly of Virginia: Chapter 424. (2019, March 18). Virginia's Legislative Information System. https://lis.virginia.gov/cgi-bin/legp604.exe?191+ful+CHAP0424&191+ful+CHAP0424

Appendix B: Market Review Methodology

- DHRM leadership identified and confirmed market benchmark job matches for 200 occupations using published compensation surveys and publicly available information in the Commonwealth of Virginia job descriptions that documents the following:
  - Job content,
  - Overall level of responsibility,
  - Supervisory responsibilities,
  - Educational requirements, and
  - Years of experience.
- The Commonwealth's employee headcount and base salary data compared to the market data are effective as of March 31, 2025. The employee salaries compared to the market data include the 3% increase issued to classified Commonwealth employees effective June 10, 2025.
- The survey data were aged from the effective date of each survey to October 1, 2025, at an annual rate of 4% for the public sector data and 4% for the private sector data. [9] The 4% increases represent the 2025 projected median merit increase in the public and private sectors. The effective dates of the published surveys vary and are all in the past (e.g., March, April 2025) and aging the survey data forward brings the data to a current and common point in time.
- With the exclusion of the U.S. Bureau of Labor Statistics ("BLS") data, the market data reflect similarly-sized organizations with annual budgets greater than $50 billion.
- The U.S. Bureau of Labor Statistics ("BLS") data represent various federal, state, and local government organizations. The data does not represent a specific organization size based on annual budget.
- Published Salary Surveys used include:
  - Economic Research Institute (ERI) Salary Assessor
  - Empsight International "The Works" Survey
  - Pay Scale Report
  - U.S. Bureau of Labor Statistics Survey
  - Mercer Surveys:
    - Healthcare Individual Contributors Report
    - Healthcare Middle Management
    - Corporate Services and Human Resources
    - Logistics and Supply Chain
    - Sales, Marketing, & Communications
  - Towers Watson Surveys:
    - Accounting & Finance Compensation Survey
    - Engineering, Design, and Technical Specialty Compensation Survey

[9] Source: WorldatWork 2024-2025 Salary Budget Survey.

General Industry Sales, Marketing and Communications
Human Resources Compensation
Information Technology Compensation

Appendix C: Salary Increase Market Data

The following shows current market practice information on annual base salary increases in the public and private sectors DHRM is using to develop a base salary increase budget for classified positions.

The data represent calendar year 2026 base salary increase projections for the government/public sector (Table 8) and the general industry/private sector (Table 9). The data are specific to general/cost of living adjustments ("COLA"), merit increases, and total salary increases. [10]

Table 8. Public Sector: 2026 Projections

	Survey Source
Increase Type	**WorldatWork [10]**
General Increases/COLA	N.R.
Merit Increases	N.R.
Total Increases	4.0%

Table 9. Private Sector: 2026 Projections

	Survey Source
Increase Type	**WorldatWork [10]**
General Increases/COLA	3.0%
Merit Increases	3.0%
Total Increases	3.5%

[10] Source: WorldatWork 2025-2026 Salary Budget Survey. All data reflect 2026 projections and medians and are based on data samples where zeros are excluded. The data are not scoped based on number of organization employees or organization annual budget/revenue. Salary increase data on these bases are not reported in the market surveys.

As part of the 2025 Appropriations Act, the General Assembly directed the Department of Human Resource Management (DHRM), with support from the Virginia Retirement System (VRS), to include in DHRM's biennial report on employee compensation, recruitment and retention an evaluation of total compensation for law-enforcement officers covered under the Virginia Law Officers' Retirement System (VaLORS). HB 1600 requires:

> K.1. As a part of the Department's biennial report on employee compensation, recruitment and retention pursuant to § 2.2-1202, *Code of Virginia*, the Director of the Department of Human Resource Management, with support from the Virginia Retirement System (VRS), shall include an evaluation of total compensation, including retirement benefits for law enforcement officers employed by the Commonwealth and covered under the VaLORS retirement system. The analysis shall consider (i) current levels of compensation and benefits, specifically access to hazardous duty plans relative to Virginia State Police and local police officers; (ii) recruitment and retention issues faced by these Departments caused by any differences in compensation and benefits identified in (i); and (iii) recommendations and the associated fiscal impact to change compensation and benefits.

Background – Law Enforcement Retirement Benefits

In general, most law-enforcement officers in the Commonwealth are eligible for enhanced retirement benefits as compared to other government employees. However, unlike many other plans with differential benefits, the required employee contribution to the retirement plan is the same. Law-enforcement officers employed by the Department of State Police are covered by the State Police Officers' Retirement System (SPORS) (Va. Code § 51.1-200 et seq.). Many other law-enforcement officers and correctional officers employed by the Commonwealth are covered by VaLORS (Va. Code § 51.1-211 et seq.). Local governments also have the option under Va. Code § 51.1-138 to provide enhanced hazardous duty

VaLORS Members

Va. Code § 51.1-212 defines an employee covered by VaLORS. Not all members of VaLORS are considered law-enforcement officers.

The following VaLORS members are law-enforcement: (i) members of the Capitol Police Force, (ii) campus police officers, (iii) conservation police officers in the Department of Wildlife Resources, (iv) special agents of the Virginia Alcoholic Beverage Control Authority, (v) law-enforcement officer employed by the Virginia Marine Resources Commission, and (vi) conservation officers of the Department of Conservation and Recreation.

The following members of VaLORS are not law-enforcement and are not contemplated in this report: (i) correctional officers, including correctional officers employed at a juvenile correction facility, (ii) parole officers, (iii) commercial vehicle enforcement officers employed by the Department of State Police, and (iv) full-time firefighters employed by the Department of Military Affairs.

Table 1 on page 4 shows how many VaLORS members are law-enforcement and how many are non-law-enforcement.

benefits to their law-enforcement officers and certain other employees that are similar to those offered to state police officers, and such enhanced hazardous duty benefits must be provided to deputy sheriffs. State employers are not eligible to elect enhanced benefits under § 51.1-138 in Article 5 of Chapter 1 of Title 51.1 of the *Code of Virginia*.

Numerous reports to the General Assembly as well as the October 2023 Joint Legislative Audit and Review Commission report, Eligibility of Public Safety Occupations for Enhanced Retirement Benefits,[1] have explained that enhanced retirement benefits, including early retirement, are required for law-enforcement officers (i) to compensate for the physical and mental stresses associated with their duties, which often necessitate that such officers have a shorter working life than other employees and (ii) to ensure that law-enforcement officers who remain on the job possess the physical and mental capabilities to perform their work and protect themselves and members of the public from injury. For example, a 1973 report noted that "a relatively early retirement is necessary to protect citizens from officers who no longer possess the physical or mental attributes necessary to perform these complex and high stress tasks and to protect these older officers from possible serious injury due to decreased physiologic and psychologic capabilities."[2] Also, a 2011 JLARC report reiterated that allowing law-enforcement officers to retire early reduces the risk of injury to the officer while simultaneously reducing the potential liability for claims that could result from continued employment.[3]

Law-enforcement officers are typically eligible for unreduced retirement benefits earlier than general employees (both at an earlier age and with fewer years of service requirements). They also receive greater benefit payments for the same amount of service. Although eligibility is slightly different between VaLORS, SPORS, and the enhanced benefits for local employees under § 51.1-138 of the *Code of Virginia*, in general, law-enforcement officers receive three main categories of enhanced retirement benefits:

(i) early age and service retirement provisions
(ii) a higher retirement multiplier used to calculate retirement benefits
(iii) and generally, for employees who are not covered by VaLORS, a hazardous duty supplement.

Enhanced hazardous benefits may vary based on the officer's age and employer. Not all law-enforcement officers are entitled to each category of benefits.

Creation of VaLORS

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[1] https://jlarc.virginia.gov/pdfs/reports/Rpt578.pdf, or Rpt578.pdf

[2] HD5 (1973) - Report of the Virginia Advisory Legislative Council, State Police Compensation and Retirement

[3] RD48 (Published 2012) – Joint Legislative Audit and Review Commission, Review of Retirement Benefits for State and Local Government Employees - December 2011 (virginia.gov): The purpose of providing enhanced retirement benefits to employees covered by the SPORS and VaLORS plans is to allow those employees to retire earlier due to the risks they encounter and duties they perform on behalf of the State.

After the creation of SPORS for state police officers in 1950, local governments participating in VRS were provided the option of extending SPORS-like benefits to their law-enforcement officers since 1970.[4] VaLORS was created in 1999 to provide enhanced retirement benefits for certain law-enforcement officers employed by various agencies of the Commonwealth.[5] In 1999, VaLORS covered:

- Members of the Capitol Police Force.
- Campus police officers.
- Game wardens (changed to conservation police officers in 2007) in the Department of Game and Inland Fisheries (changed to Department of Wildlife Resources in 2020).
- Special agents of the Department of Alcoholic Beverage Control (changed to the Virginia Alcoholic Beverage Control Authority in 2015).
- Law-enforcement officers employed by the Virginia Marine Resources Commission.
- Correctional officers (as defined in § 53.1-1) and correctional officers at most juvenile correction facilities.
- Parole officers appointed by the Department of Corrections.
- Commercial vehicle enforcement officers employed by the Department of State Police.

Effective July 1, 2025, full-time firefighters employed by the Department of Military Affairs and conservation officers with the Department of Conservation and Recreation became covered by VaLORS.[6]

When VaLORS was created in 1999, the benefits provided under VaLORS mirrored the benefits provided under SPORS. Both plans provided a 1.7% multiplier, and the members of both plans were eligible for the hazardous duty supplement. In 2001, the General Assembly made the decision to provide different benefits to SPORS and VaLORS members at the same employee contribution rate. Specifically, the benefits under VaLORS were amended to increase the retirement multiplier for its members to 2% in lieu of receiving the hazardous duty multiplier.[7] Members employed in a VaLORS-covered position on June 30, 2001, and on July 1, 2001, could elect the 2% multiplier or to retain the 1.7% multiplier and their eligibility for the hazardous duty supplement, provided they remained continuously employed in a VaLORS-covered position until retirement. All members who joined VaLORS on or after July 1, 2001 receive the 2% multiplier and are ineligible for the hazardous duty supplement.

As described above, VaLORS covers certain public safety personnel who are not law-enforcement officers. However, the budget language directed that this report examine changes only for law-

[4] 1970 Va. Acts ch. 476.
[5] 1999 Va. Acts ch. 595.
[6] 2024 Va. Acts ch. 417; 2025 Va. Acts ch. 442.
[7] 2001 Va. Acts ch. 804. The retirement multiplier for SPORS was ultimately increased to 1.85% for retirements on or after July 1, 2007. 2007 Va. Acts ch. 819.

enforcement officers.[8] The table below shows the number of law-enforcement officers eligible for VaLORS compared to other public safety personnel covered by VaLORS as of June 30, 2025 (including employees who were newly eligible for VaLORS on July 1, 2025).

Table 1. Law-enforcement Officers and Non-law-enforcement Officers Eligible for VaLORS, as of June 30, 2025

Capitol police officer	71
Campus police officer	595
DWR conservation police officer	167
DCR conservation officer	80
ABC special agent	99
VMRC law-enforcement officers	60
Total Law Enforcement	1072
Non-Law Enforcement	6393
Total VaLORS Members	7465[9]

VaLORS is a pooled retirement plan, meaning that all employers with employees covered under the plan pay the same contribution rate. If potential legislation were to provide a benefit enhancement for some employees covered under VaLORS and not others, the impact would likely affect employer contribution rates for all VaLORS employers regardless of their employee census. This impact will be discussed in more detail later in the report.

Enhanced Retirement Benefits for Law-Enforcement Officers

In general, the three main categories of enhanced retirement benefits received by law-enforcement officers are (i) early age and service retirement provisions, (ii) a higher retirement multiplier used to calculate retirement benefits, and (iii) a hazardous duty supplement. Enhanced benefits may vary based on the law-enforcement officer's employer. Further, the hazardous duty supplement is generally not available to new hires and other members of VaLORS. Not all law-enforcement officers are entitled to each category of benefits. Additionally, not all public safety personnel are considered law-enforcement officers. The benefits under SPORS are set forth in Chapter 2 (Va.

[8] In accordance with the definition of law-enforcement officer in Va. Code § 9.1-101, the following members of VaLORS are considered law-enforcement officers for purposes of this report: (i) Capitol police officers, (ii) campus police officers, (iii) Department of Wildlife Resources conservation police officers, (iv) Virginia Alcoholic Beverage Control Authority special agents, (v) Virginia Marine Resources Commission law-enforcement officers, and (vi) Department of Conservation and Recreation conservation officers. The remaining members of VaLORS do not fall under the definition of law-enforcement officer: (i) Department of Corrections correctional officers, including juvenile correctional officers, (ii) Department of Corrections parole officers, (iii) Department of State Police commercial vehicle enforcement officers, and (iv) Department of Military Affairs full-time firefighters.

[9] Of the total 6,393 non-law-enforcement VaLORS members, 6,370 are Department of Corrections (correctional officers, juvenile corrections officers, and parole officers), 21 are firefighters, and two are State Police vehicle enforcement officers.

Code § 51.1-200 et seq.). Chapter 2.1 of Title 51.1 of the *Code of Virginia* (§§ 51.1-211 et seq.) governs membership in VaLORS. Localities may opt to provide their law-enforcement officers with SPORS-like benefits pursuant to Va. Code § 51.1-138.[10] The table below summarizes the retirement benefits available to law-enforcement officers.

Table 2. Retirement Benefits

	Law-Enforcement Officers Enhanced Retirement Benefits		
	SPORS	**VaLORS**	**Political Subdivisions with Enhanced Benefits**
Retirement Age & Years of Service (unreduced benefit)	Age 50 & 25 years of service OR Age 60 & 5 years of service	Age 50 & 25 years of service OR Age 60 & 5 years of service	Age 50 & 25 years of service OR Age 60 & 5 years of service
Retirement Multiplier	1.85%	2.0%[11]	1.7% or 1.85%[12]
Hazardous Duty Supplement (with 20 Years of Service)	Yes	No[13]	Yes

As of June 30, 2025, there were 222 political subdivisions that had elected hazardous duty benefits for law-enforcement officers. Of those, 100 elected to provide the 1.7% multiplier and 122 elected to provide the 1.85% multiplier.

Retirement Age and Service Requirements

[10] With two exceptions, Va. Code § 51.1-138(B) requires a local employer providing enhanced benefits to law-enforcement officers to provide benefits equivalent to those available under SPORS. The two exceptions are (i) the provision for disability retirement for members of SPORS as a result of felonious conduct in Va. Code § 51.1-209 does not apply to a local employer and (ii) a local employer can choose between one of the two retirement multipliers set forth in Va. Code § 51.1-206(A), either using 1.7% of average final compensation or 1.85% of average final compensation to calculate retirement benefits.

[11] The 2.0% retirement multiplier applies to members who join or rejoin VaLORS after July 1, 2001. Members employed in a VaLORS position on June 30, 2001, and on July 1, 2001, could elect the 2.0% retirement multiplier or to retain the 1.7% retirement multiplier and their eligibility for the hazardous duty supplement, provided that they remained continuously employed in a VaLORS position until retirement. Va. Code § 51.1-217.

[12] A local employer that is providing enhanced benefits to its law-enforcement officers can choose to provide a retirement multiplier of either 1.7% or 1.85% pursuant to Va. Code § 51.1-206, so the retirement multiplier for some local law-enforcement officers may be equal to, but not exceed, the retirement multiplier for Plan 1 members.

[13] Members who join or rejoin VaLORS after July 1, 2001, are ineligible for the hazardous duty supplement. Members employed in a VaLORS position on June 30, 2001, and on July 1, 2001, could elect to retain their eligibility for the hazardous duty supplement and the 1.7% retirement multiplier instead of the 2.0% retirement multiplier, provided that they remained continuously employed in a VaLORS position until retirement. Va. Code § 51.1-217.

The normal retirement age under VaLORS and SPORS and for local law-enforcement officers whose employers opted to provide enhanced benefits is age 60.[14] A member of these plans becomes eligible for an unreduced retirement benefit at age 50 with at least 25 years of service credit or age 60 with at least five years of service credit.[15] There is no mandatory retirement age for members of VaLORS. Under SPORS, there is a mandatory retirement age of 70.[16] This mandatory retirement age also applies to local law-enforcement officers receiving SPORS-like benefits.[17]

Retirement Multiplier

VaLORS, SPORS, and local law-enforcement officers whose employers have opted to provide enhanced benefits are provided with a higher retirement multiplier than the one used to calculate the retirement benefit for most other VRS members. This higher multiplier is designed to allow law-enforcement officers to retire earlier as it provides higher income replacement for each year of service credit earned by a law-enforcement officer. The retirement multiplier for VaLORS members is 2.0%.[18] For SPORS, the retirement multiplier is 1.85%.[19] A local employer providing enhanced benefits to its law-enforcement officers can choose to provide a retirement multiplier of either 1.7% or 1.85%. So, the retirement multiplier for some local law-enforcement officers may be equal to but not exceed the retirement multiplier for Plan 1 members. Currently about half of the political subdivisions with law-enforcement officers have elected the 1.85% multiplier.

As of June 30, 2025, there are 243 active political subdivisions that have elected enhanced benefits under § 51.1-138 of the *Code of Virginia*. Of those, 19 are jails, jail authorities, or a security agency that do not have deputy sheriffs or police officers. The remaining 224 political subdivisions break down as follows:

- 1 jail authority with police officers. The jail authority has not elected the 1.85% multiplier.
- 1 interstate park commission with police officers. The commission has not elected the 1.85% multiplier.
- 2 airports, each with police officers. Both have elected the 1.85% multiplier.
- 37 cities provide enhanced benefits. All have deputy sheriffs, police officers, or both. Of those, 24 have elected the 1.85% multiplier and 13 have not.

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[14] Va. Code §§ 51.1-201, 51.1-212.

[15] Va. Code §§ 51.1-206, 51.1-216.

[16] Va. Code § 51.1-205. This section also allows an employer (either the Department of State Police or a local employer) to establish an earlier mandatory retirement age upon a determination that age is a bona fide occupational qualification or that the employee is incapable of performing their duties in a safe and efficient manner. By way of comparison, most federal law-enforcement personnel are subject to a mandatory retirement age of 57. 5 U.S.C. §§ 8335, 8425.

[17] 1980-81 Op. Atty Gen. Va. 327 ("If a locality has elected to give its police officers the benefits provided by the State Police Officers Retirement System, then it must also retire its police officers at the times provided" for members of SPORS).

[18] Va. Code § 51.1-217. Certain members of VaLORS are subject to a 1.7% retirement multiplier. These members, however, are also eligible for a hazardous duty supplement while VaLORS members who are subject to the 2.0% multiplier are not eligible for a hazardous duty supplement.

[19] Va. Code § 51.1-206.

- 90 towns providing enhanced benefits. All have police officers (none have deputy sheriffs). Of those, 42 have elected the 1.85% multiplier and 48 have not.
- 93 counties providing enhanced benefits. All have deputy sheriffs, police officers, or both. Of those, 50 have elected the 1.85% multiplier and 43 have not.

Hazardous Duty Supplement

Some members with enhanced benefits receive the hazardous duty supplement if they retire with at least 20 years of hazardous duty service credit. Members who defer retirement are also eligible for the supplement as long as they do not return to a position that is not eligible for the supplement before ultimately retiring. The supplement is intended to provide additional income to Virginia SPORS, eligible VaLORS, and local law-enforcement officers who retire before they are eligible to receive Social Security benefits. For example, an eligible member who retires at age 50 will receive the supplement as a bridge until reaching the statutory Social Security age. Until July 1, 2001, all SPORS, VaLORS, and eligible political subdivision employees received the supplement until age 65. In 2001, the General Assembly changed the age for SPORS to "retirement age, as such term is defined under the Social Security Act".[20] The supplement eligibility age change for SPORS also served to increase the eligibility age for local law-enforcement officers whose employers have opted to provide enhanced benefits. The supplement eligibility age was not changed for VaLORS members, so it remains at age 65.

The current supplement is $17,856 annually, or $1,488 monthly, effective July 1, 2025. In accordance with § 51.1-206 and § 51.1-216 of the *Code of Virginia*, the supplement is reviewed every two years and adjusted actuarially based on increases in Social Security benefits in the interim.

Research on Enhanced Retirement Benefits

When considering other public retirement plans, it is noteworthy that plans for specific categories of employees, such as law-enforcement officers, require members to pay a higher employee contribution rate than general employees[21]. Several recent reports touch on enhanced retirement benefits in Virginia. As noted previously, JLARC completed its review of enhanced retirement benefits in October 2023. VRS and the Department of Criminal Justice Services published a report in November 2023 detailing options for allowing retired law-enforcement officers to return to work full-time with a Virginia public employer while continuing to receive retirement benefits. However, neither of these reports included assessments of the impacts of different levels of retirement benefits. JLARC staff did discuss recruitment and retention during the presentation of its report.[22] JLARC's interviews suggested anecdotal evidence that enhanced benefits could help with

[20] 2001 Va. Acts ch. 804.

[21] National Association of State Retirement Administrators, 2023 Public Safety Plan Dataset, https://www.nasra.org/publicsafetydata

[22] October 2023 JLARC meeting agenda, https://jlarc.virginia.gov/pdfs/presentations/Rpt578Pres-2-1.pdf

recruitment and retention. Public safety staff indicated difficulty competing with positions eligible for enhanced benefits. JLARC recommended several options for addressing these presumed challenges, including increasing salaries, providing signing and retention bonuses, providing larger health insurance premium subsidies, as well as providing additional mental health supports such as additional paid leave, downtime after traumatic events, and mental health supports immediately after traumatic events.[23] Additional discussion of some of those options follows in Policy Options.

Total Compensation for VaLORS Members

The mandate requires this report to assess the total compensation for law-enforcement officers covered by VaLORS as compared to members covered by SPORS or political subdivision members covered under § 51.1-138 of the *Code of Virginia*. Addressing total compensation includes an analysis of whether VaLORS members should be eligible for the hazardous duty supplement. In 2001, the General Assembly changed VaLORS benefits from a 1.7% multiplier and eligibility for the hazardous duty supplement to a 2.0% multiplier without eligibility for the supplement.

To illustrate the value of the various enhanced benefits, the example below compares benefit levels at retirement for someone who retired at age 55 with 25 years of service under the enhanced hazardous duty benefit formulas. The benefits are also shown at Social Security normal retirement age to provide a comparison of benefits once the temporary hazardous duty supplement has ended. Retirement benefits are increased with an assumed 2.5% annual COLA. Note that this is only an example and results will differ based on age at retirement, service, and salary levels. The value of health insurance, leave, and other benefits is not included since the value will effectively be the same for state employees and varies greatly by individual political subdivisions.

[23] JLARC, 20223 presentation Eligibility of Public Safety Occupations for Enhanced Retirement Benefits, https://jlarc.virginia.gov/pdfs/presentations/Rpt578Pres-2-1.pdf

Table 3. Benefit Level Comparisons

Retirement Age 55 with 25 Years of Service and Average Final Compensation of $75,000

Benefit	Benefit at Retirement Date - Age 55			Estimated Benefit at Age 67			Present Value
	Retirement Benefit	HD Supplement	Total Benefit	Retirement Benefit	HD Supplement	Total Benefit	
2% Multiplier - No supplement	$3,125.00	$0.00	$3,125.00	$4,202.78	$0.00	$4,202.78	$608,800
1.7% Multiplier - With Supplement	$2,656.25	$1,488.00	$4,144.25	$3,572.36	$0.00	$3,572.36	$682,900
1.85% Multiplier - With Supplement	$2,890.63	$1,488.00	$4,378.63	$3,887.57	$0.00	$3,887.57	$728,500

Retirement Age 55 with 25 Years of Service and Average Final Compensation of $125,000

Benefit	Benefit at Retirement Date - Age 55			Estimated Benefit at Age 67			Present Value
	Retirement Benefit	HD Supplement	Total Benefit	Retirement Benefit	HD Supplement	Total Benefit	
2% Multiplier - No supplement	$5,208.33	$0.00	$5,208.33	$7,004.63	$0.00	$7,004.63	$1,014,700
1.7% Multiplier - With Supplement	$4,427.08	$1,488.00	$5,915.08	$5,953.93	$0.00	$5,953.93	$1,027,900
1.85% Multiplier - With Supplement	$4,817.71	$1,488.00	$6,305.71	$6,479.28	$0.00	$6,479.28	$1,104,000

When looking at the total value of benefits, the 2% multiplier with no supplement can provide members at higher compensation levels with a more valuable benefit over the entirety of their retirement. While the hazardous duty supplement provides a higher benefit earlier in retirement, it is only a temporary benefit that stops at either age 65 or Social Security normal retirement age. Note that since the hazardous duty supplement is front-loaded, the present value of benefits that include the supplement tend to be slightly larger. The 2% benefit, by contrast, remains more level over time and will, therefore, provide a larger benefit than the 1.7% or 1.85% multiplier after the temporary hazardous duty supplement stops.

Another way of considering the appropriateness of total compensation is to compare vacancies and terminations between plans. Although VRS has information related to terminations and vacancies, we have no credible data to link terminations or vacancies to the type of retirement plan provided. There was also insufficient data available to identify which terminations (or separations) may be due to a transfer to another law-enforcement role in the same or different plan and which terminations may be due to a move out of state, transfer to a non-law-enforcement role, retirement, disability, or death.

How Recruitment and Retention Is Impacted by Compensation and Benefits

National and Virginia research discussed below indicates that compensation and benefits are key factors in recruitment and retention. However, the same research indicates that compensation typically is given greater weight than retirement benefits when individuals are making employment decisions. The timeline for this report did not allow comparison of state agencies and political subdivisions compensation and retirement benefits against turnover or vacancy rates. In addition to compensation and retirement benefits, other factors may impact recruitment and retention (e.g., organizational culture, cost-of-living). Analysis of the impact of these other factors on recruitment and retention was outside the scope of this study.

> …The analysis shall consider (i) current levels of compensation and benefits, specifically access to hazardous duty plans relative to Virginia State Police and local police officers; (ii) recruitment and retention issues faced by these Departments caused by any differences in compensation and benefits identified in (i); and (iii) recommendations and the associated fiscal impact to change compensation and benefits.
>
> Appropriation Act, Item 74, K.1

Although VRS does have data on the total number of law-enforcement positions by agency and political subdivision and the number of employees newly reported in those positions by each employer compared to the previous year, the available data does not lead to conclusions as to whether compensation and benefits available to VaLORS members factor into recruitment and retention. However, anecdotally, some employers of law-enforcement officers indicate that neighboring localities or state agencies have richer retirement benefits that make it difficult to recruit or retain officers who are comparing benefits. As discussed on page 4, about half of the political subdivisions participating in VRS that have elected enhanced benefits for their law-enforcement officers have not elected the higher multiplier.

Policy Options

When considering the data and research available as well as the mandate of the report, the following section provides potential policy options that the General Assembly may wish to consider. Since VaLORS is a pooled plan, benefit changes made for specific groups of employees within VaLORS will impact the employer contribution rates paid by all VaLORS employers. To recap, 1,072 VaLORS members are law-enforcement officers. The remaining 6,393 non-law-enforcement VaLORS members include 6,370 employees from the Department of Corrections (correctional officers, juvenile corrections officers, and parole officers), 21 firefighters, and two state police vehicle enforcement officers.

Additionally, benefit enhancements negatively impact a plan's funded status (currently around 74% for VaLORS, which is on the lower end for the statewide plans and not considered to be an optimal funded level). The unfunded liability for VaLORS is around $717 million. Given that the VaLORS plan currently does not have projected assets to pay for existing benefits promised, further enhancements to benefits will increase the plan's unfunded liability.

Finally, the analysis of all policy options discussed below assumes that any change enacted to current VaLORS retirement benefits will apply only to current active members of VaLORS and, in accordance with Va. Code § 51.1-124.8, will not affect the retirement benefit of current VaLORS retirees.

Increase VaLORS Benefits to 1.85% Multiplier With Hazardous Duty Supplement for Eligible Law-Enforcement Officers

The report mandate required analysis of providing VaLORS members with the 1.85% multiplier and access to the hazardous duty supplement. Since 2001, law-enforcement officers in VaLORS have been provided with a higher benefit multiplier of 2% in lieu of receiving a temporary hazardous duty supplement that generally stops when a member reaches Social Security normal retirement age. Since hazardous duty members generally retire earlier than general public sector employees, the supplement acts as a bridge payment until the member commences benefits under Social Security. If the General Assembly were to consider providing law-enforcement officers in VaLORS with the same benefit structure as SPORS members and law-enforcement officers employed by political subdivisions that have opted to provide the 1.85% multiplier, eligible law-enforcement officers in VaLORS would have:

- an annual benefit calculated as 1.85% of average final compensation multiplied by their years of creditable service, plus
- a temporary supplement payable from the date of retirement to a member's Social Security normal retirement age, if the member retires with 20 or more years of eligible hazardous service.

The mechanics of how to achieve different benefits for VaLORS law-enforcement officers versus other VaLORS employees must be considered. VaLORS is a pooled plan and there is one VaLORS employer contribution rate charged to all VaLORS employers. The largest category of VaLORS employees are not law-enforcement officers but are other public safety personnel.[24] Since VaLORS is a pooled plan, charging all employers a higher contribution rate for benefits only available to law-enforcement officers would not seem appropriate for employers that do not have law-enforcement officers.

To avoid having employers without law-enforcement officers share the cost of any enhanced benefits, an option that VRS has used in other circumstances would be to have explicit tiered benefits within VaLORS and to place an additional surcharge on employers who have law-enforcement officers receiving a more expensive benefit structure. Thus, in addition to the VaLORS rate developed for all members within the VaLORS plan, these employers would be charged an additional amount that would be added to the VaLORS rate.

Another more costly and complex alternative would be to create a separate plan for law-enforcement officers with the new benefit structure. The current VaLORS plan would continue to cover the other members using the 2% benefit multiplier without a temporary supplement. Setting up a separate plan for the small population of law-enforcement officers would involve notable

[24] *See* n. 9, *infra.* Of the 7,465 members of VaLORS, only 1,072 are law-enforcement officers.

administrative complexity, effort and cost, including a separate member handbook, a separate plan document, and separate actuarial valuations. In either of these scenarios, if a change were made, some individuals could be negatively impacted. To avoid complaints that members received less benefits than under the previous structure, prior similar plan changes have permitted members to make an election to stay with their current plan or elect to move into the new plan. This would require sufficient time to subsequently communicate the changes, allow members to make and communicate to VRS their decision, and allow VRS time to make necessary plan changes after creating the new plan or benefit tier. A similar approach was used when legislative changes were made to the VaLORS plan in 2001.

It also should be noted that the initial contribution rate impact and the long-term contribution rate impact will likely differ slightly due to the current demographics of the group. In reviewing the immediate impacts for the law-enforcement group, VRS noted that some of the current members would likely not have the 20 years of hazardous duty service required to be eligible for the temporary hazardous duty supplement. For members who will not reach the 20-year requirement for the supplement, the current 2% multiplier would be a better benefit than the proposed 1.85% multiplier. Furthermore, as discussed above, for some higher paid members the 2% multiplier may also provide a more valuable benefit than the 1.85% multiplier, even if they are eligible for the supplement. There are members in the current group of law-enforcement officers in VaLORS that would also fall into this category.

The near-term impact or surcharge would be expected to be slightly less than 3.0% of covered payroll due to the demographic issues noted above. Preliminary estimates indicate approximate costs for law-enforcement officers included in VaLORS would be approximately $3 million more in funding each year, based on the current $84 million payroll for this subgroup of VaLORS members. For the entire VaLORS population, including non-law-enforcement officers, initial estimates indicate that the cost would be approximately $15 million per year. The long-term impact would be expected to be slightly higher since future populations would likely work longer to attain the 20-year eligibility for the supplement.

Each scenario would carry an implementation cost as well as an increased administrative cost. Implementation will require programming, testing, and revisions to the VRS website and member handbooks, employer training materials, and if there were to be an election, materials would be needed to assist employees in comparing benefits. Implementation also will require a robust communications plan that either revises and expands on the existing VaLORS materials or revises the existing materials and creates new materials for the new plan. To administer the two different benefits will require ongoing communications and training as well as additional time and cost to edit ongoing materials. Either method would require amendments to the *Code of Virginia*. Finally, to maintain two distinct benefits based on employee category will require separate annual valuations by the VRS actuary.

VRS implementation costs described below assume that implementation would be July 1 of the fiscal year following the year legislation may be passed, for example, July 1, 2027, if legislation passed in the 2026 General Assembly session. Further, both options would also require VRS to develop a comparison calculator for members to use to determine whether to stay in the existing plan or elect to move to a new tier or plan. The costs for the calculator will be dependent on the parameters and cannot be estimated at this time.

New Tier

VRS implementation costs to establish a new tier of benefits within the existing VaLORS plan are estimated at over $329,000 in the first year and an additional approximately $16,000 in the second fiscal year. Some of the costs estimated in the initial fiscal year might potentially be expended in the second fiscal year instead. Minimal ongoing costs are expected and would be absorbed into VRS administration costs. However, if implementation is earlier, costs may be higher and will be incurred earlier.

New Plan

VRS implementation costs to establish a new plan for law-enforcement officers are estimated at over $430,000 in the first year and an additional approximately $30,000 in the second fiscal year. Some of the costs estimated in the initial fiscal year might potentially be expended in the second fiscal year instead. Minimal ongoing costs are expected and would be absorbed into VRS administration costs. However, if implementation is earlier, costs may be higher, and will be incurred earlier.

Conclusion

In general, most law-enforcement officers in the Commonwealth are eligible for enhanced retirement benefits as compared to other Virginia public employees, even though the required employee contribution to the applicable retirement plan is the same. Numerous reports to the General Assembly have discussed the need for enhanced retirement benefits for law-enforcement officers due to the physical and mental stresses associated with the job, which often necessitate that officers have a shorter working life than other employees as well as to ensure that law-enforcement officers possess the physical and mental capabilities to perform their work and protect themselves and members of the public from injury.

Law-enforcement officers are typically eligible for unreduced retirement benefits earlier than general employees (both at an earlier age and with fewer years of service requirements). They also receive greater benefit payments for the same amount of service. In general, law-enforcement officers receive three main categories of enhanced retirement benefits:

- (i) early age and service retirement provisions
- (ii) a higher retirement multiplier used to calculate retirement benefits
- (iii) and generally, for employees who are not covered by VaLORS, a hazardous duty supplement.

Enhanced hazardous benefits may vary based on the officer’s age and employer. Not all law-enforcement officers are entitled to each category of benefits.

SPORS was created in 1950 for state police officers. Local governments participating in VRS were provided with the option of extending SPORS-like benefits to their law-enforcement officers beginning in 1970. VaLORS was created in 1999 to provide enhanced retirement benefits for certain public safety officers employed by various agencies of the Commonwealth. Initial benefits provided under VaLORS mirrored the benefits provided under SPORS. Both plans provided a 1.7% multiplier, and the members of both plans were eligible for the hazardous duty supplement until age 65. In 2001, the General Assembly made the decision to provide different benefits to SPORS and VaLORS members. Specifically, the General Assembly amended VaLORS to increase the retirement multiplier for its members to 2% in lieu of receiving the hazardous duty multiplier. The General Assembly also amended SPORS, and therefore hazardous duty benefits for political subdivision members under § 51.1-138 of the *Code of Virginia*, to change eligibility for the hazardous duty supplement to Social Security normal retirement age rather than age 65.

Legislation has been proposed in several sessions (including in 2019, 2020, 2022, 2025) to change VaLORS benefits to match SPORS or to move VaLORS members to SPORS to effect that change. VRS has also been made aware of similar discussions with legislators and stakeholders that were not proposed during session. The General Assembly could choose to match VaLORS benefits to SPORS provisions. VaLORS benefits could be modified for only VaLORS law-enforcement officers or for all VaLORS members, as discussed above. However, benefit enhancements negatively impact a plan's funded status (currently around 74% for VaLORS, which is not considered an optimal funded status). The unfunded liability for VaLORS is around $717 million. Given that the VaLORS plan currently does not have projected assets to pay for existing benefits promised, further enhancements to benefits will increase the plan's unfunded liability and required employer contributions. Further any benefit enhancement is presumed to apply only to current active members of VaLORS and, in accordance with Va. Code § 51.1-124.8, will not affect the retirement benefit of current VaLORS retirees.

Since VaLORS is a pooled plan, charging all employers a higher contribution rate for benefits only available to law-enforcement officers would not seem appropriate for employers who do not have law-enforcement officers.

To avoid having employers without law-enforcement officers share the cost of any enhanced benefits, an option that VRS has used in other circumstances would be to have explicit tiered benefits within VaLORS and to place an additional surcharge on employers that have law-enforcement officers who would have a more expensive benefit structure. Thus, in addition to the VaLORS rate developed for all members within the VaLORS plan, these employers would be charged an additional amount that would be added to the VaLORS rate.

Another more costly and complex alternative would be to create a separate plan for law-enforcement officers with the new benefit structure that would stand alone and the current VaLORS plan would continue to cover the other members using the 2% benefit multiplier without a temporary supplement. Either alternative would suggest allowing members to make an election to stay in their current plan or make a change to avoid complaints of being forced to accept lesser benefits. A similar opt-in approach was used in 2001 when previous changes to VaLORS were enacted.

The near-term impact or surcharge would be expected to be slightly less than 3.0% of covered payroll. Preliminary estimates indicate approximate costs for law officers included in VaLORS would be approximately $3 million more in funding each year, based on $84 million payroll for this subgroup of VaLORS members. For the entire VaLORS population, initial estimates indicate that the cost would be approximately $15 million per year additional funding. The long-term impact would be expected to be slightly higher if future populations work longer to attain the 20-year eligibility for the supplement.

Each scenario would carry an implementation cost as well as an increased administrative cost. To maintain two distinct benefits based on whether VaLORS members are law-enforcement or non-law-enforcement will require separate annual valuations by the VRS actuary. For either choice, VRS would request a delayed effective date to prepare for the change.

SECTION II Hybrid Plan Impact on Recruitment and Retention

Study Mandate

As part of the 2025 Appropriations Act, the General Assembly directed the Department of Human Resource Management (DHRM) to assess whether the elimination of the traditional VRS defined benefit plan has affected the Commonwealth's ability to retain and recruit government employees and teachers. These assessments are to be made in conjunction with the Virginia Retirement System (VRS) and, for teachers, the Department of Education (DOE). Item 74 of HB 1600 requires:

> K.2. Additionally, the Department and the VRS shall complete an analysis to determine whether the elimination of the traditional Virginia Retirement System defined benefit pension has affected the Commonwealth's ability to retain and recruit government employees and include their findings in the biennial report.
>
> K.3. The Department shall separately solicit input from the Department of Education and the VRS on their assessments on whether the elimination of the traditional Virginia Retirement System defined benefit pension has affected the Commonwealth's ability to retain and recruit teachers. The Department shall submit this as a separate report at the same time as the biennial report referenced in paragraph K.1.

This report combines both assessments and serves to satisfy the mandates of K.2 and K.3.

Introduction

The General Assembly's post-financial crisis pension reforms culminated in the introduction of the Hybrid Retirement Plan. The new benefit tier sought to balance investment and longevity risk between employers and employees while increasing flexibility and portability for plan members.

It is important to note at the outset that there is no available and reliable data source, or combination of sources, that would indicate with any confidence a causal relationship between the adoption of the Hybrid Retirement Plan for new or rehired non-vested VRS members and any effect on the ability to recruit and retain employees or teachers. The data reviewed for this report is discussed below.

As a result, the report cannot recommend benefit changes tailored to address recruitment and retention concerns, though it does outline several options for enhancing the Hybrid Retirement Plan, each with varying fiscal implications. Ultimately, while retirement benefits remain a valuable component of employee compensation, factors such as salary and health benefits are equally significant, and any future benefit enhancements should be carefully evaluated to ensure both plan sustainability and improved outcomes for employees.

Background — Pension Reform

Since 1942, VRS has provided retirement benefits and other post-employment benefits to state employees and teachers. Until 2010, there was one type of retirement benefit, now known as Plan

1, with some differences for certain types of employees, such as Virginia State Police, state public safety employees, political subdivision public safety employees, and judges.

In the wake of the 2008-2009 financial crisis, nearly every state made reforms to their pension plan benefit structures, financing arrangements, or both, with the underlying goal of reducing employer risk and cost.[1] These reforms included implementation of a hybrid defined benefit and defined contribution structure, higher employee contributions; lower benefit levels, including lower multipliers or increased periods to calculate average final compensation; increased retirement eligibility requirements; and reduced, suspended, or eliminated cost of living adjustments.

Virginia was no exception in adopting pension reforms. First, the General Assembly passed legislation creating Plan 2 for members joining on or after July 1, 2010. The goal of the legislation was to have a new plan design that would allow VRS' funded status to improve faster and to reduce the employer contribution requirements of the state and localities that were struggling to make the payments. Plan 2 was also designed to address employer investment and longevity risk by reducing the retirement multiplier, increasing the retirement age, increasing the number of years used to calculate average final compensation, and lowering the amount of cost-of-living adjustments.

Then in 2012, the General Assembly passed legislation creating the Hybrid Retirement Plan for members joining on or after January 1, 2014. The plan combines a defined benefit plan and a defined contribution plan. This design transfers some of the market risk from employers to employees through the defined contribution component. In addition, members of the Hybrid Retirement Plan pay a larger percentage of the defined benefit plan cost as compared to Plan 1 and Plan 2 members. While the costs for the Hybrid Retirement Plan are somewhat similar to those of Plan 1 and Plan 2, the design of the Hybrid Retirement Plan, and specifically its defined contribution component, serves to shift investment and longevity risk to employees. Thus, the effect of any market downturns or adverse plan experience is shared by employees and employers instead of being solely borne by employers as is the case with traditional defined benefit plans.

The creation of the Hybrid Retirement Plan did not eliminate the traditional defined benefit plan. Instead, the Hybrid Retirement Plan, like Plan 2, became a new benefit tier within the same plan. Closing a plan has implications for funding under Governmental Accounting Standards Board (GASB) requirements. Rather than closing Plan 1 and Plan 2, which would have required infusing money into the closed plans to meet GASB standards, Plan 1 and Plan 2 remained open to members who had already vested to them and to members in the State Police Officers' Retirement System (SPORS) and the Virginia Law Officers' Retirement System (VaLORS). Members in the Judicial Retirement System (JRS) appointed to an original term on or after January 1, 2014, became hybrid plan members. However, under a new law passed in 2025, judges who are currently or would otherwise be placed in the Hybrid Retirement Plan instead will be placed in JRS Plan 2 for prospective service earned on or after July 1, 2026.

[1] NASRA, Topics: Pension Reform, https://www.nasra.org/pensionreform

The Hybrid Retirement Plan was implemented with the goal of allowing VRS to continue to maintain its financial solvency moving forward, given the increasing rate of retirement among members. In addition, depending on investment returns, members who take full advantage of opportunities to make voluntary contributions along with the associated employer matching contributions should be able to accumulate sufficient assets together with the defined benefit plan component of the Hybrid Retirement Plan to provide a benefit income stream analogous to that of the Plan 1 and Plan 2 defined benefit plans; although Hybrid Retirement Plan members must contribute more of their compensation than Plan 1 or Plan 2 members to achieve this result.

In addition to helping to bolster the financial position of the retirement system, the Hybrid Retirement Plan, with its defined contribution component, was designed to increase flexibility by allowing additional portability of members' retirement plan funds if they left state or local government employment. Unlike defined benefit plans that are designed to offer the maximum benefit when an employee stays in the plan until retirement, defined contribution plan funds are generally readily portable between employers and accommodate employees who work for multiple employers throughout their career.

Unlike the market conditions surrounding the Great Recession, positive market conditions and plan experience over the past decade have resulted in improvements in the financial health of the retirement system. Since 2014 when the Hybrid Retirement Plan was implemented, the VRS Trust Fund has benefited from mostly positive market experiences that have helped reduce the plans' unfunded liabilities. Therefore, employer contribution rates in recent years have been largely shielded to date from increases that would be required to make up for liabilities generated in years where there are market downturns.

Comparison of Plan 1, Plan 2, and Hybrid Retirement Plan Benefits

The table below compares the principal features of Plan 1, Plan 2, and the Hybrid Retirement Plan.

Table 1. VRS Plan Comparison

	Plan 1 (DB only)	Plan 2 (DB only)	Hybrid (DB portion) + DC
Average Final Compensation (AFC)	Avg. of 36 consecutive months of highest creditable compensation	Avg. of 60 consecutive months of highest creditable compensation	Avg. of 60 consecutive months of highest creditable compensation
Employee contributions*	5%	5%	4% to DB + 1% to DC + up to an additional 4% voluntary contributions to DC
Employer contributions*	Actuarially Determined (DB)	Actuarially Determined (DB)	Actuarially Determined (DB)+ 1% to DC + up to an additional 2.5% to DC based on employee voluntary contributions
Unreduced Basic Benefit formula	AFC x Multiplier x total YOS**	AFC x Multiplier x total YOS	(AFC x Multiplier x total YOS) + DC distributions as directed by retiree
Retirement eligibility-reduced	Age 55 with at least 5 YOS or age 50 with at least 10 YOS	Age 60 with at least 5 YOS	Age 60 with at least 5 YOS
Retirement eligibility-unreduced	Age 65 with at least 5 YOS or age 50 with at least 30 YOS	SSNRA*** with at least 5 YOS or when age & service equal 90	SSNRA with at least 5 YOS or when age & service equal 90
Vesting	5 years	5 years	5 years for DB; 4 years to fully vest in employer DC contributions
COLA[2]	First 3% increase in the annual monthly average of the CPI-U and half of any additional increase up to 4%, for a maximum COLA of 5%	First 2% increase in annual monthly average of the CPI-U and half of any additional increase up to 2%, for a maximum COLA of 3%	First 2% increase in annual monthly average of the CPI-U and half of any additional increase up to 2%, for a maximum COLA of 3%
Multiplier	1.7%	1.7% on service before 1/1/2013 & 1.65% on service on or after 1/1/2013	1.0%

*Based on creditable compensation

**Years of service

***Social Security normal retirement age

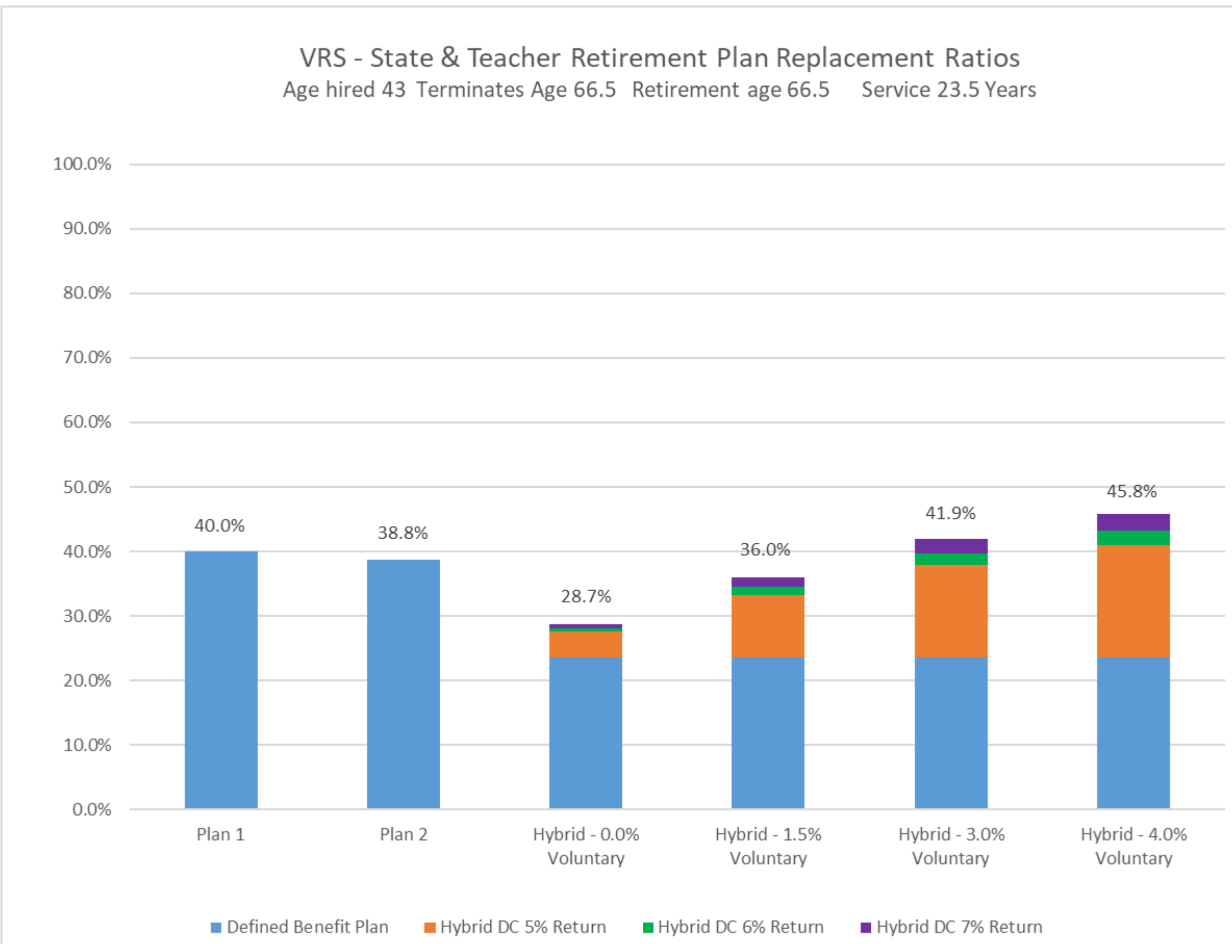
As shown in the table, members of all three plans must make a required 5% employee contribution to their retirement. The entire 5% employee contribution made by Plan 1 and Plan 2 members goes into the defined benefit plan. For Hybrid Retirement Plan members, 4% of the employee contribution goes into the defined benefit component and the remaining 1% goes into the defined contribution component where it is matched by the employer. In addition, a member of the Hybrid Retirement Plan may make voluntary contributions to the defined contribution component up to an additional 4%. Voluntary contributions are matched by the employer up to a maximum of 2.5% (employers match 100% of the first 1% voluntary contribution and 50% of the next 3% voluntary

[2] The COLA is based on the annual monthly average of the Consumer Price Index for all Urban Consumers (CPI-U), published by the U.S. Bureau of Labor Statistics and updated each July 1. During years of no inflation or deflation, the COLA will be 0%.

contribution). Approximately 61% of Hybrid Retirement Plan members are making voluntary contributions to the defined contribution component currently, and the average voluntary contribution amount is 2.4% for members who make voluntary contributions. The average voluntary contribution amount for all Hybrid Retirement Plan members is 1.52%, which includes the members who only make the mandatory 1% contribution and no additional voluntary contributions.

VRS members in Plan 1, Plan 2, or the Hybrid Retirement Plan can receive very similar benefits, as demonstrated by the replacement ratios in the chart below. However, to achieve a similar income replacement level, a Hybrid Retirement Plan member must make voluntary contributions to the defined contribution component in addition to the mandatory employee contributions. In order to obtain a similar benefit to Plan 1 or Plan 2 members, Hybrid Retirement Plan members will need to contribute more of their income to their retirement plan than a Plan 1 or Plan 2 member.

Chart 1. VRS State and Teacher Retirement Plan Replacement Ratios



As shown in the chart, Hybrid Retirement Plan members making a 3% or higher voluntary contribution throughout the entire duration of their employment can receive a higher income replacement ratio in retirement than Plan 1 or Plan 2 members if assumptions are met.

Available Data - Virginia

In reviewing the available data specific to Virginia for this report, it became evident that there was no data source, or combination of sources, which would indicate with any degree of confidence a causal relationship between the adoption of the Hybrid Retirement Plan and the recruitment and retention of employees.

While there is data available regarding the number of VRS members in Plan 1, Plan 2, and the Hybrid Retirement Plan as well as average length of creditable service, VRS data on the number of new members and number of terminations is a snapshot based on the information available on the day the report is created. It is important to note, however, that the data in the report does not reflect how many of the terminations are actually employees changing jobs and moving to a different public employer. Further, due to system configuration limitations, VRS members who leave an employer are listed as terminations, even if they immediately begin work with a different public employer, at which point they are considered a new hire. The same is true if an employee leaves public employment for a period of time and returns later with the same employer or a different employer. Therefore, the available VRS data cannot adequately illustrate whether members in a particular plan are more likely to leave government employment or teaching completely compared to the members of another plan.

There is aggregate data available from DHRM on turnover and vacancies for state employees since 2010 and exit surveys since 2018. However, available DHRM data does not include information about the retirement plan of an exiting member. Similarly, there is data available from DOE from exit surveys since the 2021-2022 school year; however, this data does not include information about the retirement plan of an exiting teacher. Further, there is no existing data source that would reflect why potential applicants would choose not to apply for a government position or chose to decline an offer of employment in a government position.

Some historical data is available from Joint Legislative Audit and Review Commission (JLARC) total compensation reports. In 2017, JLARC completed the Total Compensation for State Employees report,[3] three years after the implementation of the Hybrid Retirement Plan. Although the JLARC data was not stratified by plan type, JLARC conducted employee focus groups at three state agencies.[4] Employees in the focus groups discussed which aspects of compensation were most important to them, how compensation could be changed to reflect those priorities, why they chose to work for the Commonwealth, and why they remained employed by the Commonwealth. The

[3] JLARC, Total Compensation for State Employees, 2017, https://jlarc.virginia.gov/2017-state-compensation.asp
[4] *Id*. At 64.

JLARC report found that salary was the primary factor related to recruitment and retention and contained the following observation about the impact of retirement benefits:

> State employees are somewhat satisfied with their retirement plans but do not view retirement benefits as one of the most important aspects of compensation. Employee satisfaction is similar across all three primary retirement plans, indicating that employees are not as concerned with the relative value of their specific plan.[5]

Employees consider retirement benefits to be an important and valuable part of their total compensation. Employees also recognize that other components of their compensation are at least as important as retirement benefits, and as employees approach retirement age those benefits become more relevant and more important.[6] Overall, 44% of the state employees surveyed for the JLARC report considered salary to be the most important aspect of the Commonwealth's total compensation package and 19% considered health benefits to be most important.[7] Only 15% of the state employees surveyed considered retirement benefits to be the most important aspect of compensation.[8]

In 2022 and 2023, JLARC completed two reports that involved Virginia's teacher workforce. The 2022 report focused on the COVID-19 pandemic's impact on education[9] and the 2023 report focused on the K-12 teacher pipeline.[10] For both reports, JLARC conducted surveys of current and former teachers. The 2022 report, which surveyed current teachers, found that increasing salaries was the second most common response to the question of how to address staff workload, morale, or satisfaction. Improving benefits was only the ninth most common response. The 2023 report, which surveyed former teachers, likewise found that benefits did not seem to be a common reason individuals stopped teaching in Virginia public schools, and that salaries seemed to have a greater impact. About 200 of the 1,153 respondents said that benefits, including health insurance and retirement, among other benefits, was at least one of the primary reasons they obtained a Virginia teaching license. However, it was the sixth least chosen selection of 12 choices. About 23 of the respondents said benefits were one of the reasons they chose to work at a private school instead of a public school, but it was the third least popular selection of 16 choices. About 95 respondents said better benefits was one of the factors that would cause them to consider working in a Virginia public school in the future, but it was the second least prevalent item among 13 choices. Notably,

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[5] *Id*. at 22.
[6] Public Retirement Research Lab, 2023, http://www.prrl.org/uploads/1/4/0/1/140176219/pubtenure22_final.pdf
[7] *Id*. at 25.
[8] *Id.*
[9] JLARC, 2022, Pandemic Impact on Public K-12 Education, https://jlarc.virginia.gov/landing-2022-pandemic-impact-on-k-12-education.asp
[10] JLARC, 2023 Virgina's K-12 Teacher Pipeline Study, https://jlarc.virginia.gov/landing-2023-virginias-k-12-teacher-pipeline.asp

the surveys conducted for the 2022 and 2023 JLARC reports did not ask participants about the retirement plan in which they were participating.

Additionally, as the Hybrid Retirement Plan was implemented in 2014 and has only been available for 11 years, most members of the Hybrid Retirement Plan at the outset typically have less service and generally are younger than members in Plan 1 or Plan 2. VRS staff have anecdotally observed that the typically older Plan 1 and Plan 2 members who have longer tenures will generally be more cognizant of the impact of their retirement benefits and more likely to stay employed by a VRS-participating employer in order to take advantage of full, unreduced retirement and other benefits than they are to leave for private employment.[11]

Available Data - National

Some data is available from national organizations discussing the impact of retirement benefits on recruitment and retention for other public plan employers. However, this national data does not allow for any causal relationship to be drawn between the Hybrid Retirement Plan and any impact on recruitment and retention of Virginia employees. It is important to remember that any national research typically considers aggregate or general impacts. Further, the impact of other public plans on their employers' recruitment and retention experience is also directly related to the total compensation and other benefits offered to employees in that plan as well as the structure of the previous and new retirement benefits, including type of plan, benefit formulas, and assumptions of the relevant plans. Although not discussed herein, links to national data reviewed during the preparation of this report are included in Appendix A.

While not indicative of any possible impact on employee recruitment and retention, one national data point worth noting is that nearly every state has made changes to their pension plan benefit structures, financing arrangements, or both since 2009 (through at least 2022). According to the National Association of State Retirement Administrators (NASRA), most states have retained a reformed defined benefit structure or implemented a hybrid reformed defined benefit and defined contribution structure.[12] Reforms included higher employee contributions; lower benefit levels including lower multipliers, increased retirement eligibility, or increased periods to calculate average final compensation; increased eligibility requirements; and reduced, suspended, or eliminated cost of living adjustments. The chart below from NASRA shows the states that have reduced pension benefits as part of changes made since 2009.

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[11] See also, Public Retirement Research Lab, 2023, pages 5, 22 http://www.prrl.org/uploads/1/4/0/1/140176219/pubtenure22_final.pdf, based on the Employee Benefit Research Institute's 2023 report, Trends in Employee Tenure, 1983-2022

[12] NASRA, Topics: Pension Reform, https://www.nasra.org/pensionreform

Chart 2. States That Reduced Pension Benefits Since 2009

A description of each plan's pension changes since 2019, updated in July 2025, is available on the NASRA website.[13]

Impacts of Potential Changes to VRS Benefits

Generally, the highest turnover occurs during the first five years of employment across all industries including the public sector. The causes of turnover during the first five years often have little to do with the retirement plan but are generally due to ineffective onboarding, misaligned expectations, poor management experience or lack of career growth opportunities.[14,15] Other public employees cite reasons to change jobs as lack of job satisfaction, insufficient work-life balance, changing nature of their job, taking on additional work due to staffing shortages, and other similar reasons.[16]

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[13] NASRA, Selected Approved Changes to State Public Pensions, 2019-Present, https://www.nasra.org/files/Compiled%20Resources/nasrapensionchanges.pdf

[14] MissionSquare Research Institute, 2023, https://research.missionsq.org/content/media/document/2023/8/FINAL%20WorkforceSurveyReport35andYounger.pdf

[15] National League of Cities, 2022, https://www.nlc.org/article/2022/08/22/three-topics-city-leaders-should-focus-on-to-boost-recruitment-and-retention/

[16] MissionSquare Research Institute, 2023, https://research.missionsq.org/content/media/document/2023/02/59976-slg-worker-report_final.pdf

The paucity of any actionable data discussed above indicating a causal relationship between the Hybrid Retirement Plan for new or re-hired non-vested VRS members and employee recruitment and retention necessarily precludes reaching a conclusion as to the effect of the Hybrid Retirement Plan, as well as identifying any specific change to VRS benefits as a means to improve employee recruitment and retention. However, in the years since the implementation of the Hybrid Retirement Plan, VRS has shared a number of potential alternative plan design options in response to inquiries about how to improve outcomes for Hybrid Retirement Plan members. Thus, as some legislators have expressed interest in amending the Hybrid Retirement Plan to improve employee retirement security or returning employees to Plan 2 for future benefits, several options for benefit changes are presented below.

Any meaningful consideration of the options presented must be informed by the history and current status of the retirement system. As of June 30, 2024, the VRS administered plans had approximately $23 billion in unfunded liabilities that mostly accumulated prior to the pension reforms and were largely caused by the past underfunding of contributions. Under the current funding policy, these “legacy” liabilities will not be paid in full until 2042. Any changes to the retirement system to provide benefit enhancements can erode the gains achieved over the past few years in reducing these liabilities. Further, benefit enhancements can generate additional liabilities because the funds needed to pay for the enhanced benefits cannot be deployed to reduce existing unfunded liabilities. Finally, although not included in the options discussed below, one way to increase retirement benefits without impacting plan design is to simply increase salaries for employees. If the higher salary serves to increase the member’s average final compensation, the member’s defined benefit calculated based on that average final compensation will necessarily be higher. Similarly, employer matching contributions in the defined contribution portion of the plan are also based on salary, so the higher the salary the greater the value of the matching contributions.

All of the potential benefit changes discussed below require legislative action to be implemented. Various options for changes to the Hybrid Retirement Plan could be combined. As all benefit changes presented will have an attendant fiscal impact, which will need to be absorbed by state and local employers, the ability of local employers to afford these changes should be taken into consideration. The first two of the three potential benefit changes described were chosen to have a minimal impact on the overall VRS plan structure, to result in a positive improvement for members’ income replacement ratio in retirement, and potentially to reduce the likelihood of generating additional plan liabilities. The third potential benefit change described has been of interest to legislators previously and so is included for purposes of comparison. The list of potential benefit changes included is as follows:

- Implementing auto-enrollment in voluntary contributions possibly combined with shortening the period between auto-escalations (currently every three years) for members of the Hybrid Retirement Plan.
- Changing the allocation of employee contributions to the Hybrid Retirement Plan (i.e., instead of contributing 4% to the defined benefit and 1% to the defined contribution

component, move to 3% to the defined benefit and 2% to the defined contribution component).

- Return all new and existing Hybrid Retirement Plan employees to Plan 2.

Auto-Enrollment

Leveraging the automatic savings tools available in the Hybrid Retirement Plan can be useful in improving member participation in the plans. Instituting auto-enrollment for voluntary contributions, accelerating auto-escalation to a more frequent basis, or some combination of the two options, would assist Hybrid Retirement Plan members in saving for retirement while limiting the administrative burden of more dramatic plan changes. Members would retain their current statutory right to opt out of any automatic features.

For example, the U.S. Congress recently endorsed auto-enrollment as a means to improve and encourage increased retirement savings by individuals by mandating its use for many ERISA-covered retirement plans. The SECURE 2.0 Act of 2022 mandates that most new ERISA-covered retirement plans—specifically 401(k) and 403(b) plans established after December 29, 2022—must implement automatic enrollment and escalation provisions starting in 2025.[17] Eligible employees must be automatically enrolled at a deferral rate between 3% and 10% of their pay, with annual automatic increases of 1% until reaching a minimum of 10% and a maximum of 15% (employers can set this limit at any level between 10% and 15%). Employees retain the right to opt out or adjust their contribution rate at any time. Exemptions apply to plans established before SECURE 2.0, businesses with fewer than 10 employees, new businesses under three years old, SIMPLE plans, and church or government plans. While VRS is not an ERISA plan or subject to ERISA rules, these new guidelines may be instructive even for plans that don't fall under ERISA. ERISA guidelines generally apply to plans without a defined benefit component (unlike the Hybrid Retirement Plan) and, instead, the defined contribution plan is the primary or only plan. As a result, the requirements set forth in SECURE 2.0 for 401(k) and 403(b) plans would not necessarily be applicable in a hybrid retirement plan structure where the defined benefit portion of the plan constitutes a sizable portion of the overall benefit.

One potential option for consideration involves deploying auto-enrollment in the voluntary portion of the Hybrid Retirement Plan. To illustrate one approach, auto-enrollment would involve starting all new Hybrid Retirement Plan members at the 1% mandatory defined contribution plan employee contribution, plus automatically beginning voluntary employee contributions at 0.5% rather than 0%. Employees would be allowed to opt out of making any voluntary contribution. The existing auto-escalation of voluntary contributions could continue in 0.5% increments every three years as currently structured. The next scheduled auto-escalation is January 1, 2026.

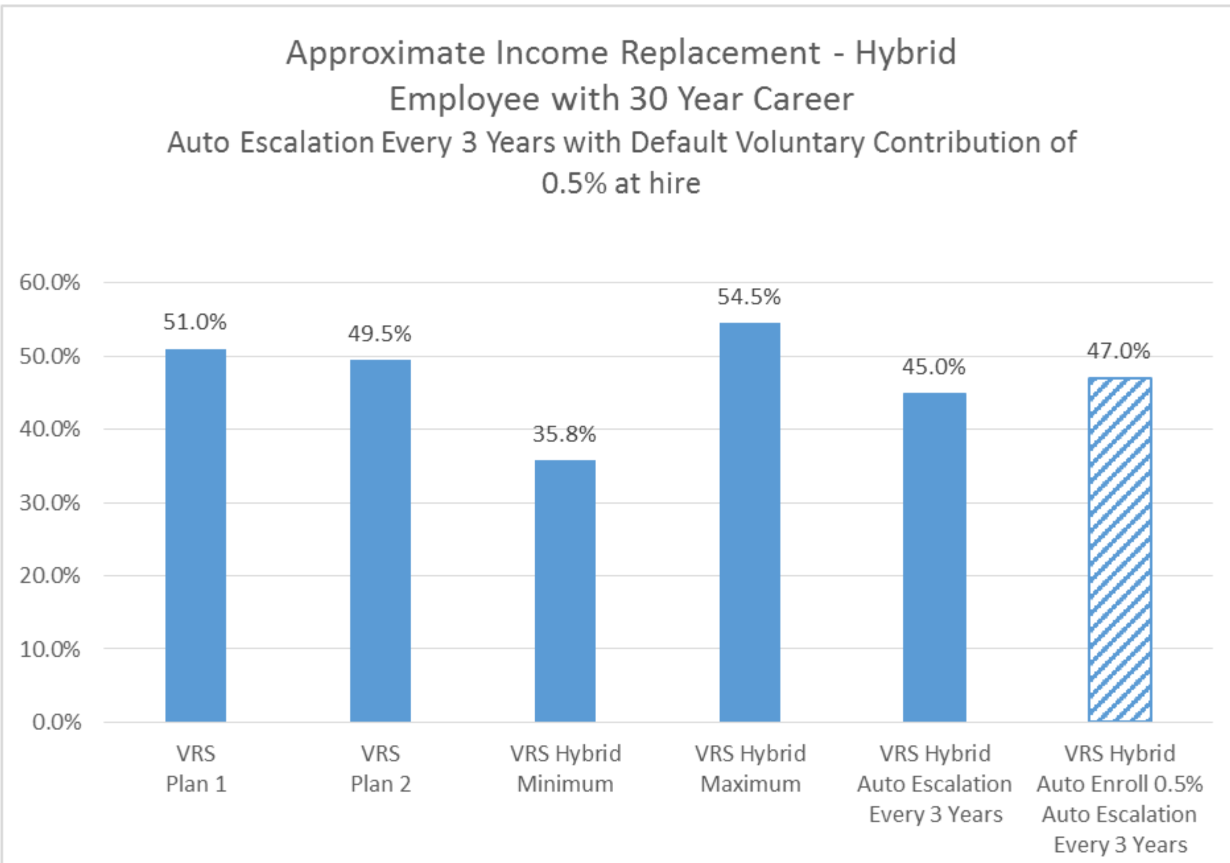
[17] SECURE 2.0 & Auto Enrollment – ERISA

Auto-Enrollment With Auto-Escalation Every Three Years

Currently, an employee hired prior to September 1, 2025, starting with 0% voluntary contributions, would reach the full voluntary contribution of 4% by 2047, with voluntary contributions increasing 0.5% every three years as part of auto-escalation.

With auto-enrollment at 0.5% voluntary contributions upon hire and auto-escalation every three years starting January 1, 2026 noted above, the same employee would reach the full 4% voluntary contribution three years earlier in 2044. This change could also increase the replacement ratio at retirement by approximately 2 percentage points as shown in the exhibit below. Employees would be allowed to opt out of making any voluntary contribution.

Table 2. Approximate Income Replacement: Auto-Enrollment With Voluntary Contributions of 0.5% at Hire and Auto-Escalation Every Three Years



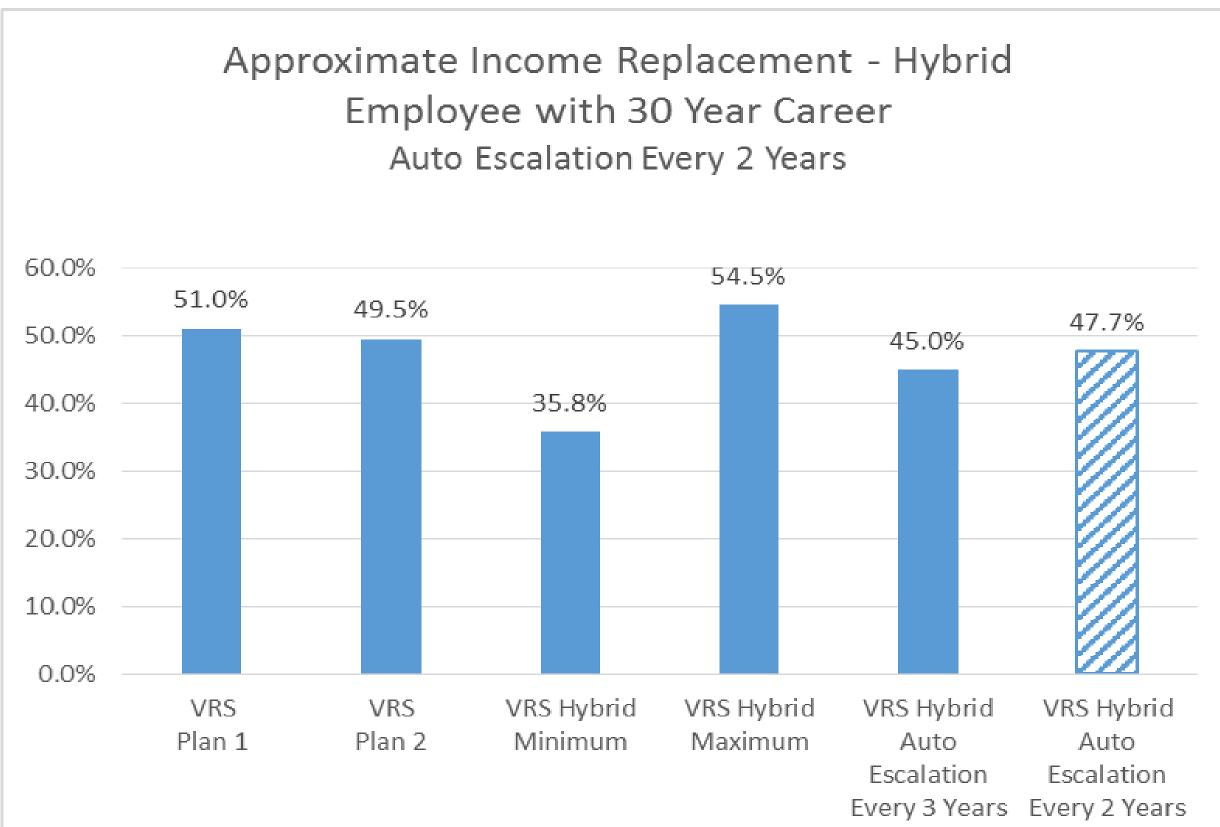
It should be noted that the auto-enrollment amount also could be started at a higher percentage than 0.5%, up to the current voluntary contribution maximum of 4%, in order for members to generate more retirement income than illustrated in Table 2 above. Any increase in the auto-enrollment amount would result in an increase in the employer cost required to match the employee contributions.

The cost impact related to auto-enrolling members at 0.5% would depend heavily on the employees' participation in the voluntary contributions contained within the defined contribution component of the hybrid plan, the opt-out rate, and the actual termination experience of the plans. VRS previously estimated that changing auto-enrollment of voluntary contributions to an initial 0.5% of salary could cost an additional 0.05%-0.10% of payroll but would increase over time as more new members became covered under the Hybrid Retirement Plan. Longer-term estimates showed the impact could cost up to 0.20% of payroll after 20 years.

Auto-Enrollment at 0% Voluntary Contributions With Auto-Escalation Every Two Years

Alternatively, the frequency of auto-escalation could be increased, for example, to 0.5% every two years with the ability to opt out of the escalation. With proposed auto-enrollment at 0.5% voluntary contributions upon hire in 2025 and auto-escalation every two years beginning January 1, 2026, the same employee would reach the full 4% voluntary contribution in 2038, nine years earlier than under the current provisions. Even beginning with 0% voluntary contributions, auto-escalation every two years would result in an increase in the employee's replacement ratio of approximately 2.7% compared to auto-escalation every three years, as shown in the table below. The frequency of auto-escalation could also be done on an annual basis; however, employer costs would be higher than the illustrative example set forth herein.

Table 3. Approximate Income Replacement: Auto-Enrollment With Voluntary Contributions of 0% at Hire and Auto-Escalation of 0.5% Every Two Years



The cost impact would depend heavily on the employees' participation in the voluntary contributions contained within the defined contribution component of the Hybrid Retirement Plan, the opt-out rate, and the actual termination experience of the plans.

Prior estimates showed that accelerating the frequency of auto-escalation would initially increase costs by 0.05%-0.10% of payroll and would increase over time as more new members became covered under the plan. Longer-term estimates showed the impact could cost up to 0.26% of payroll after 20 years, but this would be heavily dependent on employee retention of the auto-escalation increases.

VRS implementation costs described below assume that implementation would be July 1 of the fiscal year following the year legislation may be passed. For example, implementation would be July 1, 2027, if legislation passed in the 2026 General Assembly session.

VRS would require funding for implementation costs. The cost of implementation would depend in part on whether the change would apply to all Hybrid Retirement Plan employees or only to certain segments of the Hybrid Retirement Plan population such as only state employees, or only state employees and political subdivision employees, or only teachers. Implementation typically involves programming necessary to make the changes contemplated as well as communications to members and employers as well as updating handbooks and training materials. VRS would advocate for similar treatment across all participating employers. This would reduce administrative complexity and allow for parity across employers.

VRS implementation costs to allow auto-enrollment and increased auto-escalation are estimated at approximately $134,700 in the first year and an additional approximately $22,300 in the second fiscal year. This does not include payroll updates that employers may need or changes the third-party record keeper may require and any necessary contract modifications. The record keeper's costs cannot be estimated until legislation is introduced. Minimal ongoing costs are expected and would be absorbed into VRS administration costs. However, if implementation is earlier, costs may be higher and will be incurred earlier.

Change the Allocation of Employee Contributions to the Hybrid Retirement Plan

Currently, VRS Hybrid Retirement Plan members contribute 4% of salary to the defined benefit component and 1% of salary to the defined contribution component of the plan. This option would change the current structure and instead have Hybrid Retirement Plan employees contribute 3% of their salary to the defined benefit component and 2% to the defined contribution component. This proposal would better align the portion of the plan's normal cost (i.e., the average cost of one year of service credit) employees pay compared to what is covered by Plan 1 and Plan 2 members, while also allowing more of a member's contribution to go into the defined contribution component of the Hybrid Retirement Plan. The hybrid benefit provides a lower defined benefit to new members but also includes a defined contribution component that offers the ability for members to increase their future retirement savings by providing employer matching contributions on additional employee voluntary contributions.

Under the current Hybrid Retirement Plan structure, the cost to employers is less than in the Plan 1 and Plan 2 traditional defined benefit tiers. When looking at the normal cost associated with the VRS defined benefit plans and further analyzing the employee/employer split in paying for the plan benefit, the table below shows that Hybrid Retirement Plan members are paying a higher percentage of defined benefit plan costs as compared to Plan 1 or Plan 2 members, as intended to minimize risk to the Commonwealth.

Table 4. VRS Plan Normal Cost Comparison

State	Plan 1	Plan 2	Hybrid Plan	Blended Rate
Total Normal Cost	11.01%	10.06%	6.16%	9.29%
Member Contribution	5.00%	5.00%	4.00%	4.68%
Percentage of Normal Cost Funded by Member	45.4%	49.7%	64.9%	50.38%

Teachers	Plan 1	Plan 2	Hybrid Plan	Blended Rate
Total Normal Cost	12.62%	10.74%	6.45%	10.71%
Member Contribution	5.00%	5.00%	4.00%	4.75%
Percentage of Normal Cost Funded by Member	39.6%	46.6%	62.1%	44.3%

The design of the Hybrid Retirement Plan depends on members contributing more than the traditional 5% toward their retirement (4% employee contribution to the defined benefit component and a mandatory 1% to the defined contribution component). To attain more favorable outcomes, Hybrid Retirement Plan members must contribute more of their pay to their plan and require motivation to fund a greater portion of their retirement through voluntary contributions in the defined contribution component of their plan. The two proposed changes discussed above would, at a minimum, require members to focus more on voluntary contributions earlier in their career by putting contribution decisions in front of them more often.

This change would require an additional 1% of covered Hybrid Retirement Plan members' payroll from employers for the defined benefit plan as well as an additional 1% of covered payroll for the matching contribution in the defined contribution component of the plan. It may also include changes to the allocation of employer mandatory contributions.

VRS implementation costs described below assume that implementation would be July 1 of the fiscal year following the year legislation may be passed. For example, implementation would be July 1, 2027, if legislation passed in the 2026 General Assembly session.

VRS would require non-general funding for implementation costs. The cost of implementation would depend in part on whether the change would apply to all Hybrid Retirement Plan employees or only to certain segments of the Hybrid Retirement Plan population such as only state employees, or only state employees and political subdivision employees, or only teachers. Implementation typically involves programming necessary to make the changes contemplated as well as communications to members and employers as well as updating handbooks and training materials. VRS would advocate for similar treatment across all participating employers. This would reduce administrative complexity and allow for parity across employers.

VRS implementation costs to change the allocation of employee contributions to the Hybrid Retirement Plan are estimated at approximately $209,700 in the first year and an additional approximately $30,000 in the second fiscal year. This does not include payroll updates that employers may need or changes the third-party record keeper may require and any necessary contract modifications. The record keeper's costs cannot be estimated until legislation is introduced. Minimal ongoing costs are expected and would be absorbed into VRS administration costs. However, if implementation is earlier, costs may be higher and will be incurred earlier.

Additionally, changes to the employee contribution allocation, with or without corresponding changes to the employer allocation, would require employer payroll changes.

Return All New and Hybrid Retirement Plan Employees to Plan 2

Based on inquiries from General Assembly members about the costs associated with reinstating Plan 2, one potential option is to move all newly hired employees to Plan 2 and provide current Hybrid Retirement Plan members with benefits under Plan 2 for prospective service after the effective date. This is similar to Senate Bill 950, which applied to the Judicial Retirement System, from the 2025 General Assembly session.[18] Under this option, new employees hired on or after the effective date would be placed in Plan 2. Employees in the Hybrid Retirement Plan would retain their benefits under that plan up to the effective date of the change and would accrue benefits in Plan 2 on and after the effective date or the change. Contributions already made to the defined contribution plan would remain in the defined contribution plan, but no future employee or employer contributions would be made to the defined contribution component of the plan. State employees and teachers in Plan 2 would have access to the Commonwealth of Virginia 457 Plan and Cash Match Plan upon implementation, and political subdivision employees would have access if their employers adopted the plans.

Since pension reforms were made, the market experience has mostly been positive. This means that additional unfunded liabilities related to investment experience have been minimal since 2010. By moving back to Plan 2 provisions, any adverse plan experience related to future market downturns or liability losses due to members living longer than expected would once again fall solely on the employers.

Thus, any changes to the retirement system to provide benefit enhancements can erode the gains achieved over the past few years in reducing these liabilities and can result in the generation of additional liabilities.

[18] Senate Bill 950, https://lis.virginia.gov/bill-details/20251/SB950

One caveat to this option: since pension reforms were made, the market experience has mostly been positive. This means that additional unfunded liabilities related to investment experience have been minimal since 2010. One key aspect of the Hybrid Retirement Plan is risk sharing between employers and employees with respect to market performance and longevity. By moving back to Plan 2 provisions, any adverse plan experience related to future market downturns or liability losses due to members living longer than expected would once again fall solely on the employers. Importantly, approximately two-thirds of VRS pension benefits are funded by investment income. As a result, investment experience and market conditions play a critical role in the funding of benefits.

In addition, the Hybrid Retirement Plan design has the employees paying a larger percentage of the defined benefit plan cost as compared to Plan 1 and Plan 2 members, so moving back to Plan 2 would also come with an increase in employer costs moving forward. Additionally, for those employees hired between July 1, 2014, and the effective date of any forthcoming legislation, or for those who were not vested to Plan 1 or Plan 2 and became Hybrid Retirement Plan members after July 1, 2014, contributions in the Hybrid Retirement Plan would not be moved. Rather, the benefits would be layered, similar to how a JRS member with prior VRS service has their benefit calculated. If new legislation is passed, employees currently in the Hybrid Retirement Plan would receive prospective service in Plan 2. The DC accounts for current Hybrid Retirement Plan members would remain intact and the DC funds would still only be available for distribution once the member is eligible for distribution upon termination or retirement. At retirement, these employees would have a layered benefit consisting of:

- Prior VRS service (if any),
- Hybrid Retirement Plan service between January 1, 2014, and the new implementation date (if any), and
- VRS Plan 2 service from the implementation date forward,
- Plus any DC funds they contributed as part of the VRS Hybrid Retirement Plan (that remain in the Hybrid 457 Deferred Compensation Plan, or the Hybrid Cash Match 401(a) Plan, which together make up the DC component), and
- Employee and/or employer contributions to a supplemental savings plan, like the Commonwealth of Virginia 457 Plan or the Virginia Cash Match Plan.

Costs to Move All New Employees and All Current Hybrid Retirement Plan Employees to Plan 2

To make this change for all state and local employees and all teachers will require increased Plan 2 contribution rates, and VRS will incur implementation costs to administer an increasingly complex benefits package with many individual tiers, layers, and nuances.

The employer cost associated with Plan 2 and the Hybrid Retirement Plan are relatively the same when comparing the Plan 2 cost to the Hybrid Retirement Plan DB plus the DC matching contribution. The biggest difference is that about 40% of the cost of the plan, or the part associated with the DC match, has no future investment or longevity risk for the employer. This means that if markets perform below expectations, the employers do not have to make up for the investment losses associated with the DC plan. Similarly, if members live longer than assumed, employers are not required to pay more if the DC balance is depleted. So, while the upfront costs are similar, the back-end costs are limited under the Hybrid Retirement Plan design. For employees, this design provides flexibility to invest more and receive matching employer contributions, which can potentially create a larger benefit than Plan 2 would provide. This is especially true if wages keep pace with inflation, allowing Hybrid Retirement Plan members to have the necessary funds to invest more for retirement. In addition, because the Hybrid Retirement Plan contains a defined contribution plan component, it generally provides greater portability for participants.

It is also worth noting that the pension fund is more than double what it was during the last large market correction in 2008-2009. Back during the Great Financial Crisis in 2008 and 2009, the pension plans had assets of approximately $55 billion. A market downturn of 20% would have increased the unfunded liability by approximately $11 billion. As of June 30, 2024, the pension assets have increased to approximately $110 billion. A -20% market correction today would generate an additional unfunded liability of approximately $22 billion. Further, VRS continues to pay off unfunded liabilities that were largely caused by the past underfunding of contributions and primarily accumulated before pension reforms. As of June 30, 2024, the VRS plans had approximately $23 billion in unfunded liabilities. These "legacy" liabilities will not be paid in full until 2042, unless there are additional monetary infusions to the plans appropriated by the General Assembly or positive plan experience relative to current assumptions (e.g., investment returns exceeding plan assumptions) occurs. However, any changes to the retirement system to provide benefit enhancements can erode the gains achieved over the past few years toward reducing these liabilities and can result in the generation of additional liabilities.

VRS implementation costs described below assume that implementation would be July 1 of the fiscal year following the year legislation may be passed. For example, implementation would be July 1, 2027, if legislation passed in the 2026 General Assembly session.

VRS implementation costs are estimated at approximately $374,800 in non-general funds in FY 2026 and approximately $39,100 in non-general funds in FY 2027 for programming necessary to make the changes contemplated in this option as well as communications to members and employers as well as updating handbooks and training materials. This assumes proposed legislation would be similar to SB 950 as it passed the 2025 General Assembly. VRS would request a delayed implementation of at least 18 months in order to design, test, and implement necessary system changes. Minimal ongoing costs are expected and would be absorbed into VRS administration costs. However, if implementation is earlier, costs may be higher and will be incurred earlier.

If the legislature chooses to pursue this option, there are other factors to be addressed. For example, local public employees in Plan 1 and Plan 2 are covered by disability retirement, while Hybrid Retirement Plan members are covered by the Virginia Local Disability Program (VLDP) or their local disability program, which provides both short-term and long-term disability benefits.[19] Even if local Hybrid Retirement Plan members are moved to Plan 2 under this option, maintaining such members' coverage in VLDP or their local disability program would both reduce administrative complexity for VRS and local employers as well as allow members to retain the disability benefits with which they are familiar. Additionally, costs do not include initial implementation programming required by the third-party administrator of VRS defined contribution plan accounts or VRS' ongoing administrative costs necessary to maintain the Hybrid Retirement Plan defined contribution plan accounts to which no additional contributions would be made.

Conclusion

In the wake of the 2008-2009 financial crisis, like almost every other state, the General Assembly embarked on a series of pension reforms with the goal of reducing investment and longevity risk while bolstering the financial position of the retirement system. The first major change implemented was the creation of Plan 2 for members joining on or after July 1, 2010. The new plan design was intended to allow VRS' funded status to recover faster and to reduce the employer contribution requirements for public employers that were struggling. Plan 2 also addressed risk by reducing the retirement multiplier, increasing the retirement age, increasing the number of years used to calculate average final compensation, and lowering the amount of cost-of-living adjustments.

Then, the Hybrid Retirement Plan was created for members joining on or after January 1, 2014. The Hybrid Retirement Plan combines a defined benefit (or pension plan) and a defined contribution or 401(K)-style plan. This design transfers some of the market risk from employers to employees through the defined contribution component. While the costs for the Hybrid Retirement Plan are somewhat similar to those of Plan 2, the design of the Hybrid Retirement Plan serves to shift investment and longevity risk to employees, thus ensuring that the effect of any market downturns or adverse plan experience is shared by employees and employers instead of falling solely on employers. In addition, the Hybrid Retirement Plan was designed to provide employees with increased portability.

Depending on investment returns, members of the Hybrid Retirement Plan who take full advantage of voluntary contributions to the defined contribution component, along with the associated employer matching contributions, should be able to accumulate a benefit income stream similar to Plan 1 and Plan 2 defined benefit plans. However, Hybrid Retirement Plan members must contribute considerably more of their compensation than Plan 1 or Plan 2 members to achieve this result.

In addition, the Hybrid Retirement Plan, with its defined contribution component, was designed to increase flexibility for members by allowing additional portability of their retirement plan funds if they left state or local government employment. Unlike defined benefit plans that are designed to

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[19] Most state employees are covered by the Virginia Sickness and Disability Program (VSDP), which provides both short-term and long-term disability benefits, instead of disability retirement.

offer the maximum benefit when an employee stays in the plan until retirement, defined contribution plan funds are generally readily portable between employers and accommodate employees who work for multiple employers throughout their career.

Although the mandate for this report was to determine if the adoption of the Hybrid Retirement Plan affected recruitment and retention of government employees and teachers, the available data does not allow for any conclusion to the issue posed. As the available Virginia data was reviewed for this report, it became evident that there was no available data source, or combination of sources, which would indicate with any degree of confidence a causal relationship between the adoption of the Hybrid Retirement Plan and the recruitment and retention of government employees and teachers.

The paucity of any actionable data indicating a causal relationship between the Hybrid Retirement Plan and recruitment and retention necessarily precludes recommendation of any change to VRS benefits as a means to improve employee and teacher recruitment and retention. Despite this, the report does include several options for benefit changes to the Hybrid Retirement Plan, based on inquiries received by General Assembly members, which are designed to enhance outcomes for employees. Any of these options would change employer contribution rates by varying degrees. Further, for any of these options, VRS would require funding for implementation costs. The cost of implementation would depend in part on whether the change would apply to all Hybrid Retirement Plan members or only to certain segments of the covered population such as only state employees, or only state employees and political subdivision employees. VRS would advocate for similar treatment across all participating employers in order to reduce administrative complexity and allow for parity across employers.

Retirement benefits are an important and valuable part of an employee's total compensation. However, employees also recognize that other components of their compensation, notably salary and health benefits, are at least as important as retirement benefits, and as employees approach retirement age retirement benefits become more relevant and more important. Defined benefit plan structures are designed to encourage employee longevity, and defined contribution plans are generally designed to provide greater portability and flexibility. The Hybrid Retirement Plan notably includes both of these desired elements. As currently structured, the Hybrid Retirement Plan does enable members to achieve a similar or better outcome than Plan 2 but it requires members to be more proactive in their retirement planning.

This report discussed several options for enhancing the Hybrid Retirement Plan to make it easier for members to achieve retirement security while still sharing in the risk that has historically rested solely on the employer. The option to revert to Plan 2 was also discussed, which would again shift risk back to the employer. As any benefit enhancements are considered, impacts to plan health such as heightened employer risk, increases in unfunded liabilities and potential increases in employer costs should be explored and balanced against the potential for improved employee outcomes.

Appendix A: General Research

General research that informed the report.

Employee Benefit Research Institute
https://www.ebri.org/crawler/view/trends-in-employee-tenure-1983-2022

Public Retirement Research Lab
http://www.prrl.org/uploads/1/4/0/1/140176219/pubtenure22_final.pdf

Workable, Resources for Employers
https://resources.workable.com/tutorial/new-hire-turnover-rate#:~:text=What%20is%20new%20hire%20turnover,first%2045%20days%20of%20employment

U.S. Bureau of Labor Statistics
https://www.bls.gov/jlt/
https://www.bls.gov/opub/mlr/2015/article/job-openings-reach-a-new-high-hires-and-quits-also-increase.htm
https://www.bls.gov/jlt/publications.htm
https://www.bls.gov/charts/job-openings-and-labor-turnover/opening-hire-seps-level.htm
BLS, October 2018, Which industries are filling job openings and which industries are not? Exploring the JOLTS hires-per-job-opening ratio, https://www.bls.gov/opub/btn/volume-7/which-industries-are-filling-job-openings-and-which-industries-are-not-exploring-the-jolts-hires-per-job-opening-ratio.htm

National Institute for Retirement Security
https://www.nirsonline.org/reports/rhodeisland/
https://www.nirsonline.org/reports/no-quick-fix/
https://www.nasra.org/pensionreform
https://www.nasra.org/files/Compiled%20Resources/nasrapensionchanges.pdf
https://www.nirsonline.org/reports/alaskareport/
https://www.nirsonline.org/reports/revisiting-the-three-rs-of-teacher-retirement-systems-recruitment-retention-and-retirement/
https://www.nirsonline.org/reports/the-three-rs-of-teacher-pension-plans-recruitment-retention-and-retirement/
https://www.nirsonline.org/reports/state-and-local-employees-views-their-jobs-pay-and-benefits/
https://www.nirsonline.org/reports/win-win-pensions-efficiently-serve-american-schools-and-teachers/
https://www.nirsonline.org/reports/teacher-retirement-plans-case-studies-in-washington-and-ohio-indicate-value-of-pensions/
https://www.nirsonline.org/reports/publicsafety/

National League of Cities:

https://www.nlc.org/article/2023/06/21/the-public-workforce-recruitment-challenge-new-data/
https://www.nlc.org/article/2023/11/15/local-strategies-for-law-enforcement-recruitment-and-retention/
https://www.nlc.org/article/2022/08/22/three-topics-city-leaders-should-focus-on-to-boost-recruitment-and-retention/

MissionSquare Research Institute
https://research.missionsq.org/posts/workforce/2024-state-and-local-workforce-survey
https://research.missionsq.org/posts/news/state-and-local-governments-try-new-approaches-to-attract-job-candidates-as-acute-public-workforce-shortages-linger
https://research.missionsq.org/event/webinar-promising-practices-in-public-sector-recruitment-and-retention

State and Local Government Excellence
https://research.missionsq.org/content/media/document/2018/04/PensionCutsAndCompetitiveness.pdf

In alignment with the Biennial Review of Teacher Compensation Packages, the Virginia Department of Education has worked closely with the Department of Human Resources Management (DHRM) and the Virginia Retirement System (VRS) in a work group over the last several months. The Virginia Department of Education work group participants included:

- Christina Berta, *Chief Operations Officer*
- Almas Floyd, *Chief Human Resource Officer*
- Rob Gilstrap, Assistant Superintendent of Educator Preparation and Licensure, and
- Susan Williams, Director of Data Governance and Compliance.

The participants were tasked to identify data elements to measure the impact of Teacher Compensation Packages on turnover in the workforce.

As part of this work, it was determined that the data elements that the Virginia Department of Education collects as part of exit survey data does not directly request whether compensation and/or retirement offerings are a or the reason for a teacher leaving the Virginia workforce. In Virginia's K-12 education system, the responsibility for recruiting and hiring teachers primarily rests with local school divisions, not the state agency. While the Virginia Department of Education in partnership with the Virginia Board of Education has established teacher licensure requirements and provided guidelines, the actual selection and employment of teaching staff are managed at the division level. This localized control allows school divisions to address their unique community needs, ensuring that hiring decisions align closely with local priorities and student populations. With the addition of the hybrid retirement plan through VRS in 2014, the defined benefit component maintained the same employer contribution across all three available retirement plans – Plan 1, Plan 2, and hybrid. The defined contribution component for hybrid employees varies based on the employee's voluntary contribution to their retirement plan.

While VDOE does not currently collect data that directly measures benefit satisfaction, it does conduct the Virginia School Survey on Climate and Working Conditions. This survey checks classroom instructors and staff on their perceptions of school climate and working conditions. The report summarizes statewide findings on teacher perceptions of the learning environment, professional support, their relationships with students, and school leadership. The Virginia School Survey represents the continued partnership that meets DCJS's legislative mandate to conduct a secondary school (grades 6 through 12) climate survey and VDOE's legislative mandate to conduct a working conditions survey of all licensed school personnel.

Results from the 2024 administration of the Virginia School Survey of Climate and Working Conditions provide a point-in-time estimate of teachers' perceptions of school climate and working conditions. With participation from 17,026 teachers representing more than 350 schools, the survey results offer a meaningful snapshot of current conditions in public high schools and highlight areas of both strength and opportunity for improvement.

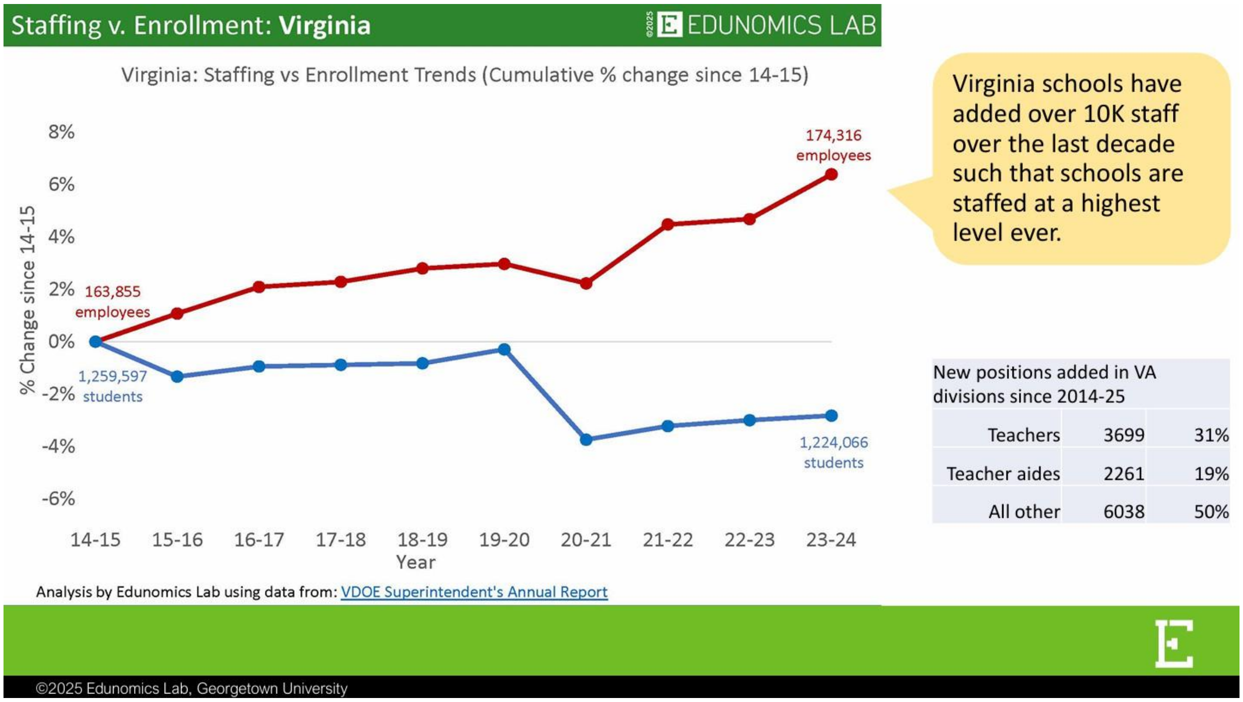
Overall, teachers reported broadly positive perceptions of their working environment. Key strengths include high levels of teacher autonomy, strong collegial relationships, rigor of instruction, and positive relationships between students and adults. This indicates a strong interpersonal and professional environment in Virginia's public high schools. Perceptions of respect and professional growth opportunities have improved since 2022, suggesting a growing sense of value and investment in the teaching profession.

Of the teachers who participated in the survey, over 80 percent indicated they intended to continue working at their current school. This was a promising improvement from 2022 and reflects stronger stability in Virginia's teaching workforce.

Immediate Professional Plans	2024 (%)	2022 (%)
Continue teaching at my current school	81.9	76.6
Continue teaching in this division but leave this school	3.0	3.1
Continue teaching in this state but leave this division	2.8	3.5
Continue teaching in a state other than Virginia	.9	1.1
Continue working in education but pursue a non-teaching position	3.8	4.8
Leave education to retire	2.4	2.9
Leave education to work in a non-education field	4.2	6.7
Leave education for other reasons	1.0	1.3

The Virginia Department of Education, Virginia Board of Education, and JLARC have been looking closely at teacher shortages for the last ten years. A joint report was delivered to the Virginia Board of Education in 2018 to address the national and local teacher shortage. In July 2023, another JLARC report was issued and retirement benefits or current pension plans were not cited as a cause or solution in this report.

As was recently shared with the Virginia Board of Education in a recent meeting presentation by Dr. Marguerite Roza, Research Professor and Director of the Edunomics Lab at Georgetown University as part of the National Expert Series, while Virginia K-12 student enrollment has declined, there has been an increase of more than 10,000 staff, 31% or 3,699 of which are teachers, over the last decade as shown on the chart below:



To enhance what is known about whether benefit satisfaction plays a part in a teacher choosing to leave their current school, the Virginia Department of Education will begin collecting new data points on the Positions and Exits Collection in the 2025-2026 school year. Specifically, the 131 local school divisions will be annually surveyed for information in the existing Positions and Exits Collection survey about:

- Supplemental retirement benefit offerings at no cost to their employees,
- Supplemental retirement benefit offerings at a cost to their employees,
- Administrative Strategies or Consortium Membership to keep offerings affordable for the locality and participating employees, and
- Exit survey data specifically related to benefit and pension satisfaction.