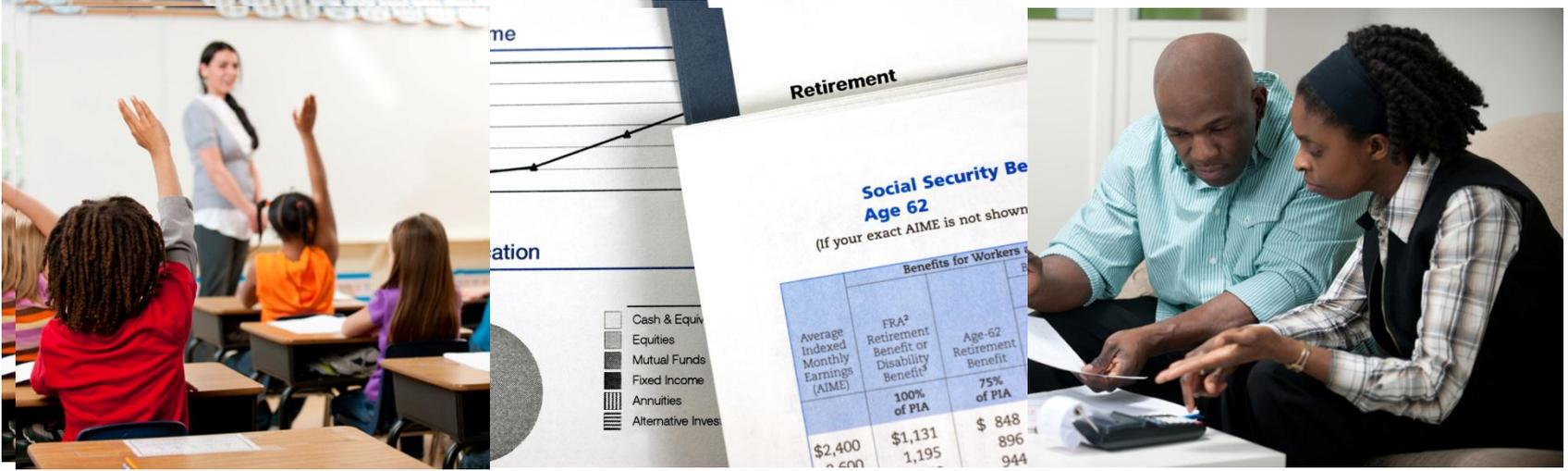


JLARC

JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION



Review of Retirement Benefits for Public Employees in Virginia

Eastern States Legislative Fiscal Officers Association
September 12, 2012

About JLARC

- Research and oversight agency of Virginia General Assembly
 - Evaluates operations and performance of state agencies/programs
 - Conducts policy research and analysis on behalf of the legislature
- 15-member Commission, 28 staff
- Responsible for ongoing oversight of the Virginia Retirement System since 1994

In This Presentation

Study Process and Findings

Lessons Learned

2011 Review of Retirement Benefits: Key Study Questions

- Do current defined benefit plans achieve relevant goals?
- Are the defined benefit plans structured appropriately to balance employer and employee perspectives? If not, how could they be changed? Should an alternative plan be created?
- If an alternative plan is desirable, what options are available and which would best meet the needs of the State and local governments?

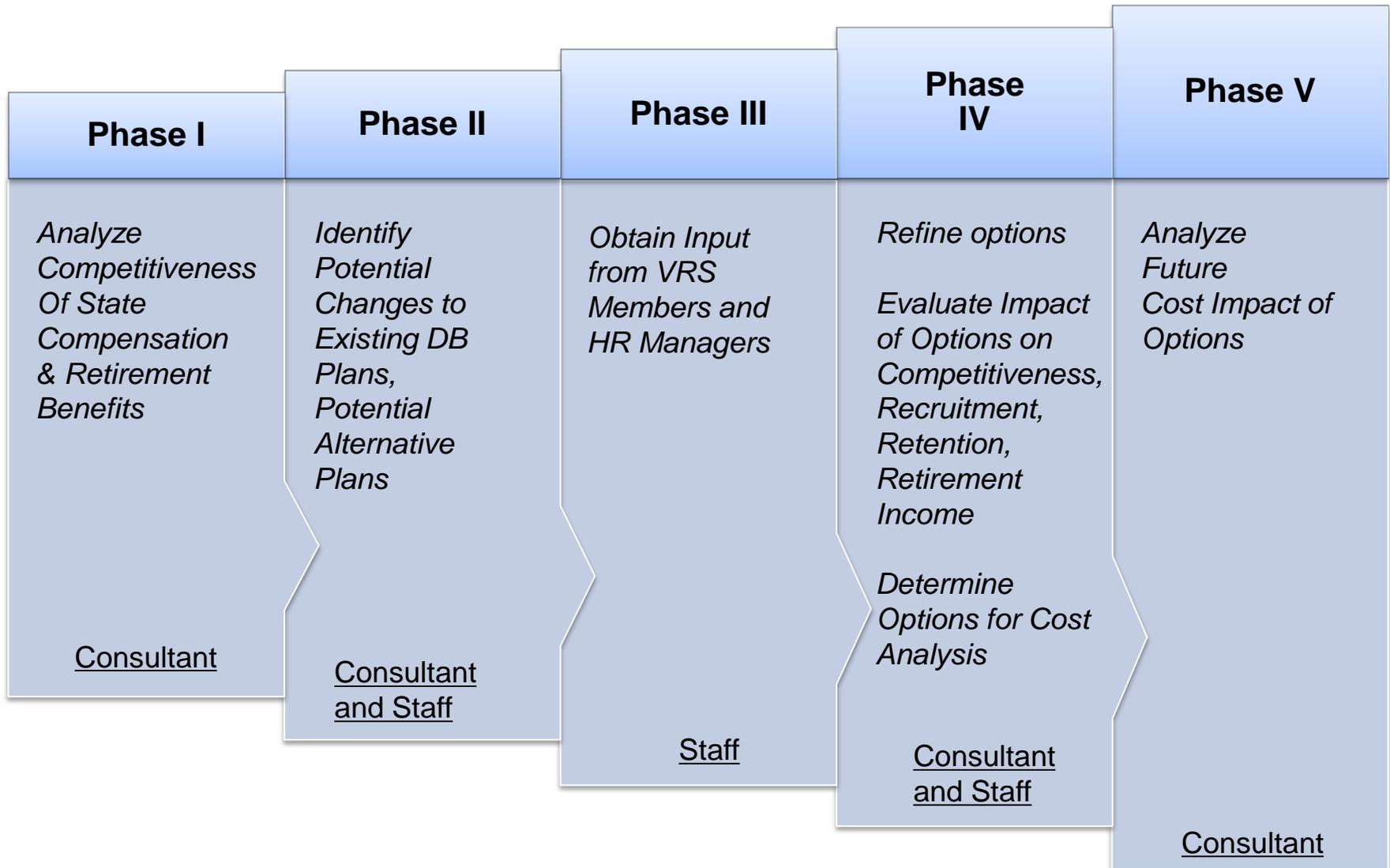
Staff Developed Framework for Evaluating Potential Changes

- Would changes maintain competitiveness of benefits?
- Would changes allow employees to retire with adequate income after a full career?
- Would changes reduce State's future costs?

Resources and Research Activities

- Three staff members dedicated on full-time basis
- Consultation and analysis by two actuarial firms
- Two staff-administered electronic surveys
 - ❑ 5,000 State employees
 - ❑ 139 State agency HR managers
- Staff-administered interviews of 70+ individuals
 - ❑ 50 local government employees, including teachers and law enforcement
 - ❑ 8 large state agencies
 - ❑ 6 other states recently enacting pension changes
 - ❑ 5 interest groups representing public employees and employers
 - ❑ 3 national experts
- Consultations with VRS staff
- Literature review

Research Period Divided into Five Phases



Phase I: Benefit Competitiveness

- How competitive is the total compensation package provided to State employees?
- How do the retirement benefits contribute to competitiveness?
- JLARC's actuary analyzed
 - Competitiveness of total compensation compared to market/peers
 - Competitiveness of retirement benefits compared to peers
 - Contribution of retirement benefits to total compensation

Phase II: Potential Options for Change

- What changes could be considered that would mostly maintain benefits' competitiveness, reduce State costs, and allow for adequate income replacement?
- JLARC staff worked with actuary to develop potential changes to DB plan and alternative types of plans

Phase III: Employee/Employer Input

- From employees' perspective
 - What role do VRS benefits play in decisions to join/remain in public sector workforce?
 - How satisfied are employees with their retirement benefits?
 - How many employees might elect to participate in an alternative type of plan?
 - How might employees respond to changes to their current DB plan?
- From employers' perspective
 - What role do the VRS benefits play in recruitment/retention?
 - How might changes impact recruitment/retention?

Phases IV-V: Final Options Development and Cost Analysis

- Based on the evaluation of the potential impact of changes on the State and on employees, which options should be submitted for cost analysis?
- Step 1: JLARC actuary evaluated potential impact of changes identified in phases II and III on recruitment, retention, competitiveness, and income replacement
- Step 2: JLARC staff identified options for cost analysis
- Step 3: VRS actuary conducted analysis of cost impact through FY 2022

Final Report Evaluated DB Plan Changes

- No plan changes necessary to improve effectiveness
- Four changes would be reasonable to address cost concerns
 - Longer AFC period
 - Lower multiplier
 - Reduced COLA
 - Deferred COLA
- Two modifications discouraged:
 - Higher employee retirement age
 - Higher employee contributions

Final Report Evaluated Alternative Plans

Advantages of the Combination Plan

Recruitment of long-term employees

Retention of employees

Adequate retirement income

Reduction in costs

Greater level of interest among employees than DC plan

Advantages of the Defined Contribution Plan

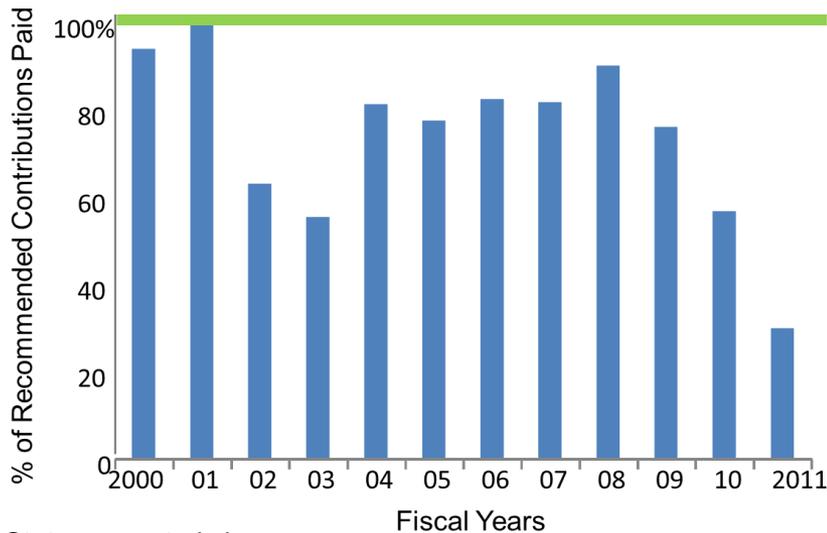
Recruitment of short-term employees

Benefit portability

Reduction in government's future benefit obligations

Increased employee responsibility

Paying Full Annual Costs Key to Sustainability



*For State-supported plans

- Fully funding recommended contributions “key to maintaining the pension plan on a sound basis.” (VRS actuary)
 - Benefit reductions, alone, would not make the plan sustainable
- Report recommended fiscal impact analysis if proposed contribution rates are less than recommended
- Report also notes:
 - *“Developing and implementing a strategy to fully fund the employer contribution would represent a positive step toward improving the financial condition of the plan.”* (p. 124)

2012 Plan Changes Consistent With Study Options/Recommendations

\$3.6 billion in reduced retirement costs for State-supported plans over 20 years

Plan adopted to make progress toward full funding

Non-vested members



Changes to benefit calculations, eligibility provisions, and COLA

All Members



Delayed COLA for reduced benefit retirees (exception for employees near full retirement)

New Members
(hired on/after 1-1-14)



Mandatory hybrid retirement plan

In This Presentation

Study Process and Findings

Lessons Learned

Key Takeaways

- Plan modifications reduce costs of future benefits earned; do not address accrued liabilities
- Certain plan changes can exacerbate costs of existing liabilities
- Changes will require trade-offs; presenting options for policymakers as opposed to recommendations may be reasonable
- Comprehensive analysis of potential impacts/unintended consequences improves impact of research

Challenges and Possible Solutions

Challenge	Possible Solution
Expertise and objectivity	Issue RFP for retirement benefits consultant
Managing consultant or third-party resources	<p>High level of clarity about research questions, expectations about deliverables, timing of deliverables, and relationship to total project</p> <p>At least two project team members familiar with consultants' role</p> <p>Regular status updates</p>
Data availability	Use existing retirement system actuary
Short timeframe	Maintain focus by developing guiding principles and priorities up front
Opposition from interest groups	Balance input from interest groups with general plan members
Logistics of employee feedback	<p>Surveys are helpful in quantifying employee feedback</p> <p>Focus groups helpful in developing survey questions and providing context</p>

Challenges/Solutions (Cont.)

Challenge	Possible Solution
Broad spectrum of potential change options	<p>Obtain <u>early</u> input on potential options from retirement system staff</p> <p>Be realistic about budget and time for conducting analysis</p> <p>Focus first on (1) options legislature/employees most likely to understand and find reasonable and (2) specific options of interest to legislature/Governor</p>
No apparent “magic bullet”	<p>Evaluate plans against other employers’ plans to identify “low hanging fruit”</p> <p>Consider whether changes are warranted to funding policies instead of or in addition to specific plan changes</p> <p>Present thoroughly analyzed <u>options</u> for consideration, as opposed to recommendations</p>
Unintended consequences of changes	<p>“Vet” options with a few key stakeholders</p> <p>Consider impact of changes on:</p> <ul style="list-style-type: none"> income replacement potential of plans turnover, particularly of experienced employees near retirement ability to recruit/retain qualified employees financial status of existing plan <p>Consider likelihood of legal challenges for each change option</p>

For More Information

The final report can be accessed via

<http://jlarc.virginia.gov/reports/Rpt422.pdf>

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