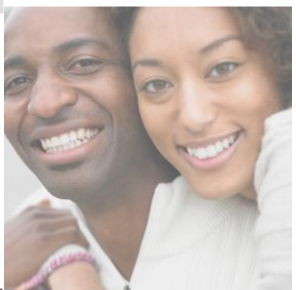
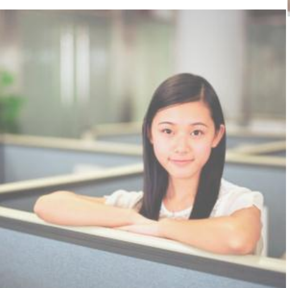




VRS Overview

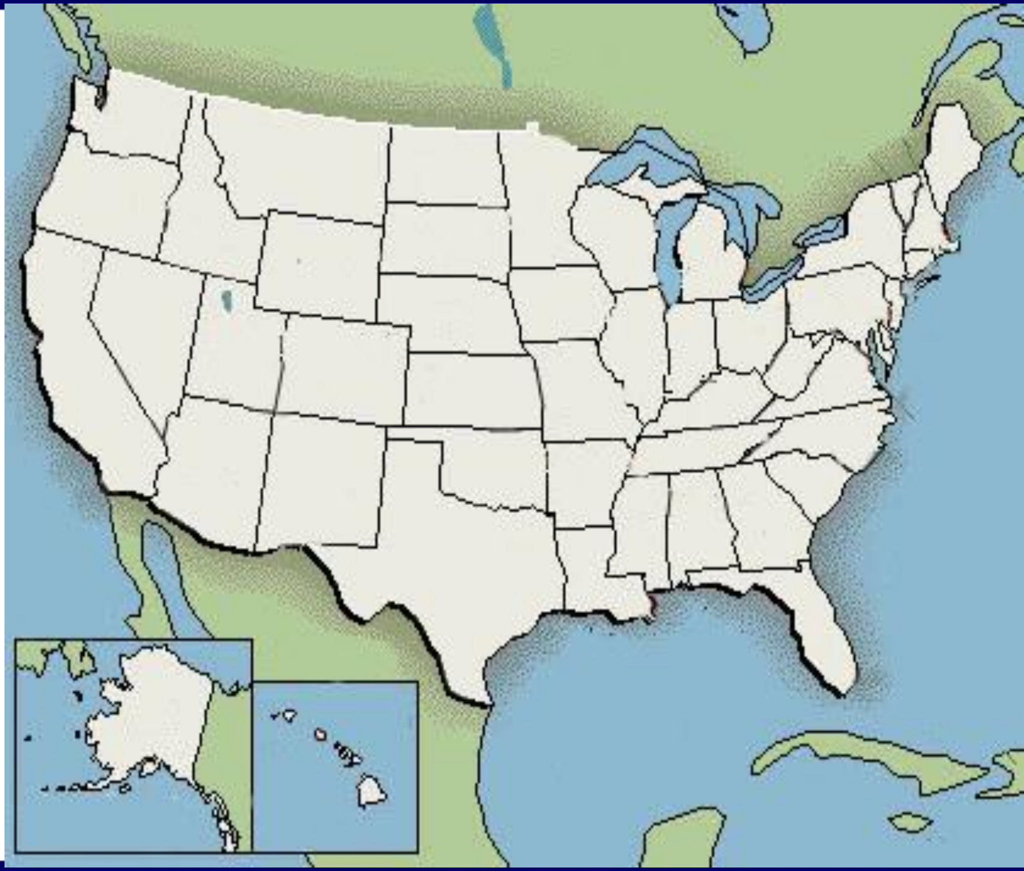
Presented to the Eastern States Legislative Fiscal Officers Association Annual Meeting

September 12, 2012

Robert P. Schultze, Director

Virginia Retirement System

Pension Reform in the U.S.*



* Data and information presented here comes from the National Council on State Legislatures.

Virginia Retirement System

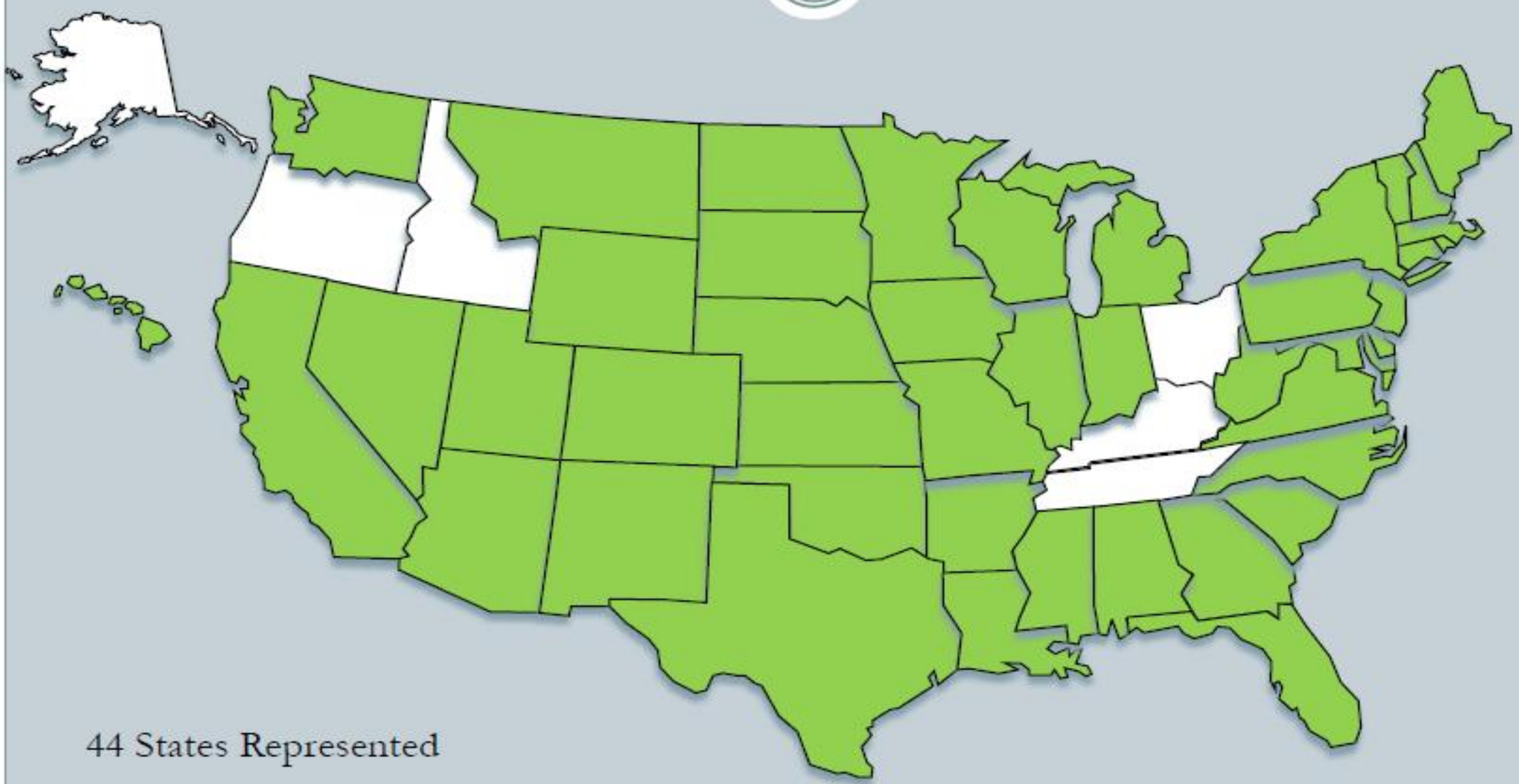
Legislative Overview 2009-12

44 states had legislation changing state retirement plans for general employees and teachers during 2009-2012, some of them more than once:

- In 2009 - 10 states
- In 2010 - 21 states
- In 2011- 32 states
- In 2012 - 7 states

State Pension Reform

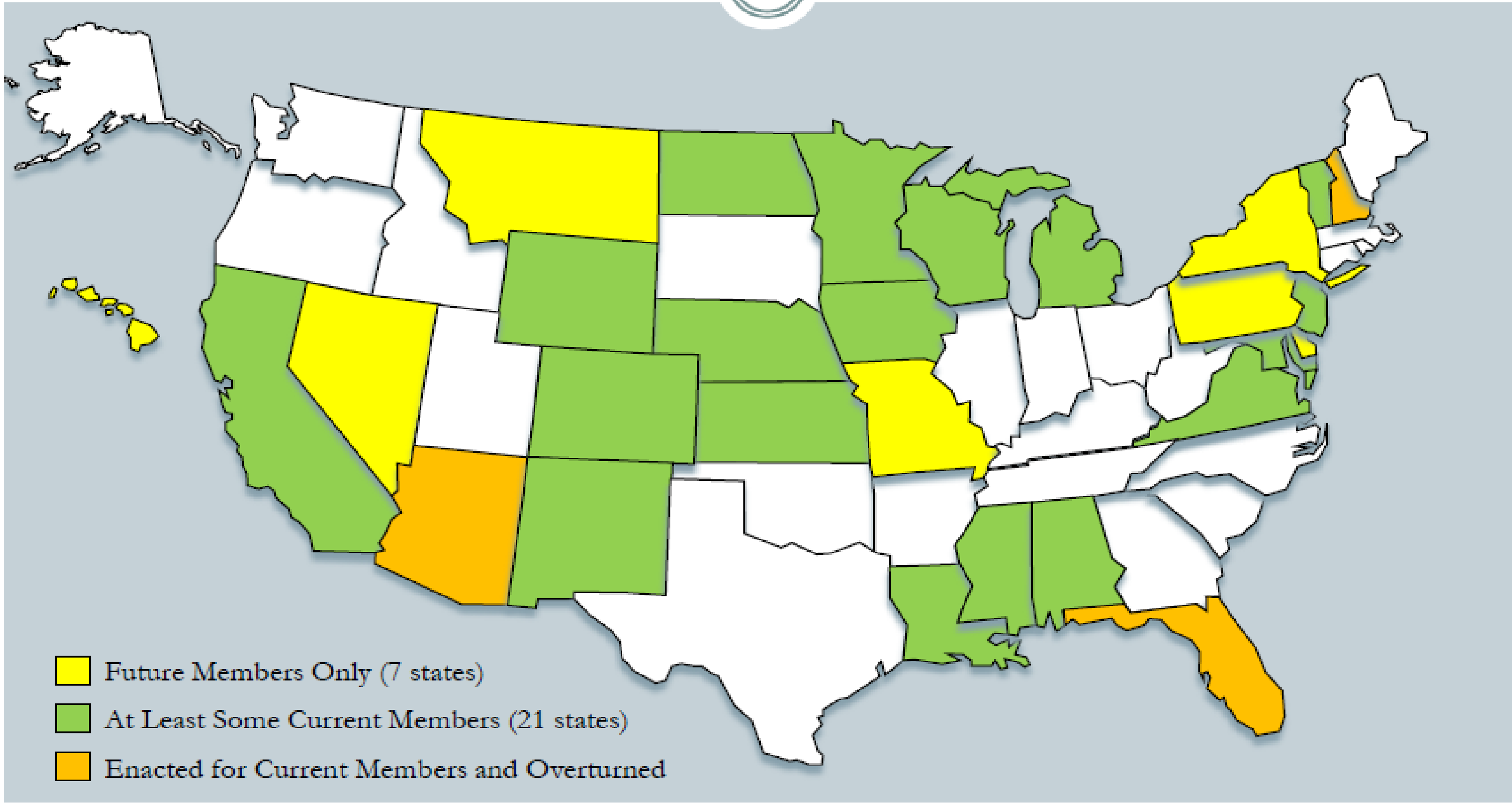
Major Pensions Legislation in 2009-2012:
All Topics



44 States Represented

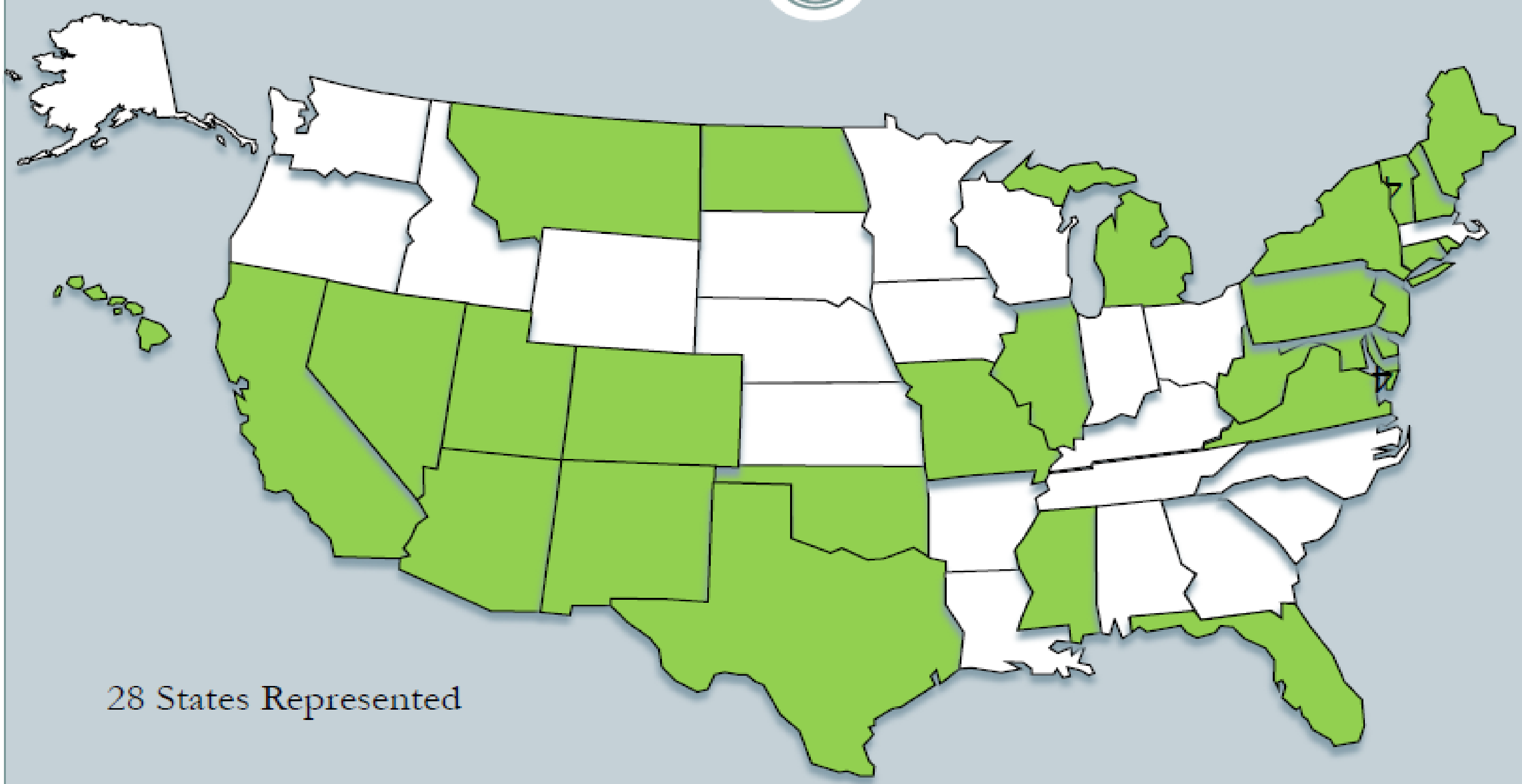
State Pension Reform

Increases in Employee Contributions, 2009-2011



State Pension Reform

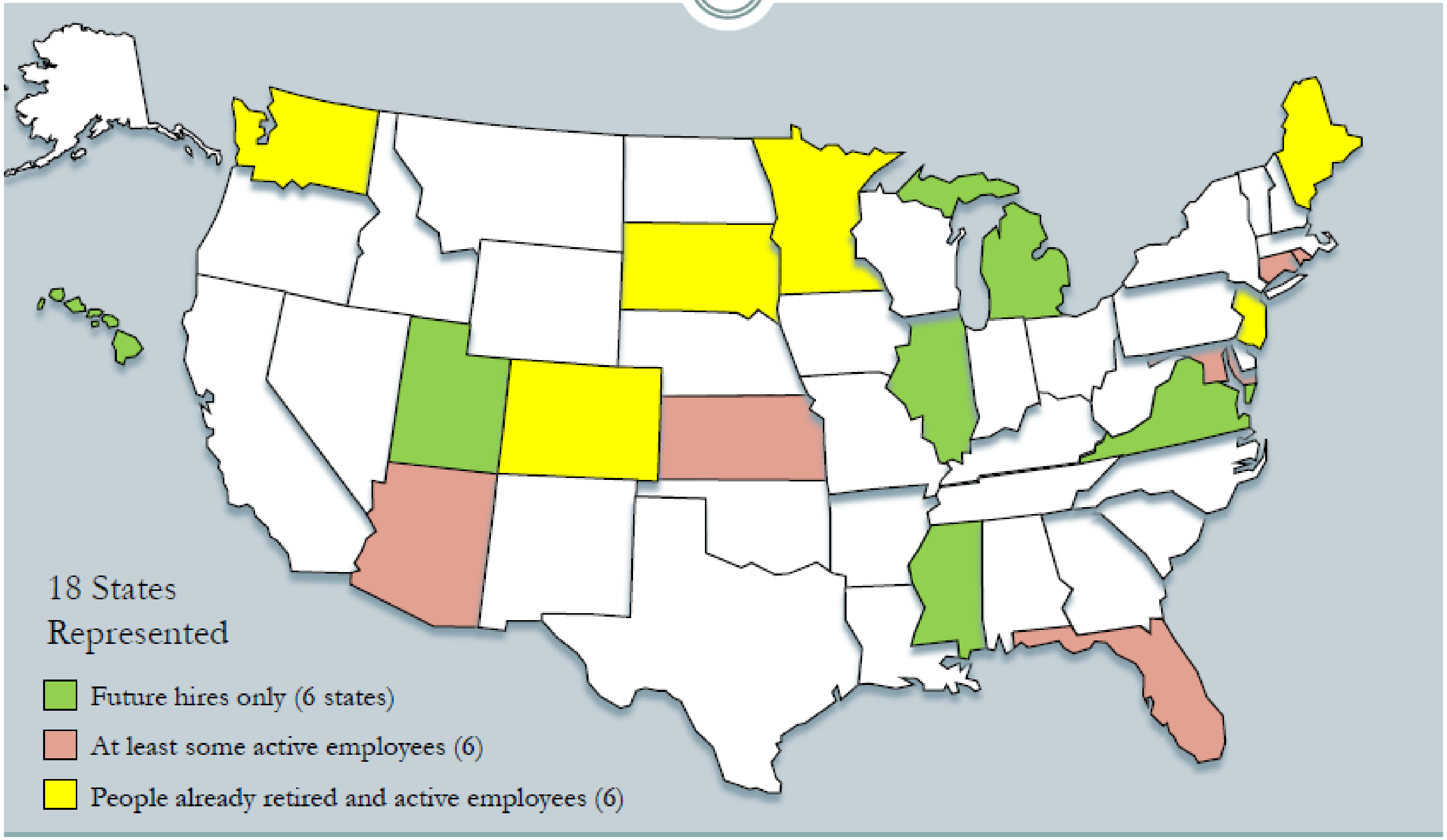
Higher Age and Service Requirements for Normal Retirement, for New Members, 2009-2011



28 States Represented

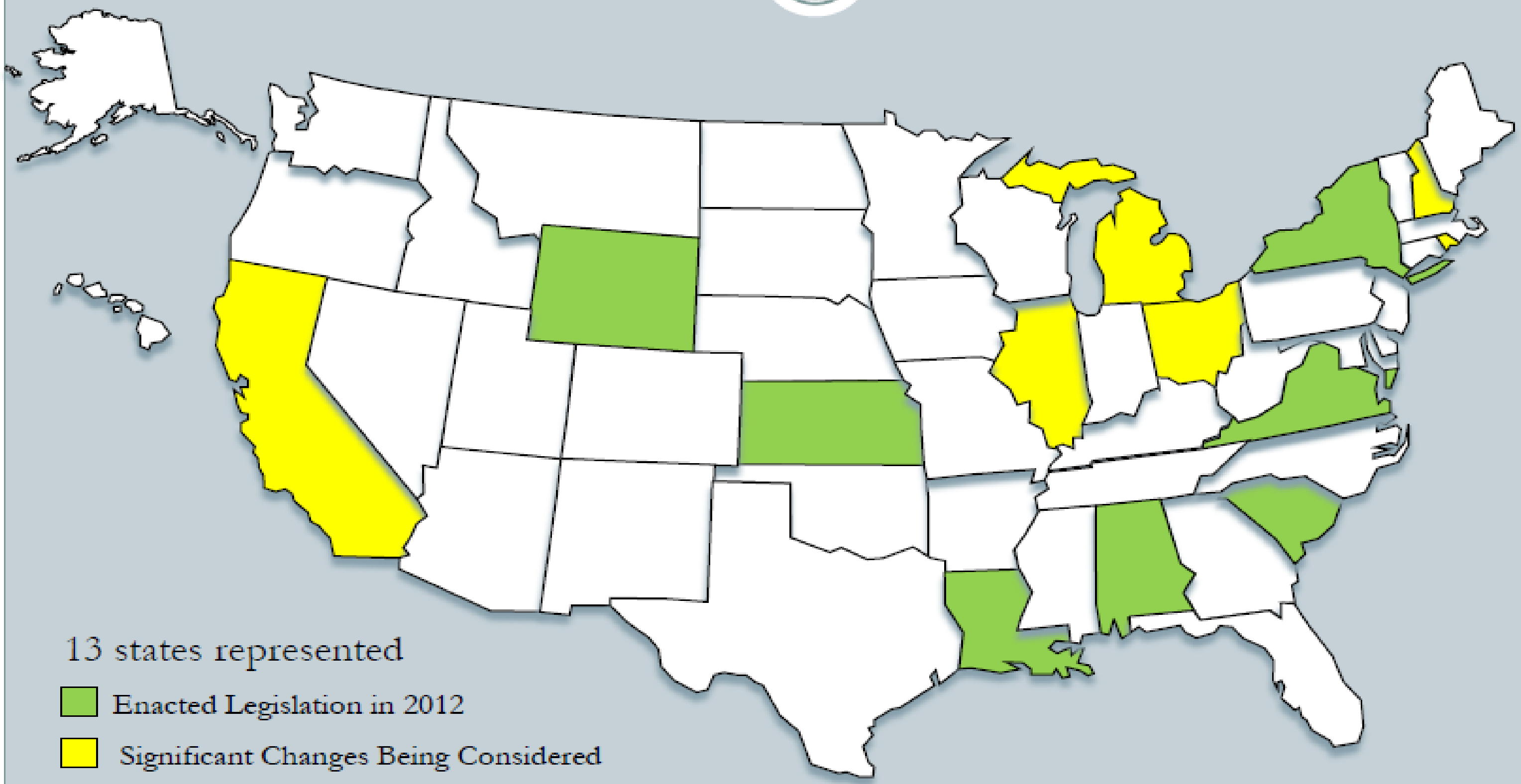
State Pension Reform

Reductions in Post-Retirement Benefit Increases Enacted in 2010 and 2011



State Pension Reform

Significant Structural Changes in 2012: Active and Enacted as of June 30



13 states represented

- Enacted Legislation in 2012
- Significant Changes Being Considered

Pension Reform Considerations

- Legal risks
  - Grandfather or not to grandfather
- Actuarial assessment of long-term savings
- Exemptions for certain groups
  - Public safety
  - Judges
- Consider disability protections
- Consider income replacement rates for career employees

Pension Reform in Virginia

Virginia Retirement System

Pension Reform Efforts in VA

Year	Reform Effort
2008	General Assembly requests JLARC Compensation Study
2010	General Assembly creates Plan 2 for members hired on or after July 1, 2010: ▪ Normal retirement changed to Social Security normal retirement age ▪ Unreduced benefits commencing at Rule of 90 ▪ Reduced retirement moved to age 60 with at least five years of service ▪ Members required to pay 5 percent member contribution (Local Option) ▪ COLA formula revised ▪ Five-year AFC formula
2011	General Assembly enacted 5/5 program for Plan 1 state employees ▪ State employee Plan 1 members pay 5% member contribution ▪ Offset with 5% salary increase JLARC updated study on pension reform
2012	General Assembly requires: ▪ Local employees pay 5% member contribution, phased in by July 1, 2016, with salary offset ▪ Non-vested Plan 1 employees benefit structure change, January 1, 2013 ▪ A hybrid plan for all general state and local employees hired on or after January 1, 2014

2012 Legislation
HB 1130/SB 498 (Howell/Watkins)

Launch of the Hybrid Plan January 1, 2014

Eligibility	▪ Those that participate in regular VRS (state employees, JRS, teachers and local government employees) automatically enrolled in hybrid from date of hire ▪ Public safety employees without hazardous duty coverage enrolled in hybrid from the date of hire ▪ One-time election window for current employees ▪ College faculty may elect the hybrid or DC Plan ▪ Public safety employees with hazardous duty coverage will not participate in the plan, but retain current plan provisions (VaLORS, SPORS, local enhanced hazardous duty coverage)
Disability	Provides a new optional disability program for localities. The locality must choose either to join the VRS-administered program or provide a disability program with comparable coverage from another source

Virginia Retirement System

2012 Legislation
HB 1130/SB 498 (Howell/Watkins)

Launch of the Hybrid Plan January 1, 2014

Multiplier	DB component has a 1.0% multiplier to produce a nearly 30% replacement rate after 30 years of service
Contributions	▪ Employee contributions automatically increased every three years by one-half a percentage point, unless the employee opts out or the employee is already at the maximum contribution of 5% to the DC component ▪ Employee contribution of 4% to the DB plan ▪ Employer contributions to the DB plan based on actuarial valuations ▪ Employer contributions to the DC component consist of mandatory 1% match, plus a 1% match on first percent elected by the employee, plus a one-half percent matching contribution on the next 3% elected by the employee. Total contributions as much as 5% from employee and 3.5% from employer

Contributions in the Hybrid Plan

	Employee	Employer
DB Plan Contribution	4%	Actuarially Determined
DC Plan Contributions:		
Mandatory Contribution	1%	1%
Optional Contributions	1%	1%*
Optional Contributions	1%	.5%*
Optional Contributions	1%	.5%*
Optional Contributions	1%	.5%*
	Total Optional Contributions: 4%	2.5%
Total Maximum	9%	3.5% + Actuarial

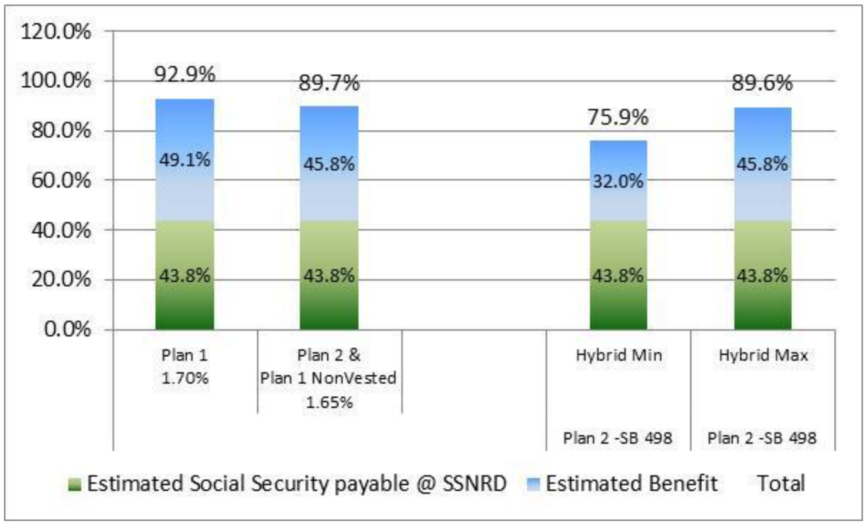
* Indicates the employer required match if the employee elects to make optional contributions.

Virginia Retirement System

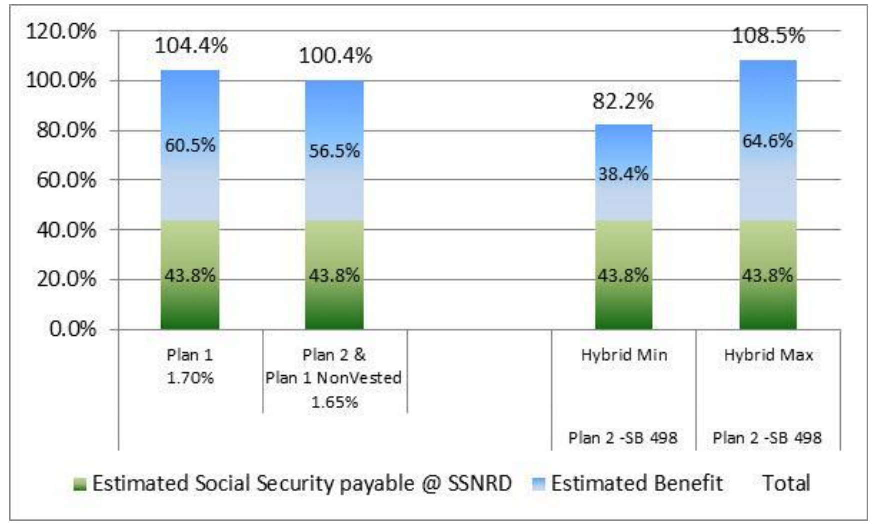
Estimated Income Replacement Ratio

Final Pay $40,000

Age 60 with 30 Years of Service



Age 67 with 37 Years of Service



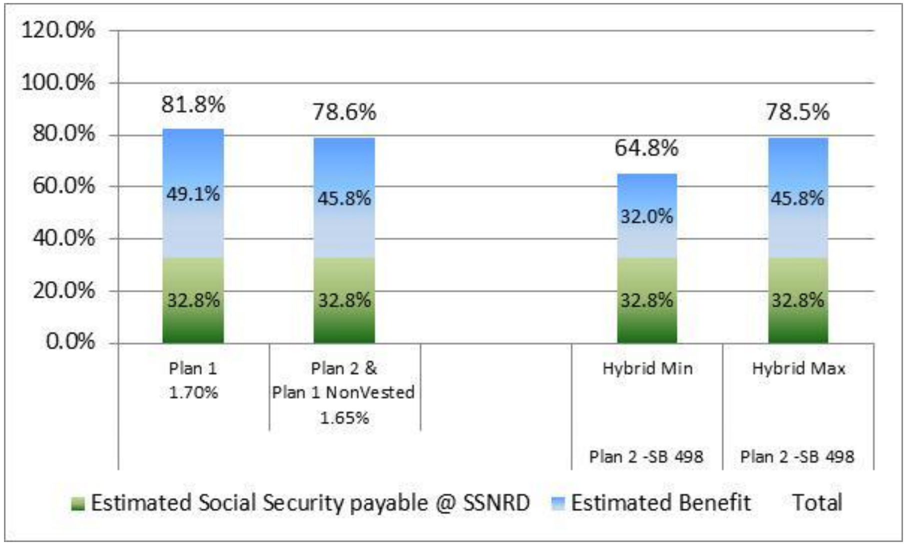
<u>Assumptions & Methods:</u>
Replacement Ratios are equal to the annuity payable at selected retirement age divided by the compensation in final year before retirement.
For purposes of calculating the social security replacement ratio at age 60, the replacement ratio is the expected benefit amount that will become payable at social security normal retirement date unadjusted.
Salary increases are assumed to be 4% per year. Inflation/Cost-of-Living is assumed to be 2.5% per year.
Mortality assumptions used to annuitize defined contribution balances are those prescribed by Internal Revenue Code 417e(3) for calculating minimum lump sum balances in 2011.
Defined contribution plan balances assume 6% pre-retirement investment returns.
Defined contribution plan balances are converted to annuity at retirement assuming a 4% investment return and a 2.5% benefit increase annually in retirement. It is unlikely that an individual could purchase an annuity that included the 2.5% increases, but in order to be comparable to the defined benefit annuity, we have included this feature.
SB 498 Hybrid Minimum contributions assume 1% employee contribution and corresponding 1% employer match. Maximum contributions assumes 5% employee contribution and corresponding 3.5% employer match.
Assumes member works entire career under one benefit formula. (No transition)

Virginia Retirement System

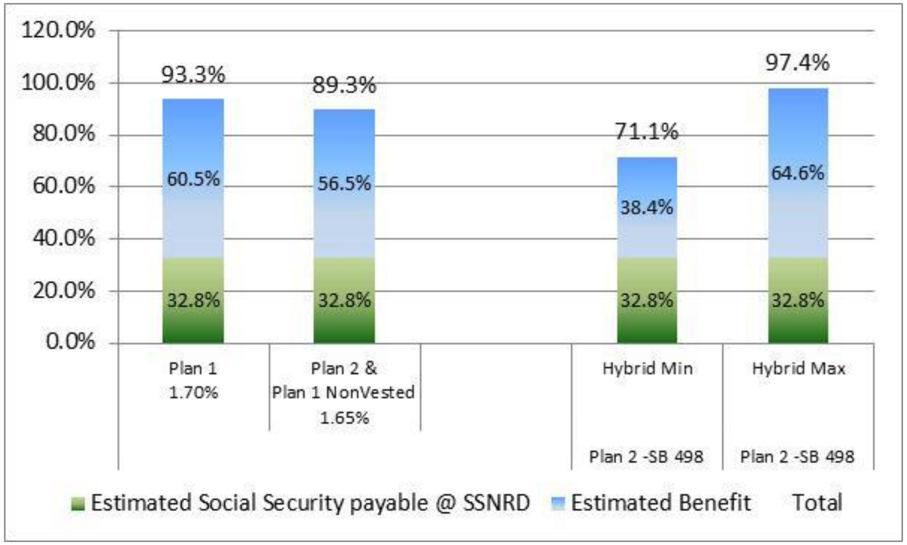
Estimated Income Replacement Ratio

Final Pay $80,000

Age 60 with 30 Years of Service



Age 67 with 37 Years of Service



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Virginia Retirement System

Impacts of Pension Reform

- Expected to reduce unfunded liability for “Big 5” retirement plans by approximately $7.4 billion over next 20 years
- Employers expected to save approximately $3.6 billion in contributions over next 20 years

Virginia Retirement System

Thank you!