



# House Appropriations Committee Retreat

November 18, 2009

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Director



Virginia  
Retirement  
System

# Agenda

- Rate Setting and Funding Benefits
- Recent Legislation and Trends in Other States
- Policy Alternatives

# Rate Setting and Funding Benefits

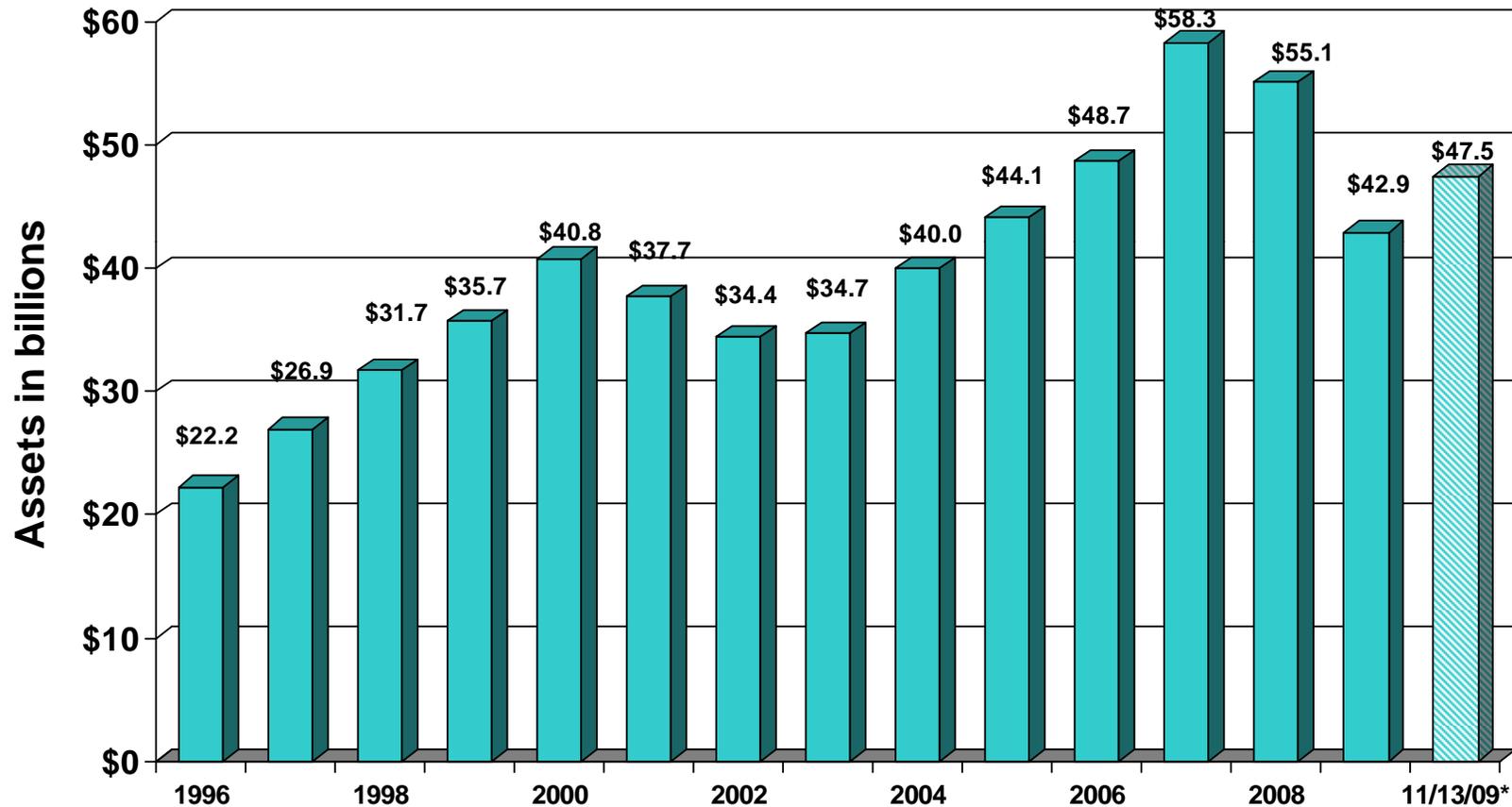


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# Funding VRS Benefits

- 68% of benefit costs funded by investment earnings
- 32% of benefit costs funded by employee/employer contributions

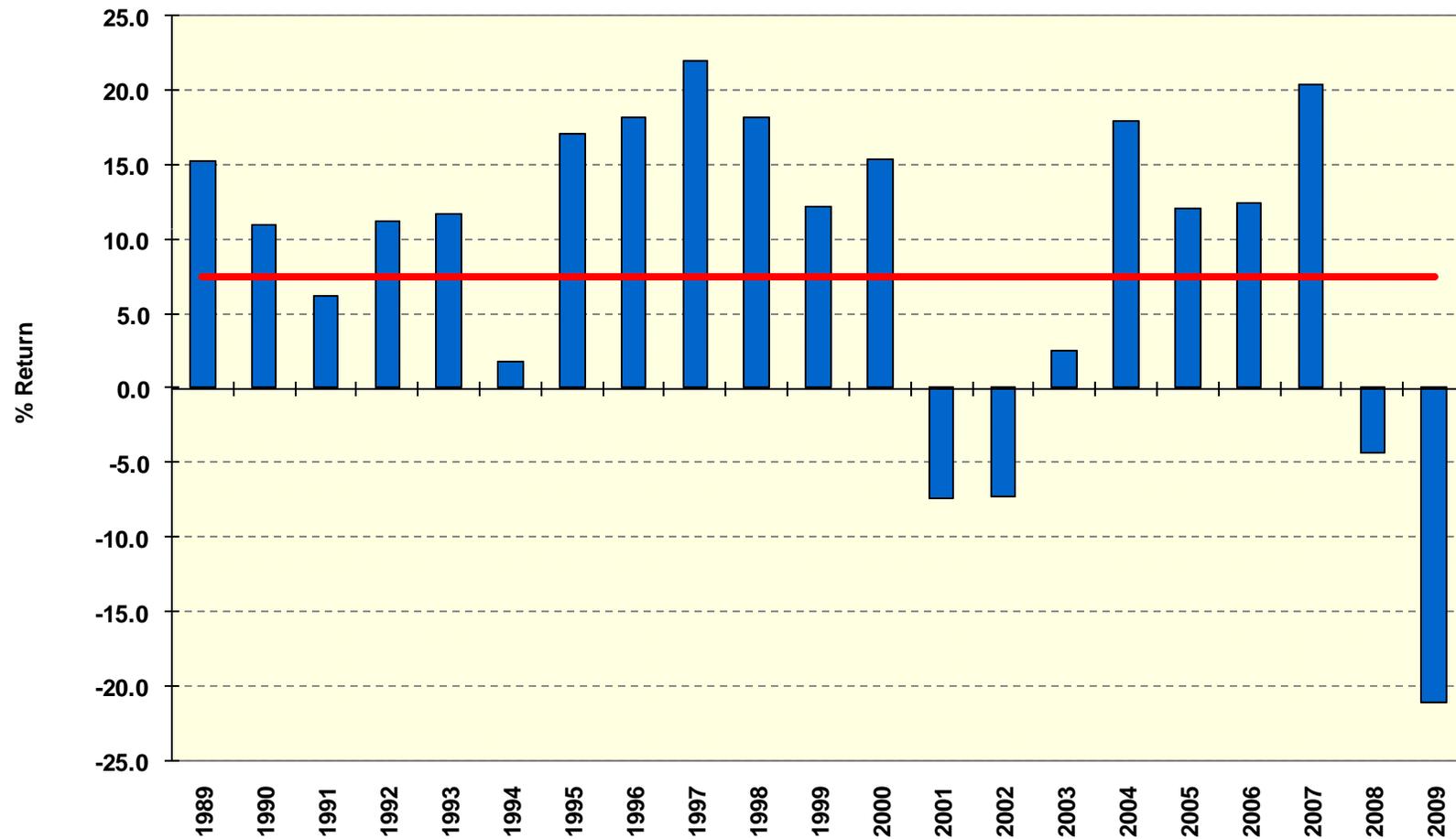
# Net Assets Available for Benefits



\* Estimate as of 11-13-09



# VRS Fiscal Year Returns



# Investment Returns

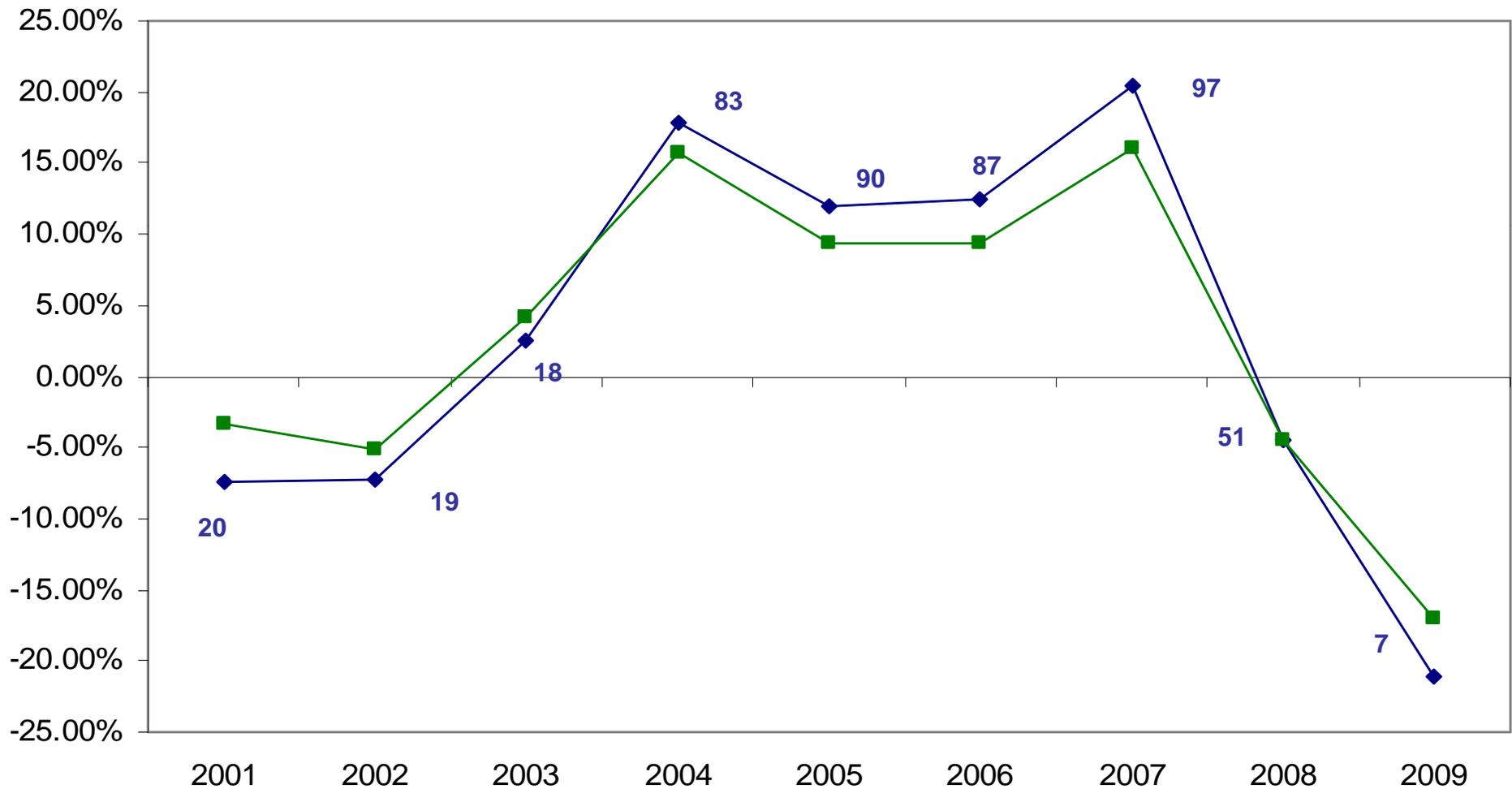
- FY2009 Return on VRS Trust Fund was negative 21.1%
- Actuarially assumed return was 7.50%
- Returns needed over various periods to “make up” the loss:
  - One year: 46.5%
  - Three years: 19.2%
  - Five years: 14.4%

# Investment Returns

- Fiscal Year 2009 to Date Return: 12.3%\*
- 2009 Calendar Year to Date Return: 15.4%\*

\*Estimated through close on 11/13/2009

# Total Returns of VRS and Public Pension Funds



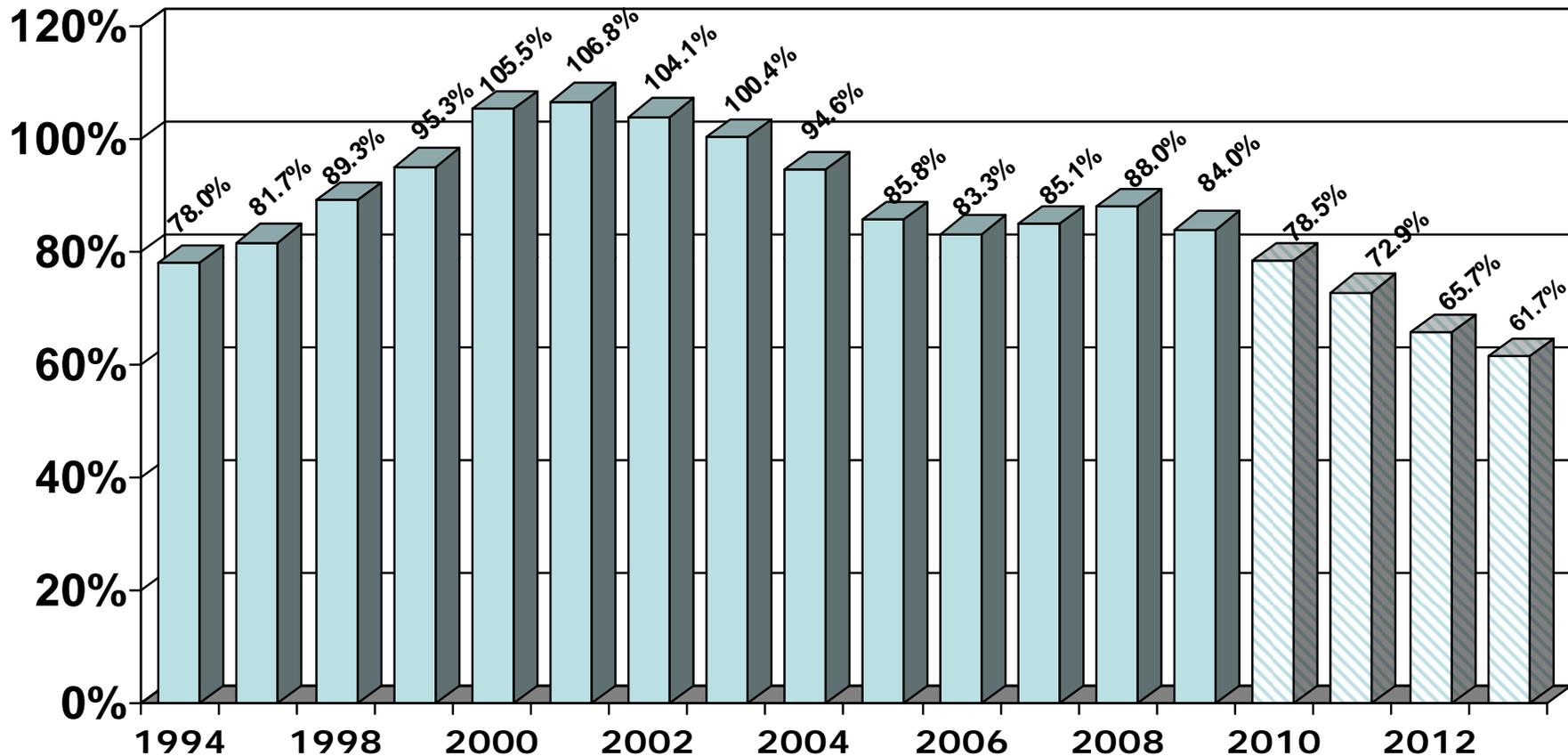
Blue numbers represent VRS' relative percentile performance

—◆— VRS Rate of Return —■— Median

# Funded Status

- Compares assets available to pay benefits with present value of future liabilities
- Asset/liability ratio is typical measure
- Percentage of assets available to pay present value of all future liabilities (until the last member of the plan dies)

# Funded Status: State Employees

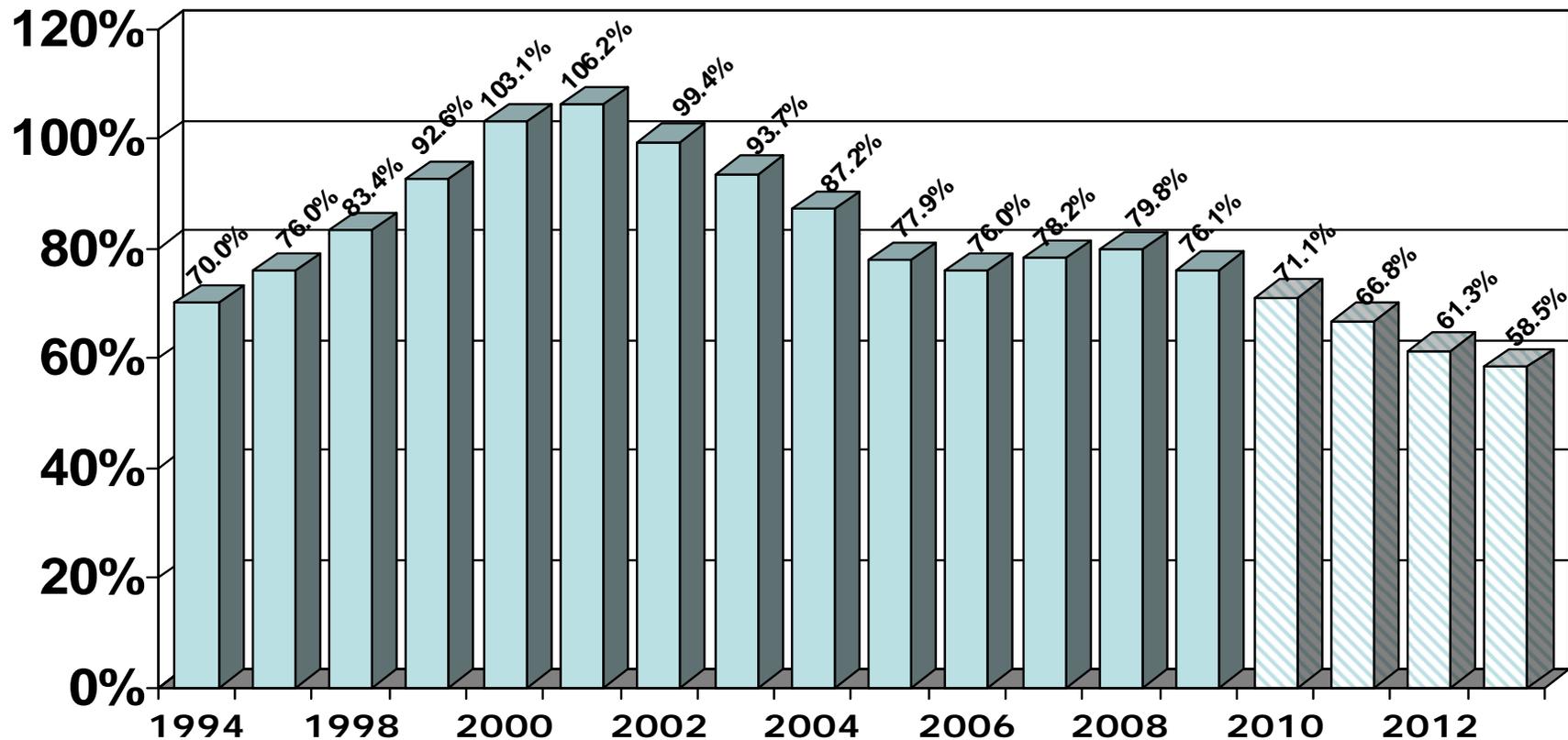


**Assumptions:**

- FY 2009 investment return is -21.1%.
- All projected years investment return is 7.5% and 2.5% inflation rate.
- Employer contribution rates for fiscal year 2009 is fixed at 6.23% and for 2010 at 6.26% for state employees.
- Actual value of assets subject to 5-year smoothing with no corridor.



# Funded Status: Teachers



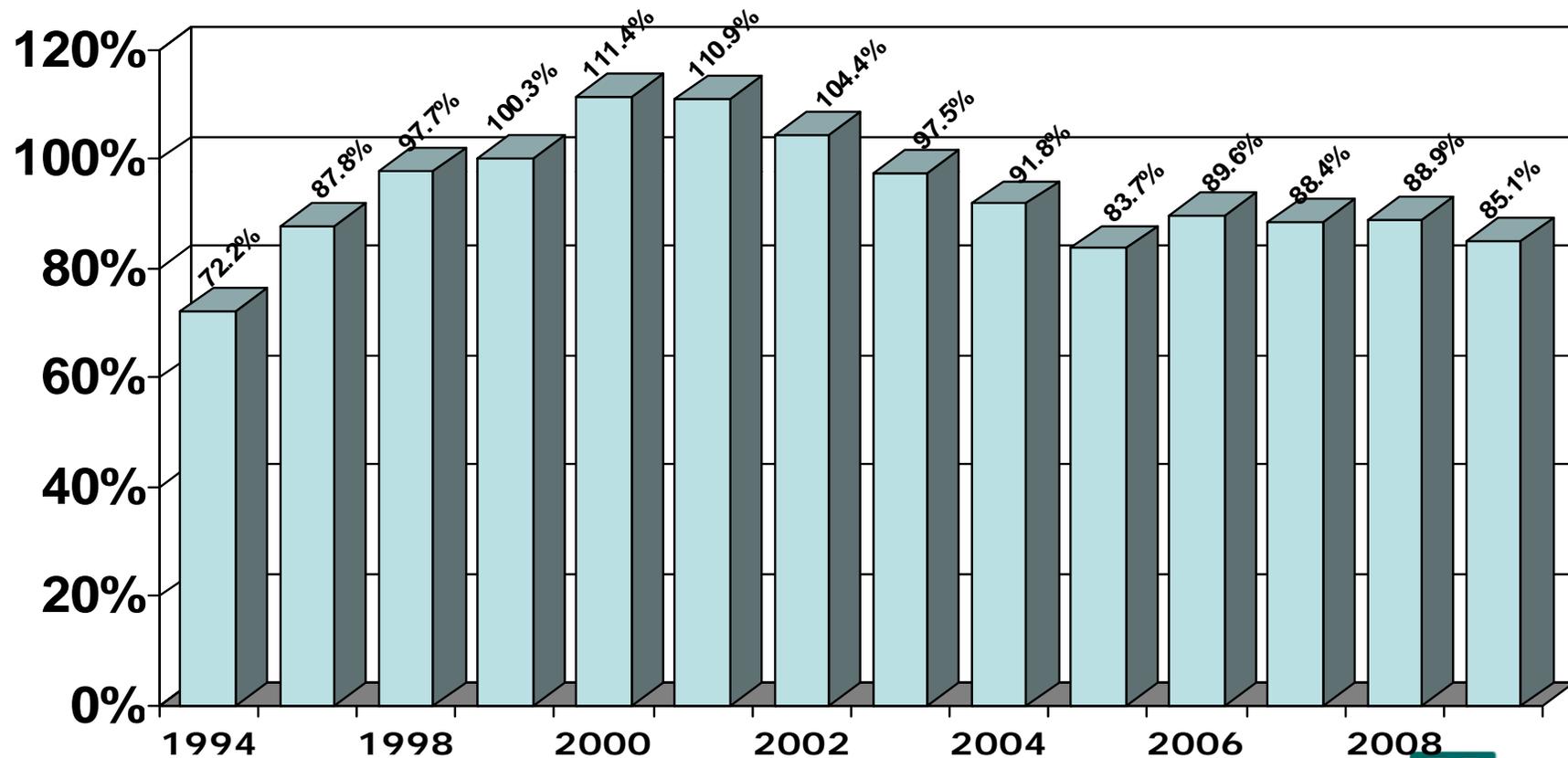
**Assumptions:**

- FY 2009 investment return is -21.1%
- All projected years investment return is 7.5% and 2.5% inflation rate with 20-year amortization period.
- Employer contribution rates for FY 2009 and FY 2010 are fixed at 8.81%
- Actual value of assets subject to 5-year smoothing with no corridor.



# Funded Status: Local Governments

2009 Aggregate Funded Ratio



Note: 2009 average funded ratio of all plans = 94.5%



# Employer Contribution Rates

	<b>Current Funded Rates* FY 2010</b>	<b>2007 Board Certified Rates**</b>	<b>2009 Board Certified Rates**</b>
<b>State Employee</b>	6.26%	8.02%	8.46%
<b>Teacher</b>	8.81%	11.84%	12.91%
<b>VALORS</b>	14.23%	16.78%	15.93%
<b>SPORS</b>	20.05%	24.09%	25.56%
<b>JRS</b>	34.51%	38.04%	46.79%
<b>Average Local</b>	7.00%	7.00%	8.00%

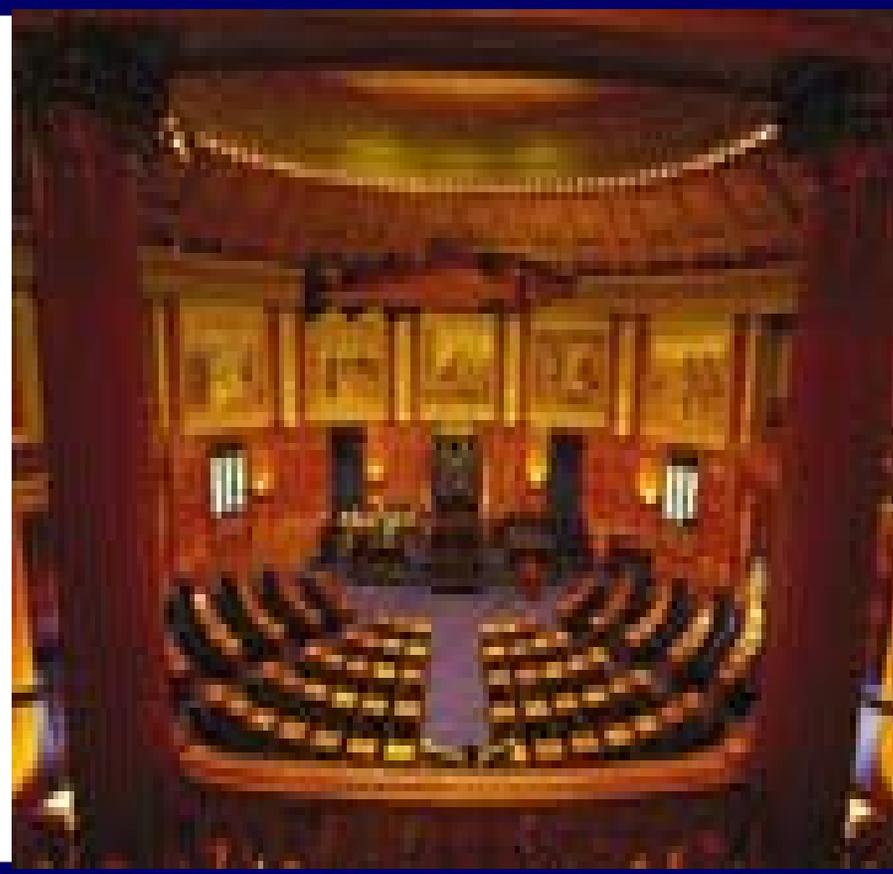
\*Current funded rates are based on assumptions applied in the 2009 Appropriations Act (8% rate of return, 3% inflation rate, and a 30-year amortization).

\*\*Board certified rates are based on the following assumptions (7.5% rate of return, 2.5% inflation rate, and a 20 year amortization period).

14 Note: These employer rates do not include the 5% member contributions that are also paid by employers.



# Recent Legislation and Trends in Other States



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# Recent Pension Legislation

- 2009 pension legislation in other states focused on making pension costs more manageable
  - States' strained fiscal circumstances
  - Investment losses in retirement trust funds
- Few benefit increases were enacted
- Reductions in various forms appeared in a number of states (generally to existing defined benefit plans)

# Recent Pension Legislation

## Actions taken by other states:

- Early retirement incentives (CT, ME, VT)
- Protections for employees subject to mandatory furlough days (IA, LA, NC, TN, VT, WA, WI)
- Commissions or interim committees to study retirement systems (AK, IL, IN, LA, ME, MN, ND, NM, NV, NY, VT)

# Recent Pension Legislation

- **Smaller COLAs**
  - Georgia eliminated post-retirement increases for new hires
  - Nevada reduced post-retirement increases for new hires
  - Louisiana limited post-retirement benefit increases after July 1, 2009 to those who have been retired for at least one year and who are at least 60 years old and provided new retirees an option to self-fund an annual 2.5% COLA by taking an actuarially reduced initial benefit
  - Rhode Island limited COLA adjustments to the lower of CPI or 3% for certain categories of employees
- **Higher Member Contributions**
  - Nebraska increased contributions for existing employees and employers
  - New Hampshire increased the employee contribution rate for new members (from 5% to 7% of salary)
  - Texas increased employee contribution requirement from 6.0% to 6.45% for new employees and instituted a new 0.5% contribution for law enforcement
  - New Mexico increased employee contribution for current employees by 1.5% and decreased state contribution by the same amount (NM was sued, but appears court upheld the increase)
  - Missouri Teachers increased employee contributions for current members

# Trends in Other States

- Higher normal retirement age or minimum eligibility age
- Longer final average salary periods
- Lower retirement multiplier (future service)
- Lower tier of benefits for new hires
- Stricter service purchase provisions
- Increased use of hybrid plans

# Policy Alternatives



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# Plan Design Changes Identified by PWC & JLARC

Benefit Change	Applicable				Savings/Cost Avoidance	
	Current Members	Non-vested members	New Hires	Current Retirees	Immediate	Long-term
Employee-paid Member Contribution (2%)*	✓	✓	✓		✓	
Increase retirement age 60**		✓	✓			✓
Reduce COLA for new retirees***	✓	✓	✓			✓
Combination Plan			✓			✓
Cash Balance Plan			✓			✓
Defined Contribution Plan			✓			✓

\*PWC & JLARC assumed that the contributions would be phased in over a four-year period.

\*\*PWC and JLARC did not apply retirement age design change to SPORS and VALORS.

\*\*\*JLARC & PWC suggested that the General Assembly could consider exempting active employees within several years of retirement eligibility from this change. Such an exemption could help limit the extent to which employees in this group may have to alter their retirement plans. This exemption could also help avoid a sudden increase in employee retirement—and therefore loss of experienced employees—just prior to the effective date.

