

VRS Overview

for the

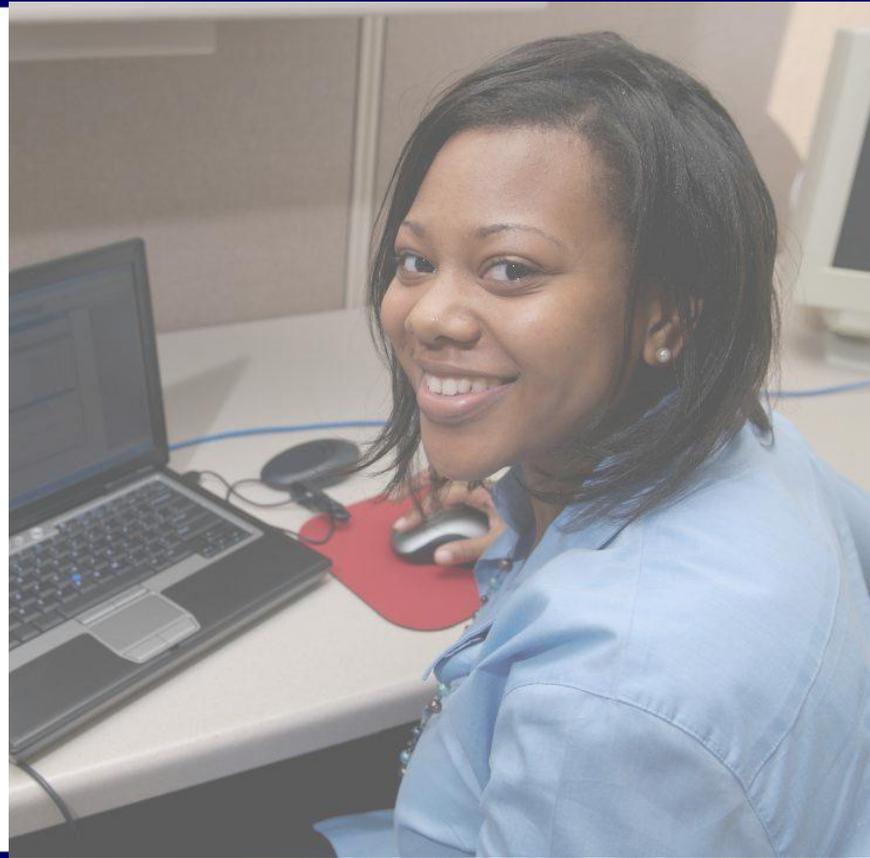
Compensation and Retirement Subcommittee of House Appropriations Committee

January 10, 2013



Virginia Retirement System

VRS Overview



Virginia
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System

VRS Total Membership

Teachers	146,078
Political Subdivisions	103,289
State Employees	78,397
State Police Officers' Retirement System (SPORS)	1,942
Judicial Retirement System (JRS)	407
Virginia Law Officers' Retirement System (VaLORS)	9,249
Total Active Members	339,362
Retirees/Beneficiaries	168,003
Inactive/Deferred Members	116,500
VRS Overall Impact	623,865

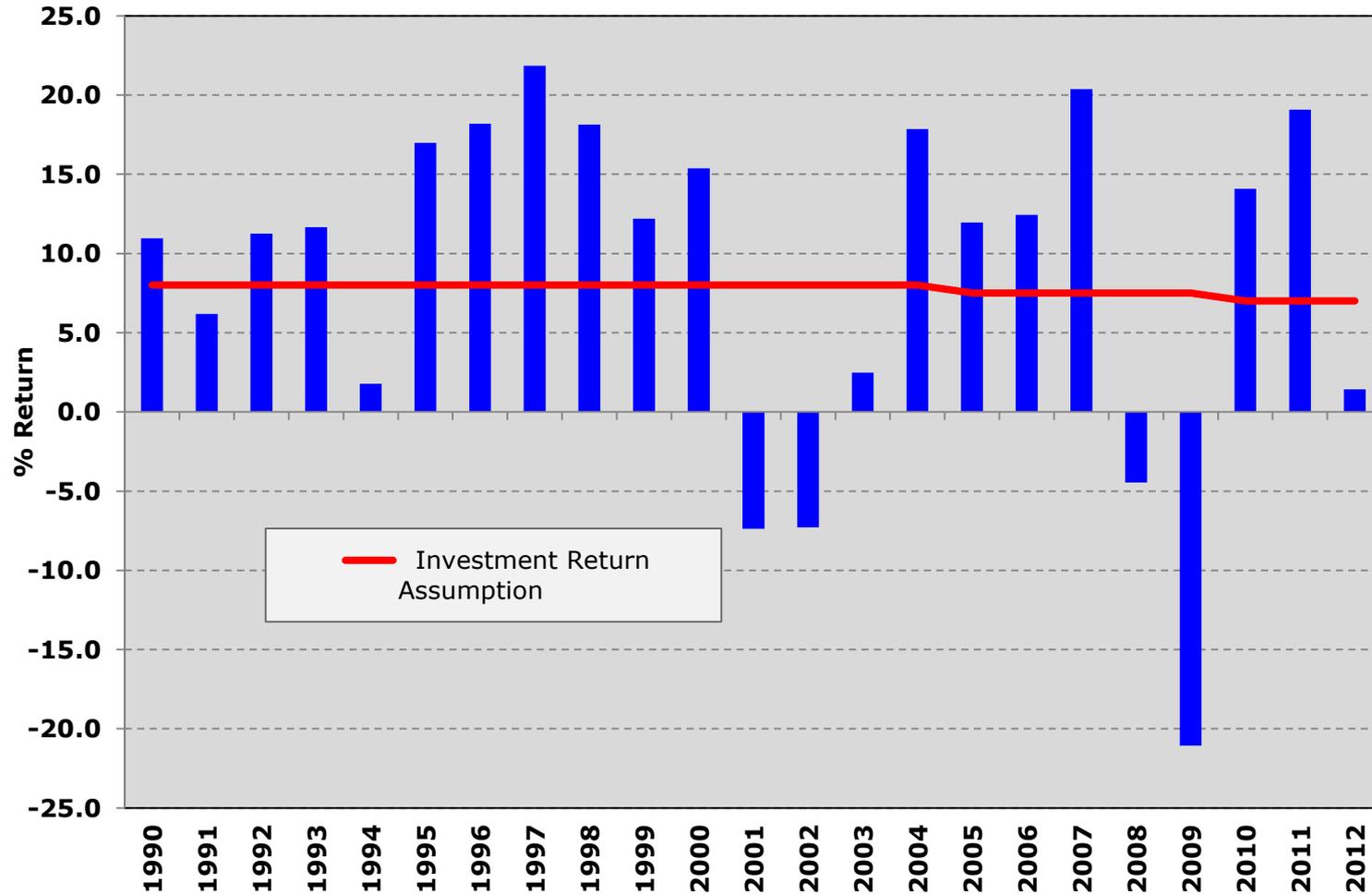
As of December 31, 2012

Benefit Comparison

	State	Teachers	Local
Actives:			
Average Age	48.1	45.2	46.2
Average Service	12.8	11.9	11.0
Average Salary	\$48,681	\$47,580	\$39,683
Retirees: (in FY 2012)			
Avg. Age @ Retirement	62.9	61.5	62.1
Avg. Service @ Retirement	20.8	23.0	19.9
Avg. Benefit @ Retirement	35.4%	39.1%	33.8%
Avg. Annual Benefit	\$18,324	\$23,048	\$15,135

Information above obtained from the June 30, 2012 Actuarial Valuation.

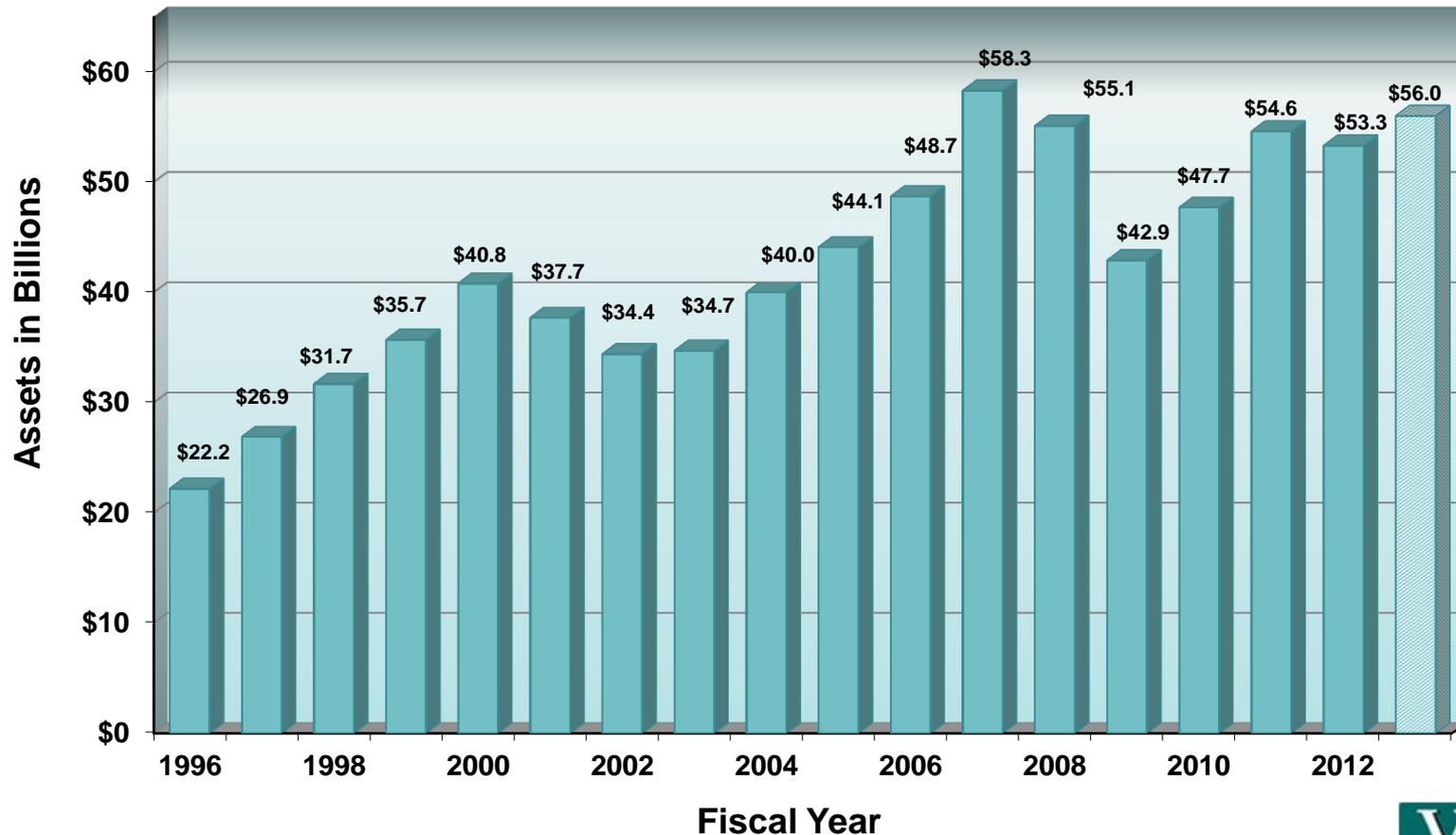
VRS Fiscal Year Returns



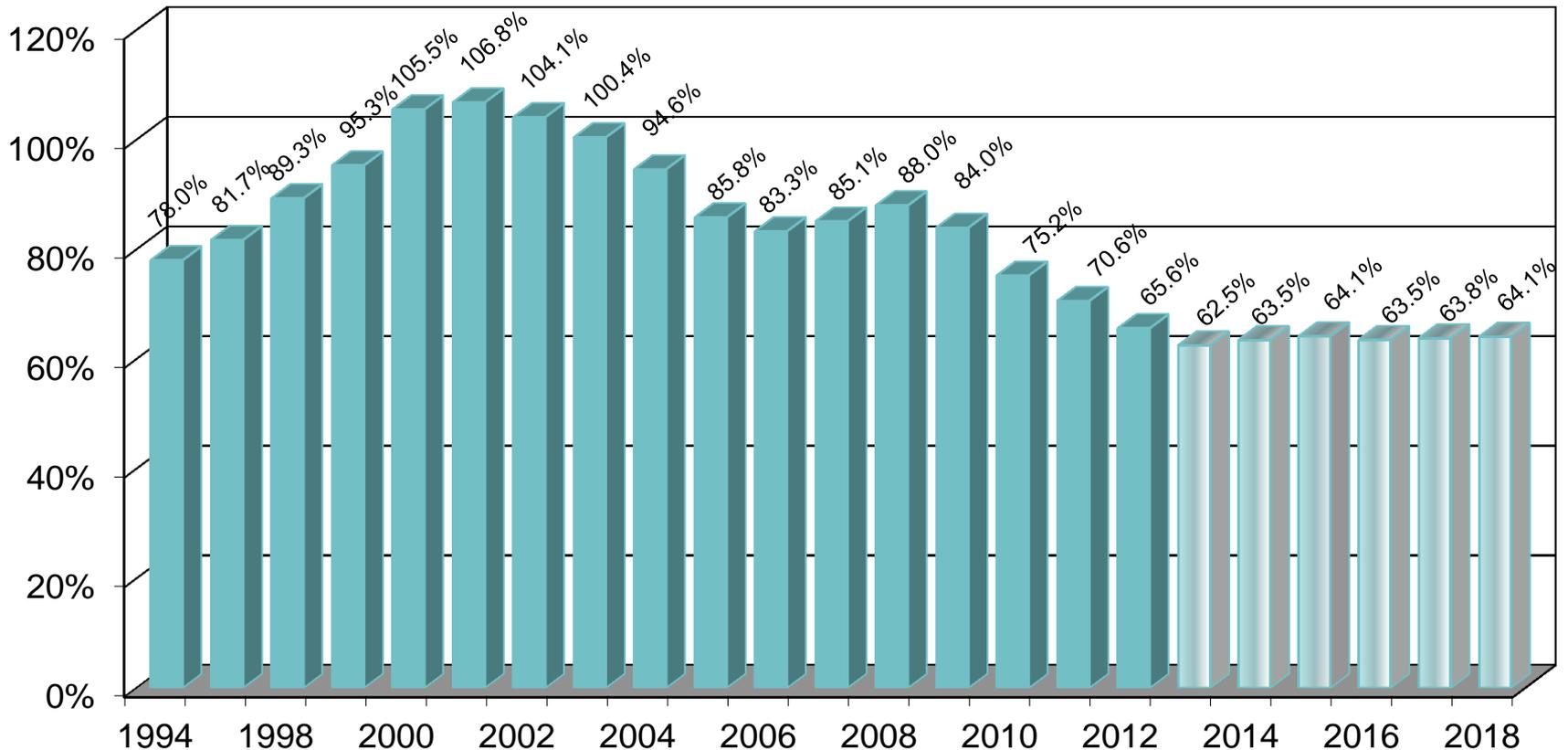
Calendar Year Returns (as of 12/31/2012)

	Returns
One-year	12.6%
Three-year	8.6%
Five-year	1.7%
10-year	8.0%
20-year	8.2%

Net Assets Available for VRS Benefits



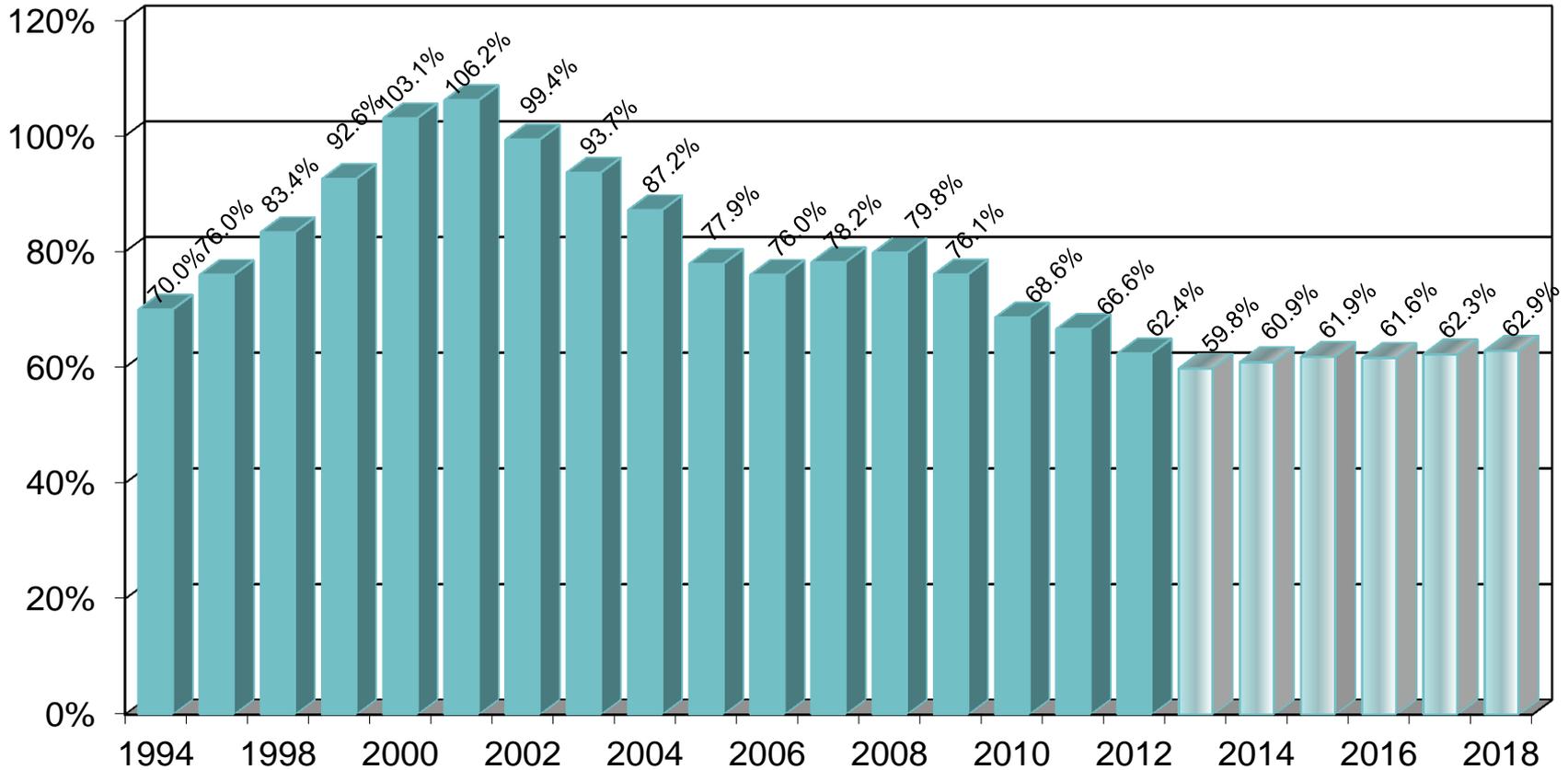
Funded Status: State Employees



Assumptions:

- All projected years' investment return is 7.0% and 2.5% inflation rate.
- Phasing in of certified contribution rates occurs on schedule.

Funded Status: Teachers



Assumptions:

- All projected years' investment return is 7.0% and 2.5% inflation rate.
- Phasing in of certified contribution rates occurs on schedule.

Reasons for Decline in Funded Status

- Decline in funded status:
 - Investment gains for FY2012 were below the 7 percent assumed rate of return
 - Still recognizing investment losses from FY2008 (five-year smoothing)
 - Employer contribution rates in FY2012 for state and teacher plans averaged between one-third and one-half of actuary's required levels
 - Material savings from pension reform will not be realized for 8-10 years

Pension Reform in Virginia



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Pension Reform

July 1, 2012

Pension Reform Passed by the 2012 General Assembly, effective July 1, 2012

Local governments and schools systems begin to impose the 5 percent member contribution with offsetting raises:

- 83 percent of local government employers opted to impose a 5 percent member contribution with a 5 percent offsetting salary increase
- 60 percent of school boards opted to impose a 5 percent member contribution with a 5 percent offsetting salary increase

Local governments elected either the VRS-certified contribution rate or the alternate rate:

- 90 percent of local governments elected the VRS-certified contribution rate

Pension Reform

January 1, 2013

Pension Reform Passed by the 2012 General Assembly, effective January 1, 2013

Non-vested Plan 1 members become VRS Plan 2 members

Benefit multiplier is reduced for Plan 2 members from 1.7% to 1.65%

Cost-of-Living Adjustment (COLA)

- No COLA until member who retires with less than 20 years of service has received an allowance for one full calendar year after reaching unreduced retirement age. All Plan 1 and Plan 2 members within five years of eligibility for an unreduced benefit as of 1/1/13 are grandfathered
- COLA capped at 3% (first 2% of CPI-U plus one-half of the next 2%, for a maximum total of 3%) for Plan 2 members

Pension Reform January 1, 2014

Pension Reform Passed by the 2012 General Assembly, effective January 1, 2014

Hybrid plan becomes the retirement plan for all general public employees hired on or after January 1, 2014

Hazardous duty members are exempt from the hybrid

General Assembly proposes to phase-in contribution rates for the teacher and state plans to the VRS board-certified rates

	July 1, 2012	July 1, 2014	July 1, 2016	July 1, 2018
State	67.02%	78.02%	89.01%	100%
Teachers	69.53%	79.69%	89.84%	100%

Hybrid Implementation Status

- VRS will manage the defined benefit component
- The third-party administrator will manage the defined contribution portion:
 - RFP issued in November 2012
 - Responses to RFP received in late December
 - Selection of vendor in February/March
- Virginia Local Disability Program (VLDP)
 - VRS Board set rates in November:
 - 0.39% of covered payroll - school divisions
 - 0.91% of covered payroll - political subdivisions
 - Plan information distributed to employers in December and January
 - Opt-out resolutions due back September 1

Line of Duty Act



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VRS Role

- VRS responsibilities:
 - Collect and manage contributions paid into the LODA Fund; DOA administers the benefit
 - Set contribution rates and assess participating local governments and state agencies for contributions:
 - Contributions FY2013 – \$474.14 per active participant
 - Contributions FY2014 – \$521.97 per active participant

LODA Participation

- Local governments chose between two options:
 - Participate in the fund managed by VRS
 - Opt out of the fund by choosing to self-fund the benefit or selecting an underwriter
- Deadline for election to opt out of the fund: on or before July 1, 2012
- Irrevocable decision to opt out or to remain in the fund

Covered Participants

	Participating Employees (headcount)	Full-Time Employees
State agencies	10,969	10,969.00
National Guard Full-Time	742	1,528.30
Part-Time (10%)	7,863	
<i>Total State & National Guard Employees</i>	<i>19,574</i>	<i>12,497.30</i>
Political Subdivisions Full-Time	6,472	6,472.00
Volunteers (25%)	2,691	672.75
<i>Total Political Subdivision Employees</i>	<i>9,163</i>	<i>7,144.75</i>
Total	28,737	19,642.05

LODA Participation

	Participating Employers	Non-Participating Employers	Total Employers
State	70	0	70
Airport Authorities	3	2	5
Cities	14	25	39
Counties	8	87	95
Political Subdivisions	0	3	3
Regional Jails	1	20	21
Town	29	93	122
Totals	125	230	355



Modernization Program



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VRS Modernization Program

- Modernization overview:
 - Six-year program to update systems, business process and customer services through state-of-the-art technology
 - Provide the customer near 24/7 access to service and improve business processes

VRS Modernization Program

- Four phases:
 - Phase 1 – complete – project planning and development of standards and methodologies
 - Phase 2 – complete – examination of business processes
 - Phase 3 – complete – implementation of new platform for membership updates and monthly contributions from employers and employees
 - Phase 4 – postponed – implement pension reform changes first, then return to implementation to provide new functionality for members and retirees

Modernization Budget

- Modernization budget:

Total budget: \$46.5 million

- Budgeted amount spent:

Direct costs (contractors, hw/sw, oversight): \$22.5 million

Thank you!



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