



# VRS Overview

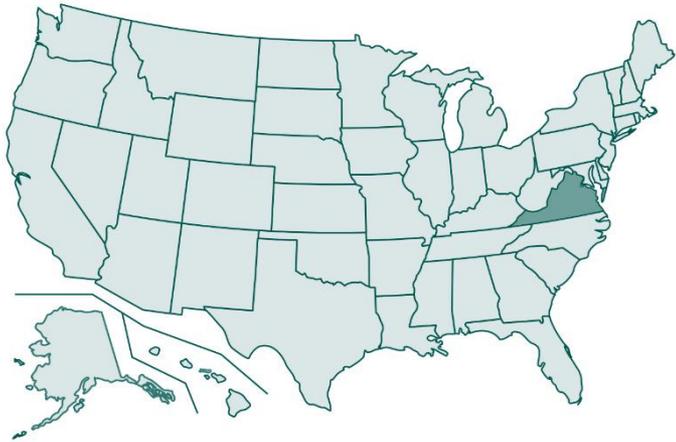
**Presented to the Compensation and Retirement  
Subcommittee of House Appropriations**

Presented by: VRS Director Patricia S. Bishop  
January 28, 2016

- VRS Overview
- Funded Status
- Contribution Rates
- 2016 Legislative Update



## VRS Overview



VRS is the

**22<sup>nd</sup> largest**

public or private pension system in the U.S.

and the **49<sup>th</sup> largest**

public or private pension system in the world



with **more than 659,000**  
members, retirees and beneficiaries

# VRS Total Membership



	Plan 1	Plan 2	Hybrid	Total
Teachers	94,790	39,779	11,189	145,758
Political Subdivisions	62,016	33,706	9,709	105,431
State Employees	49,673	20,949	7,582	78,204
State Police Officers' Retirement System (SPORS)	1,446	554	–	2,000
Virginia Law Officers' Retirement System (VaLORS)	5,002	3,777	–	8,779
Judicial Retirement System (JRS)	289	69	46	404
<b>Total Active Members</b>	<b>213,216</b>	<b>98,834</b>	<b>28,526</b>	<b>340,576</b>

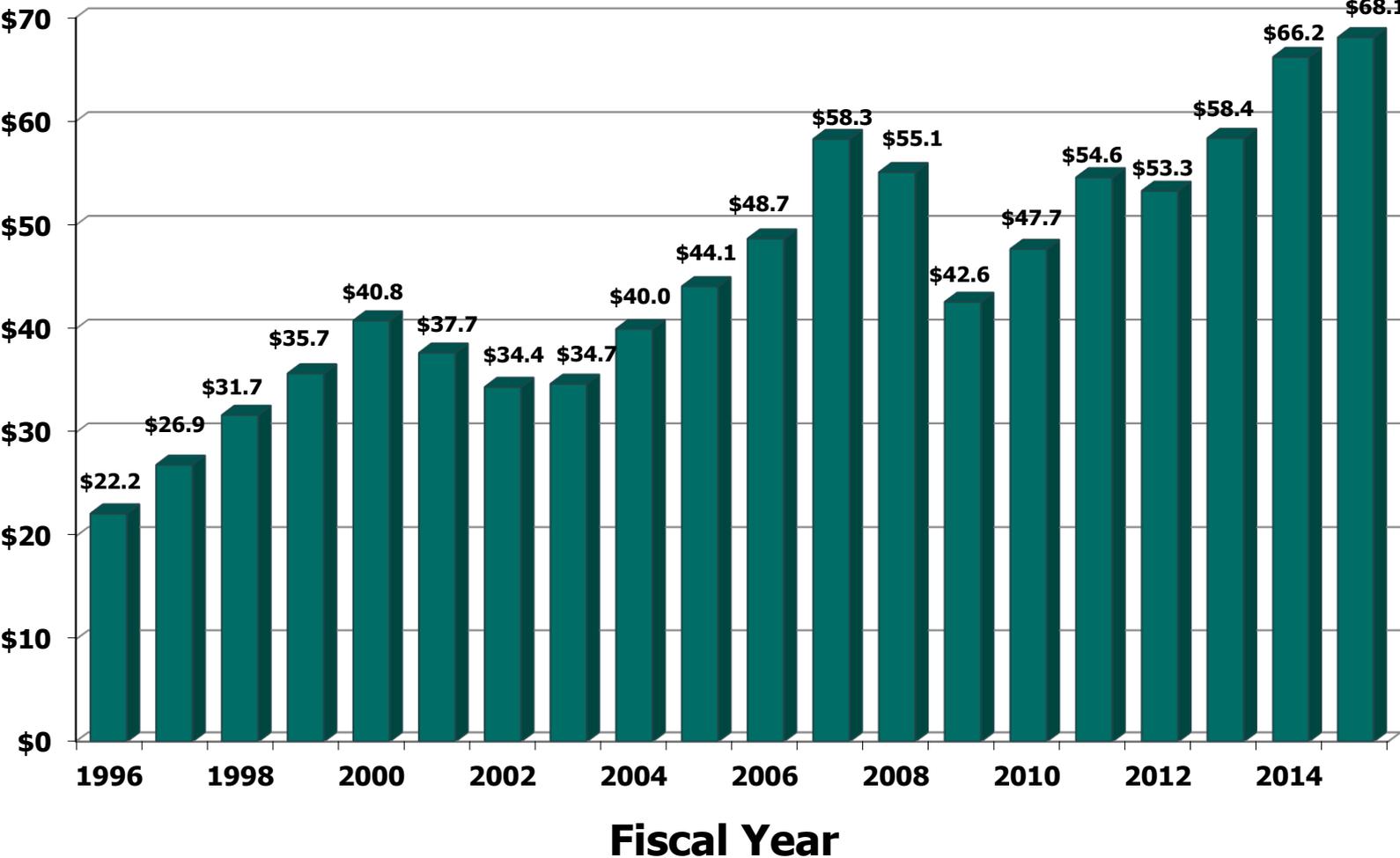
Total Active Members	Retirees/ Beneficiaries	Inactive/ Deferred Members	VRS Total Population
<b>340,576</b>	<b>184,769</b>	<b>134,425</b>	<b>659,770</b>

As of June 30, 2015

# VRS Assets



Assets in Billions





# Funded Status

# Unfunded Pension Liabilities (thousands)



## Funding

	Unfunded Liability using Actuarial Value of Assets	
System	FYE 2014	FYE 2015
State	\$ 6,996,728	\$ 6,409,961
Teachers	\$ 14,271,093	\$ 13,122,693
SPORS	\$ 366,911	\$ 339,837
VaLORS	\$ 762,035	\$ 750,954
Judicial	\$ 202,116	\$ 158,138
Total State-Wide Systems	\$ 22,598,884	\$ 20,781,583
Locals Aggregate	\$ 3,691,342	\$ 3,117,677
Total Fund	\$ 26,288,670	\$ 23,899,260

## Accounting

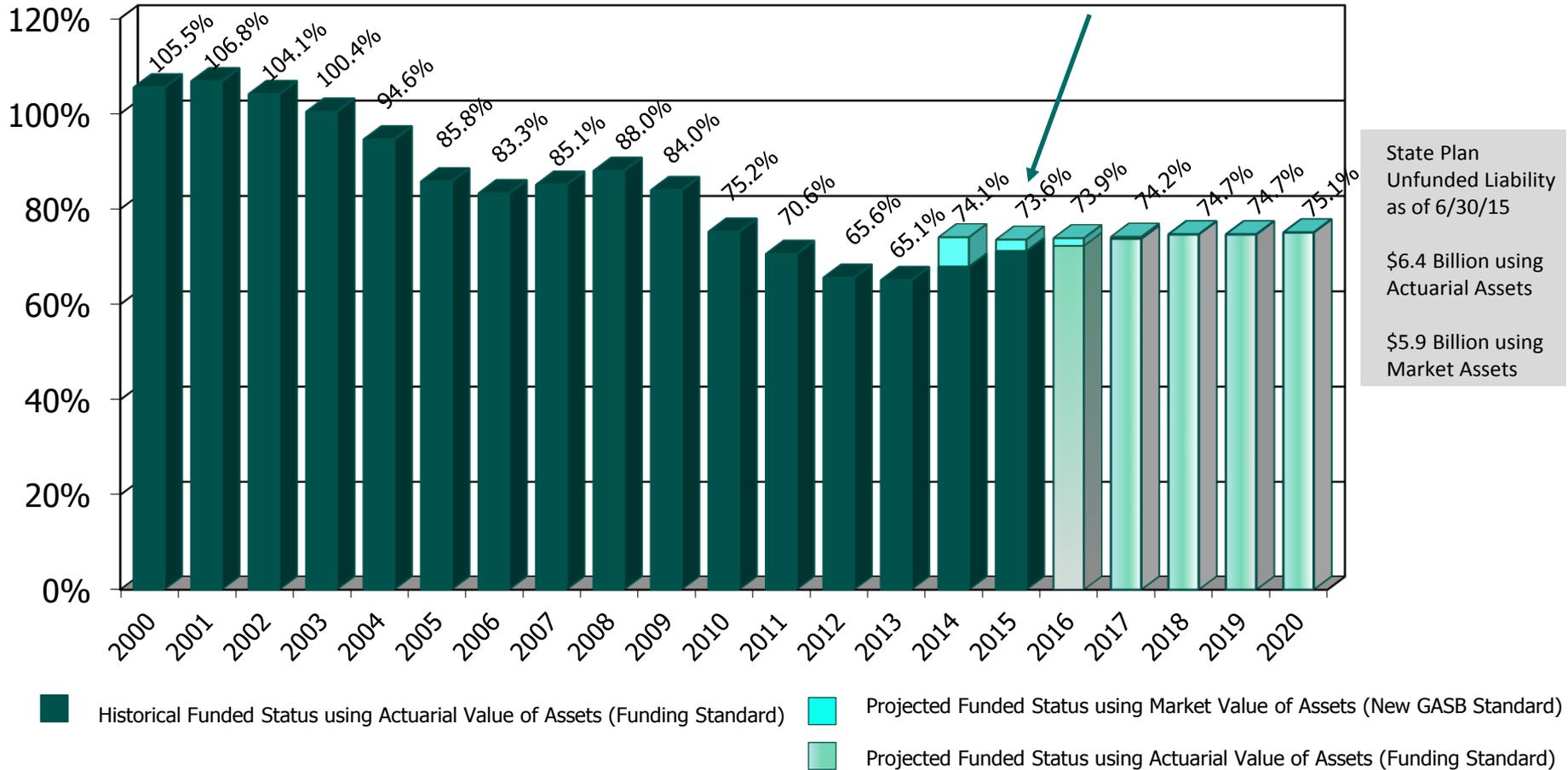
	Unfunded Liability using Market Value of Assets	
System	FYE 2014	FYE 2015
State	\$ 5,654,401	\$ 5,892,984
Teachers	\$ 11,886,486	\$ 12,220,106
SPORS	\$ 308,164	\$ 317,348
VaLORS	\$ 669,595	\$ 715,368
Judicial	\$ 165,975	\$ 144,130
Total State-Wide Systems	\$ 18,684,622	\$ 19,289,936
Locals Aggregate	\$ 2,358,010	\$ 2,596,125
Total Fund	\$ 21,034,863	\$ 21,886,061

The Locals Aggregate unfunded liabilities do not include political subdivisions with no active members.

# Funded Status: State Employees



The funded status for FY 2015 based on the actuarial value of assets was 71.2%



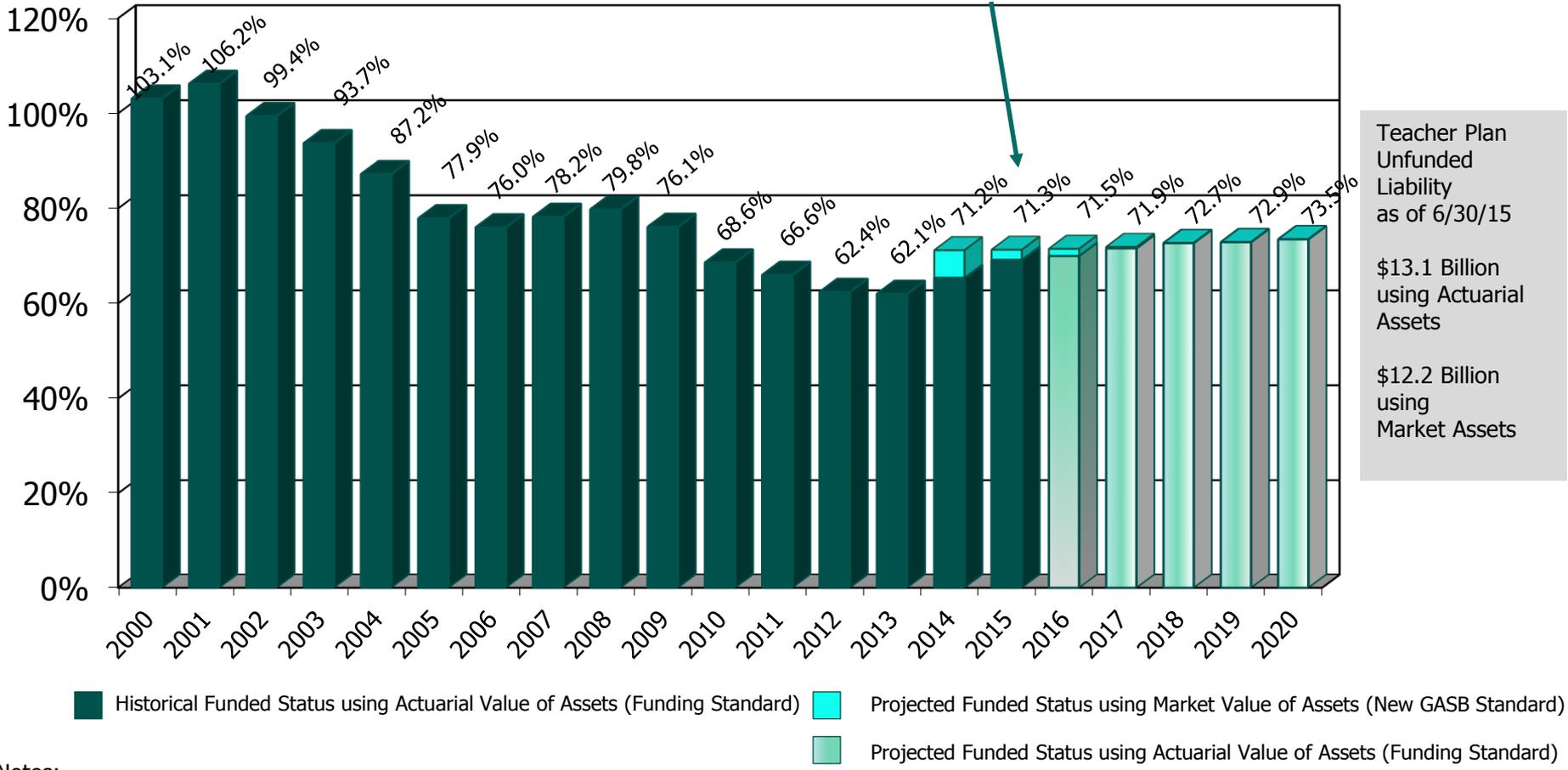
Notes:

- Projected years' investment returns assume 7.0% with 2.5% inflation rate.
- New GASB Accounting Rules will reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.

# Funded Status: Teachers



The funded status for FY 2015 based on the actuarial value of assets was 69.2%.

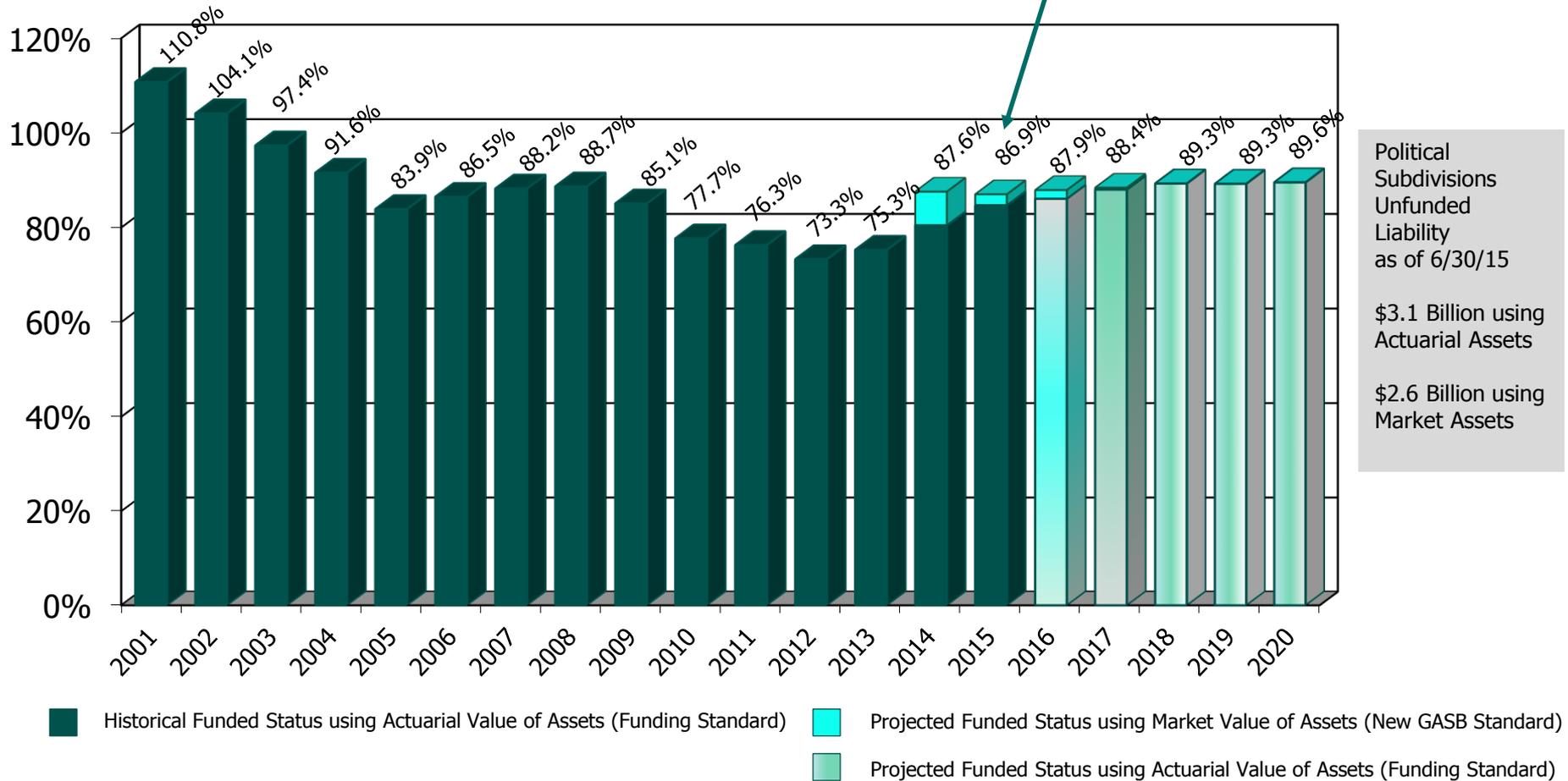


- Notes:
- Projected years' investment returns assume 7.0% with 2.5% inflation rate.
  - Projected funded status reflects additional \$192.9 million contribution to Teacher Plan on 6/30/15.
  - New GASB Accounting Rules reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.

# Funded Status: Political Subdivisions in Aggregate



The funded status for FY 2015 based on the actuarial value of assets was 84.3%.



Notes:

- Projected years' investment returns assume 7.0% with 2.5% inflation rate.
- New GASB Accounting Rules reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.

## Other State-Wide Retirement Plans

Plan	Actuarial Value Basis	Market Value Basis
SPORS	67.70%	69.80%
VaLORS	60.60%	62.50%
JRS	73.70%	76.00%

## Other Post Employment Benefit Plans (OPEBs)

Plan	Actuarial Value Basis	Market Value Basis
Group Life	39.90%	41.09%
VSDP	169.44%	176.21%
VLDP - Teachers	27.12%	27.12%
VLDP - Political Subdivisions	22.06%	22.06%
State HIC	6.88%	6.91%
Teacher HIC	6.44%	6.37%
Political Subdivisions HIC	52.42%	52.42%
Constitutional Officers HIC	4.19%	4.19%
Social Services HIC	6.82%	6.82%
Registrars HIC	1.39%	1.39%

- Above contribution rates are net of employee contributions.



## State and Teacher Employer Contribution Rate Information

# Projected State Employer Contribution Rates



	FISCAL YEAR				
	2015	2016	2017	2018	2019 & 2020
Phase-In of VRS Board Certified Rates Agreed Upon in 2012 Legislative Session	78.02%	78.02% (Modified to 90% Effective August 2015)	89.01%	89.01%	100%
Expected Employer Rates Based on Phase-In Schedule	12.33%	14.22%	12.87%	12.87%	13.85%
Employer Rates Based on Governor's Proposed Budget	12.33%	14.22%	14.46% *	14.46% *	TBD

\* Governor's proposed budget includes 100% funding of Board-certified rates in FY 2017 and 2018 ahead of statutory schedule.

- Above contribution rates are net of employee contributions.
- State rate for FY 2016 was increased to 90% of Board certified rate effective August 10, 2015 after favorable State revenues for fiscal year ending 2015 allowed additional funds to go towards contributions.

# Development of Contribution Rates - State

## Estimated Employer Rate for 2017



### Development of Employer Normal Cost

	Total Normal Cost Rate % of Payroll	-	Member Contribution % of Payroll	=	Employer Normal Cost % of Payroll
<b>Plan 1</b>	9.64%	-	5.00%	=	4.64%
<b>Plan 2</b>	8.95%	-	5.00%	=	3.95%
<b>Hybrid</b>	5.17%	-	4.00%	=	1.17%
<b>Total Blended</b>	9.10%	-	4.92%	=	4.18%
<b>Administrative Expense Load</b>					0.27%
<b>Employer Normal Cost Rate</b>					4.45%



### Development of Unfunded Amortization of Liability

	Amortization of Unfunded Liability % of Payroll
<b>Legacy Unfunded</b> (28 Years Remaining)	10.91%
<b>2015 Experience Gain</b> (20 Years Remaining)	-1.18%
<b>2014 Experience Gain</b> (19 Years Remaining)	-0.78%
<b>2011 Deferred Contributions</b> (6 Years Remaining)	0.97%
<b>Total Unfunded Amortization</b>	9.91%



### Development of Board Certified Employer Contribution Requirement

Blended Normal Cost Rate	+	Rate to Amortize Unfunded Liability	=	Board Certified Rate Defined Benefit Plan	+	Employer Contribution Rate to Hybrid DC Component	=	Board Certified Rate
4.45%	+	9.91%	=	14.36%	+	0.10%	=	14.46%

# Development of Contribution Rates - State

## Estimated Employer Rate for 2017



### Development of Employer Normal Cost

	Total Normal Cost Rate % of Payroll		Member Contribution % of Payroll		Employer Normal Cost % of Payroll
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# Development of Contribution Rates - State

## Estimated Employer Rate for 2017



### Development of Unfunded Amortization of Liability

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<b>2011 Deferred Contributions</b> (6 Years Remaining)	0.97%
<b>Total Unfunded Amortization</b>	<b>9.91%</b>

# Development of Contribution Rates - State

## Estimated Employer Rate for 2017



### Development of Board Certified Employer Contribution Requirement

Blended  
Normal Cost Rate

4.45%

+

Rate to Amortize  
Unfunded Liability

9.91%

=

Board Certified Rate  
Defined Benefit Plan

14.36%

+

Employer Contribution Rate  
to Hybrid DC Component

0.10%

=

Board Certified Rate

**14.46%**

# State Plan – 10-Year Payback Schedule for Deferred Contributions from 2010-2012 Biennium



Date	Outstanding Balance	Years Remaining On	
		Amortization Schedule	Amortization Payment
6/30/2011	\$ 278,155,318	10	\$37,012,205
6/30/2012	\$ 258,064,458	9	\$37,018,133
6/30/2013	\$ 236,519,567	8	\$37,018,133
6/30/2014	\$ 213,466,534	7	\$37,018,133
6/30/2015	\$ 188,799,789	6	\$37,018,133
6/30/2016	\$ 162,406,371	5	\$37,018,133
6/30/2017	\$ 134,165,415	4	\$37,018,133
6/30/2018	\$ 103,947,591	3	\$37,018,133
6/30/2019	\$ 71,614,520	2	\$37,018,133
6/30/2020	\$ 37,018,133	1	\$37,018,133
6/30/2021	\$ -	0	

# Projected Teacher Employer Contribution Rates



	FISCAL YEAR				
	2015	2016	2017	2018	2019 & 2020
Phase-In of VRS Board Certified Rates Agreed Upon in 2012 Legislative Session	79.69%	79.69%	89.84%	89.84%	100%
Expected Employer Rates Based on Phase-In Schedule	14.50%	14.06%	14.66%	14.66%	15.79%
Employer Rates Based on Governor's Proposed Budget	14.50%	14.06%	14.66%	16.32% *	TBD

\* Teacher Funded Rate is increased to 100% of Board Certified Rate in second year of biennium.

## Notes:

- Above contribution rates are net of employee contributions.
- Teacher rates for FY 2016 were lowered due to additional contribution of \$192.9 million applied to deferred contribution balance during FY 2015. The subsequent rates for FY 2017-2020 were also lowered to reflect the accelerated payment received

# Development of Contribution Rates - Teachers

## Estimated Employer Rate for 2017



### Development of Employer Normal Cost

	Total Normal Cost Rate % of Payroll	-	Member Contribution % of Payroll	=	Employer Normal Cost % of Payroll
Plan 1	11.23%	-	5.00%	=	6.23%
Plan 2	9.70%	-	5.00%	=	4.70%
Hybrid	5.68%	-	4.00%	=	1.68%
<b>Total Blended</b>	<b>10.54%</b>	-	<b>4.93%</b>	=	<b>5.61%</b>
<b>Administrative Expense Load</b>					<b>0.25%</b>
<b>Employer Normal Cost Rate</b>					<b>5.86%</b>



### Development of Unfunded Amortization of Liability

	Amortization of Unfunded Liability % of Payroll
<b>Legacy Unfunded</b> (28 Years Remaining)	11.49%
<b>2015 Experience Gain</b> (20 Years Remaining)	-1.00%
<b>2014 Experience Gain</b> (19 Years Remaining)	-0.94%
<b>2011 Deferred Contributions</b> (6 Years Remaining)	0.84%
<b>Total Unfunded Amortization</b>	<b>10.39%</b>



### Development of Board Certified Employer Contribution Requirement

<b>Blended Normal Cost Rate</b>		<b>Rate to Amortize Unfunded Liability</b>		<b>Board Certified Rate Defined Benefit Plan</b>		<b>Employer Contribution Rate to Hybrid DC Component</b>		<b>Board Certified Rate</b>
5.86%	+	10.39%	=	16.25%	+	0.07%	=	16.32%

# Development of Contribution Rates - Teachers

## Estimated Employer Rate for 2017



### Development of Employer Normal Cost

	Total Normal Cost Rate % of Payroll		Member Contribution % of Payroll		Employer Normal Cost % of Payroll	
<b>Plan 1</b>	11.23%	-	5.00%	=	6.23%	
<b>Plan 2</b>	9.70%	-	5.00%	=	4.70%	
<b>Hybrid</b>	5.68%	-	4.00%	=	1.68%	
<b>Total Blended</b>	10.54%	-	4.93%	=	5.61%	
					<b>Administrative Expense Load</b>	0.25%
					<b>Employer Normal Cost Rate</b>	5.86%

# Development of Contribution Rates - Teachers

## Estimated Employer Rate for 2017



### Development of Unfunded Amortization of Liability

	Amortization of Unfunded Liability % of Payroll
<b>Legacy Unfunded</b> (28 Years Remaining)	11.49%
<b>2015 Experience Gain</b> (20 Years Remaining)	-1.00%
<b>2014 Experience Gain</b> (19 Years Remaining)	-0.94%
<b>2011 Deferred Contributions</b> (6 Years Remaining)	0.84%
<b>Total Unfunded Amortization</b>	10.39%

# Development of Contribution Rates - Teachers

## Estimated Employer Rate for 2017



### Development of Board Certified Employer Contribution Requirement

Blended  
Normal Cost Rate

5.86%

+

Rate to Amortize  
Unfunded Liability

10.39%

=

Board Certified Rate  
Defined Benefit Plan

16.25%

+

Employer Contribution Rate  
to Hybrid DC Component

0.07%

=

Board Certified Rate

**16.32%**

# Teacher Plan – 10-Year Payback Schedule for Deferred Contributions from 2010-2012 Biennium



## Original Amortization Schedule

Date	Outstanding Balance	Years Remaining On Amortization Schedule	Amortization Payment
6/30/2011	\$ 741,432,106	10	\$99,232,610
6/30/2012	\$ 691,780,147	9	\$99,232,610
6/30/2013	\$ 634,025,864	8	\$99,232,610
6/30/2014	\$ 572,228,782	7	\$99,232,610
6/30/2015	\$ 506,105,904	6	\$99,232,610
6/30/2016	\$ 435,354,424	5	\$99,232,610
6/30/2017	\$ 359,650,341	4	\$99,232,610
6/30/2018	\$ 278,646,972	3	\$99,232,610
6/30/2019	\$ 191,973,367	2	\$99,232,610
6/30/2020	\$ 99,232,610	1	\$99,232,610
6/30/2021	\$ -	0	

## Modified Amortization Schedule

Date	Outstanding Balance	Years Remaining On Amortization Schedule	Amortization Payment
6/30/2011	\$ 741,432,106	10	\$99,232,610
6/30/2012	\$ 691,780,147	9	\$99,232,610
6/30/2013	\$ 634,025,864	8	\$99,232,610
6/30/2014	\$ 572,228,782	7	\$99,232,610
6/30/2015	\$ 313,221,904	6	\$61,413,682
6/30/2016	\$ 269,434,797	5	\$61,413,682
6/30/2017	\$ 222,582,593	4	\$61,413,682
6/30/2018	\$ 172,450,735	3	\$61,413,682
6/30/2019	\$ 118,809,647	2	\$61,413,682
6/30/2020	\$ 61,413,682	1	\$61,413,682
6/30/2021	\$ -	0	

Reflects accelerated payment of \$192.9 million reflected in 2015 Budget Bill to pay down outstanding balance of contributions deferred during the 2010-2012 biennium.

# Estimated Increase in Funding State and Teacher Plans



## Expected Contribution Rates by Fiscal Year

Plan	2015	2016	2017	2018
State	12.33%	14.22%	14.46%	14.46%
Teachers	14.50%	14.06%	14.66%	16.32%

## Estimated Change in Funding Compared to 2016 Fiscal Year (\$Millions)

Plan	Source of Funding	2016	2017	2018
State	General Fund		\$4.1	\$4.1
	Non-General Fund		\$5.4	\$5.4
Teacher	General Fund		\$18.3	\$69.1
	Non-General Fund		\$27.5	\$103.6

- Estimated increase in funding based on estimates derived from 2015 actuarial valuation report.
- Estimated increases in funding in 2017 and 2018 based only on change in retirement rate and do not reflect changes in funding required by increases in total payroll.

# Estimated Total Funding Requirements

## State and Teacher Plans



### Expected Contribution Rates by Fiscal Year

Plan	2015	2016	2017	2018
State	12.33%	14.22%	14.46%	14.46%
Teachers	14.50%	14.06%	14.66%	16.32%

### Estimated Total Funding Required (\$Millions)

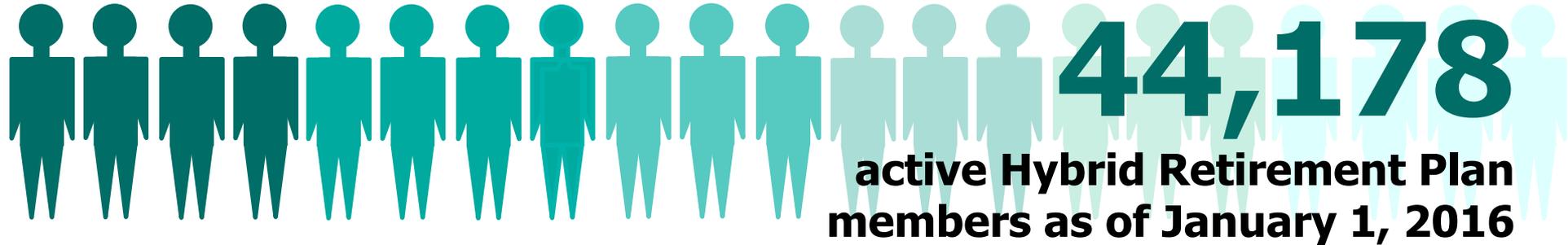
Plan	Source of Funding	2016	2017	2018
State	General Fund	\$235.3	\$239.3	\$239.3
	Non-General Fund	\$315.4	\$315.4	\$315.4
Teacher	General Fund	\$421.2	\$439.1	\$488.9
	Non-General Fund	\$631.7	\$658.7	\$733.3

- Estimated increase in funding based on estimates derived from 2015 actuarial valuation report.
- Estimated increases in funding in 2017 and 2018 based only on change in retirement rate and do not reflect changes in funding required by increases in total payroll.



# Hybrid Retirement Plan

# Hybrid Retirement Plan

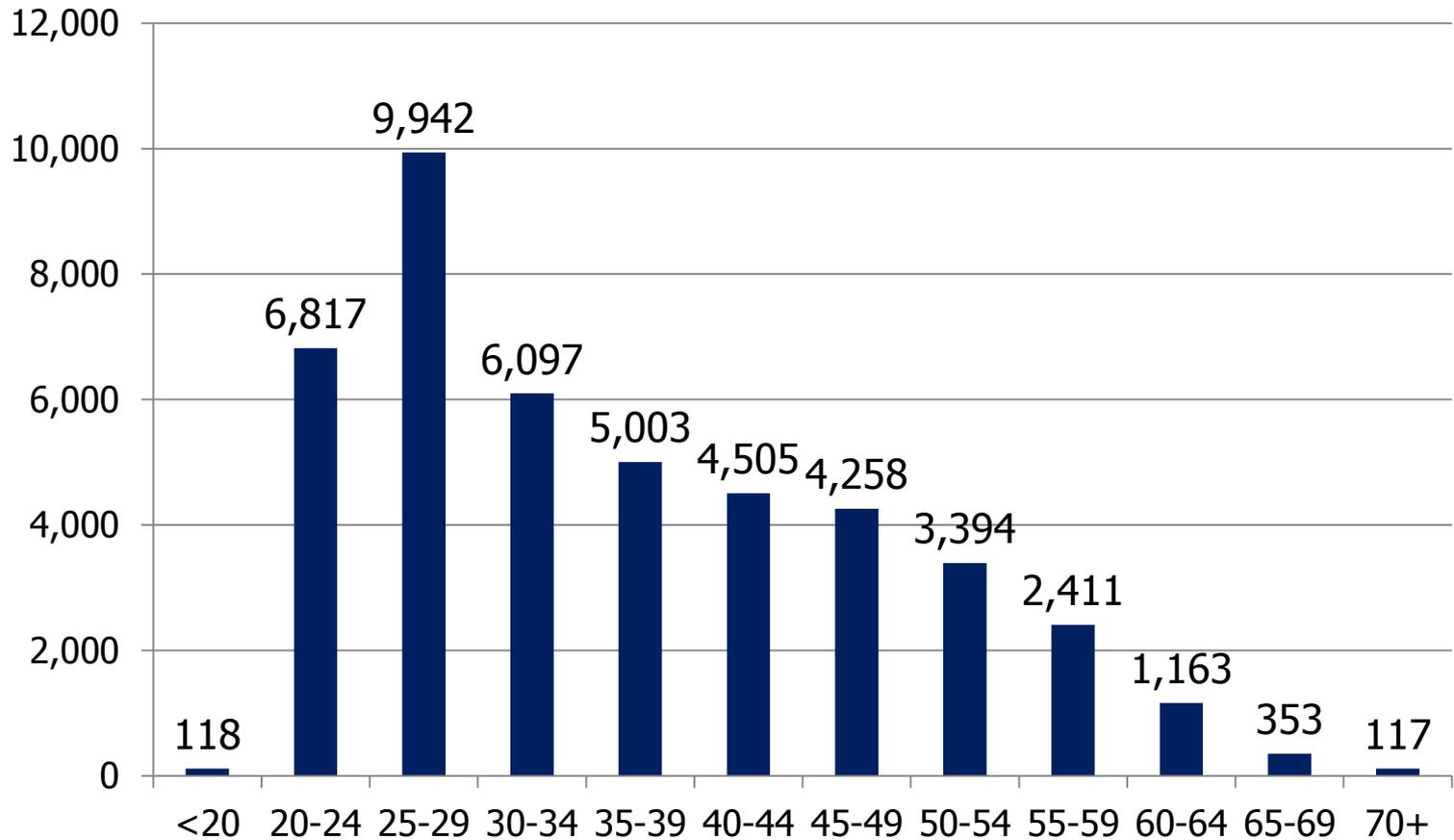


- Total combined balance in the Hybrid 401(a) Cash Match Plan and the Hybrid 457 Deferred Compensation Plan is \$39.6 million.
- Approximately 4,671, or 10.6%, of hybrid members are making voluntary contributions.

# Hybrid Retirement Plan



## Hybrid Retirement Plan Members by Age

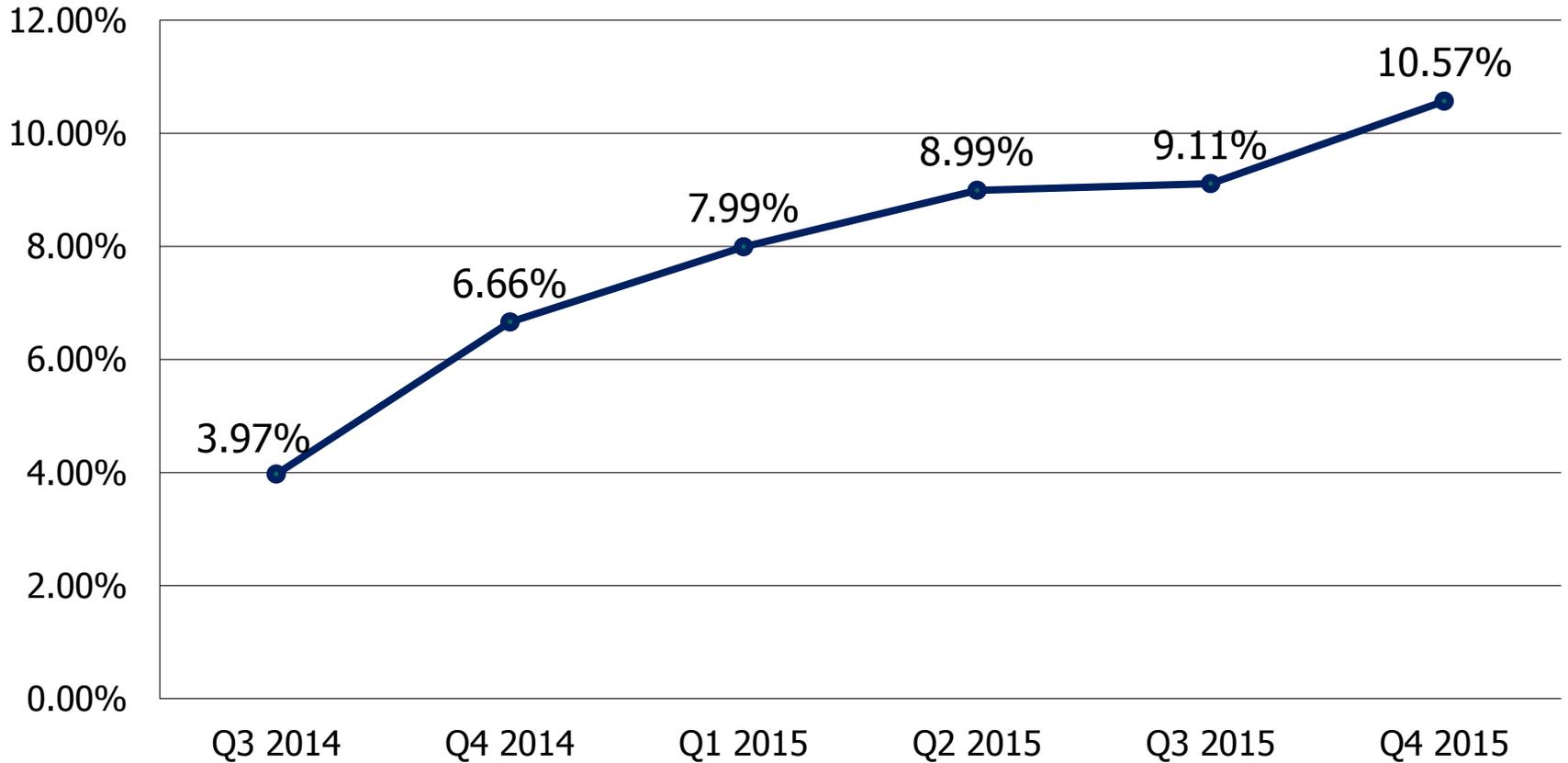


As of January 1, 2016

# Hybrid Retirement Plan



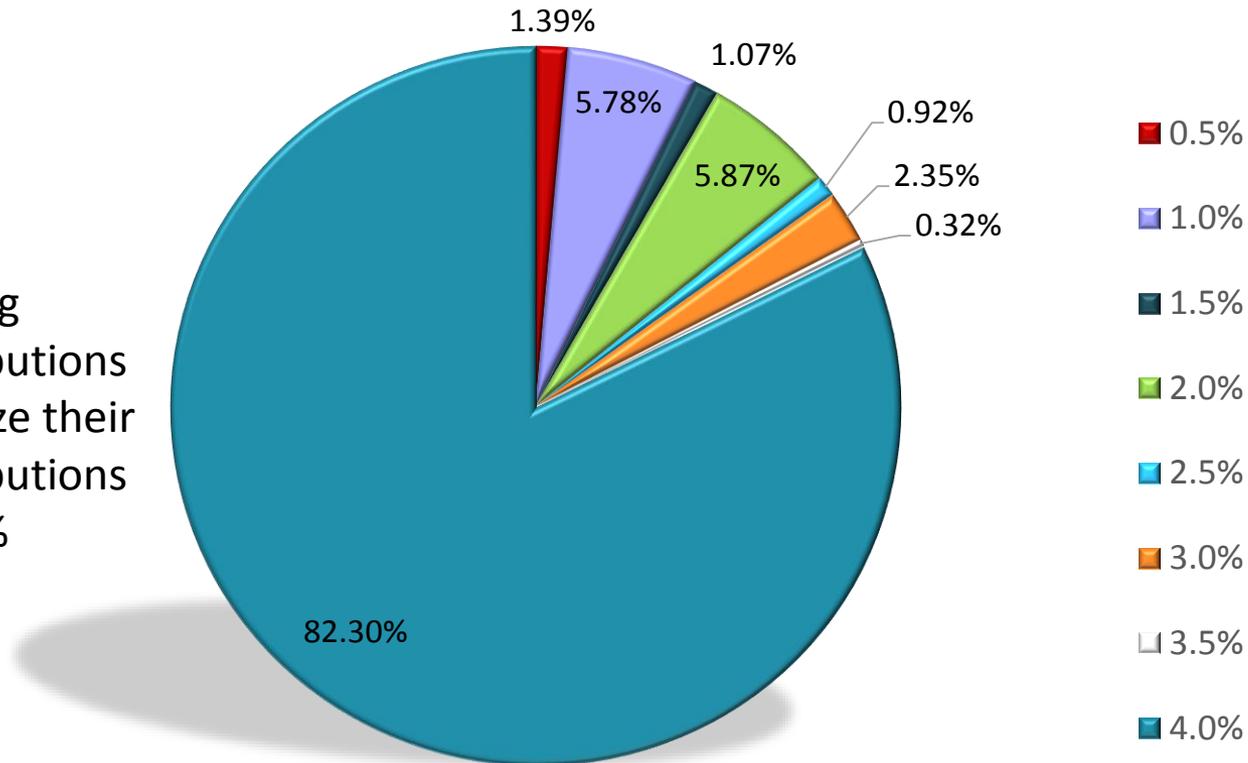
## Hybrid Voluntary Contribution Participation Rate



As of January 1, 2016

## Percent of Voluntary Contribution Members Electing Each Voluntary Contribution Percentage

82% of the 4,671 members electing voluntary contributions chose to maximize their voluntary contributions percentage at 4%



As of January 1, 2016

# Hybrid Retirement Plan



## Hybrid Retirement Plan Members

Salary Range	Total Hybrid Members		Members Making Voluntary Contributions		
	Count	Percentage of Total Members	Count	Percentage of Total Members	Percentage of Members Making Voluntary Contributions
< \$30,000	14,876	33.7%	531	1.20%	11.4%
Between \$30,000 - \$49,999	20,296	45.9%	2,121	4.80%	45.4%
Between \$50,000 - \$69,999	6,843	15.5%	1,251	2.83%	26.8%
\$70,000 and above	2,163	4.9%	768	1.74%	16.4%
Total	44,178	100.0%	4,671	10.57%	100.0%

As of January 1, 2016



# **2016 Legislative Update**

# Reports Required-2015 Legislative Session



Bill Number	Summary	Report Date Due
<b>HB 2204</b>	Examine <b>Line of Duty Act</b> (LODA) recommendations from JLARC; develop proposals on issues from report; report to Chairmen of House Appropriations and Senate Finance; General Assembly will consider re-enacting the bill during 2016, including moving administration to VRS and health benefit administration to DHRM	Oct. 1, 2015
<b>HB 1969</b>	Review <b>cash balance retirement plans</b> implemented in other statewide retirement systems; compare long-term costs to current VRS plan designs; assess financial risks to employers and employees; administrative impact of cash balance plan; recommend funding structure	Nov. 1, 2015
<b>HB 1998</b>	Convene a working group to review current state and federal laws and regulations that encourage citizens of Commonwealth to <b>save for retirement</b> by participating in retirement savings plans; review options for self-employed, part-time employees, full-time employees without retirement savings plans, etc.	Jan. 1, 2017

- Local governments were given the option to either elect to fund the VRS-certified contribution rate or a temporary, “alternate” reduced rate.
- 2013 Appropriation Act - Item 468 H.1 – provided that localities that chose the alternate rate are scheduled to pay the higher of the contribution rate in effect for fiscal 2012 or 80% of the results from the June 30, 2013 actuarial valuation approved by the VRS Board for 2014-16 biennium.

	Certified Rate	Alternate Rate
Political Subdivisions	427	23
School Divisions	124	9
<b>Total Received</b>	<b>551</b>	<b>32</b>

- Item 475 I.1 of the Governor’s proposed budget changes the default rate election to VRS Board-certified rates unless a resolution is adopted pursuant to Item 475 I.3 to use the alternate rates described in Item 475 I.2 of the proposed budget.

## Proposed Budget

### State Plans

- Proposed 100% funding of the Board-certified retirement contribution rates in both FY 2017 and FY 2018 for the State plan, SPORS, VaLORS and JRS
- Proposed 100% funding of the Board-certified Other Post Employment Benefits (OPEB) contribution rates in both FY 2017 and FY 2018 for the Health Insurance Credit (HIC) for state employees, group life insurance for state employees and the Virginia Sickness and Disability Program

### Teacher Plan

- The Teacher Plan proposed funding level to 89.84% in FY 2017 and proposed 100% funding in FY 2018
- The HIC for teachers and the employer share of group life insurance for teachers proposed funding of 90% of the Board-certified rates in FY 2017 and 100% funding beginning in FY 2018

## VRS Technical Corrections Bills

HB 409 (Ingram)  
and  
SB 51 (Howell and Dance)

- Clarifies that a hybrid member does not forfeit non-vested employer contributions to the DC component of the hybrid plan unless he or she ceases to be a VRS member.
- Replaces "qualified child" with "qualifying child" in §51.1-142.2(A)(1).
- Reverts "for purposes of this section" to "for purposes of this subsection" in the 2015 HB1890 §51.1-142.2(A)(3) so that members who are deployed will receive all of the granted service to which they are entitled under USERRA.

Bill	Patron	Bill Summary
HB 69	McQuinn	Expands the health insurance credit provided to retired teachers to all retired employees of local school divisions.
HB 236	Lingamfelter	Establishes a Teacher Emeritus Fund and Program in school divisions; allows each teacher emeritus the option to continue or not continue their retirement benefit.
HB 299	Kilgore, Austin	Adds conservation officers to the Virginia Law Officers' Retirement System.
HB 363	Loupassi	Eliminates the VSDP one-year waiting period for certain local government employees who commence employment in a state position covered under VRS, SPORS, VaLORS or the hybrid program.
HB 408	Ingram	Increases VRS benefits for members who retired prior to 1990.
HB 665	Howell	Establishes the Commission on Employee Retirement Security and Pension Reform.

Bill	Patron	Bill Summary
HB 1072	Jones	Makes changes to the Hybrid Retirement Plan.
HB 1153	Kilgore	Adds a category of retired judges who may be recalled.
HB 1245	Knight	Broadens the age 73 mandatory judicial retirement provision to include all judges regardless of when elected by the General Assembly.
HB 1345	Jones	Among other changes, codifies revisions to the Line of Duty Act from the Appropriation Act. Transfers overall administration of the Act to VRS. Transfers administration of health insurance benefits to the Department of Human Resource Management and creates the Line of Duty Health Benefits Plan, a separate health benefits plan for beneficiaries under the Act. The bill has a delayed effective date of July 1, 2017.

# Legislative Session



Bill	Patron	Bill Summary
SB 5	Stanley	Increases the health insurance credit from the current \$1.50 per year of service with a cap of \$45 to \$4 per year of service with no cap for certain retired local government employees, including local officers, general registrars, employees of a general registrar and employees of local social services boards.
SB 65	Ruff	Opens enrollment in the Virginia Sickness and Disability Program (VSDP) for eligible employees not currently participating in VSDP. An employee may convert sick leave balances to 1) additional retirement service credit or 2) disability credits.
SB 168	Ruff	Continues the annual supplement allowance under VaLORS until a member reaches Social Security retirement age instead of age 65.
SB 353	Deeds	Adds conservation officers of the Department of Conservation and Recreation to the Virginia Law Officers' Retirement System.
SB 462	Carrico	Prohibits VRS from investing in companies with current substantial business operations in Iran, and requires VRS to divest of such holdings by January 1, 2017, and within six months of identifying such holdings.
SB 617	McDougle	Adds certain enforcement officers of the DMV to the Virginia Law Officers' Retirement System.

**Thank you**