

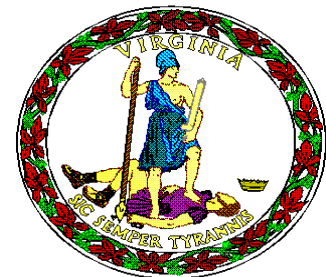
Overview of State Work Force Demographics and Compensation & Update on Hybrid Retirement Plan


House Appropriations Committee Retreat

November 18, 2015

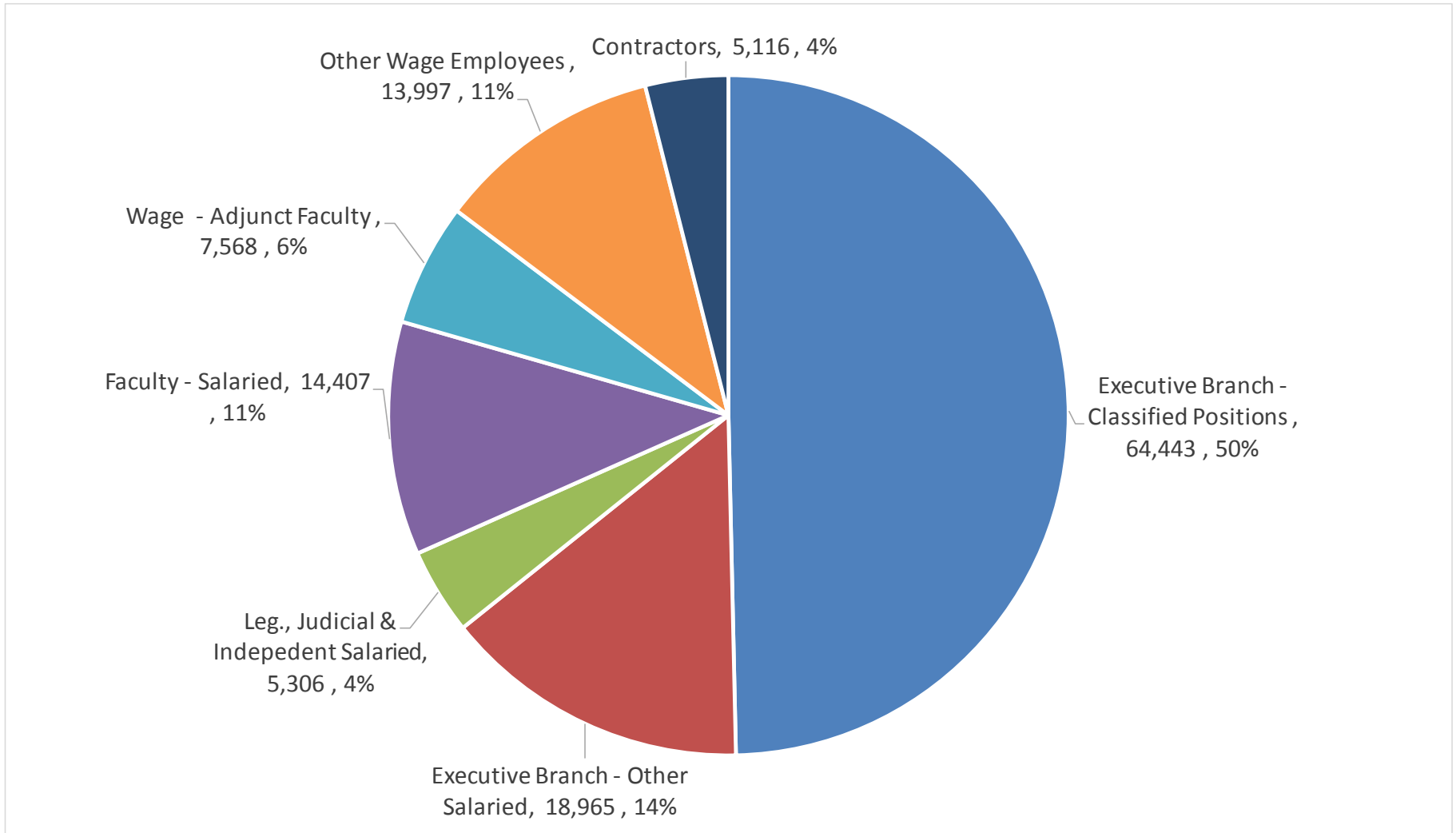
Michael Jay

House Appropriations Committee Staff



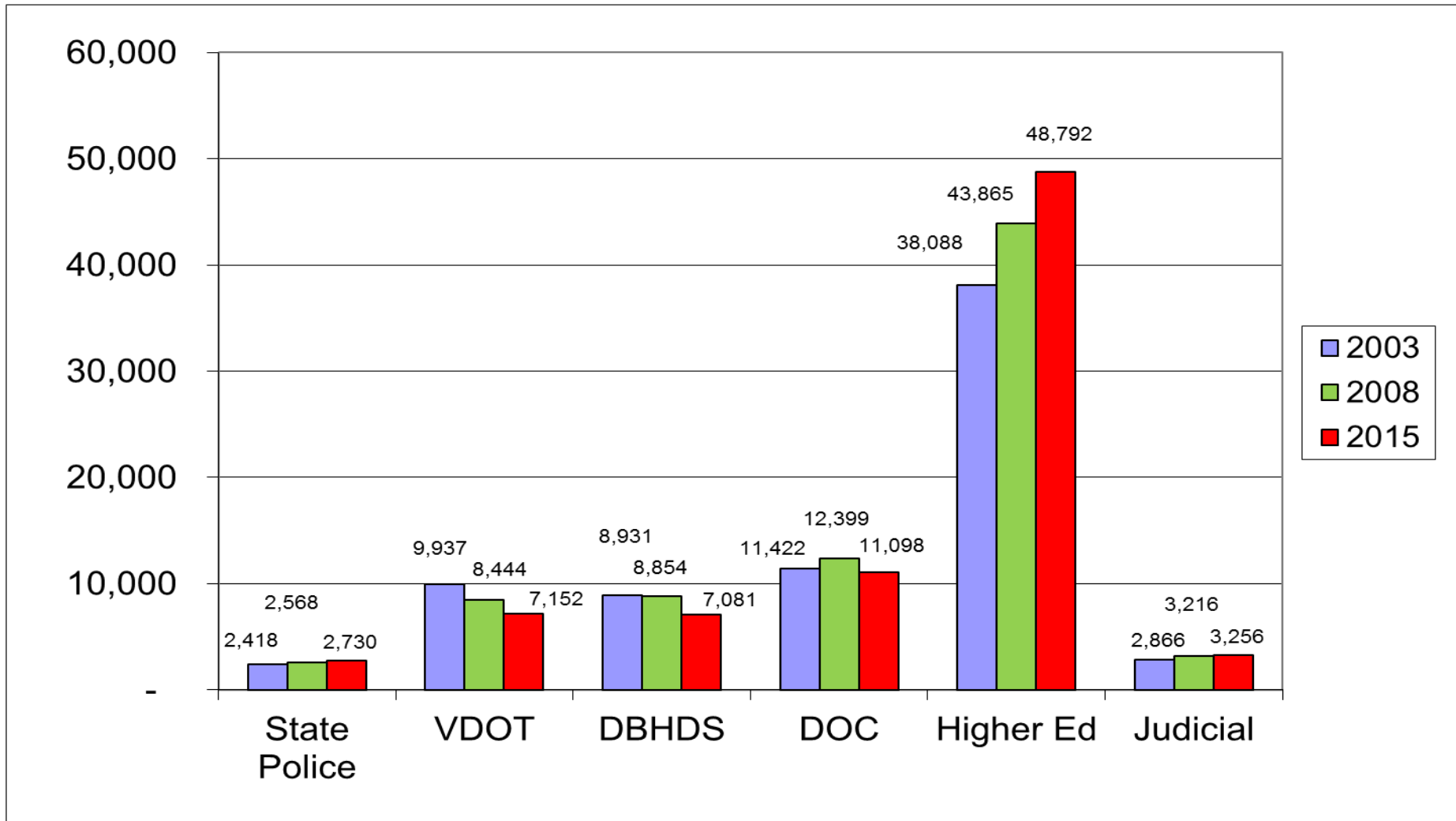
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- General Overview of State Workforce**
 - Review of Age Demographics and Trends in the State Workforce
 - Review of Employee Compensation
 - Update on the VRS Hybrid Plan

Breakout of State Manpower as of June 30, 2015



Executive Branch – “Other Salaried” includes at-will positions and full-time “university positions”

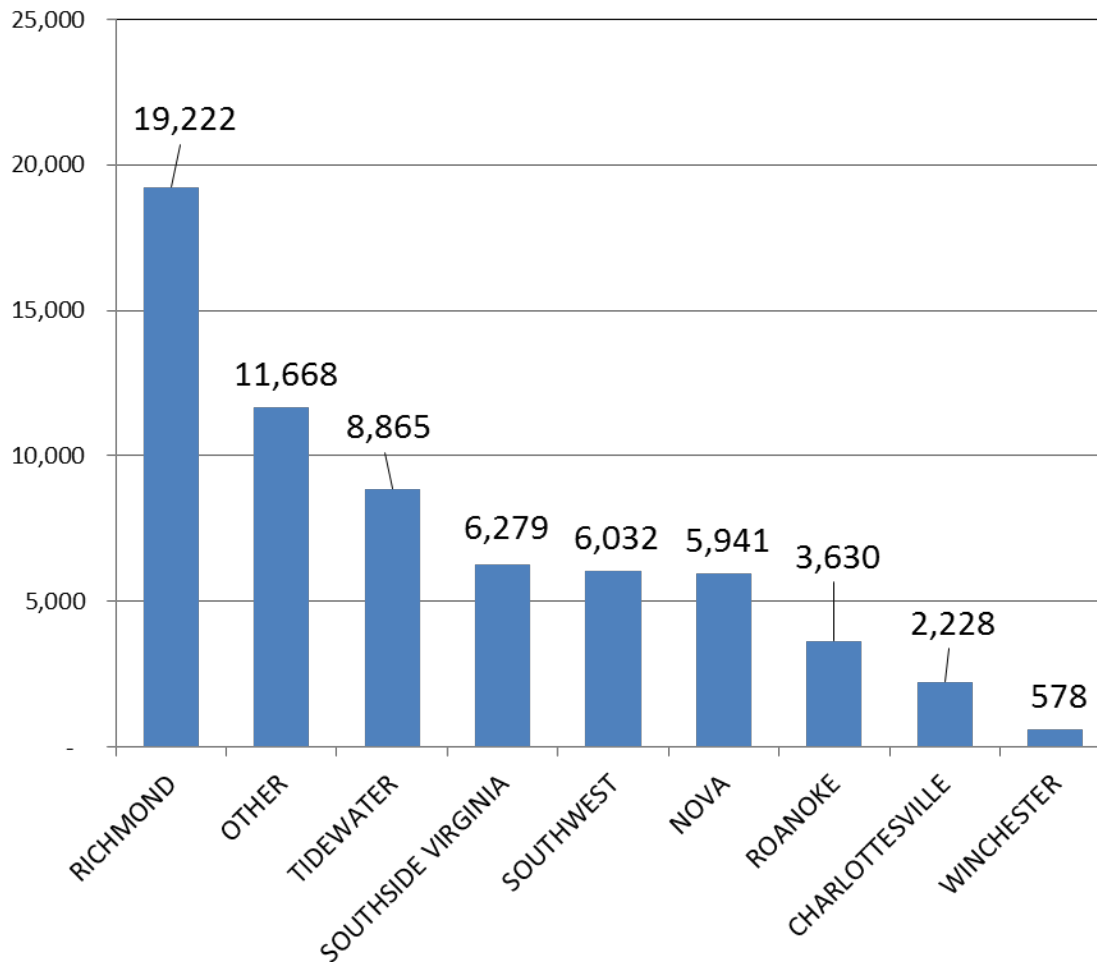
75% of the State's 103,121 Salaried Employees Are Concentrated in These 6 Areas




* Higher education salaried employees includes full-time faculty, classified employees, administrators and university employees (accounts for 47.3% of the state salaried workforce)

State Workforce is Spread Across the State

(Distribution of Classified Employees as of June 30, 2015)



- Approximately 30% of the state's 64,443 classified employees are located in the Richmond area, with the remaining 70% spread throughout the rest of the state

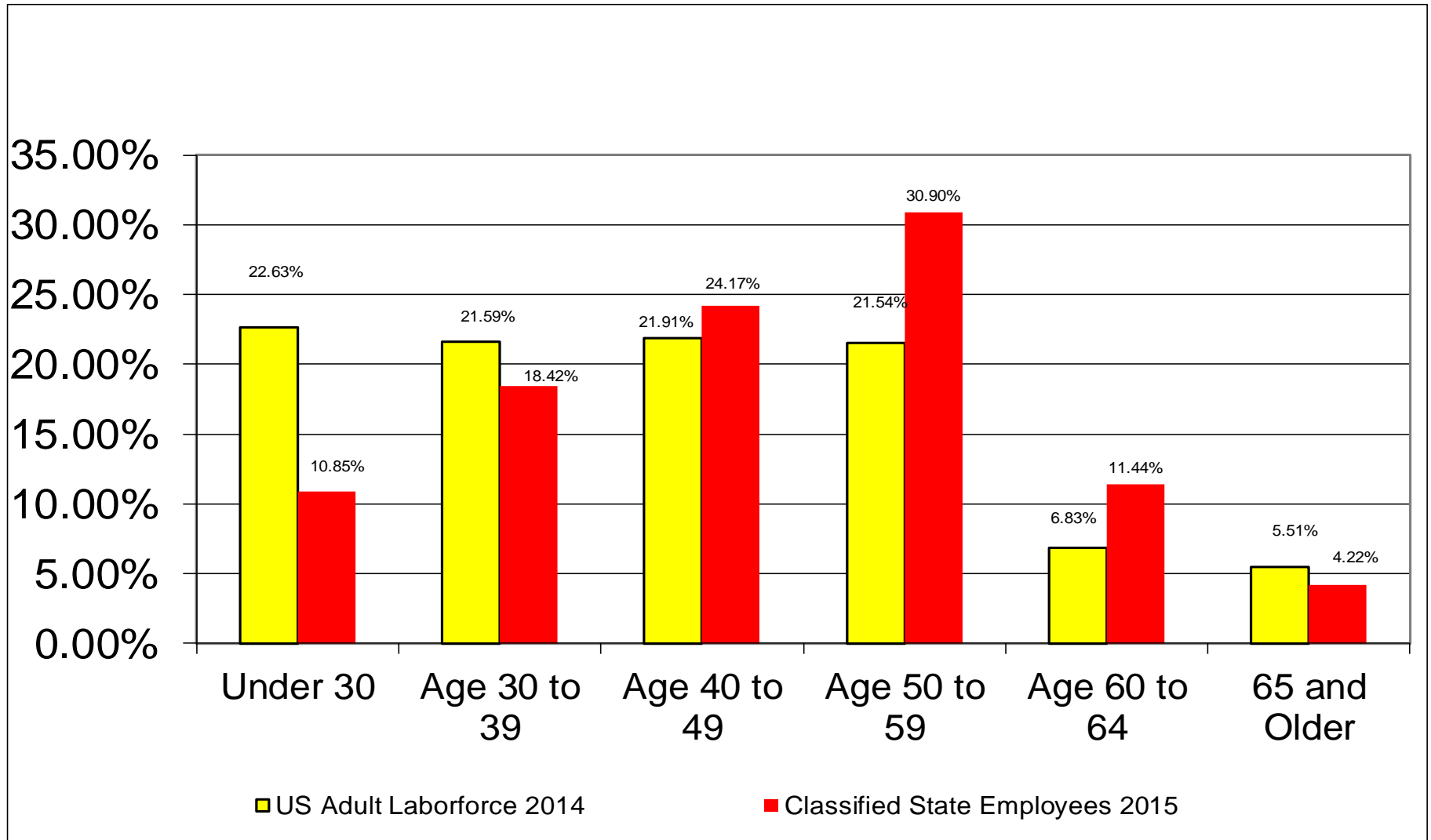
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Demographics of Classified Employees

	June 30, 2008	June 30, 2015
Average Age	45.5 yrs	46.7 yrs
Avg. Yrs. of Service	11.0 yrs	12.0 yrs
Average Salary	\$42,136	\$46,327 *
Currently Eligible to Retire	9.5%	11.7%
Eligible to Retire in Less than \leq 5 yrs	22.4%	25.4%
Retirement Rate	FY 2008 - 3.1%	FY 2015 – 3.3%
Turnover Rate	FY 2008 - 12.4%	FY 2015 – 13.2%

* Almost 50% of the increase in the average annual salary between 2008 and 2015 is attributable to the 5% VRS swap (increasing gross pay 5% to offset the impact of reinstating the 5% VRS employee contribution).

The State Employee Workforce is Significantly Older Than the US Workforce Overall



Key Agencies Are Facing Significant Brain Drain as a Large Percentage of Their Employees Will be Eligible to Retire Over the Next Five Years

Agency	Total # of Employees	Eligible in 5 Yrs or less
State Police Troopers - SPORS	1,992	30.32%
Central VA Training Center	1,032	37.21%
Eastern Regional Correctional Field Unit	41	46.34%
Dept. Mines Minerals & Energy Total	196	47.45%
Alcohol Beverage Control - VaLORS Positions	119	43.70%
Virginia Employment Commission	716	41.62%
VDOT -Richmond District	1,316	40.81%
Department of Education	246	39.84%
Division of Legislative Services	66	39.39%
Woodrow Wilson Rehabilitation Center	250	39.20%
Dept. of Visually Handicapped	122	38.52%
Library of Virginia	120	37.50%
Dept. of Forestry	225	36.89%
Dept. of Taxation	802	34.79%
Dept. Game & Inland Fisheries - VaLORS Positions	153	32.68%

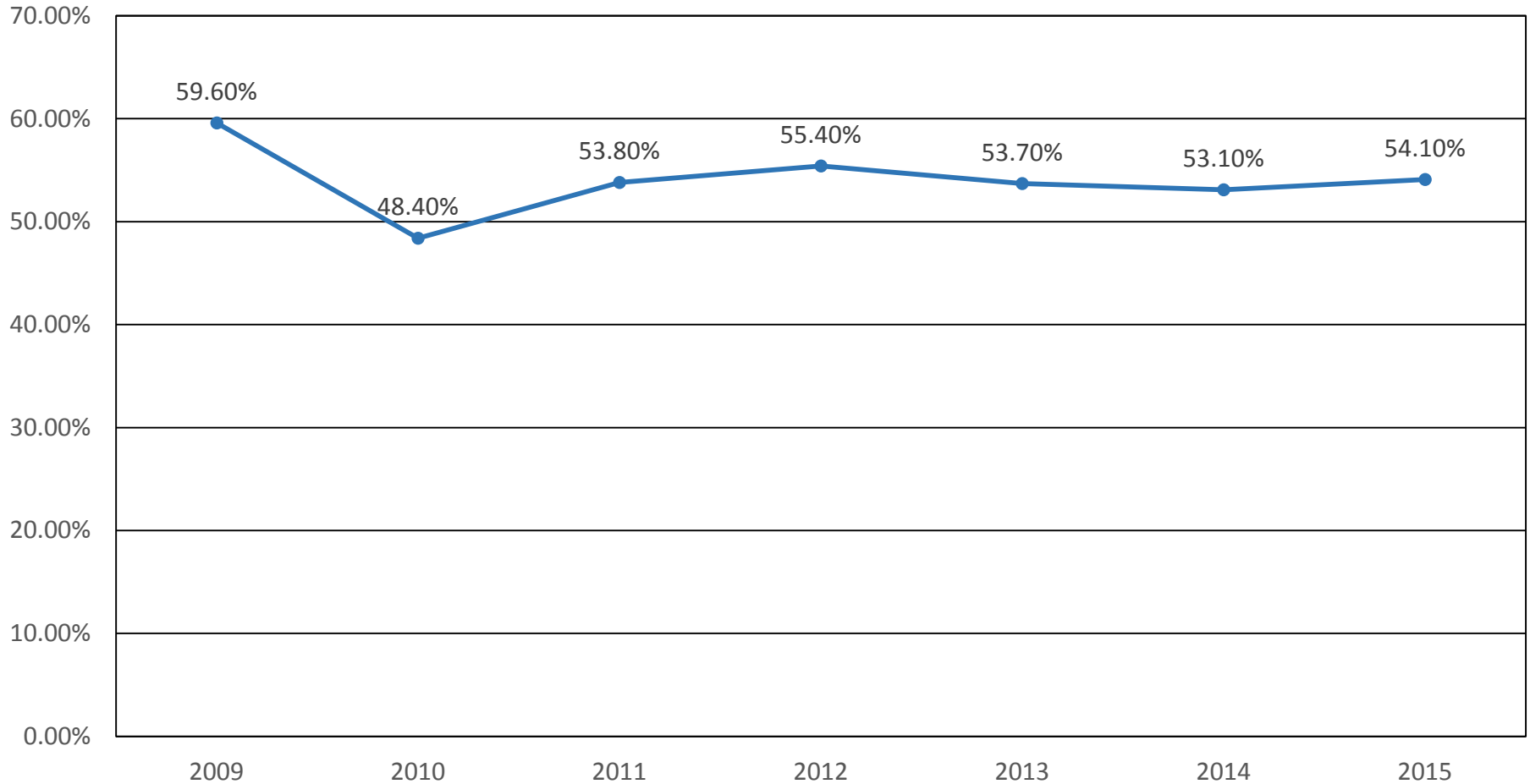
* % includes employees currently eligible to retire. Overall statewide percentage for classified workforce is 25.4%

State is Facing Potential Shortages in Specialized Occupations Due to Potential Retirements

Career Group	# of Employees	Eligible in 5 Yrs or less
Minerals Regulatory Services	115	49.57%
Engineering Technology	931	41.14%
Utility Plant Operations	217	38.71%
Library Services	485	36.91%
Agricultural Services	212	36.79%
Procurement	417	36.69%
Land Acquisition/Property Management	123	36.59%
Physician Services	166	36.14%
General Administration	1,811	35.73%
Audit and Management Services	287	35.19%
Building Trades	2,450	32.94%
Transportation Operations	3,265	32.80%
Financial Services	2,141	31.15%
Environmental Services	1,467	30.95%
Electronics	266	30.83%

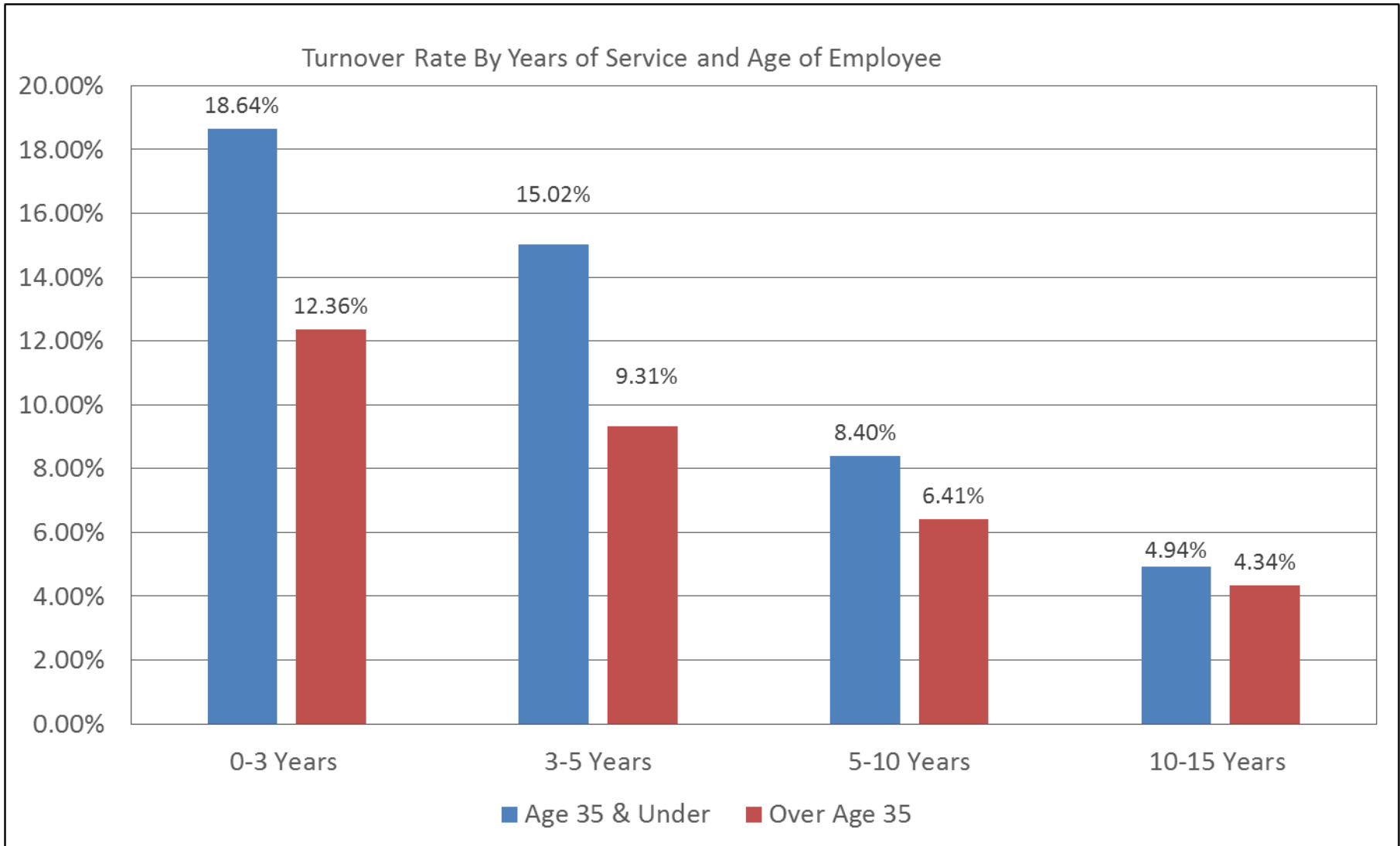
In Addition to Looming Retirements, the State Continues to Have Difficulty Attracting and Retaining New Employees


% of Total Annual Separations Related Employees With Less Than 5 Years of Service



* Approximately 63% of New Hires Leave State Service Prior to reaching 5 years of service

While the Turnover Rate is High for All New Hires, This is Especially True for Employees Under Age 35

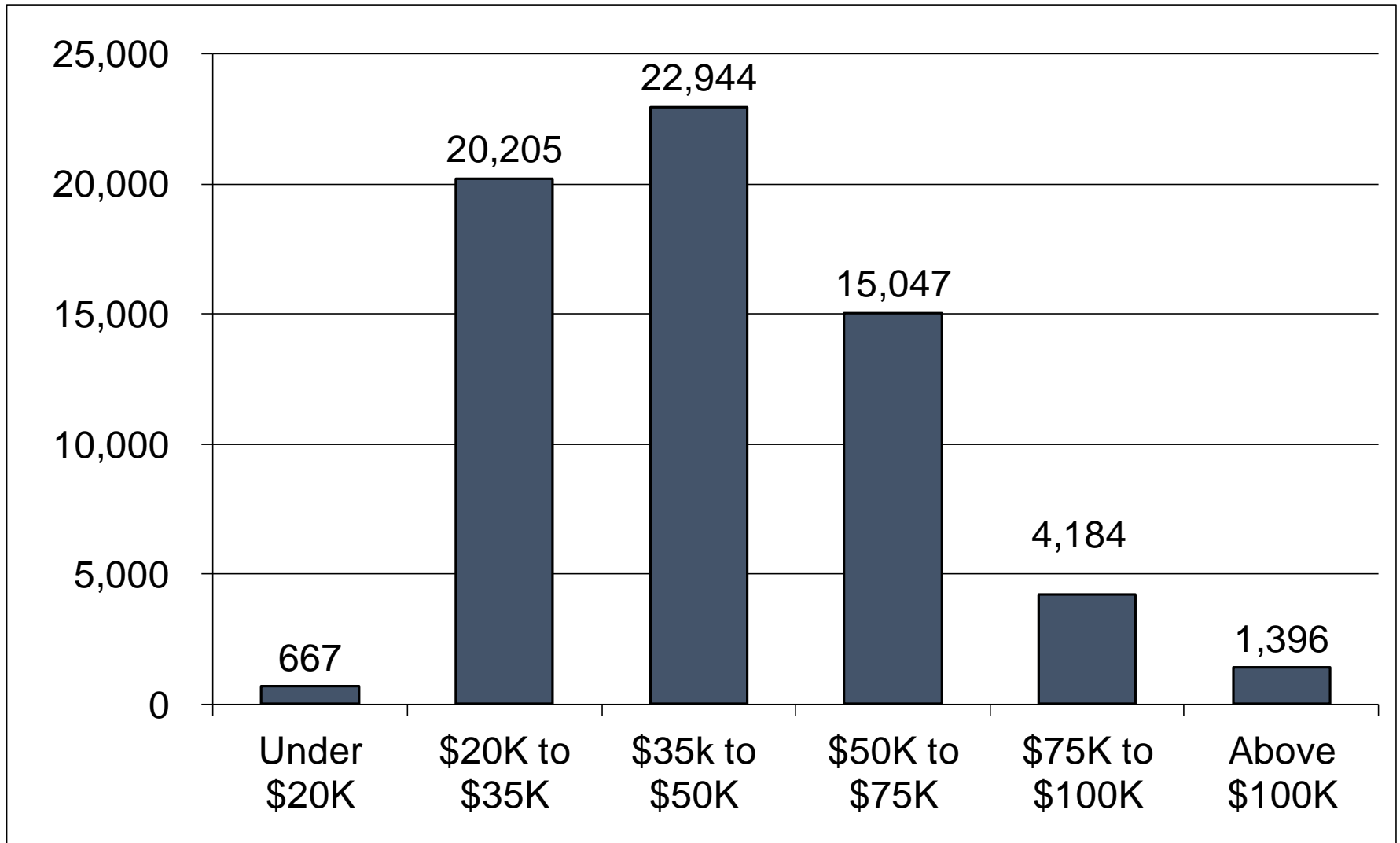


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Low Income Continues to Be a Problem

Distribution of Salaries – Classified Employees

of Employees

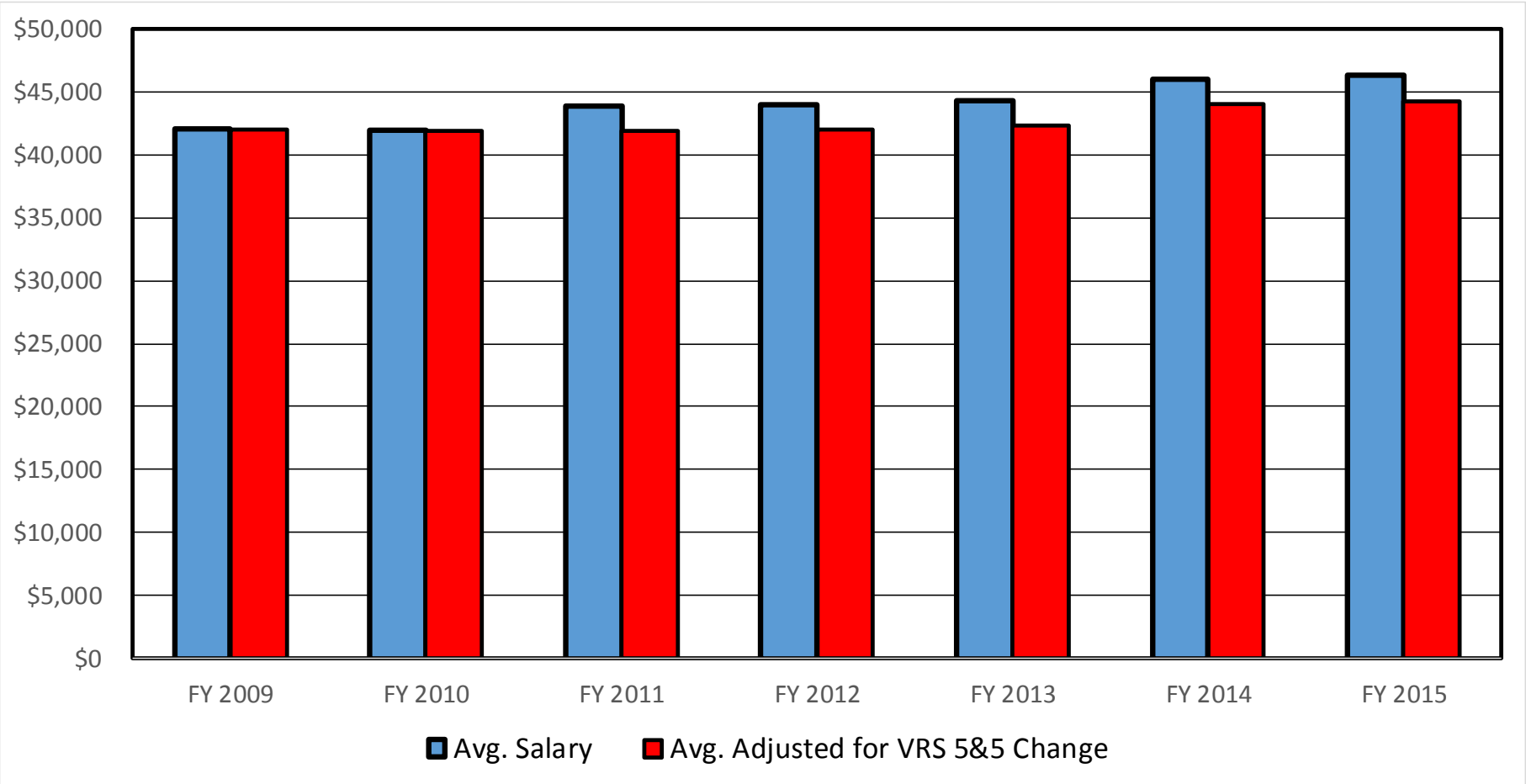


There Continues to Be A Number of State Employees Qualifying for Federal Assistance Programs

	SNAP	Medicaid	TANF	Total In At Least One Program
2011	856	97	12	892
2015	896	598	20	1,215

	Earned Income Tax Credit	Threshold - Single Filers	Threshold - Joint Filers
Tax Year 2010	9,125	\$11,650	\$23,300
Tax Year 2014	9,501	\$11,950	\$23,900

The Average Salary for Classified Employees Increased Only 5.3% from FY 2009 Through FY 2015 after Adjusting for the Salary Action Related to 5% VRS Employee Contribution



- A COLA adjustment and a compression adjustment was funded in FY 2014. A second COLA and compression adjustment was funded in the beginning of FY 2016

Stagnant Salaries For Current Employees Has Resulted in New Hires Entering the State Work Force With Salaries Higher Than Long Term Employees


Job Role	# of FY 2015 New Hires	Avg. Starting Salary for New Hires	Total # of Employees in FY 2015	Avg. Salary All Employees
Security Officer II	28	\$28,117	46	\$26,440
Trades Technician II	25	\$29,647	102	\$28,172
Engineering Technician III	19	\$51,837	561	\$51,362
Prog Admin Manager II	17	\$67,053	245	\$64,148
Architect/Engineer II	16	\$89,638	200	\$89,122
Prog Admin Manager III	13	\$92,050	302	\$89,479
For Sci Spec II/For Scientist I	9	\$47,308	10	\$44,827
Engineering Technician II	8	\$50,224	52	\$43,765
Prog Admin Specialist III	8	\$94,597	136	\$85,421
Compliance/Safety Officer II	8	\$41,355	25	\$39,415
Health Care Technologist II	7	\$56,817	65	\$49,577
Architect/Engineering Mgr II	7	\$111,237	197	\$101,789
PR & Mktg Mgr II	6	\$80,667	36	\$68,379
Engineering Technician IV	6	\$73,983	133	\$67,121

DHRM Review of State Employee Compensation

- DHRM is required to perform an annual review of the state employee salaries
- In the latest report, provided in December 2014, DHRM estimated state employee salaries were 26.3% below salaries for comparable private sector positions
- A complete analysis of total employee compensation has not been completed since the JLARC review in 2008, but DHRM is estimating, by adjusting the 2008 results forward, that state employee total compensation is 21.45% below market
 - The 2008 study was based strictly on Plan 1 VRS benefits
 - The 21.45% estimate does not reflect Plan 2 or Hybrid benefit reductions, nor does it reflect changes in private sector benefits since 2008

Final Thoughts: Demographics & Compensation

- As a result of an aging work force, a significant portion of our employees will be eligible to retire within the next 5 years
 - There is the potential for significant staffing problems in some specific agencies and occupational roles
- At the same time, the state continues to have difficulty attracting and retaining young workers
 - The turnover during the first 5 years of state service is extremely high, above 60%
- State employee salaries and overall compensation is significantly below market
- As a result of current salaries being below market, agencies are often bringing in new hires at salaries above those of long-time employees in the same job

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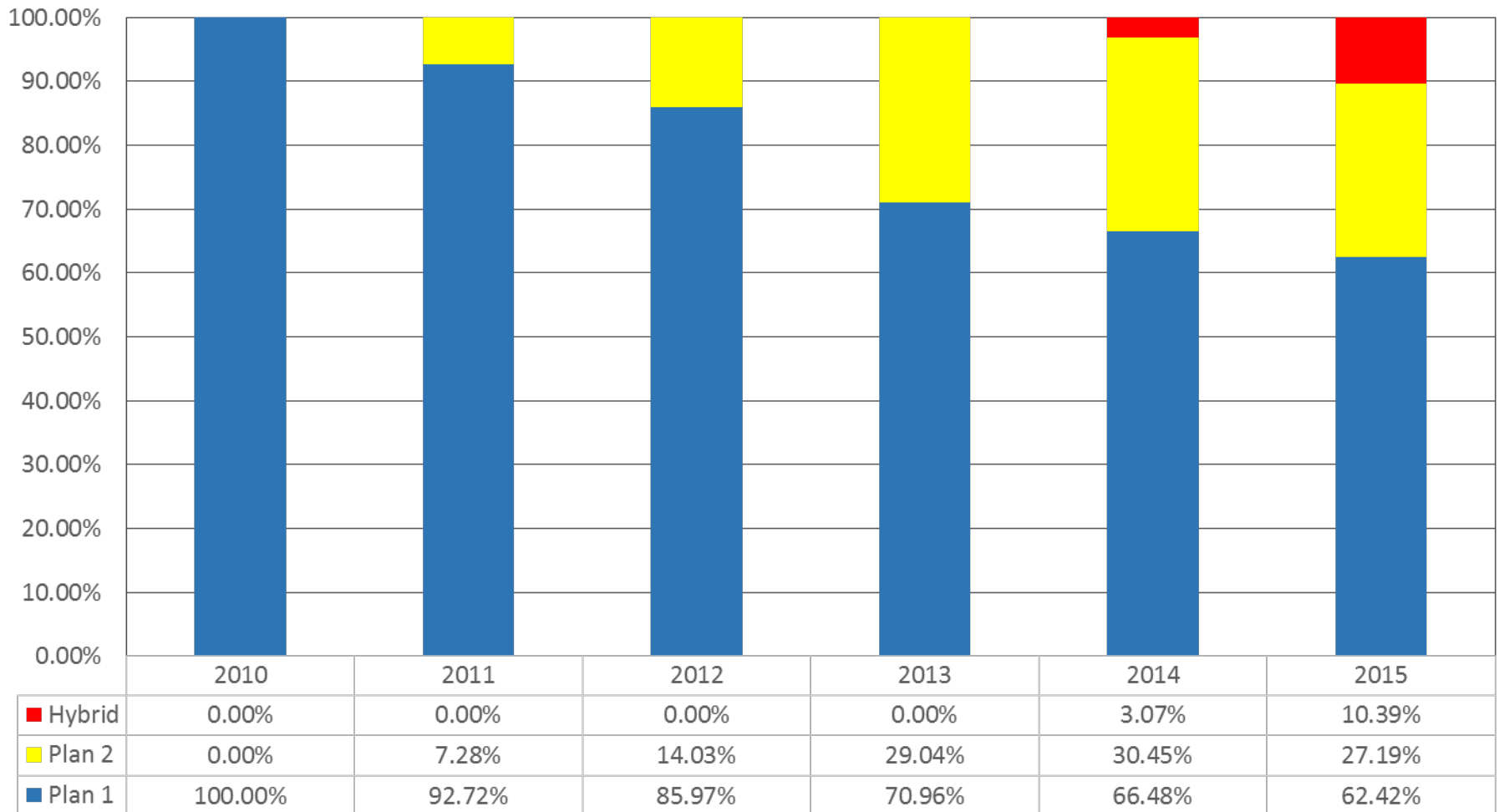
Distribution of VRS Membership

	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	0	2,000
Virginia Law Officers' Retirement System (VaLORS)	5,002	3,777	0	8,779
Judicial Retirement System (JRS)	289	69	46	404
Total Active Members	213,216	98,834	28,526	340,576

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

As of June 30, 2015

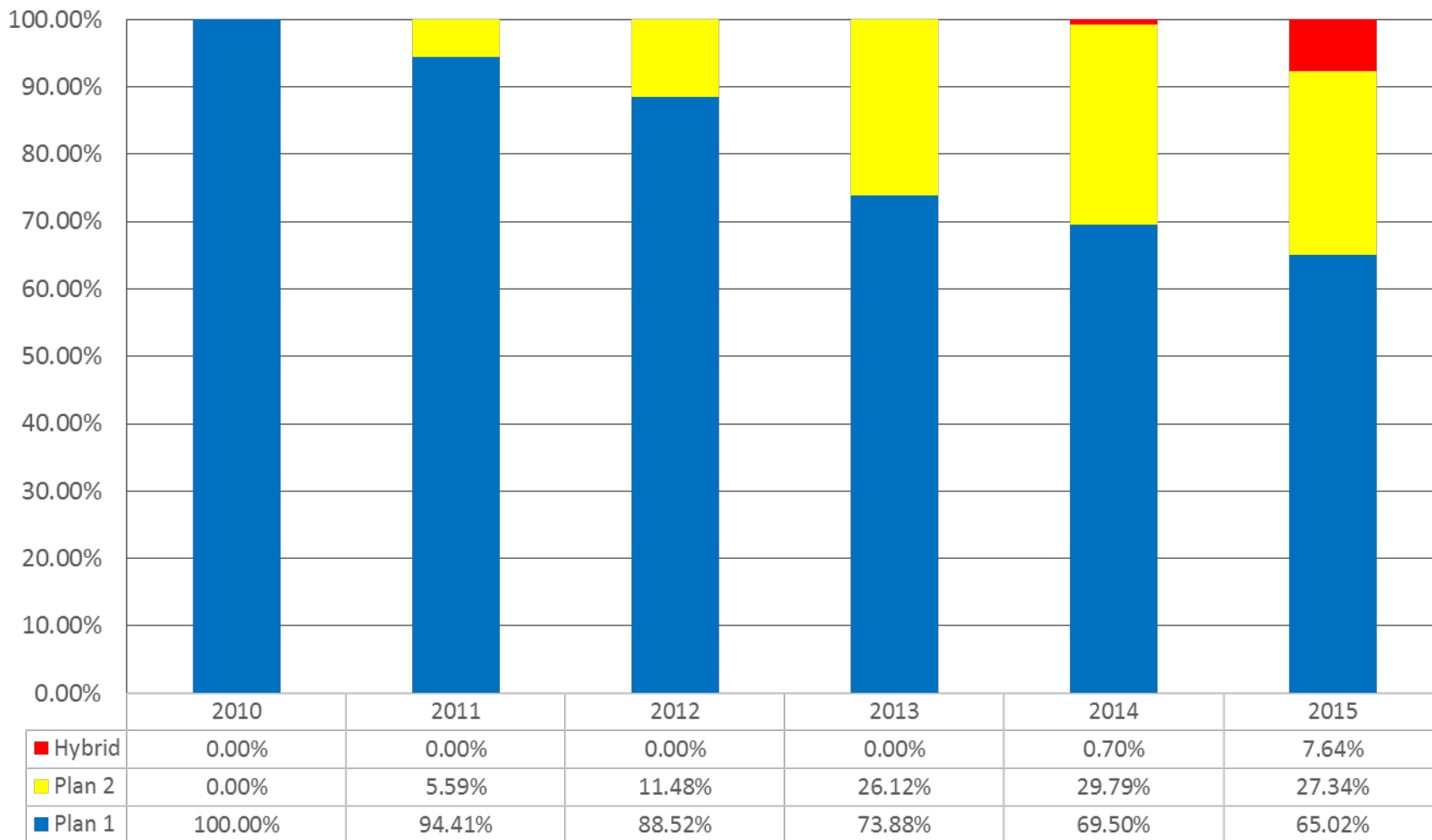
Over 10% of Members in the State Employee Plan Are Now in the Hybrid



Note: For fiscal years 2013 and beyond, individuals who were not vested were transitioned to Plan 2.

Enrollment by plan at the end of the Fiscal Year

Over 7% of Members in the Teacher Plan Are Now in the Hybrid



Note: For fiscal years 2013 and beyond, individuals who were not vested were transitioned to Plan 2.

Enrollment by plan at the end of the Fiscal Year

Review of Hybrid Benefit

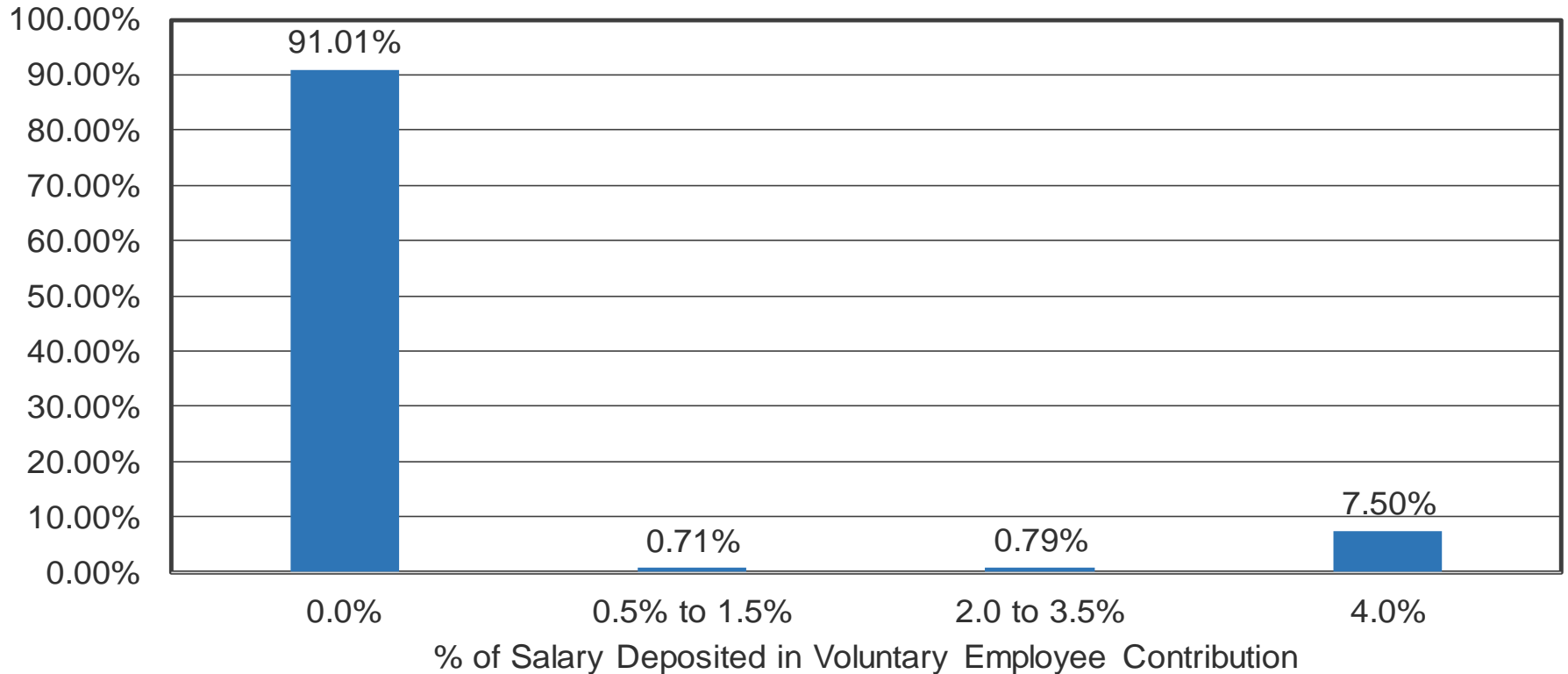
- For the DB component, the Hybrid plan provides a lower multiplier than Plan 1 and Plan 2
 - 1% multiplier per year of service (resulting in income replacement of 30% after 30 years of service), compared to 1.7% (51% income replacement in Plan 1) and 1.65% (49.5% income replacement in Plan 2)
- Other retirement provisions for the Hybrid are identical to Plan 2 (i.e., Rule of 90, 5-year AFC, and COLA provisions)
- Hybrid members have a total 5% mandatory employee contribution across the DB and DC components:
 - 4% mandatory for the DB component
 - 1% mandatory for the DC component (which the employer must match with another 1%)
- Hybrid members may make additional voluntary contributions to the DC component of the plan, and receive employer matching contributions

Schedule of Hybrid Contributions

Defined Benefit (DB) Plan Contributions		
CONTRIBUTIONS	EMPLOYEE	EMPLOYER
Mandatory	4.00%	Total employer contribution rate, less employer DC contributions
Defined Contribution (DC) Plan Contributions		
CONTRIBUTIONS	EMPLOYEE HYBRID 401(a)	EMPLOYER HYBRID 401(a)
Mandatory	1.00%	1.00%
Voluntary	VOLUNTARY HYBRID 457	MATCHING HYBRID 401(a)
	0.00% 0.00%
	0.50% 0.50%
	1.00% 1.00%
	1.50% 1.25%
	2.00% 1.50%
	2.50% 1.75%
	3.00% 2.00%
3.50% 2.25%	
4.00% 2.50%	

Over 90% of Hybrid Members Do Not Make Voluntary Contributions

Distribution of Voluntary Employee Contributions as of June 30, 2015



Voluntary Contributions	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
Members	26,118	38	151	14	142	27	55	2	2,151

* 83% of those who do make voluntary contributions elect to make the maximum contribution

Participation is Generally Low Across the Plans and Age Groups

- Participation in the voluntary contribution program is relatively low across age groups
 - Only 7% of employees under the age of 30 make voluntary contributions
 - Only 12% of employees over the age of 50 make voluntary contributions
- Voluntary contribution participation rates are low across all plans except for members of the Judicial Retirement System
 - State – 14.16%
 - Teachers – 7.20%
 - Locals – 6.76%
 - JRS – 52.17%

Data as of June 30, 2015

Participation Increases At Higher Income Levels

Employee Salary	Total # of Members*	0%	0.5% - 1.5%	2.0% or 2.5%	3.0% or 3.5%	4.0%
Under \$30K	10,686	97.03%	0.26%	0.29%	0.08%	2.34%
\$30K-\$39.99K	6,302	92.32%	0.98%	0.56%	0.13%	6.08%
\$40K-\$49.99K	6,444	89.59%	0.71%	0.67%	0.25%	8.80%
\$50K-\$59.99K	2,893	84.65%	0.93%	1.04%	0.35%	13.03%
\$60K-\$69.99K	989	78.67%	1.72%	1.52%	0.40%	17.80%
\$70K-\$79.99K	535	74.39%	1.68%	1.50%	0.56%	21.87%
\$80K-\$89.99K	281	67.26%	2.14%	0.71%	1.07%	28.83%
\$90K-\$99.99K	191	65.97%	2.62%	0.00%	0.52%	30.89%
\$100K and Over	377	59.68%	0.80%	1.33%	0.80%	37.40%

*Includes all active members with a balance in the Hybrid 401(a) Cash Match Plan.

Source: myVRS Navigator Hybrid Member Demographics Report

Note: Due to rounding, the total percentage across each row may not equal 100%.

Data as of June 30, 2015

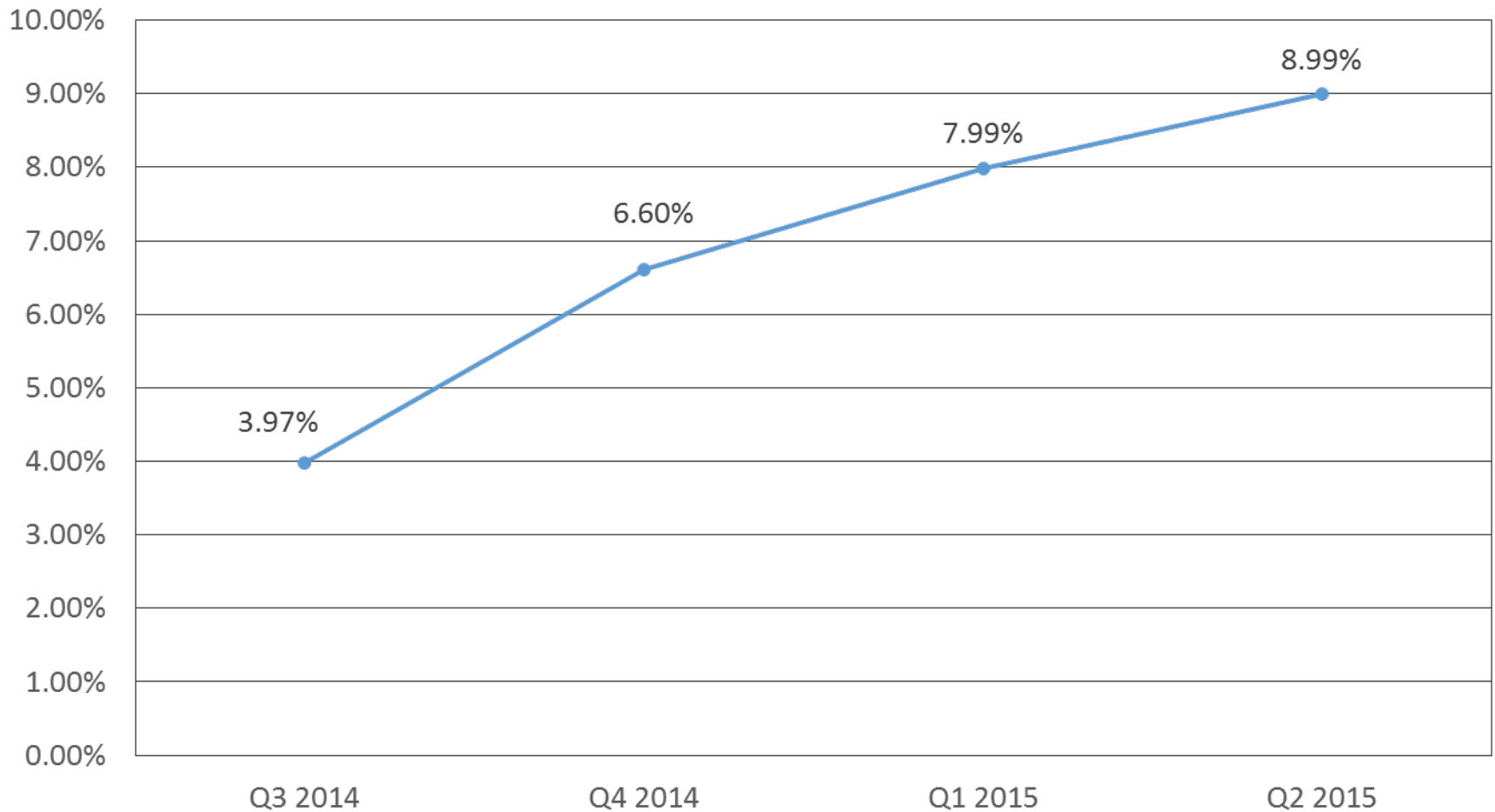
Factors Contributing to Participation Rate

- The largest group of hybrid members is under the age of 30
 - This age group has very high turnover and may not view VRS as part of their long term retirement plan
- 80% of hybrid members earn a salary less than \$50,000
- Competing goals may be considered to be more immediate than retirement savings (e.g., health care, child care, student loans, aging parents, etc.)
- Plan 1 and Plan 2 do not require any action on the part of the member in order to receive the full benefit
 - Hybrid members must take a more active role in saving for their retirement
 - Encouraging members to take action and save for their retirement requires more robust communication and education efforts than in Plan 1 and Plan 2

Automatic Escalation for Hybrid Voluntary Contributions

- The *Code* automatically increases the employee's voluntary contribution by 0.5% every 3 years, beginning January 1, 2017, until the voluntary contribution reaches 4%
 - The employee can specifically opt out of the contribution increase
 - By *Code*, all active Hybrid members are auto-escalated on the same date
 - The first escalation will occur on January 1, 2017, then again on January 1, 2020, and every three years thereafter

VRS Has Implemented Several Outreach Initiatives to Increase Voluntary Employee Contributions



Note: This chart reflects calendar-year quarters.

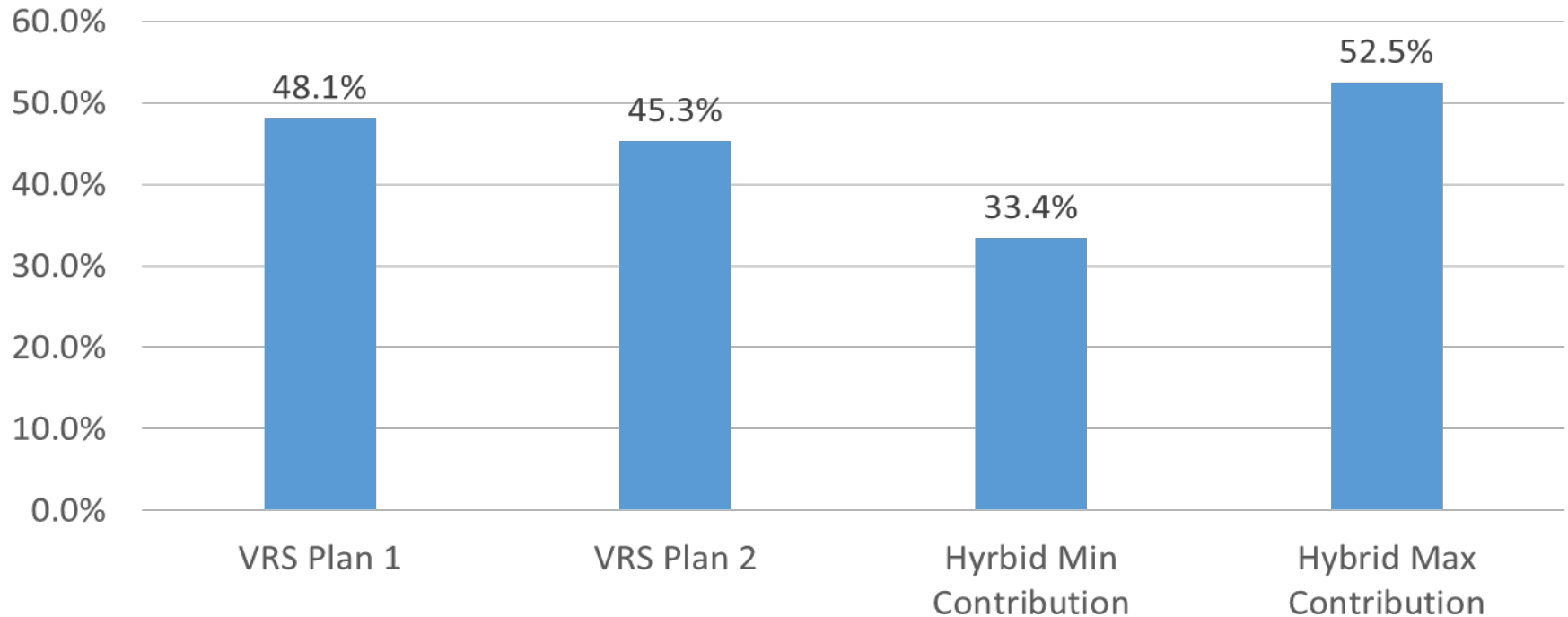


VRS Is Planning Future Enhancements to Increase Participation

- Develop interactive tools for members and employers that demonstrate the importance of saving
- Develop a mechanism to allow members to make an election at the time of hire
- Send members direct communications to promote importance of voluntary contributions, i.e., celebrate their hire date or work anniversary

Participating in the Voluntary DC Under the Hybrid is Vital to Having Sufficient Income to Retire

Estimated Income Replament Based on 30 Years of Service -
Enter At Age 35 and Retire at 65



- Analysis assumes DC has 6% rate of return while working and 4% during retirement
- Income replacement % based on estimated final salary, which is assumed to be higher than AFC
- For “Hybrid Max Contribution” employee must contribute 9% of their salary throughout their career; for other 3 plans, the employee contribution is 5%.

Employer Contribution Rate is Calculated as a Blended Rate Across the Plans

- The “Normal Cost” portion of the defined benefit rate is the estimated cost to fund the value of the benefit that is “accrued” during the current fiscal year
 - For the 2016-18 biennium, the estimated cost to fund the DB benefit under the Hybrid is 5.17%, 4.0% of which is paid for by the employee contribution

VRS Board Certified Rate Calculation State Employee Plan – FY 2017 & 2018

	Total DB Normal Cost	Employee DB Contribution	Employer Contribution
Plan 1 Normal Cost Rate	9.64%	5.0%	4.64%
Plan 2 Normal Cost Rate	8.95%	5.0%	3.95%
Hybrid DB Normal Cost Rate	<u>5.17%</u>	<u>4.0%</u>	<u>1.17%</u>
Blended Normal Rate Across Plans	9.10%	4.92%	4.18%

Employer Contribution Rate Calculation for 2016-18

- The Final Board certified rate is calculated by including rate adjustments to reflect the cost of amortizing the unfunded liability, providing an administrative surcharge, and an estimate of the cost of the employer DC contributions for the hybrid members
 - The actuaries are assuming a 1.2% DC contribution per Hybrid employee, 1.0% mandatory and an average of 0.2% voluntary.
 - Since rate is blended across members across all 3 plans, the DC rate adjustment is 0.10% overall

	Employer Contribution
Blended Normal Rate Across Plans	4.18%
Administrative Expense Surcharge	0.27%
Amortized Unfunded Liability (Including Expedited Repayment)	<u>9.91%</u>
Total Employer Contribution Rate Pursuant to DB Plan	14.36%
<u>Adjustment to Rate for DC Hybrid Component</u>	
Blended rate DC contribution (Assumes 1.2% DC contribution per hybrid members – 1.0% Mandatory & 0.2% Voluntary)	<u>0.10%</u>
VRS Board Certified Employer Rate State Employee Plan	14.46%