

# House Appropriations Committee Compensation and Retirement Subcommittee January 21, 2010

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Virginia  
Retirement  
System

# System Overview

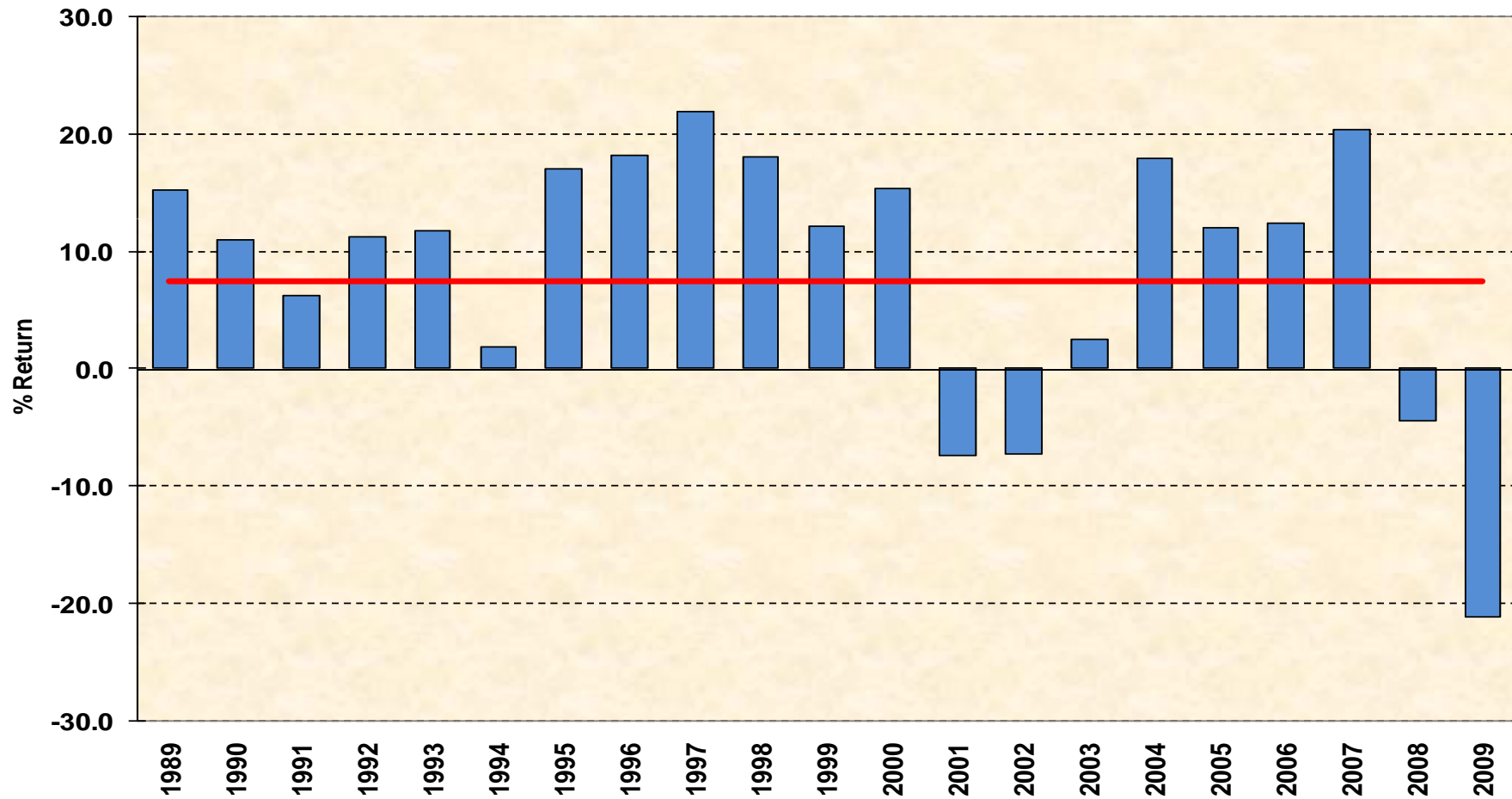


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# VRS Total Membership

Teachers	148,357
Political Subdivisions	105,037
State Employees	79,769
State Police Officers' Retirement System (SPORS)	1,803
Judicial Retirement System (JRS)	423
Virginia Law Officers' Retirement System (VaLORS)	9,729
<b>Total Active Members</b>	<b>345,118</b>
Retirees/Beneficiaries	146,427
Inactive/Deferred Members	106,392
<b>VRS Overall Impact</b>	<b>597,861</b>

# VRS Fiscal Year Returns



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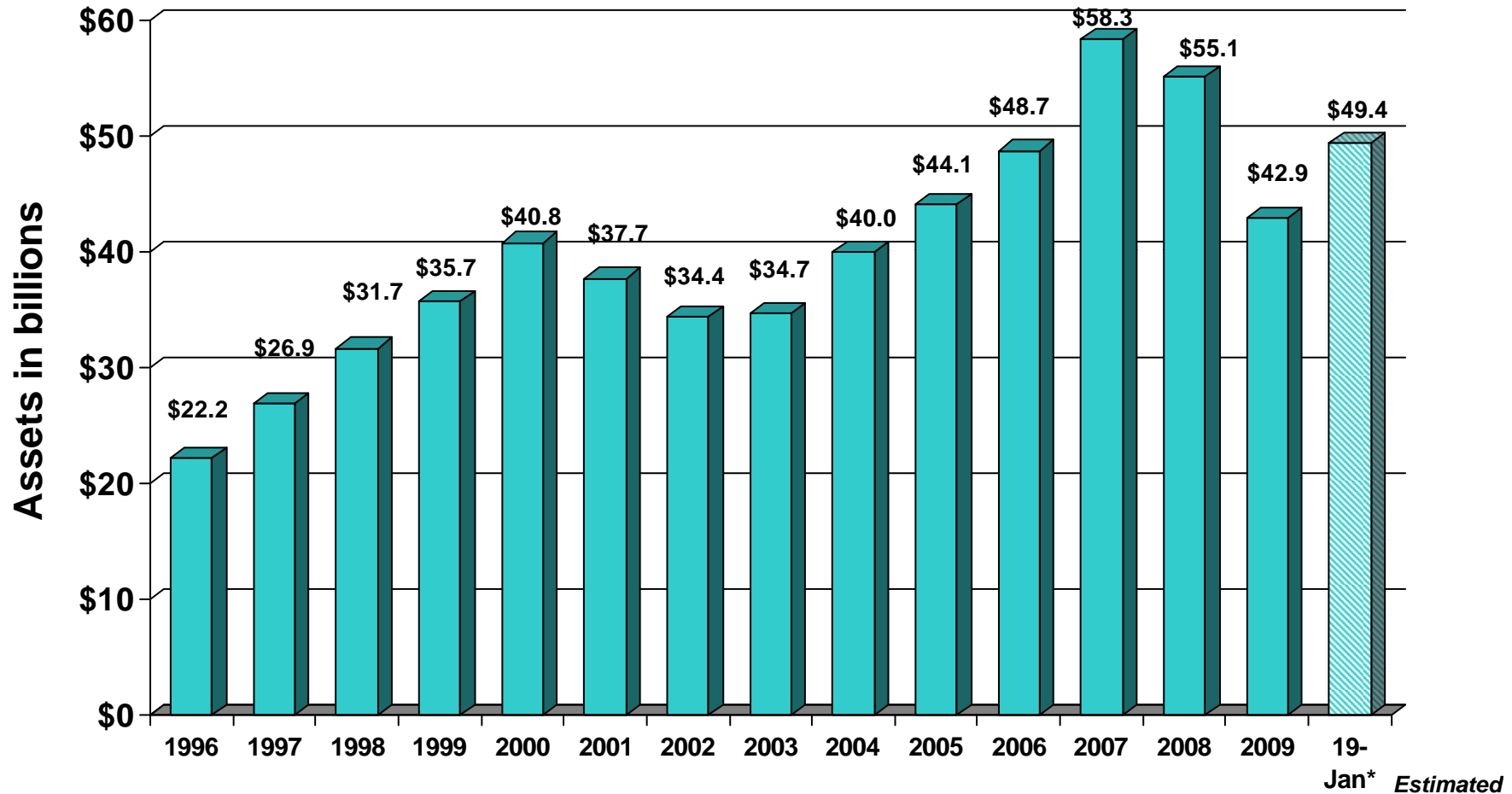
Note: Annual compounded return (1989 – 2009) = 8.2%

# 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%



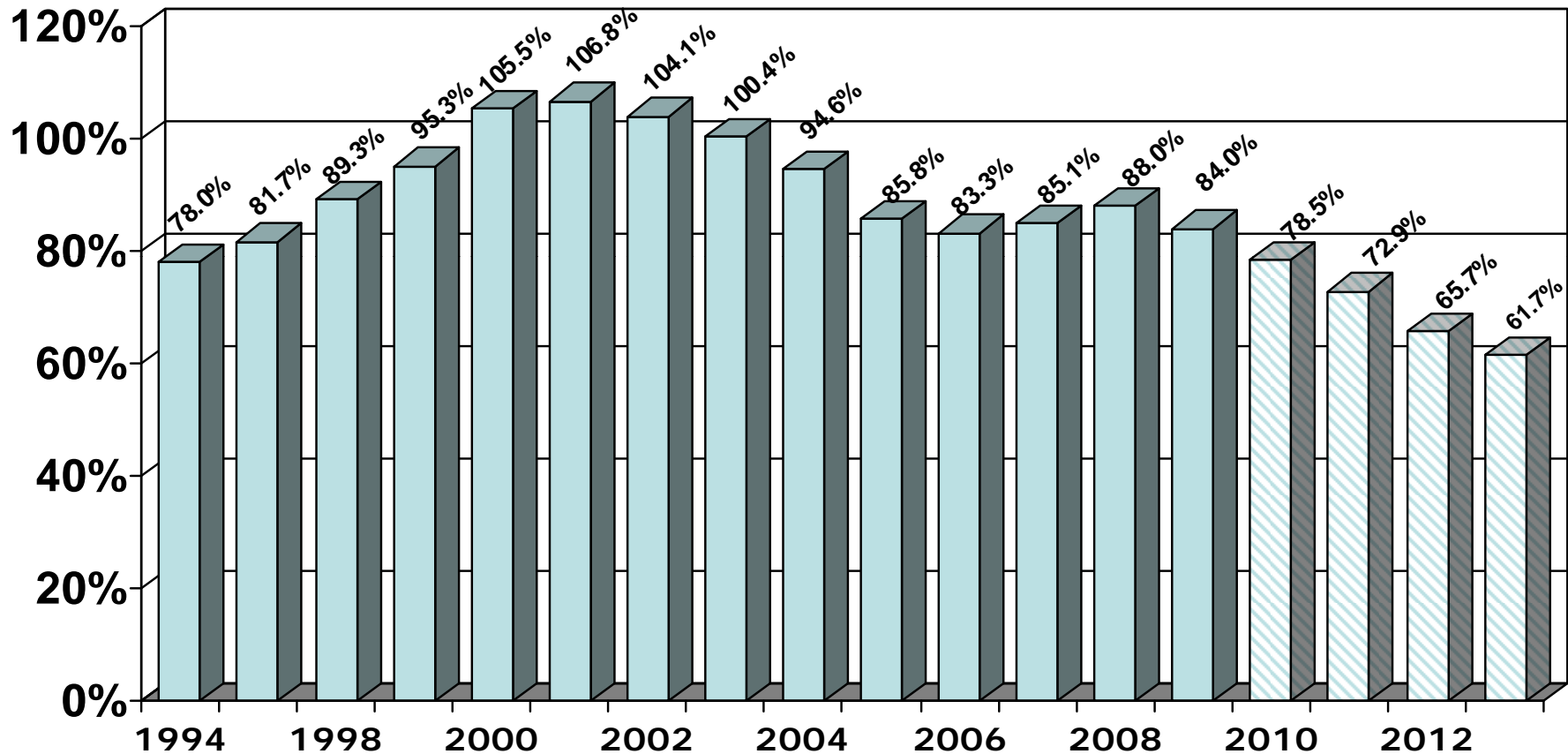
# Net Assets Available for Benefits



# Funding VRS Benefits

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

# Funded Status: State Employees



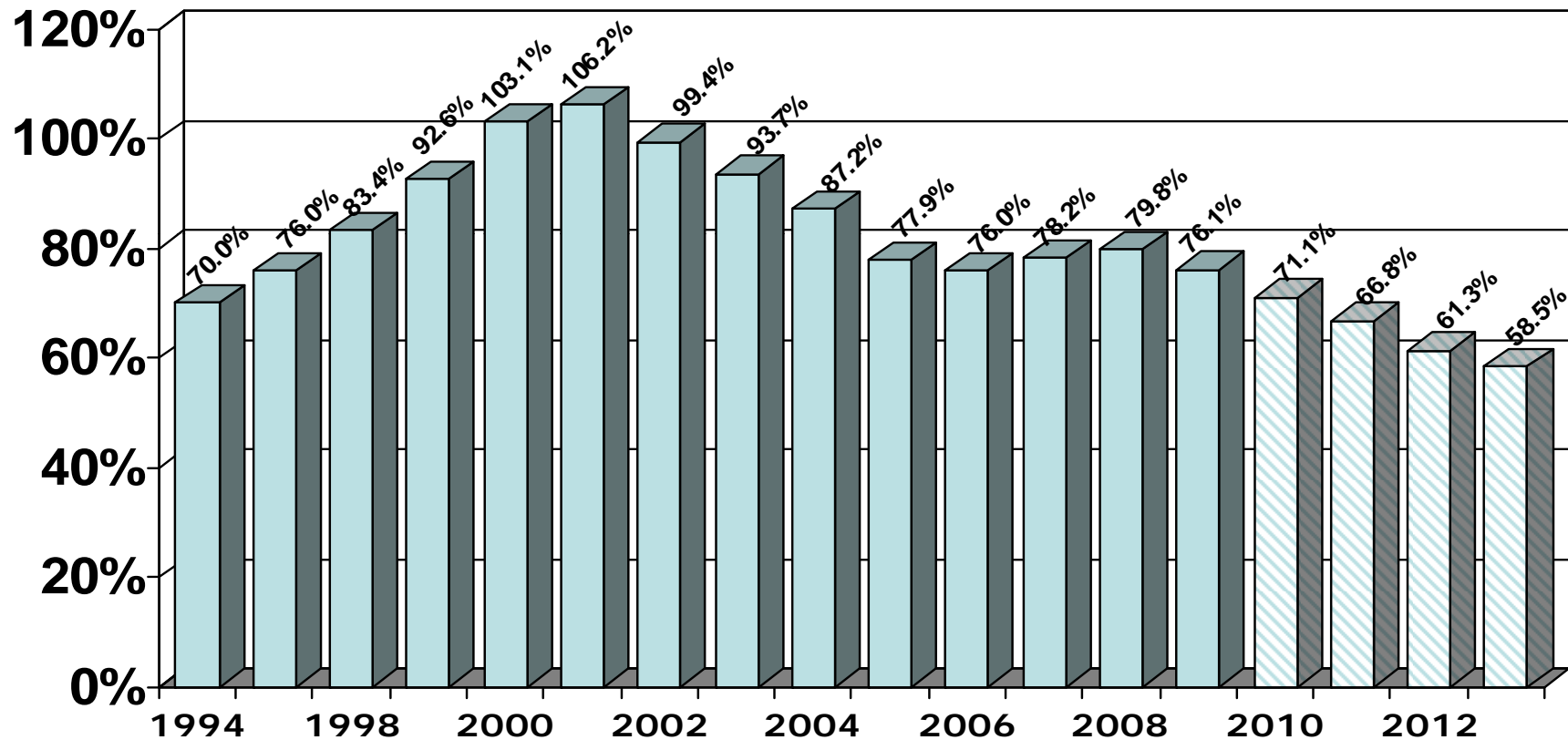
Assumptions:

- 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.



# Employer Contribution Rates

	<b>Current Funded Rates* FY 2010</b>	<b>2009 Board Certified Rates** FY 2011 – FY 2012</b>	<b>Governor Proposed Rates FY 2011- FY 2012</b>
<b>State</b>	11.26%	13.46%	11.58%
<b>Teacher</b>	13.81%	17.91%	15.49%
<b>VALORS</b>	19.23%	20.93%	18.09%
<b>SPORS</b>	25.05%	30.56%	26.16%
<b>JRS</b>	39.51%	51.79%	47.58%
<b>Average Local</b>	12.00%	13.00%	n/a

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

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

10 Note: These contribution rates include the 5% member contributions paid by employers.



# Proposed Budget Actions HB 29/HB 30



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# Governor's Budget Proposal

- Contribution Rate Increases
  - Increase associated with contribution rates for teachers – \$87.8 million
  - Increase associated with contribution rates for all state funded plans – \$4.5 million
  - Rates represent 86 to 87 percent of the rates certified to the Governor by the VRS Board of Trustees

# Governor's Budget Proposal

- Contribution Rate Holiday & Furlough
  - One furlough day for all state employees; no change in retirement or life insurance benefits for members
  - Suspend employer contributions to VRS for the last five pay periods of FY 2010 for all state employees, teachers and OPEBs
  - Cost savings of \$145.0 million for FY 2010
  - Record 4<sup>th</sup> quarter FY 2010 VRS contributions in July (FY 2010 - \$32.5 million; FY 2011 - \$33.9 million)



# Governor's Budget Proposal

- Cash Match Suspension
  - For the last five pay periods of FY 2010, cash match payments suspended for state employees participating in the 457 and 403(b) plans
  - Cash match suspended for FY 2011 and 2012
  - Cash match is a minimum of \$5 per pay to a maximum of \$20 per pay (\$480 per year)
  - Savings (HB 29 and HB 30) of \$41.6 million



# Governor's Budget Proposal

- Severance Benefit for Localities
  - Mirrors the state Workforce Transition Act
  - Local governments and school divisions may elect benefit by resolution of their governing body
  - WTA provides:
    - Cash severance benefit based on years of service (provides from 4 – 36 weeks of pay, plus one year of health insurance and life insurance); or
    - Purchase of additional retirement credit
  - Cost of additional retirement benefits borne by respective plans and reflected in future contribution rates

# Governor's Budget Proposal

- Line of Duty Act Changes
  - VRS to transfer \$500,000 from Group Life to Line of Duty Death and Health Benefits Trust Fund for claims; transfer to be repaid to Group Life
  - VRS to transfer from Health Insurance Credit Trust Fund \$1.25 million to the GF as reimbursement for HIC credits to Line of Duty Act recipients
  - Ongoing reimbursement by Health Insurance Credit Trust Fund for Line of Duty Act recipients (\$300,000/fiscal year)

# Governor's Budget Proposal

- Employee Contribution
  - State Employees
    - Employees pay 1 percent contribution rate in FY 2011 – cost savings of \$30.3 million
    - Employees pay 2 percent contribution rate in FY 2012 – cost savings of \$62.0 million
    - Contribution rates paid on pre-tax basis
  - Local government/school divisions
    - Locality through resolution may elect to have employees pay contribution rate
    - May select a rate between 1 and 5 percent

# Governor's Budget Proposal

- Employee Contribution
  - ORP Participants
    - Employees participating in ORP include faculty, state appointed officials, and school superintendents
    - Employees pay 1 percent employee contribution in 2011 - \$7.4 million savings in GF
    - Employees pay 2 percent employee contribution in 2012 - \$15.1 million savings in GF
    - Budget overrides Code which sets employer contribution rate at 10.4 percent

# Governor's Budget Proposal

- Retirement at 55 for New Hires
  - Effective for employees hired on or after 7/1/10
  - Eligibility for unreduced benefit increases from age 50 to age 55 with 30 years of service for state employees, local government employees, teachers and judges
  - Eligibility for unreduced benefit increases from age 50 to age 55 with 25 years of service for hazardous duty employees (state police, VaLORS, LEOS)

# Governor's Budget Proposal

- Cost-of-living Adjustment (COLA) for New Hires
  - Revises COLA formula for those hired on or after 7/1/10
    - Current formula - first 3 percent plus one-half of each additional increase in CPI; maximum of 5 percent
    - Revised formula - first 2 percent plus one-half of each additional increase in CPI; maximum of 4 percent
    - COLA for current employees and retirees remains the same



# Governor's Budget Proposal

Initiative (expressed in millions)	2010	FY 2011- FY 2012	Total
VRS Contribution Rates	-	\$92.4	\$92.4
Suspend Cash Match	(\$3.9)	(\$37.7)	(\$41.6)
Record 4 <sup>th</sup> quarter VRS Contributions in July	(\$32.5)	(\$33.9)	(\$66.4)
Suspend 4 <sup>th</sup> quarter VRS Contributions	(\$121.4)	-	(\$121.4)
Suspend 4 <sup>th</sup> quarter Benefit Contributions	(\$23.6)	-	(\$23.6)
Employee VRS Retirement Contributions (1% FY11, 2% FY12)	-	(\$92.3)	(\$92.3)
Employee ORP Retirement Contribution (1% FY11, 2% FY12)	-	(\$22.4)	(\$22.4)
<b>Total</b>	<b>(\$181.5)</b>	<b>(\$94.0)</b>	<b>(\$275.5)</b>

# VRS Initiated Legislation

- HB 560 – Tata
  - Codifies provisions of the Appropriations Act which made changes to VSDP in the 2009 legislative session
- HB 561 – Tata
  - Makes technical correction to last year's bill to provide conformity with the HEART Act

# VRS Initiated Legislation

- HB 562 – Tata
  - Clarifies COLA language for periods of deflation; provides method for resuming COLA adjustments following periods of deflation
  - From Bureau of Labor Statistics:
    - CPI-U - 12 month average 2008 = 215.303
    - CPI-U - 12 month average 2009 = 214.537
  - Deflation between 2008 and 2009 is .36%.
  - Statute provides for no COLA adjustment after a year of deflation
  - But statute needs to be corrected on how to resume COLA adjustments following a period of deflation

Thank you!

