



# Virginia Retirement System Overview

## Compensation and Retirement Subcommittee

Robert P. Schultze, VRS Director  
January 15, 2015

- VRS Overview
- VRS Investments Overview
- Funded Status and Contribution Rates
- Hybrid Retirement Plan
- 2015 Legislation



## VRS Overview

# VRS Total Membership



	Plan 1	Plan 2	Hybrid	Total
Teachers	96,672	40,644	9,508	146,824
Political Subdivisions	64,215	34,469	6,736	105,420
State Employees	51,297	21,860	5,381	78,538
State Police Officers' Retirement System (SPORS)	1,484	473	–	1,957
Virginia Law Officers' Retirement System (VaLORS)	5,353	3,913	–	9,266
Judicial Retirement System (JRS)	310	69	–	379
<b>Total Active Members</b>	<b>219,331</b>	<b>101,428</b>	<b>21,625</b>	<b>342,384</b>

Total Active Members	Retirees/ Beneficiaries	Inactive/ Deferred Members	VRS Total Population
342,384	182,864	130,003	655,251

As of December 31, 2014

# Benefit Comparison



	State	Teachers	Local
<b>Actives:</b>			
Average Age	48.3	45.2	46.3
Average Service	12.7	12.0	11.2
Average Salary	\$50,902	\$50,095	\$42,101
<b>Retirees:</b>			
Avg. Age @ Retirement	63.1	62.2	62.4
Avg. Service @ Retirement	21.7	22.4	19.6
Avg. Benefit @ Retirement	36.9%	38.1%	33.5%
Avg. Annual Benefit	\$19,256	\$22,088	\$15,290
Avg. Social Security Benefit at Age 62	\$17,796	\$18,240	\$14,988

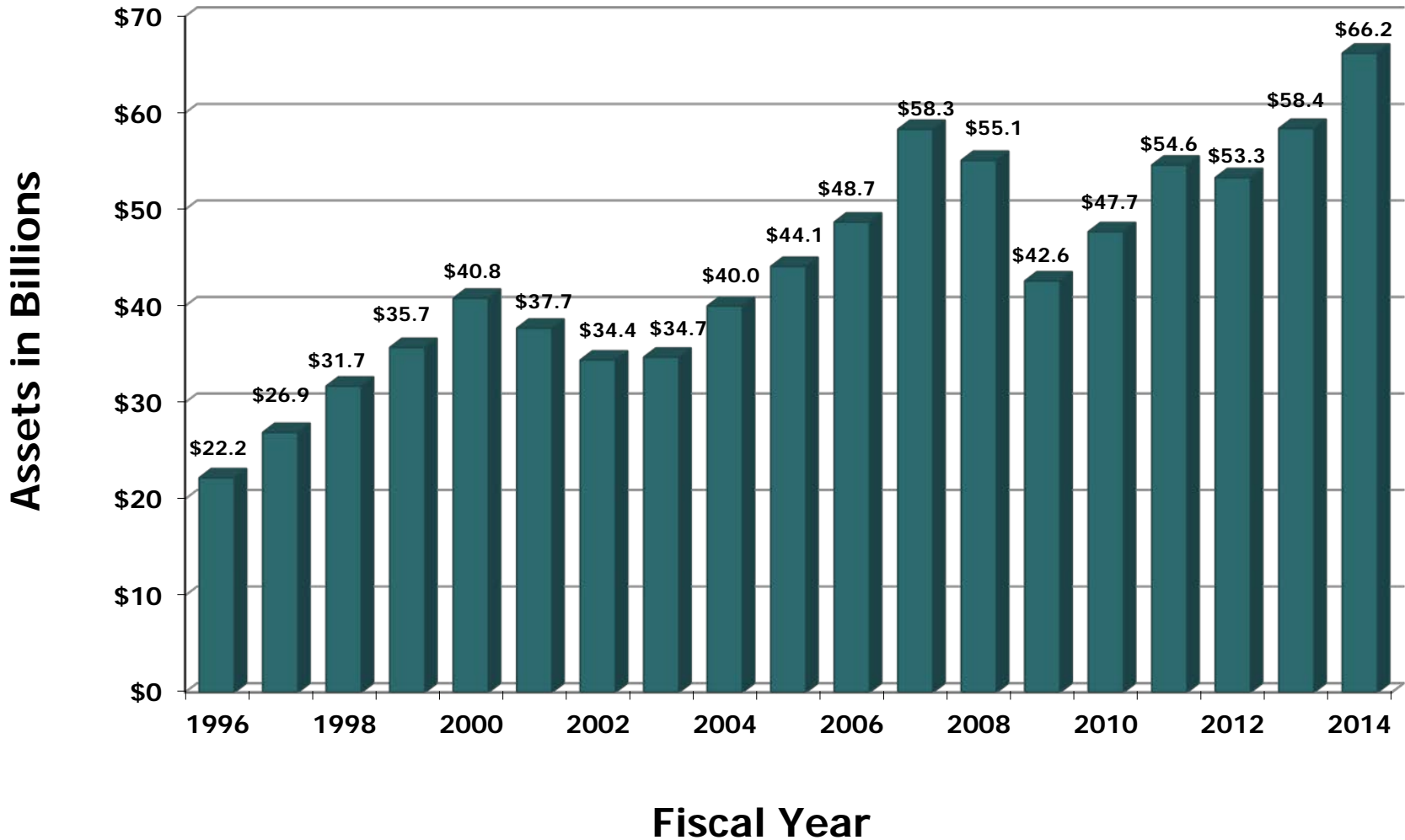
Information above obtained from the June 30, 2014, Actuarial Valuations.



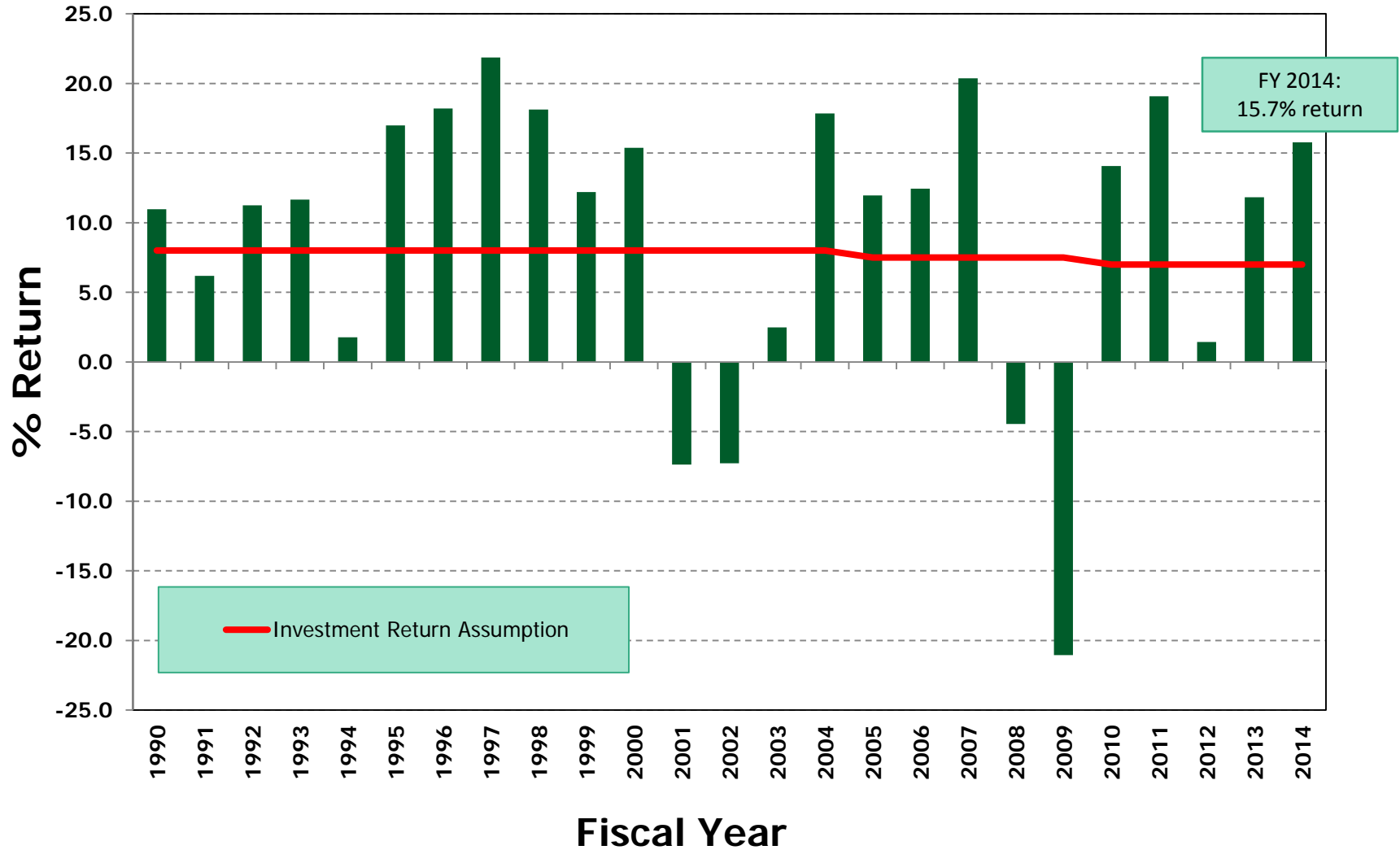
## VRS Investments Overview



# Net Assets Available for Benefits



# VRS Fiscal Year Returns





# Fund Performance



	<b>VRS Return</b> (As of June 30, 2014)
3-year	9.5%
5-year	12.3%
10-year	7.4%
15-year	6.1%
20-year	8.8%
25-year	8.7%

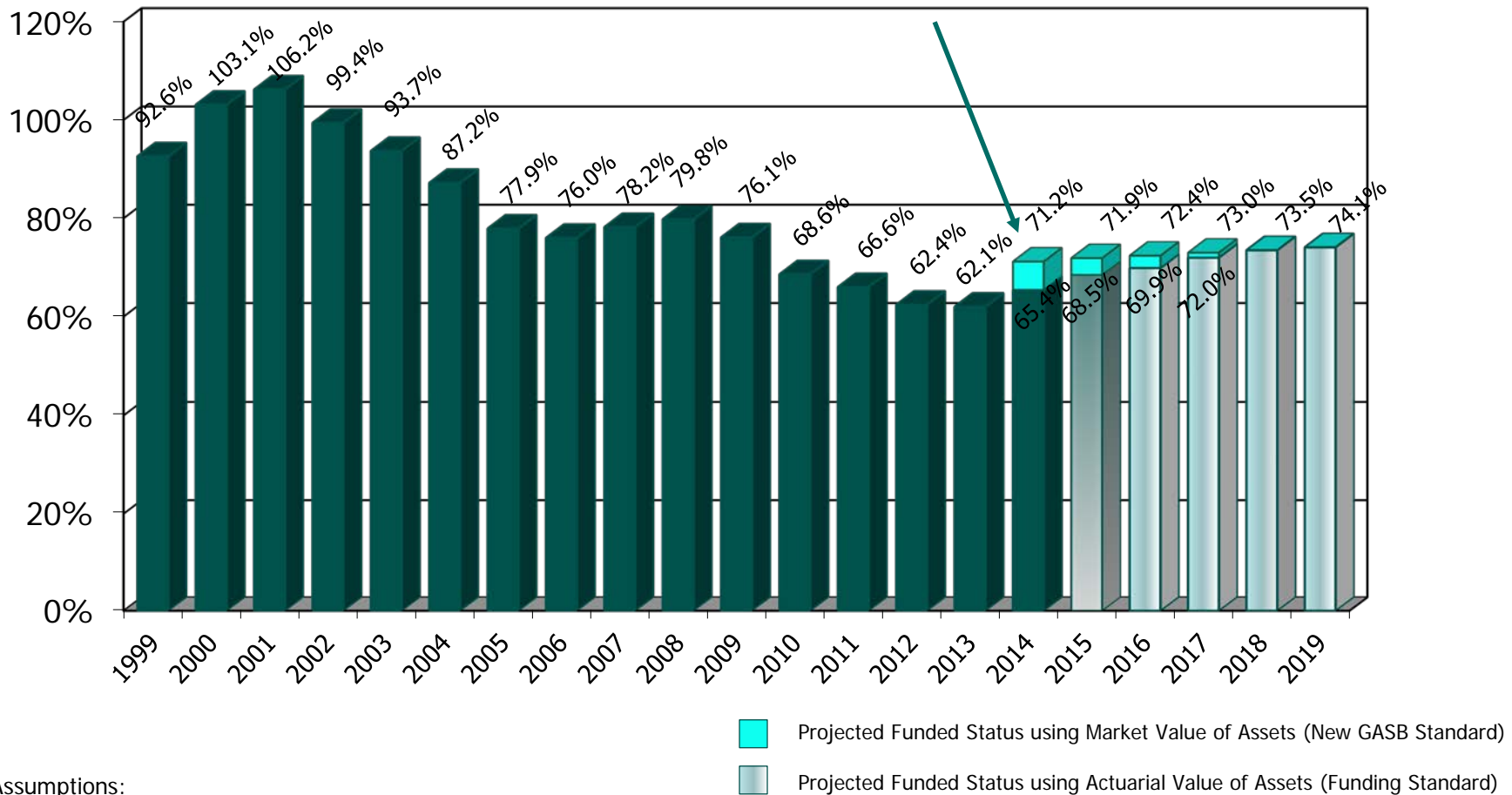


# Funded Status and Contribution Rates

# Funded Status: Teachers



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.



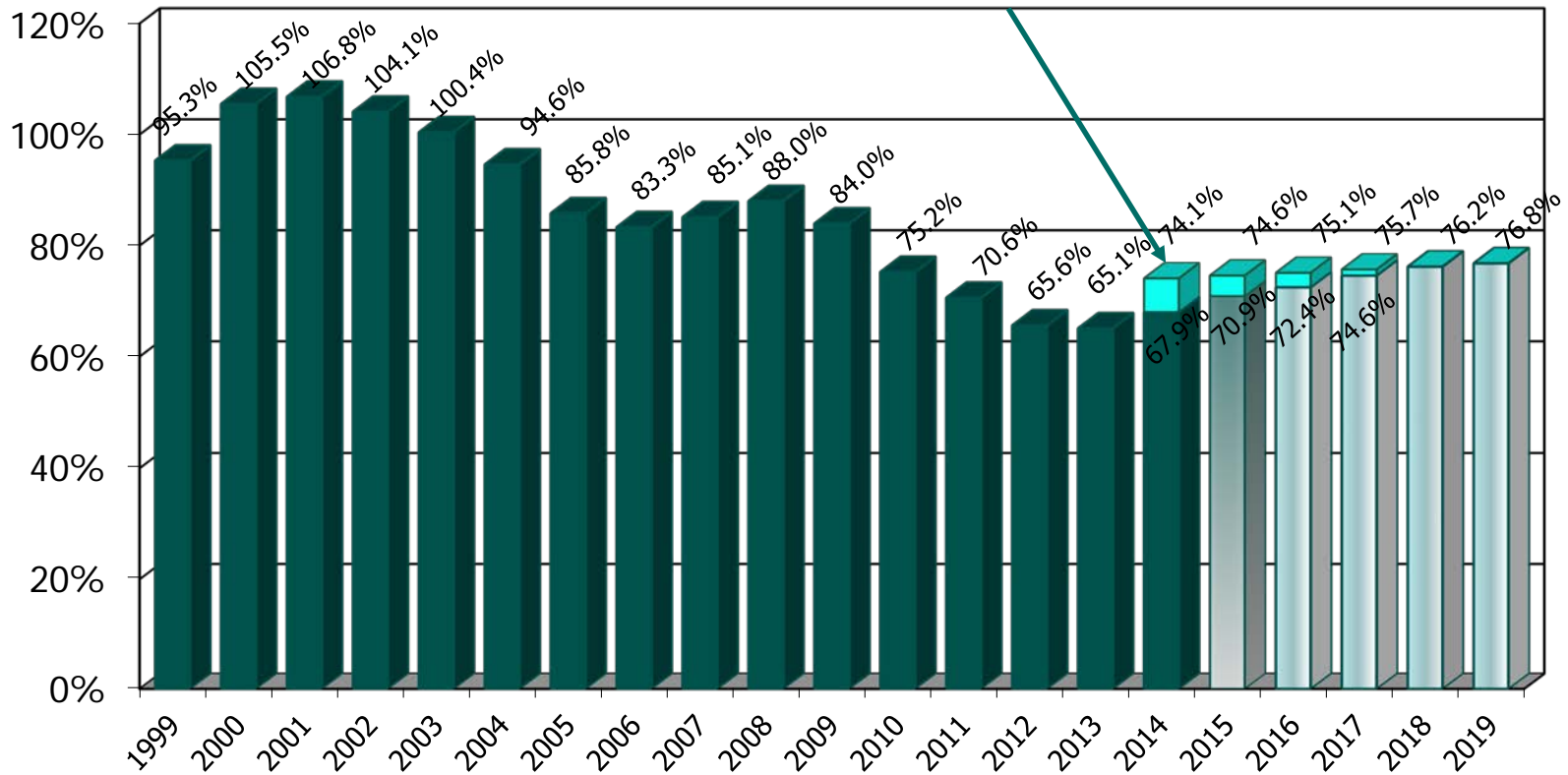
**Assumptions:**

- Fiscal Year 2014 investment return at 15.7%.
- Other projected years' investment returns assume 7.0% with 2.5% inflation rate.
- Projected Funded Status reflects additional \$150 million contribution to Teachers Plan on 6/30/15.

# Funded Status: State Employees



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.



■ Projected Funded Status using Market Value of Assets (New GASB Standard)  
■ Projected Funded Status using Actuarial Value of Assets (Funding Standard)

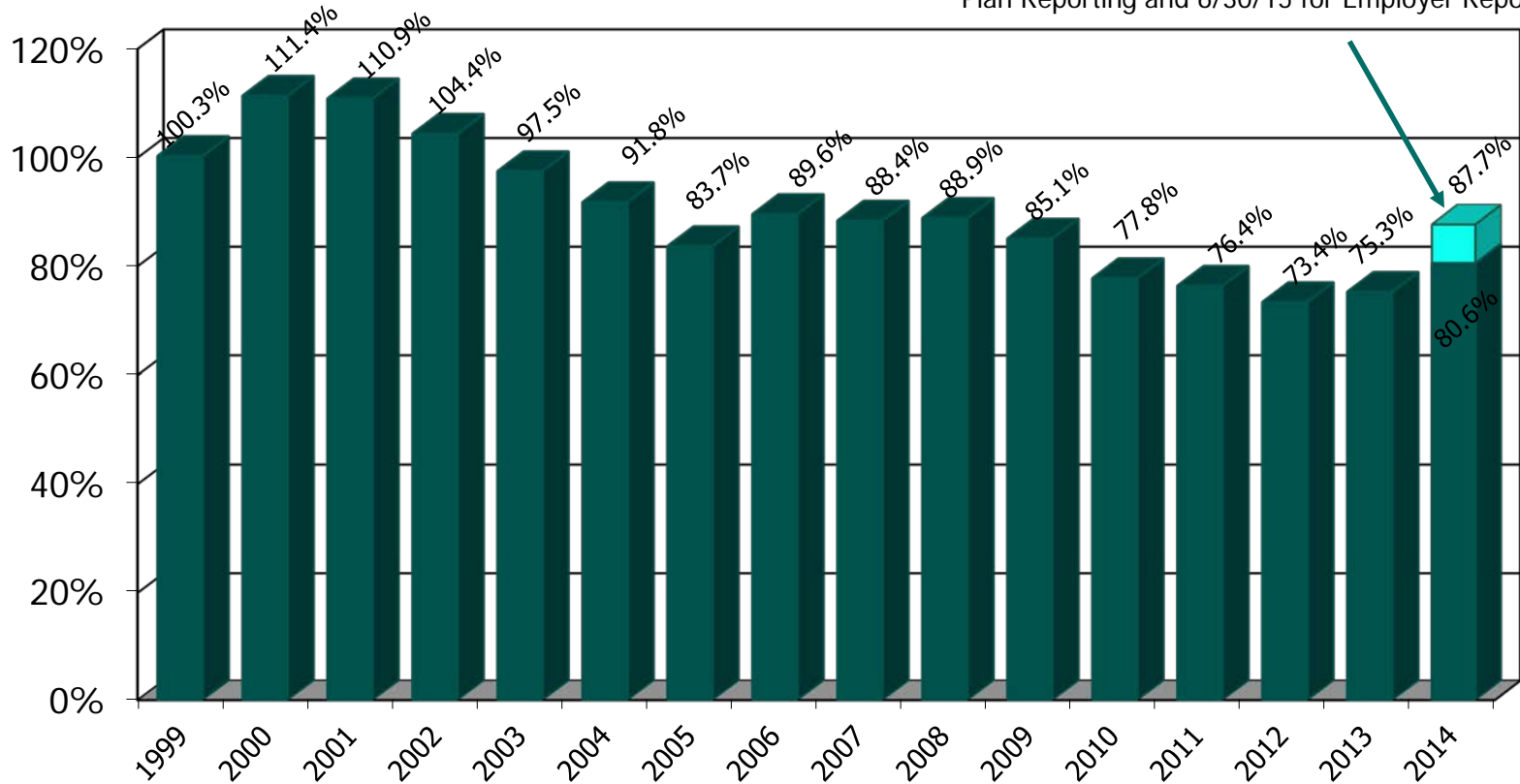
**Assumptions:**

- Fiscal Year 2014 investment return at 15.7%.
- Other projected years' investment returns assume 7.0% with 2.5% inflation rate.

# Funded Status: Local Governments



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.



- Projected Funded Status using Market Value of Assets (New GASB Standard)
- Projected Funded Status using Actuarial Value of Assets (Funding Standard)

**Assumptions:**

- Fiscal Year 2014 investment return at 15.7%.

# Virginia Retirement System Liabilities



## Unfunded Liabilities by Plan

Plan	6/30/2013 Funding Smoothed Assets	6/30/2014 Funding Smoothed Assets	6/30/2014 GASB* Market Assets	6/30/2014 Moody's* Market Assets
State Employees (includes SPORS, JRS, VaLORS)	\$8.78	\$8.33	\$6.80	\$16.63
Teachers	\$15.13	\$14.27	\$11.89	\$27.94
Local Political Subdivisions*	\$4.47	\$3.67	\$2.34	\$9.71
Total	\$28.38	\$26.27	\$21.02	\$54.28

\* GASB unfunded liabilities are estimates based on 7.00% discount rate. Moody's unfunded liability is based on 4.33% discount rate.

# Estimated VRS Employer Contribution Rates



General Assembly committed to phase-in contribution rates for the teacher and state plans to the VRS board-certified rates as follows:

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

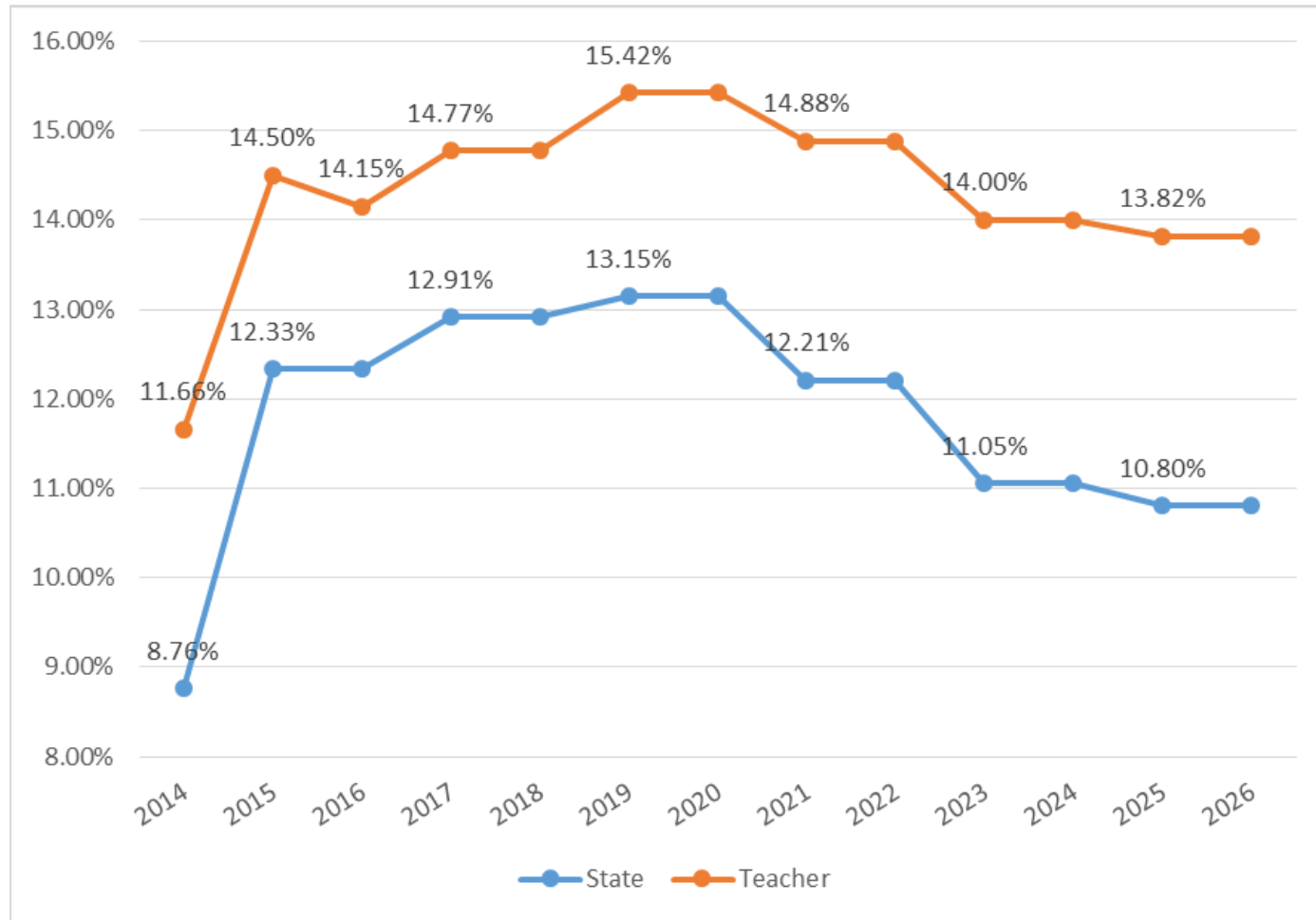
## Estimated Contribution Rates by Fiscal Year

	2013-14	2015 & 2016	2017 & 2018	2019 & 2020
<b>State</b>	8.76%	12.33%	12.91%	13.15%
<b>Teachers</b>	11.66%	14.15% (14.50%)	14.77% (15.12%)	15.42% (15.79%)

- Added cost to achieve the 2015/2016 contribution rate increases is approximately \$315 million for the biennium in General Funds.
- Fiscal Year 2014 investment return estimated at 15.7%.
- Above contribution rates are net of employee contributions.
- Teacher rates for FY 2016 were lowered due to additional contribution of \$150 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. (Rate prior to accelerated payment is in parenthesis.)



# State & Teacher Projected Employer Contribution Rates Including Defined Contribution Hybrid



- Assumes employer match to defined contribution portion of the hybrid plan of 1.5% of payroll for members in the hybrid plan.
- Teacher rates in fiscal years 2016 – 2020 reflect accelerated payment of \$150 million to payback deferred contributions from 2010-2012 biennium. Accelerated payment was proposed in 2015 budget bill.

# 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	\$ 356,105,904	6	\$69,821,984
6/30/2016	\$ 306,323,794	5	\$69,821,984
6/30/2017	\$ 253,056,937	4	\$69,821,984
6/30/2018	\$ 196,061,400	3	\$69,821,984
6/30/2019	\$ 135,076,175	2	\$69,821,984
6/30/2020	\$ 69,821,984	1	\$69,821,984
6/30/2021	\$ -	0	

Reflects accelerated payment of \$150 million proposed in 2015 Budget Bill to pay down outstanding balance of contributions deferred during the 2010-2012 biennium.



# Hybrid Retirement Plan

# Hybrid Retirement Plan

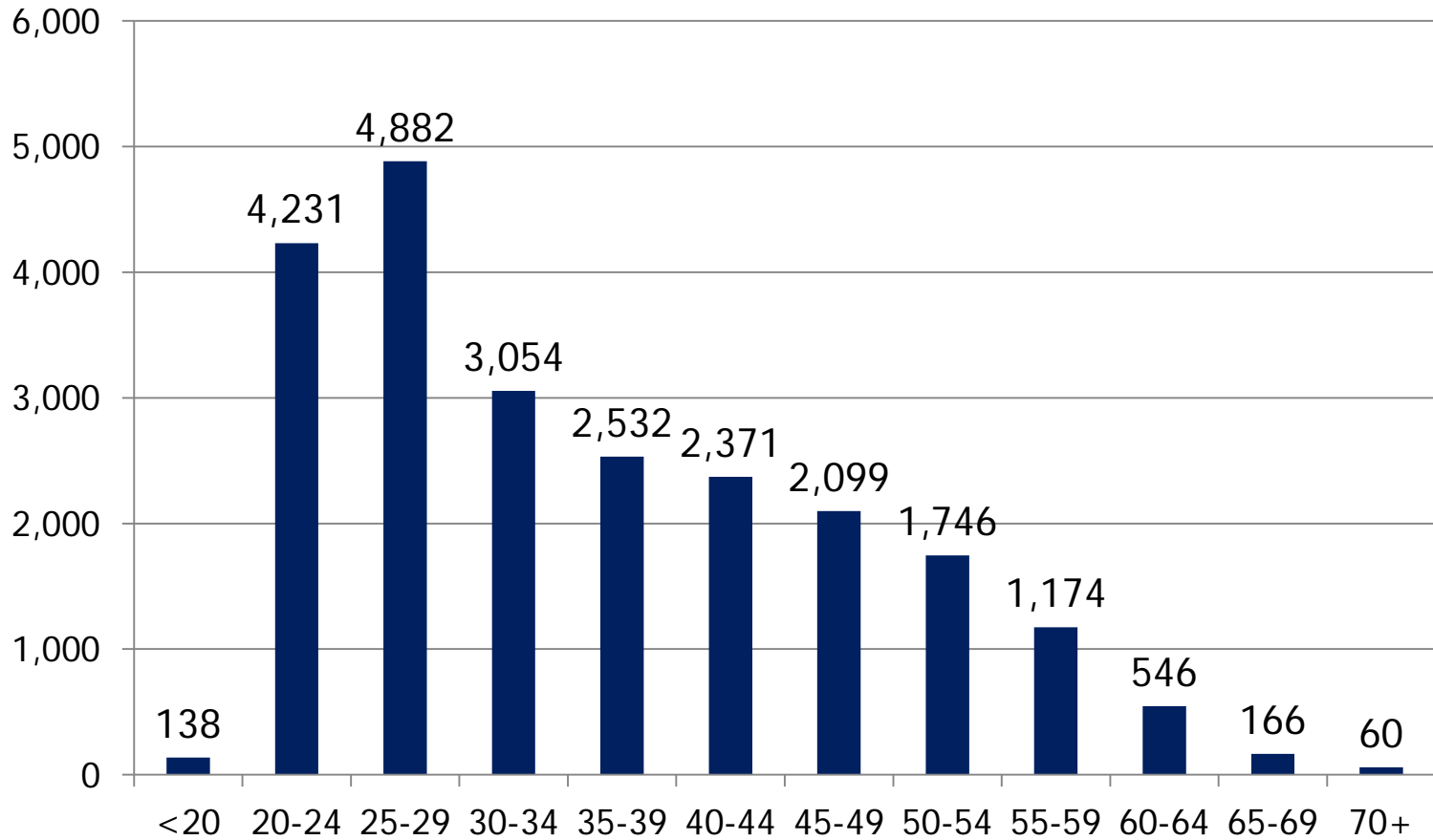


- Total combined balance in the Hybrid 401(a) Cash Match Plan and the Hybrid 457 Deferred Compensation Plan is \$9.4 million.
- Only approximately 1,500, or 6.6%, of hybrid members are making voluntary contributions.

# Hybrid Retirement Plan



## Hybrid Retirement Plan Members by Age

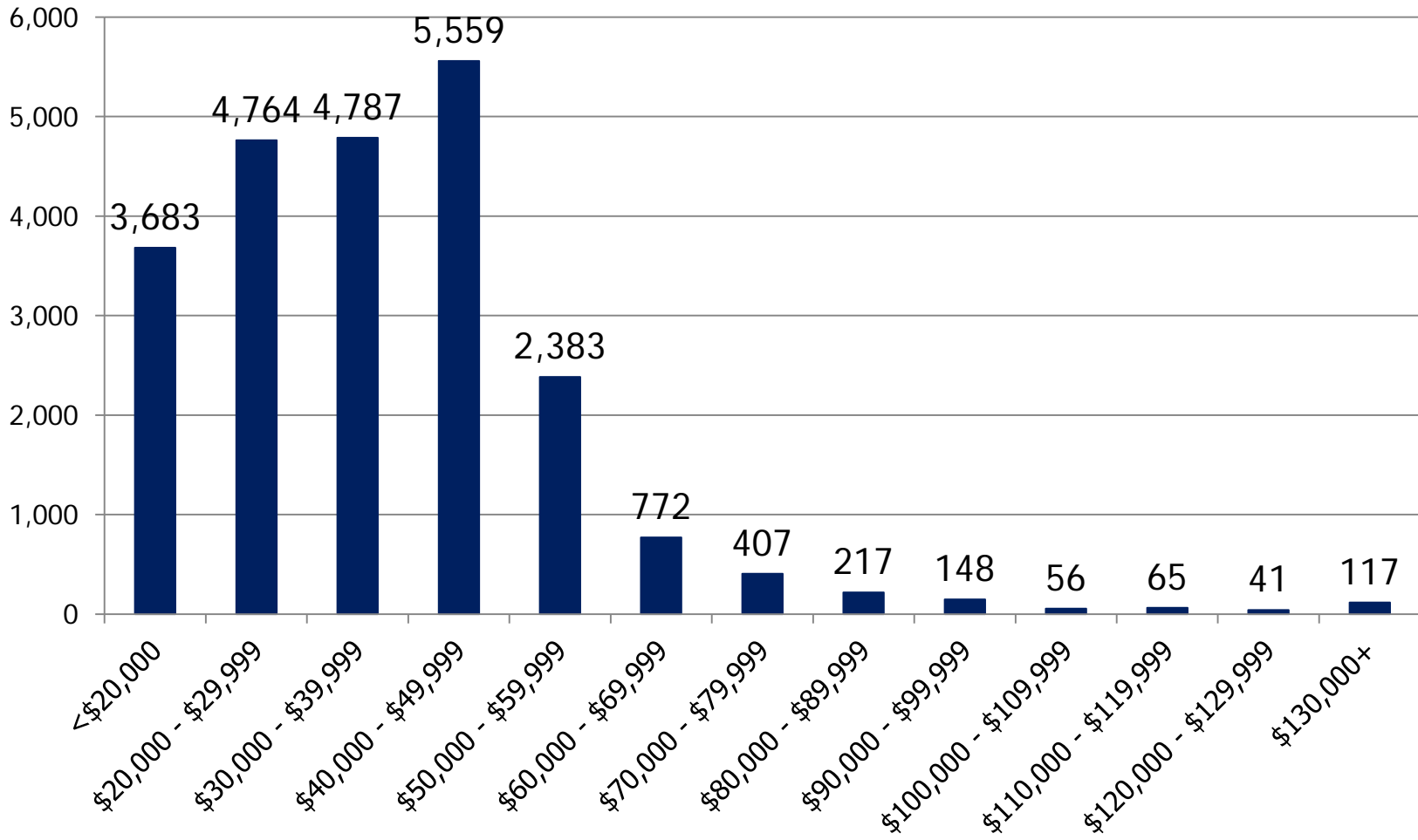


As of January 1, 2015

# Hybrid Retirement Plan



## Number of Hybrid Retirement Plan Members by Salary



As of January 1, 2015



# 2015 VRS-Requested Legislation



# VRS-Requested Legislation



Bill Number	Patron	Description
<b>SB 813</b>	<b>Sen. Watkins</b>	<p>Makes technical amendments to the programs administered by VRS.</p> <ul style="list-style-type: none"><li>• Adds language required by the IRS as part of the Virginia Retirement System's plan qualification review that occurs every five years.</li><li>• Adds a disability retirement benefit for Hybrid judges (instead of the current VSDP coverage).</li><li>• Removes language that requires the Virginia Port Authority to align its contribution rate with that of VRS.</li><li>• Clarifies that all requirements of the Virginia Local Disability Program (VLDP) for hybrid employees apply to employees of local employers that opted out of VLDP in order to offer a comparable plan (with the exception of long-term disability).</li></ul>

# VRS-Requested Legislation



Bill Number	Patron	Description
<b>HB 1890</b>	<b>Del. Jones</b>	<p>Simplifies and clarifies the purchase of prior service program, and makes it more cost-neutral to the fund and more in line with other states' programs, while maintaining the benefit for members.</p> <ul style="list-style-type: none"><li>▪ Effective 1/1/17 to allow transition period and communications campaign.</li><li>▪ Remove multiple tiers of windows for various plans. All windows are now two years from hire or rehire or two years from member's return from leave.</li><li>▪ Remove sequencing requirement.</li><li>▪ No service may be purchased at 5% (current cost for refunded service and for other service types within "window"). Lowest cost (during window) is approximate normal cost for the plan the member is currently in; after the window cost moves to actuarial, with the exception of refunded service.</li><li>▪ Refunded service has no window and no limit on the amount that can be purchased; cost is the amount refunded for the service plus interest at the assumed rate of return at the date of purchase. (currently 7%)</li><li>▪ Add a cumulative 48-month cap on service that can be purchased for certain categories.</li></ul>

- Funded status of the VRS state and teacher plans is improving:
  - Solid investment gains
  - Received higher percentage (80%) of actuarially determined contributions in accordance with the 2012 Pension Reform Plan
  - GASB 67 accounting rules produce further improvement as market value of assets is \$5 billion higher than actuarial (smoothed) value of assets.
- Pension Reform Plan will require modest increases in employer contribution rates for state and teacher plans over the next two biennia 2016-18 (90%) and 2018-20 (100%).
- Long-range prognosis for the health of VRS is positive if the General Assembly adheres to the funding plan.



**Questions?**