



Virginia
Retirement
System

VRS Update

House Appropriations
Compensation and Retirement Subcommittee
January 10, 2019

Presented by: VRS Director Patricia S. Bishop



More than
705,000

members, retirees
and beneficiaries
as of June 30, 2018



19th
largest*

public or private pension
system in the U.S.,
based on assets

43rd
largest*

public or private pension
system in the world,
based on assets

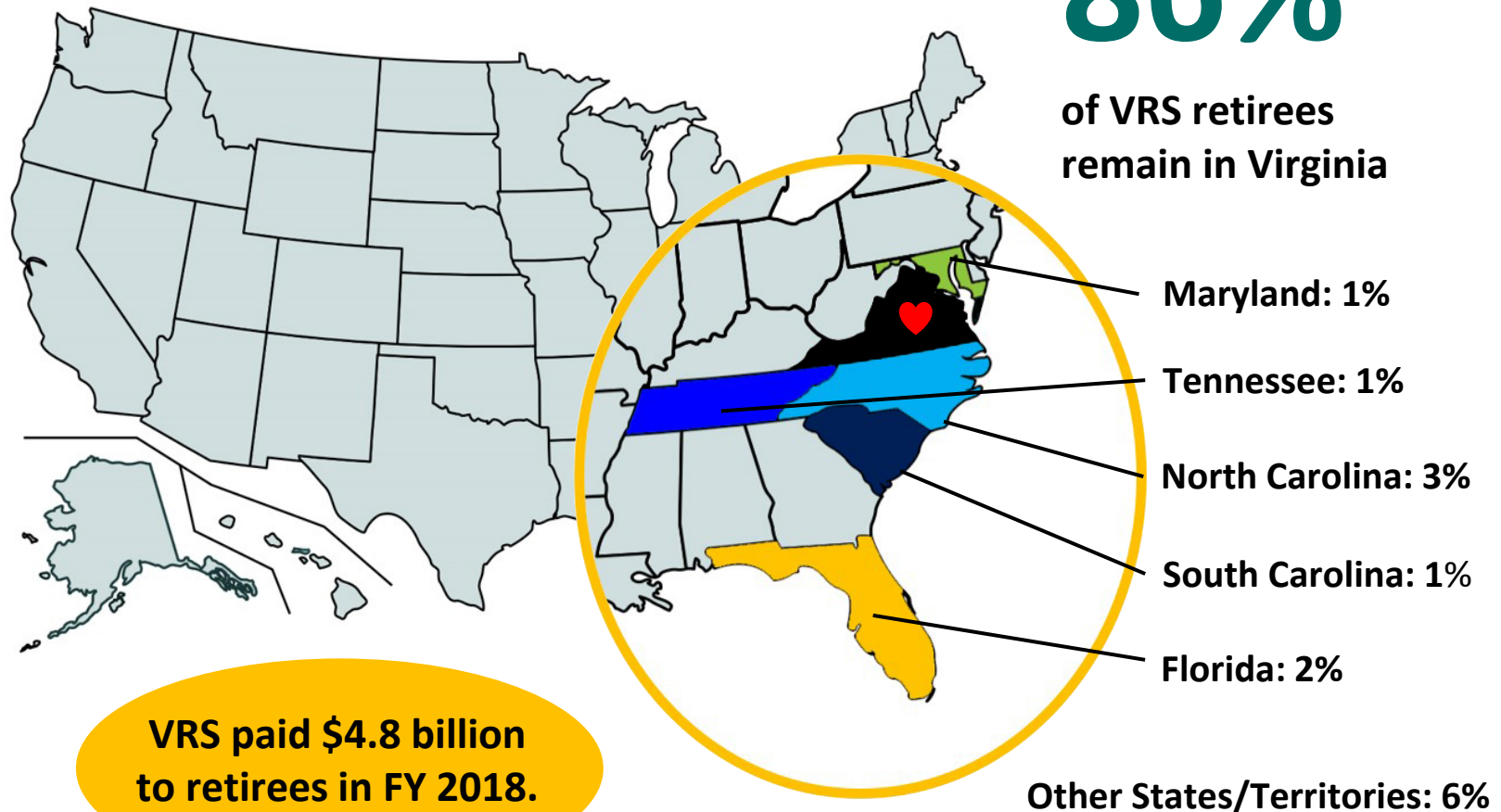


* As ranked by *Pensions & Investments*, Sept. 2017

Where VRS Retirees Live

86%

of VRS retirees
remain in Virginia

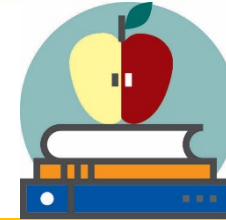


VRS paid \$4.8 billion
to retirees in FY 2018.

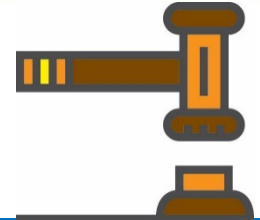
VRS by the Numbers



State



Teachers



Local

Actives:

Average Age	48.0	45.1	46.1
Average Service	12.1	11.8	10.8
Average Salary	\$55,803	\$53,349	\$45,758

Retirees:

Avg. Age @ Retirement	64.4	62.8	62.3
Avg. Service @ Retirement	22.5	22.3	20.6
Avg. Benefit @ Retirement	38.3%	37.9%	35.1%
Avg. Annual Benefit	\$22,559	\$22,637	\$17,758
Avg. Social Security Benefit at Age 62	\$21,192	\$19,788	\$16,668

Information obtained from the June 30, 2018, actuarial valuations.

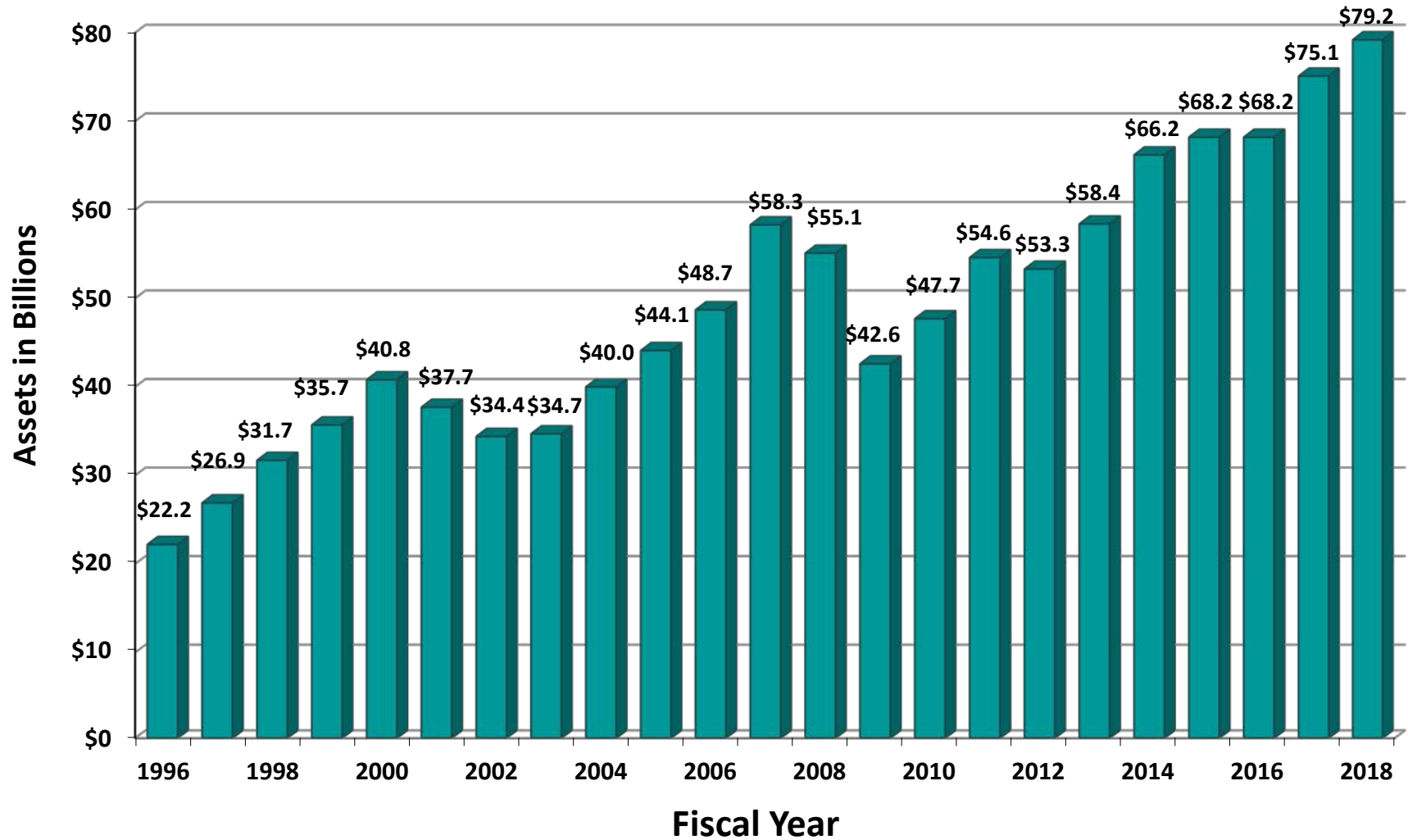


Virginia
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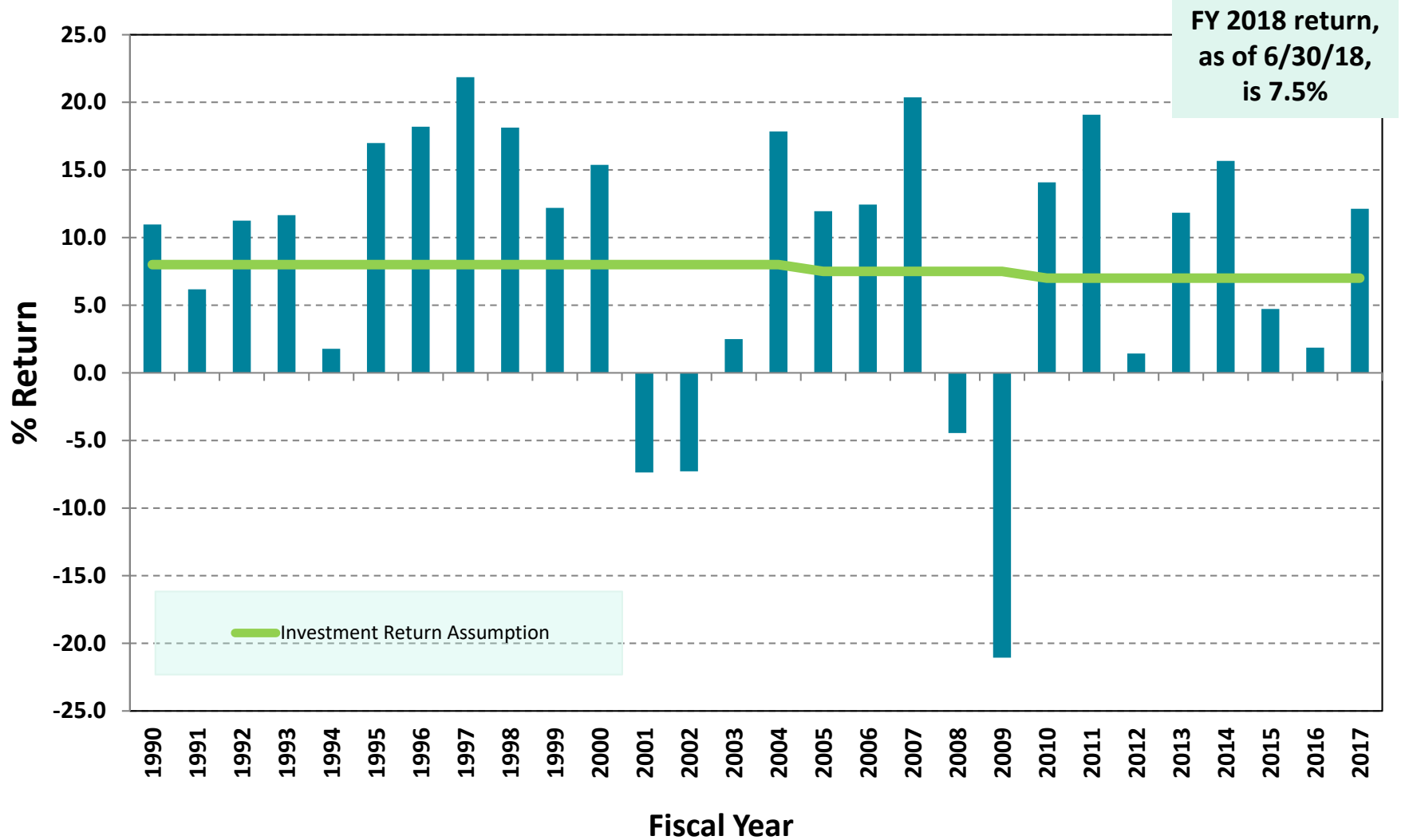
Investments



VRS Net Position



VRS Fiscal Year Returns





Virginia
Retirement
System

Funded Status and Contribution Rates





Hybrid Retirement Plan

- Becomes predominant plan with over 50% of actives within next four years
- Introduces risk-sharing between employer and employee
- Lowers defined benefit risk to employers by approximately one-third

Governor and General Assembly

- Accelerated pay-down of deferred contributions is estimated to save \$60.5 million over six years
- Funding 100% of actuarially determined contribution rates earlier than anticipated improves funded status and is estimated to save \$232 million over 20 years
- Actions improve health of plans and avoid adding future costs to the plans

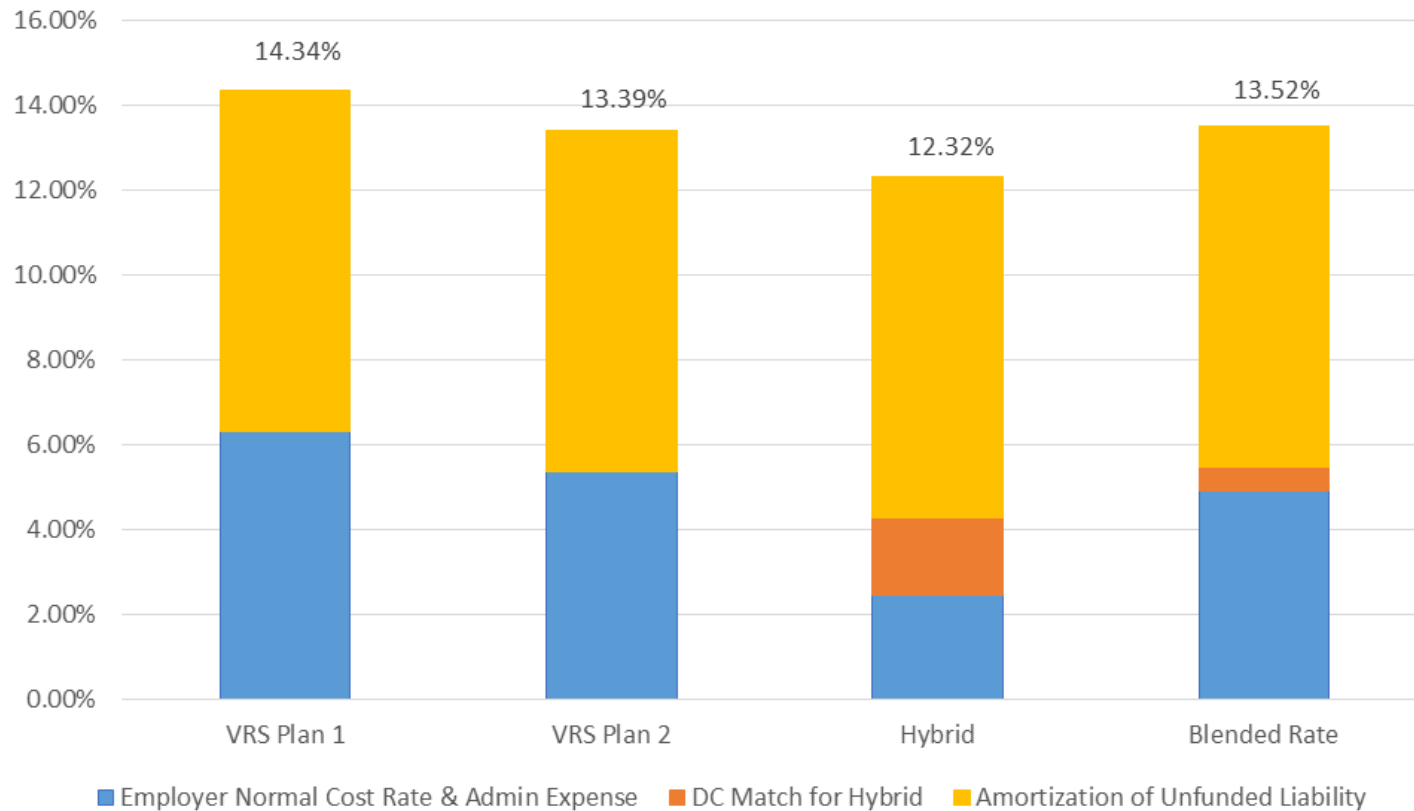


- Funded status is improving - nearly 10% over the last five years
- New plan design reduces costs
- Risk sharing introduced with hybrid plan
 - 25% percent of members are in hybrid plan
 - Reduces potential for unfunded liabilities
- Closed amortization pays off the legacy unfunded liability over a finite period
- Paying certified contribution rates stops adding to the plan's unfunded liabilities

State Plan – Blended Employer Rate Impact of Pension Reforms



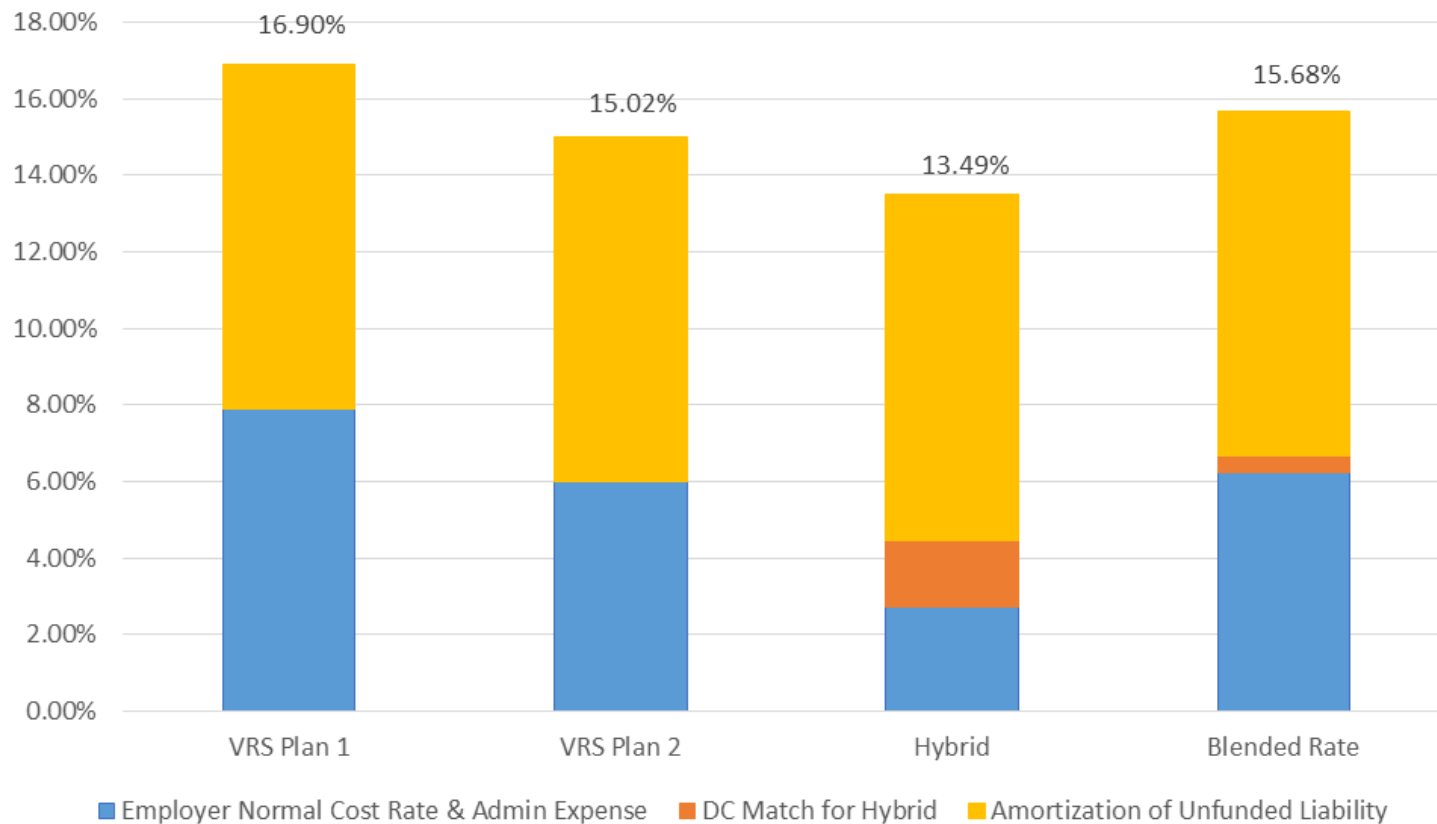
State Plan - Employer Contribution Rates FY 2019/2020



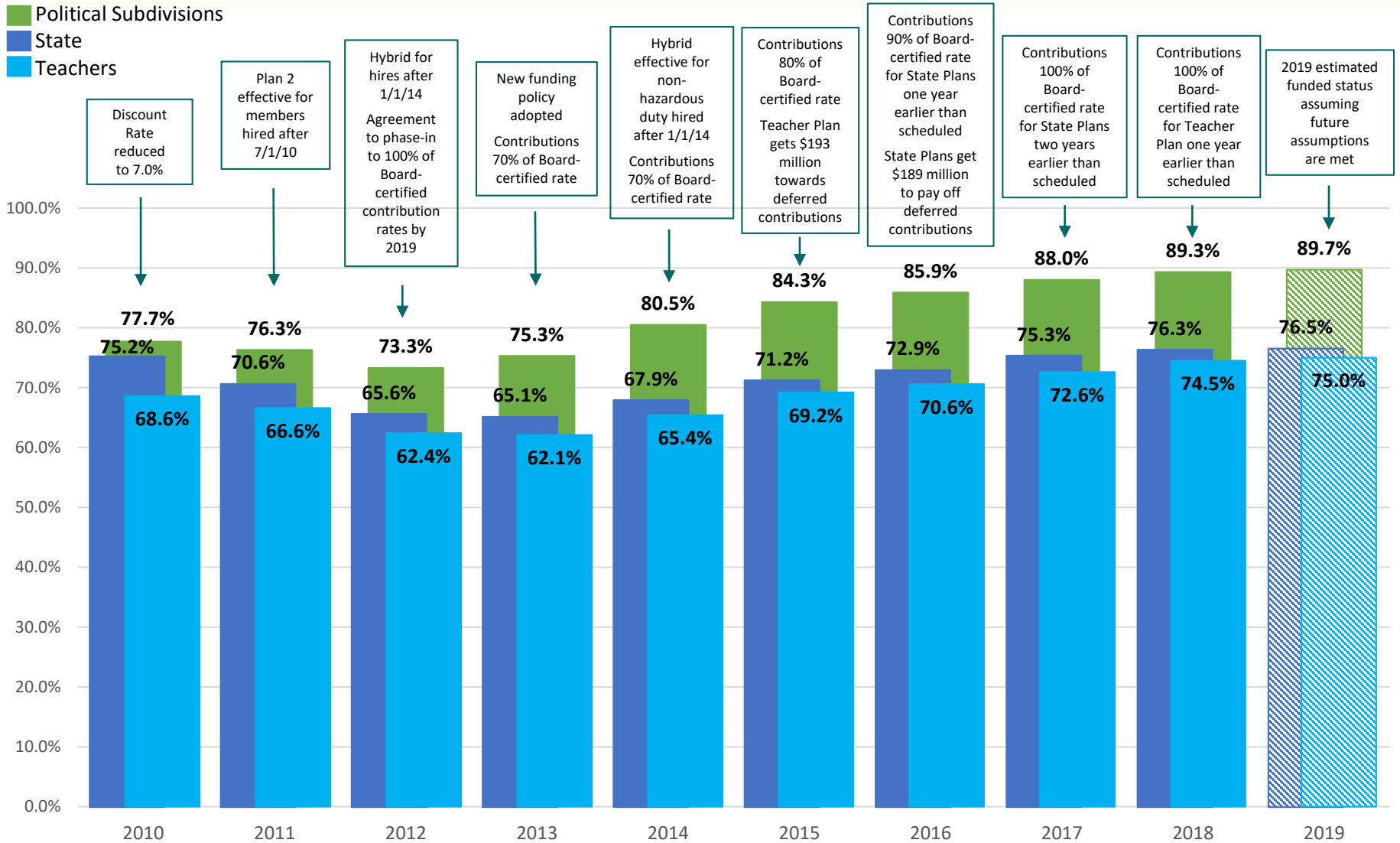
Teacher Plan – Blended Employer Rate Impact of Pension Reforms



Teacher Plan - Employer Contribution Rates FY 2019/2020



Funded Status and Pension Reforms



Since 2012, State and Teacher plans have experienced a 10% improvement in funded status and Political Subdivisions in aggregate have seen a 15% improvement.

State Employer Contribution Rates

Reflecting Acceleration of Phase-in Schedule
and Deferred Contribution Repayment



	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%	100.00%	100.00%
Expected Employer Rates Based on Phase-In Schedule	12.33%	14.22%	12.87%	12.87%	13.52%	13.52%
Employer Rates Based on 2018 Special Session I Virginia Acts of Assembly, Chapter 2	12.33%	14.22%	13.49%*	13.49%*	13.52%	13.52%

* Rates include 100% funding of Board-certified rates in FY 2017-18 as well as reduction due to full repayment of 10-year deferred contributions from FY 2010-2012. Payment of full rate two years ahead of schedule.

Additional Notes:

- 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 FY 2015 allowed additional funds to go towards contributions.

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%	100.00%	100.00%
Expected Employer Rates Based on Phase-In Schedule	14.50%	14.06%	14.66%	14.66%	15.68%	15.68%
Employer Rates Based on 2018 Special Session I Virginia Acts of Assembly, Chapter 2	14.50%	14.06%	14.66%	16.32%*	15.68%	15.68%

* Rates include 100% funding of Board-certified rates in FY 2018. Payment of full rate one year ahead of schedule.

Additional Notes:

- Above contribution rates are net of employee contributions.
- Teacher rates for FY 2016 decreased due to an additional contribution of \$192.9 million that was applied to the deferred contribution balance in FY 2015. The subsequent rates for FY 2017-20 were also lowered to reflect the accelerated repayment.

Employer Contribution Rates



Retirement Program	2019 & 2020*
State Employees	13.52%
Teachers	15.68%
State Police Officers' Retirement System	24.88%
Virginia Law Officers' Retirement System	21.61%
Judicial Retirement System	34.39%
Non-Professional School Board and Political Subdivision Employees	Varies by Employer

* Full actuarially determined rates.

OPEB Contribution Rates



OPEB Program		2019 & 2020*
Group Life Insurance	Employee	0.79%
	Employer	0.52%
	Total	1.31%
Health Insurance Credit	State Employees	1.17%
	Teachers	1.20% *
	Non-Professional School Board Members and Political Subdivision Employees	Varies by Employer
Virginia Sickness and Disability Program (VSDP)	Covered Payroll	0.62%
Virginia Local Disability Program (VLDP)	Teachers	0.41%
	Political Subdivision Employees	0.72%

* Full actuarially determined rates.

Virginia Retirement System

Unfunded Liabilities by Plan (Dollars in Billions)



Plan	6/30/2017 Funding Basis Smoothed Assets	6/30/2017 GASB Basis Market Assets	6/30/2018 Funding Basis Smoothed Assets	6/30/2018 GASB Basis Market Assets
State	\$ 5.8	\$ 5.5	\$ 5.7	\$ 5.6
Teacher	\$12.3	\$11.9	\$11.8	\$11.6
Political Subdivisions	\$ 2.6	\$ 2.3	\$ 2.4	\$ 2.2
Total VRS	\$20.7	\$19.7	\$19.9	\$19.4
SPORS	\$ 0.3	\$ 0.2	\$ 0.3	\$ 0.3
VaLORS	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6
JRS	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Grand Total	\$21.7	\$20.6	\$20.9	\$20.4

* GASB unfunded liabilities are based on 7.00% discount rate.

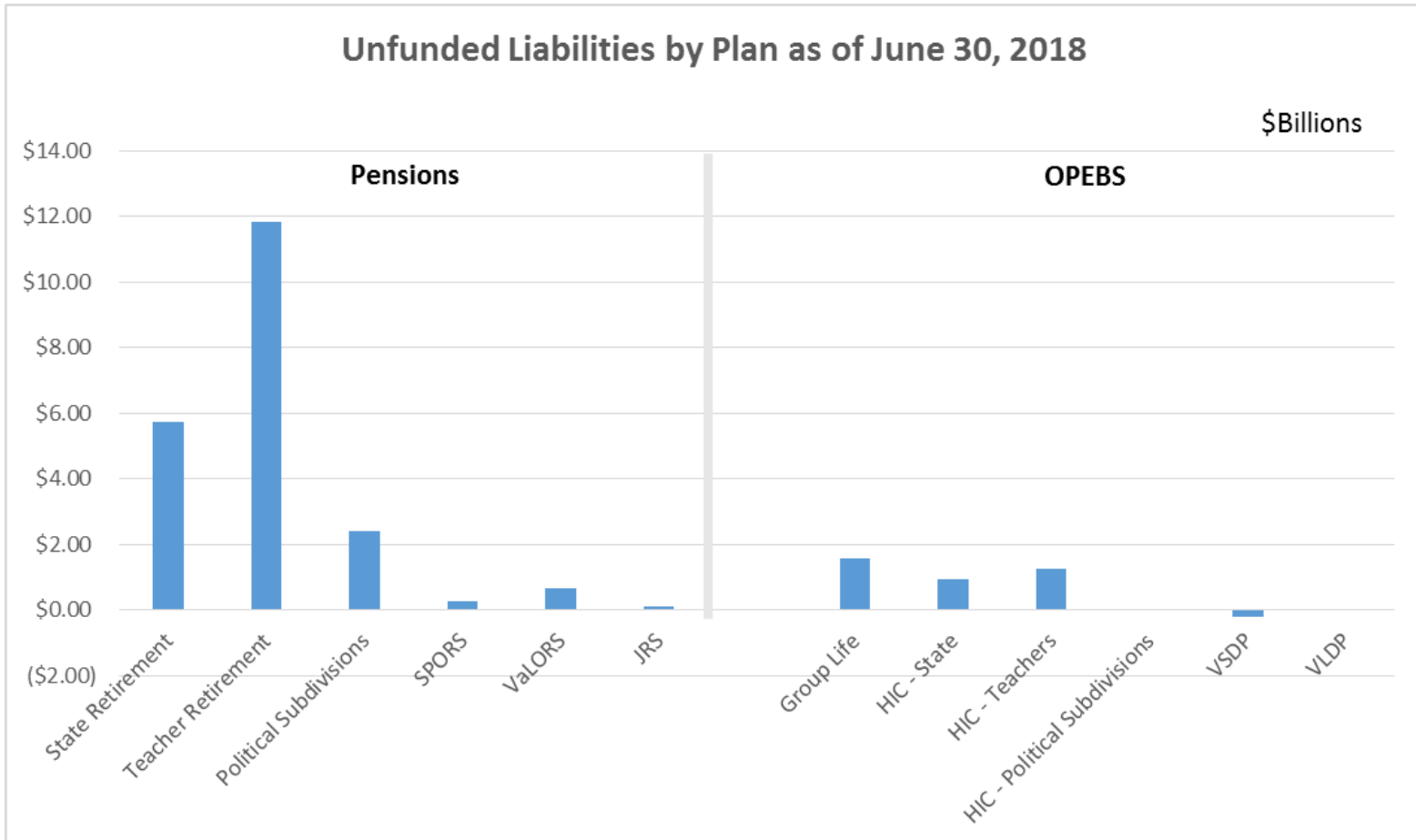
OPEB Liability

Unfunded Liabilities by Plan (Dollars in Millions)



Plan	6/30/2017 Funding Basis Smoothed Assets	6/30/2018 Funding Basis Smoothed Assets
Group Life	\$ 1,614.6	\$ 1,592.5
HIC State	\$ 911.3	\$ 899.4
HIC Teachers	\$ 1,260.9	\$ 1,265.9
HIC Constitutional Officers	\$ 26.3	\$ 26.4
HIC Social Services	\$ 12.9	\$ 12.9
HIC Registrars	\$ 0.5	\$ 0.5
HIC - Locals in Aggregate	\$ 17.1	\$ 17.8
VSDP	\$ (210.9)	\$ (195.2)
VLDP Teachers	\$ 0.5	\$ 0.7
VLDP Political Subdivisions	\$ 0.4	\$ 1.9

Virginia Retirement System Unfunded Liabilities by Plan

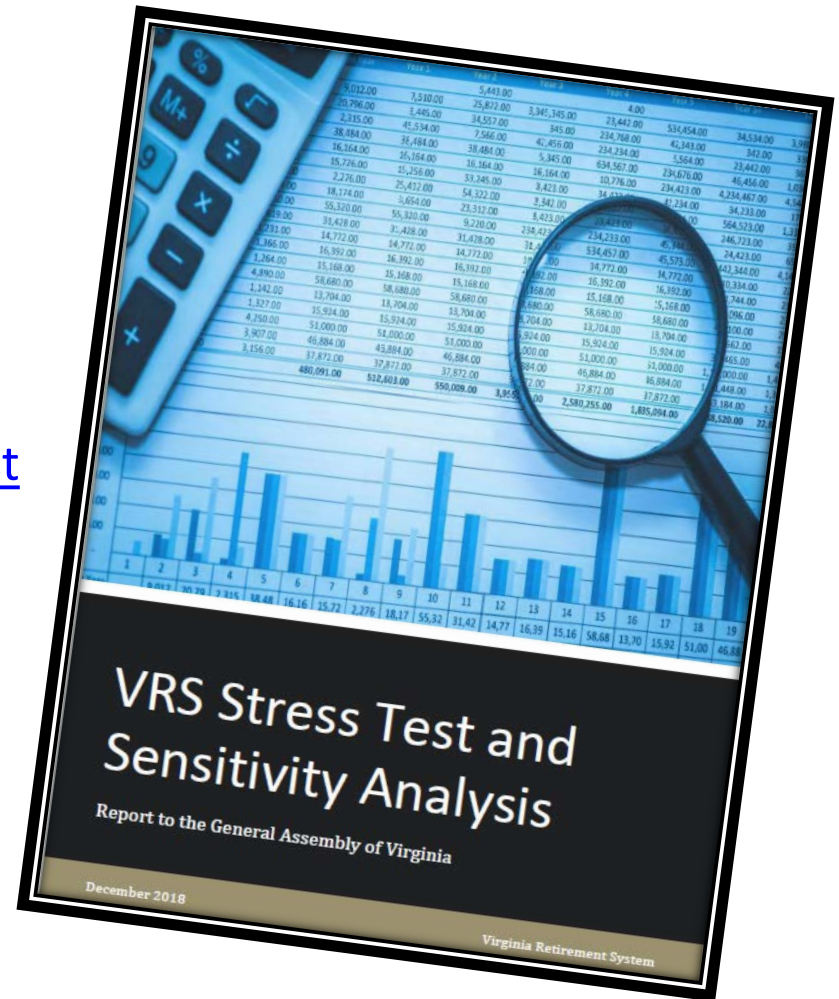


Sensitivity Analysis and Stress Testing



Stress Testing Report

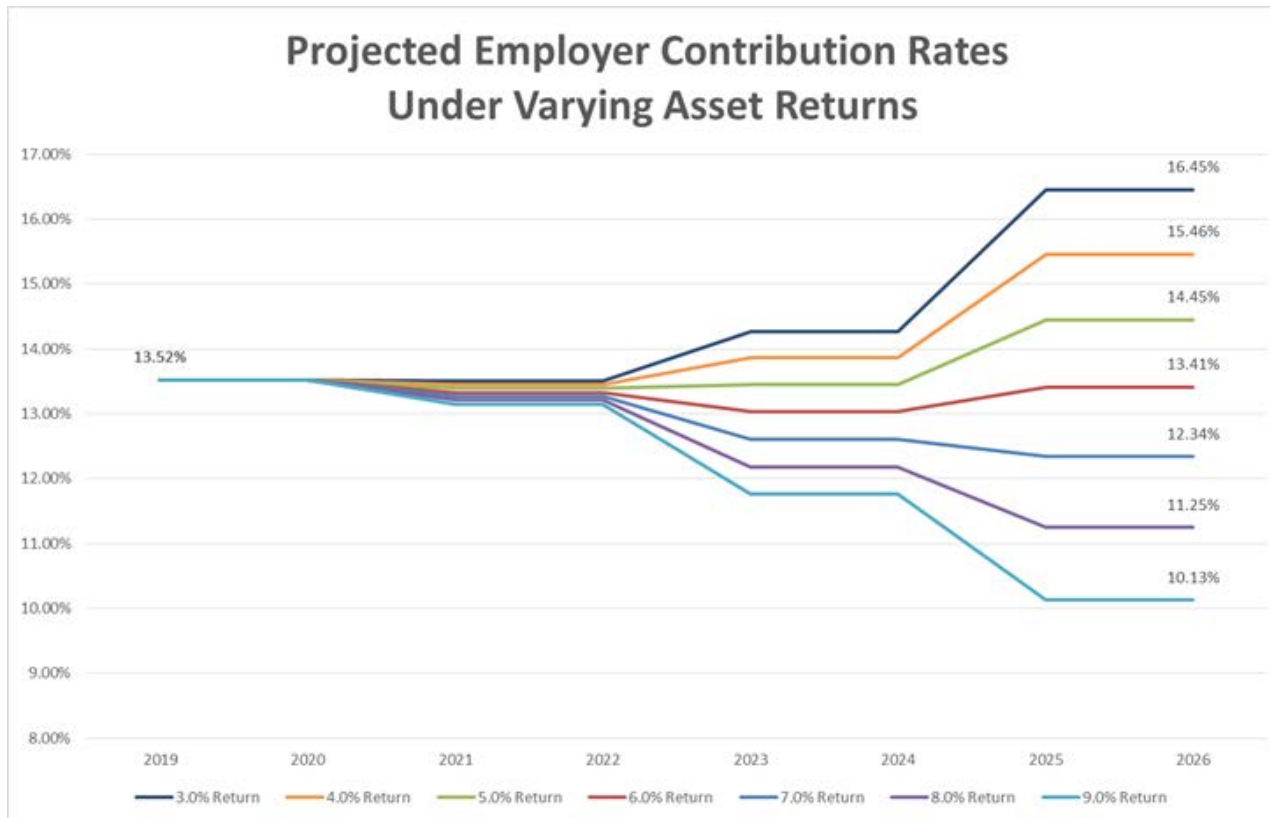
- VRS regularly reports sensitivity and stress testing analyses to General Assembly members.
 - 2018 report issued in December
 - Available on the VRS website: <https://www.varetire.org/stresstest>



Investment Risk – Possible Future Outcomes

The exhibit below provides a range of expected employer contribution rates under varying expected rates of return from 3.0% - 9.0% over the next five years for the State Plan.

State Plan



Based on 2017 valuation.

Sensitivity Analysis – Discount Rate



State Plan

(\$ Thousands)

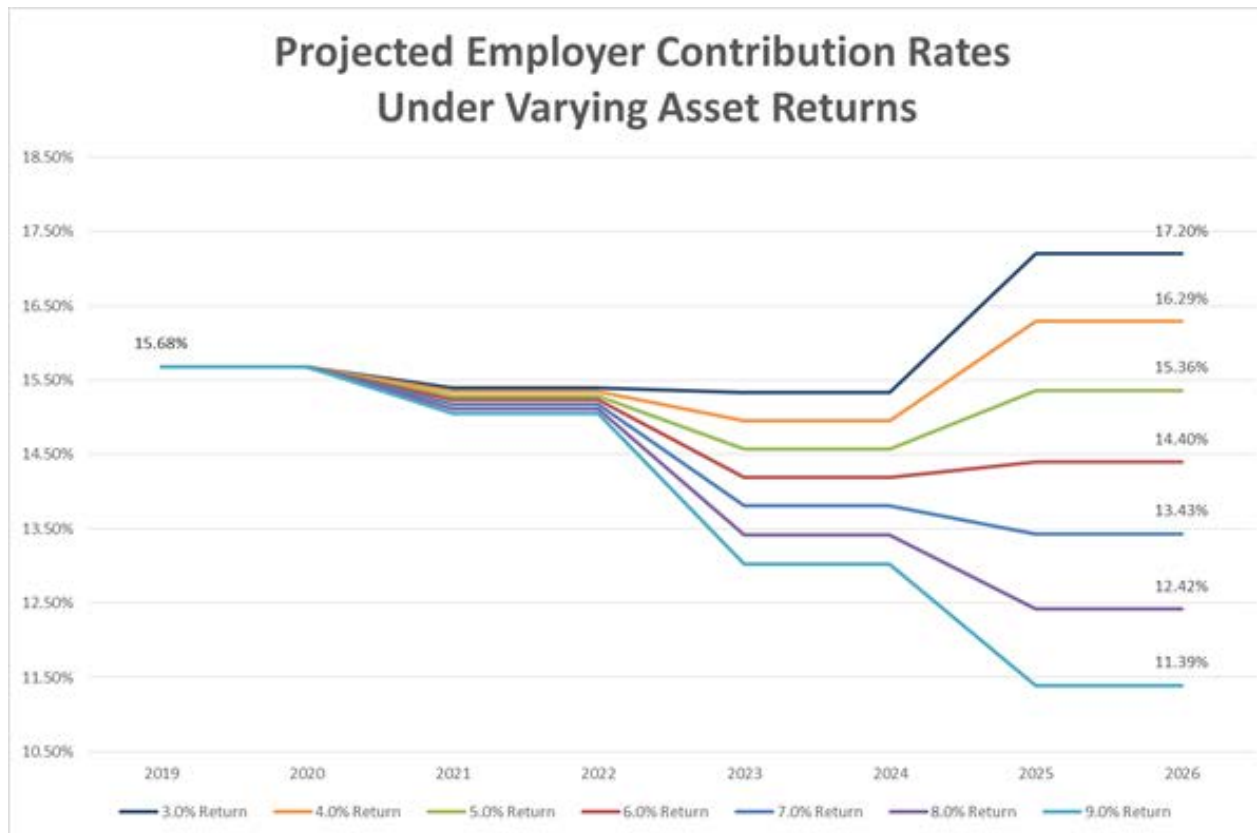
Discount Rate	Current		
	7.00%	6.75%	6.50%
Total Employer Normal Cost Rate	4.90%	5.38%	5.91%
Total Amortization Rate	8.04%	8.94%	9.84%
Defined Contribution Hybrid Plan Contribution	0.58%	0.58%	0.58%
Total Employer Rate	13.52%	14.90%	16.33%
Change in Employer Rate		1.38%	2.81%
Estimated Change in Annual Funding		\$55,712	\$113,442
Unfunded Liability	\$5,763,770	\$6,408,154	\$7,081,383
Change in Unfunded Liability		\$644,384	\$1,317,613
Funded Status	75.28%	73.30%	71.20%

Based on 2017 valuation.

Investment Risk – Possible Future Outcomes

The exhibit below provides a range of expected employer contribution rates under varying expected rates of return from 3.0% - 9.0% over the next five years for the Teacher Plan.

Teacher Plan



Based on 2017 valuation.

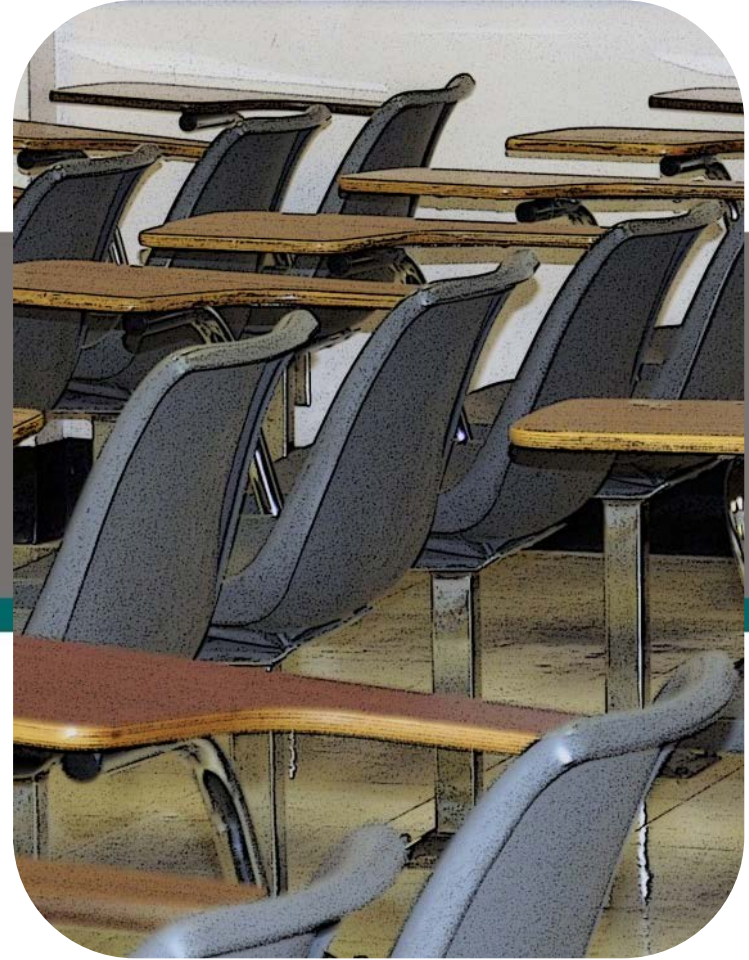
Sensitivity Analysis – Discount Rate

Teacher Plan

(\$ Thousands)

Discount Rate	Current		
	7.00%	6.75%	6.50%
Total Employer Normal Cost Rate	6.22%	6.88%	7.58%
Total Amortization Rate	9.02%	9.95%	10.91%
Defined Contribution Hybrid Plan Contribution	0.44%	0.44%	0.44%
Total Employer Rate	15.68%	17.27%	18.93%
Change in Employer Rate		1.59%	3.25%
Estimated Change in Annual Funding		\$125,919	\$257,382
Unfunded Liability	\$12,321,149	\$13,723,870	\$15,195,516
Change in Unfunded Liability		\$1,402,721	\$2,874,367
Funded Status	72.62%	70.40%	68.30%

Hiring and Reporting School Resource Officers and School Security Officers



Quick Reference Guide



	School Resource Officer	School Security Officer
Employer	Local law enforcement agency.	Local school board.
Purpose	Complies with federal, state and local statutes; enforces state law; responsible for custody and arrest in conformance with the law; use of force permissible as guided by department policy.*	Complies with local school policies and regulations; primarily assigned to school campus activities; responsible for detaining individuals; acts in absence of parents (in loco parentis); use of force should be limited and in accordance with school policy.
Hazardous Duty Eligibility	Yes, if employed by a sheriff's office or a political subdivision that offers hazardous duty benefits.	No.
Retiree Returning to Part-Time Work	Must work 80 percent or less of a full-time comparable position. Limited to 1,664 hours over 12 months.	Must work 80 percent or less of a full-time comparable position. Total hours will vary based on contract length. Reminder: Nine-, 10- and 11-month contract positions are considered full-time covered positions.

* Source: Department of Criminal Justice Services presentation: School Resource Officers in Virginia

Hiring a Retiree

- Retirees receiving VRS **disability retirement benefits** and those receiving **Line of Duty Act benefits** will forfeit their benefits if they return to work in a non-covered position performing the same or similar duties as those they performed before being approved for disability retirement or LODA benefits.
- To be considered as working in a part-time, non-covered position, a retiree must work 80% or less of the hours required of the comparable full-time position.
- Retirees who return to non-covered employment with the employer from which they retired:
 - Must have a bona fide break in service
 - Cannot have a verbal or written offer of reemployment

Impacts of Return to Work Provisions to the VRS Plans

Allowing retirees to return to full-time employment in a VRS covered position while still collecting their retirement benefit

- Changes retirement patterns which impact the trust funds;
- Causes retirements earlier than expected;
- Reduces the amount of time the plan has to generate investment earnings to fund benefits;
- Results in benefits being paid for longer periods than they otherwise would; and
- Generates unfunded liabilities for the plan.



Health Insurance Credit



What is the Health Insurance Credit?

- The **health insurance credit provides a reimbursement** to assist with the cost of a retiree's health insurance premiums
- The credit is a dollar amount:
 - Set by the General Assembly for each year of service
 - Added to the retiree's monthly retirement benefit
- The credit **ends upon death** and **cannot exceed the amount of the individual health insurance premium**

Health Insurance Credit Dollar Amounts



Eligible Retirees	Service Retirement Credit Amount per Year of Service	Disability Retiree and Long-Term Disability	Maximum Credit per Month
State employees, including participants in an optional or alternate retirement plan	\$4.00	\$120 or \$4 per year of service, whichever is greater	No Maximum
Teachers	\$4.00	\$4 x the smaller of (a) twice the amount of service credit or (b) the amount of service that would have been earned had the member remained an active employee until age 60	No Maximum
General registrars and their employees; constitutional officers and their employees; local social service employees	\$1.50	\$45.00	\$45.00
General registrars and their employees; constitutional officers and their employees; local social service employees if political subdivision elects \$1.00 enhancement	\$2.50	\$75.00	\$75.00
Other political subdivision employees as elected by the employer	\$1.50	\$45.00	\$45.00

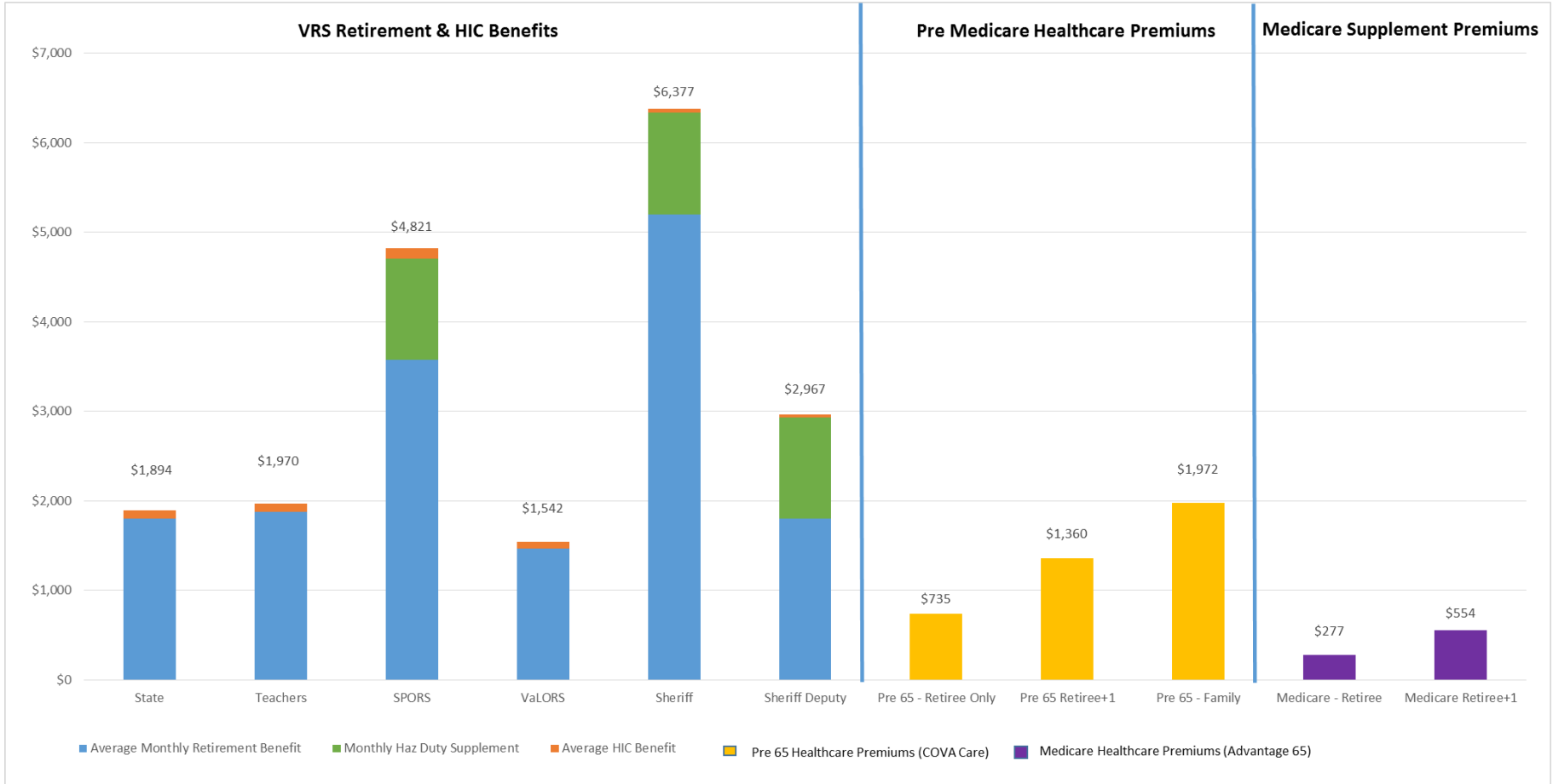
Retiree Demographics – 2017 Valuation



Retirees During Fiscal Year 2017	June 30, 2017 Valuation			
	State	Teachers	SPORS	VaLORS
Average Age at Retirement	63.9	62.5	56.2	57.2
Average Service at Retirement	22.3	22.5	29.4	19.7
Average AFC at Retirement	\$57,089	\$58,966	\$78,779	\$44,568
Average VRS DB Benefit at Retirement as a Percent of Pay	37.9%	38.3%	54.4%	39.4%
Hazardous Duty Supplement Payable to SSNRA as Percent of Payroll	0.0%	0.0%	17.2%	0.0%
Total VRS Retirement Benefit as Percent of Payroll	37.9%	38.3%	71.6%	39.4%
Average DB Benefit at Retirement	\$21,642	\$22,554	\$42,848	\$17,560
Hazardous Duty Supplement Payable to SSNRA	\$0	\$0	\$13,584	\$0
Total VRS Retirement Benefit	\$21,642	\$22,554	\$56,432	\$17,560

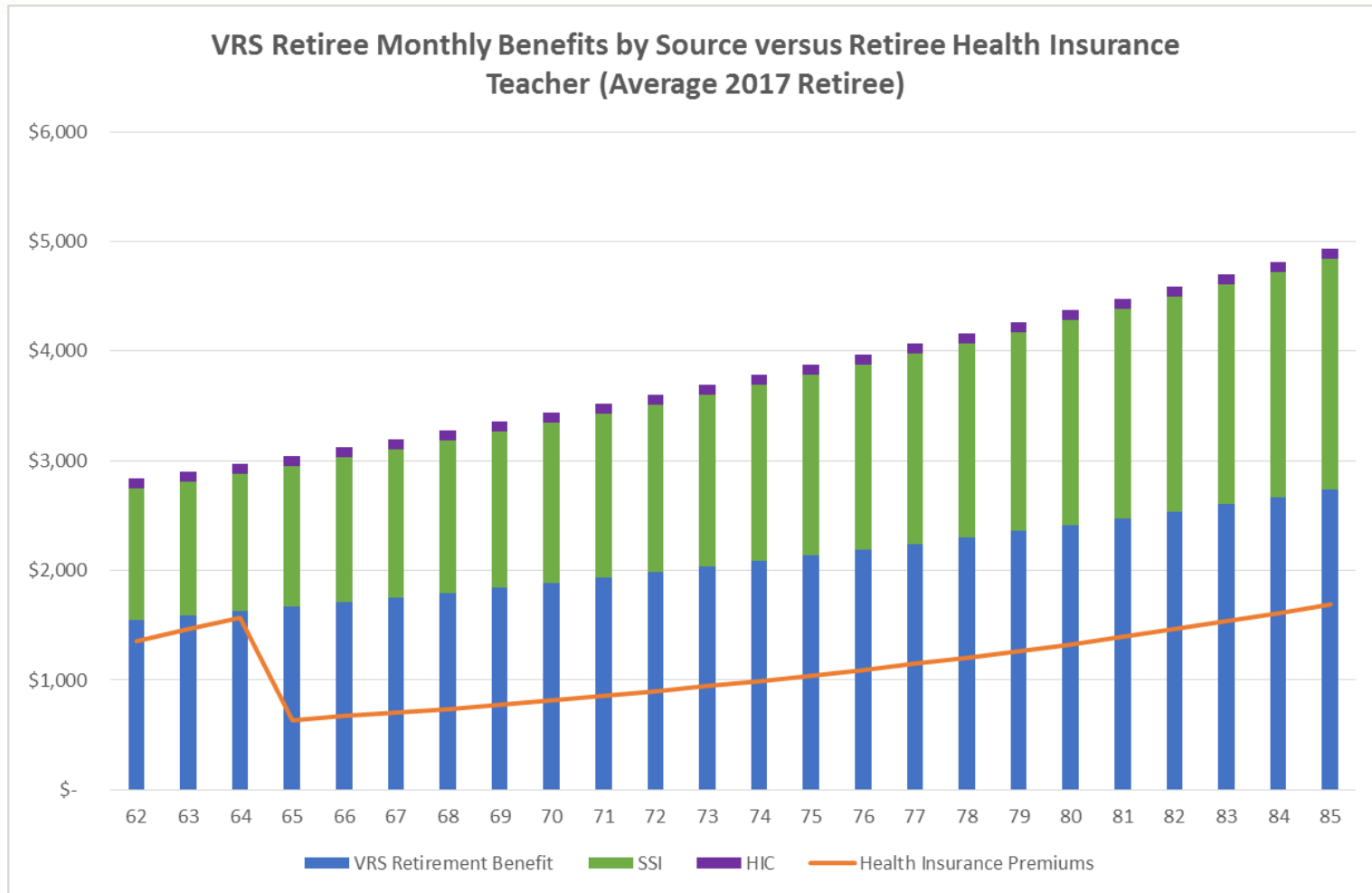
- AFC – Average Final Compensation used to develop benefit.
- SSNRA – Social Security Normal Retirement Age.
- State and Teacher Retirement Benefit Multipliers – Plan 1 - 1.7%, Plan 2 – 1.65%, Hybrid 1.00% + DC Component
- SPORS Retirement Benefit Multiplier - Plan 1 and Plan 2 – 1.85%
- VaLORS Retirement Benefit Multiplier – Plan 1 and Plan 2 – 2.00% (1.7% and supplement for certain Plan 1 members)

Retirement Income Compared to Health Insurance Premiums Average 2017 Retiree



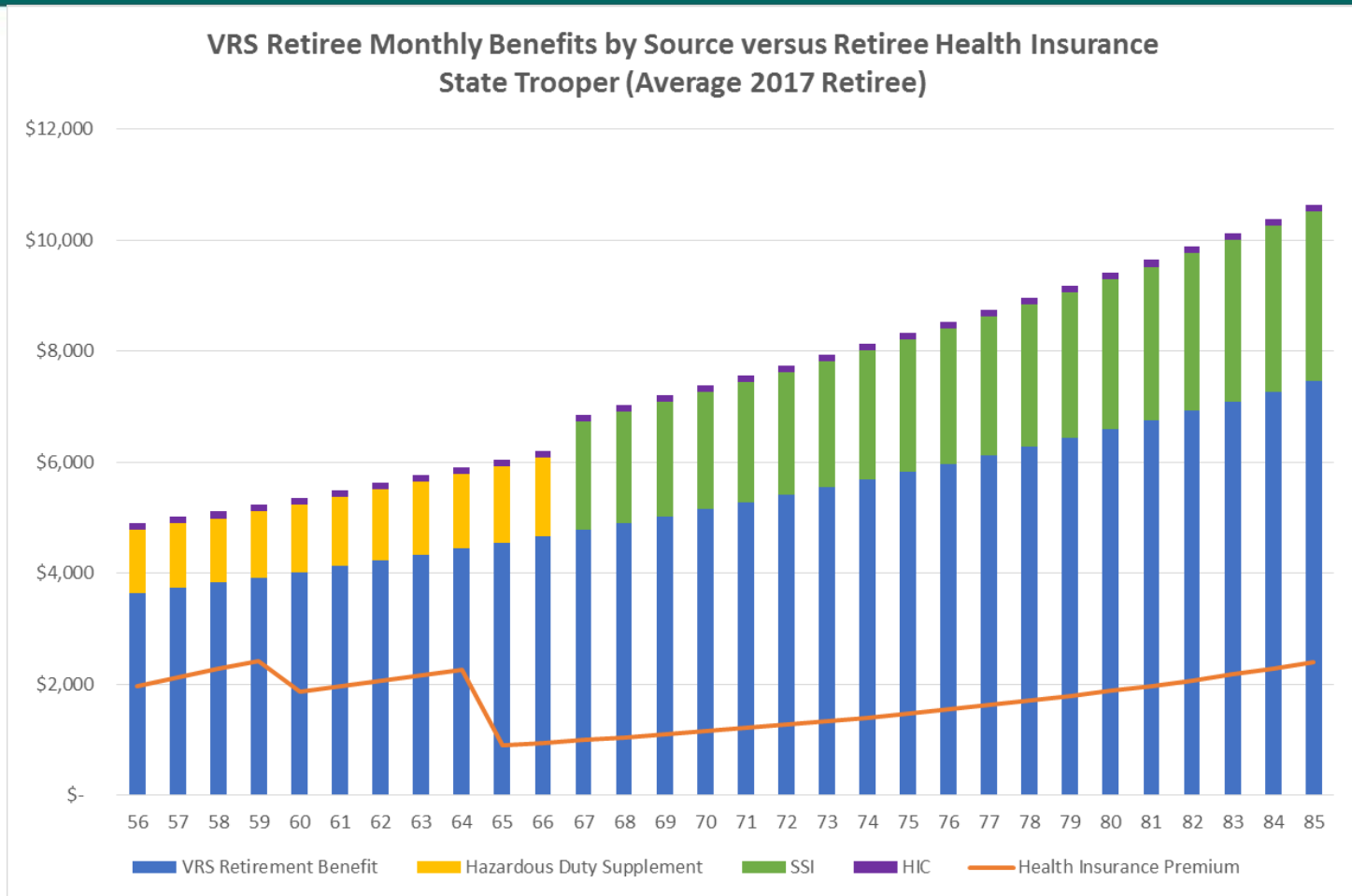
- Benefits are based on average retirees within each employer group during fiscal year 2017. Sheriff information is average of last two fiscal years due to smaller sample size.
- SPORS, Sheriff and Sheriff Deputy benefits include hazardous duty supplement which continues to social security normal retirement age.

Retirement Income Compared to Retiree Health Insurance Premiums



- Retirement and SSI COLAs outpace increases in health insurance premiums over period from Age 65 to 85
- COLA assumed to be 2.5% per year for both VRS pension and SSI.
- Healthcare trend – Pre Medicare 7.75% trending down to 5.0% - Medicare 5.75% trending down to 5.0%
- Assumed retiree elected SSI at age 62, with health insurance for retiree and spouse throughout projection period.

Retirement Income Compared to Retiree Health Insurance Premiums



- Retirement and SSI COLAs outpace increases in health insurance premiums over period from Age 65 to 85
- COLA assumed to be 2.5% per year for both VRS pension and SSI.
- Healthcare trend – Pre Medicare 7.75% trending down to 5.0% - Medicare 5.75% trending down to 5.0%
- Assumed retiree defers SSI until hazardous duty supplement ends age 67, with health insurance for family until age 60, then retiree and spouse coverage throughout remainder of projection period.

Costs to Modify HIC Benefits - SPORS & VaLORS



State	June 30, 2017 Valuation Results	Proportionate Share of State plan for SPORS & VALORS	Impact to Increase SPORS & VaLORS HIC from \$4 to \$6	Change in Costs
Covered Payroll	\$6,480,712,000	\$449,415,000	\$449,415,000	\$0
Actuarial Value of Assets	\$79,451,000	\$5,510,000	\$5,510,000	\$0
Actuarial Accrued Liability	\$990,724,000	\$68,703,000	\$101,978,000	\$33,275,000
HIC Cost as a percent of payroll	1.17%	1.17%	1.96%*	0.79%
Estimated Required Contribution	\$72,548,000	\$4,605,000	\$8,600,000	\$3,995,000
Unfunded accrued liability	\$911,273,000	\$63,194,000	\$96,469,000	\$33,275,000
Funded Status	8.02%	8.02%	5.40%	-2.62%

* Please note that the Governor's proposed budget showed an increased cost as a percent of payroll of 2.15% versus the 1.96% shown above, which we believe may be due to adjustments for future payrolls since our analysis above was based on the 2017 valuation.

- Increases unfunded liability by over 50% to \$96.5 million.
- Increases annual funding by approximately \$4 million per year.
- Lowers funded status to 5.40%.

Costs to Modify HIC Benefits – Constitutional Officers Sheriffs and Deputies



Constitutional Officers	June 30, 2017 Valuation Results	Proportionate Share of Constitutional Officers plan for Sheriffs, Deputies, and Staff	Cost to Increase Sheriffs, Deputies, and Staff HIC from \$1.5 to \$5	Change in Costs
Covered Payroll	\$630,541,000	\$431,597,000	\$431,597,000	\$0
Actuarial Value of Assets	\$2,427,000	\$1,661,000	\$1,661,000	\$0
Actuarial Accrued Liability	\$28,724,000	\$19,661,000	\$62,377,000	\$42,716,000
HIC Cost as a percent of payroll	0.38%	0.38%	1.11%*	0.73%
Estimated Required Contribution	\$2,221,000	\$1,413,000	\$4,590,000	\$3,177,000
Unfunded accrued liability	\$26,297,000	\$18,000,000	\$60,716,000	\$42,716,000
Funded Status	8.45%	8.45%	2.66%	-5.79%

* Please note that the Governor's proposed budget showed an increased cost as a percent of payroll of 1.23% versus the 1.11% shown above, which we believe may be due to adjustments for future payrolls since our analysis above was based on the 2017 valuation.

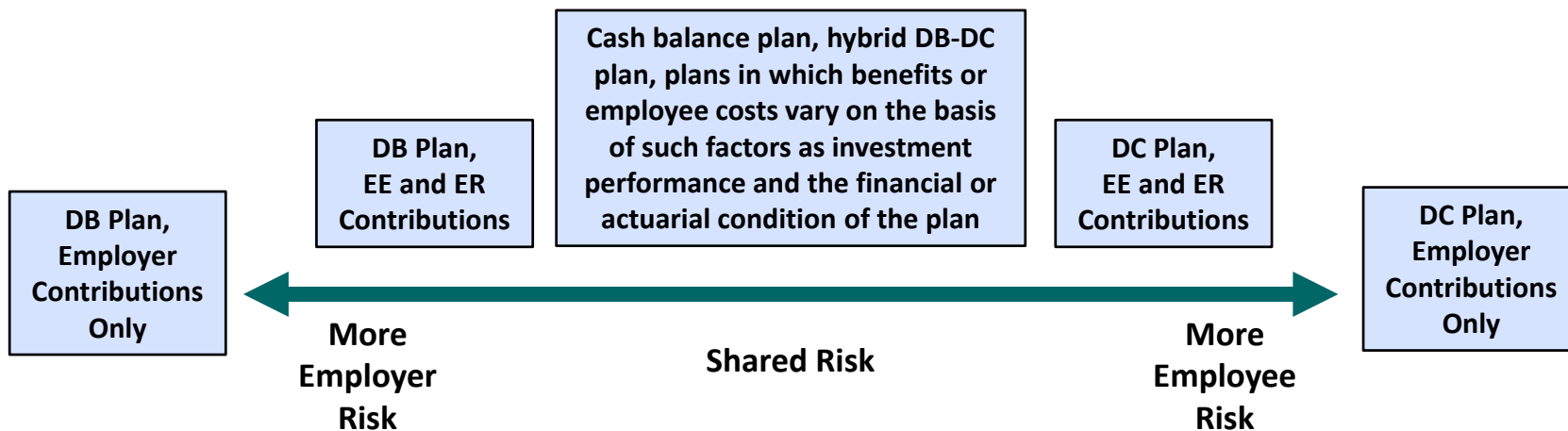
- Increases unfunded liability by over 230% to \$60.7 million.
- Increases annual funding by approximately \$3.2 million per year.
- Lowers funded status to 2.66%.

All data is as of 10/1/18 unless otherwise noted.

Hybrid Retirement Plan Overview



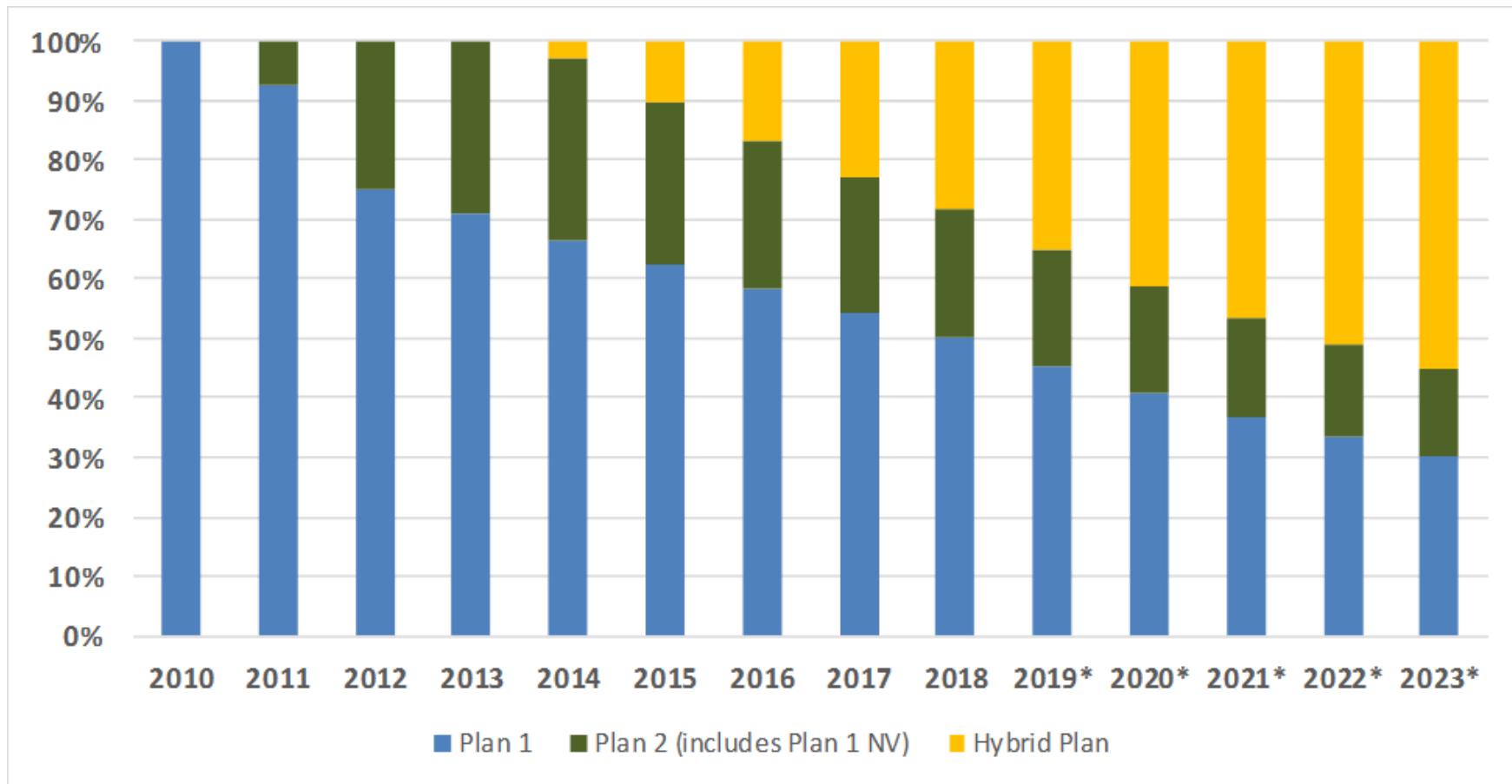
Retirement Plan Design – Risk Sharing



Risk Distribution in a Defined Benefit Pension Plan		
Risk	Employer	Employee
Investment	X	
Inflation	X	
Longevity	X	
Market Timing	X	
Portability/Accrual		X
Vesting		X

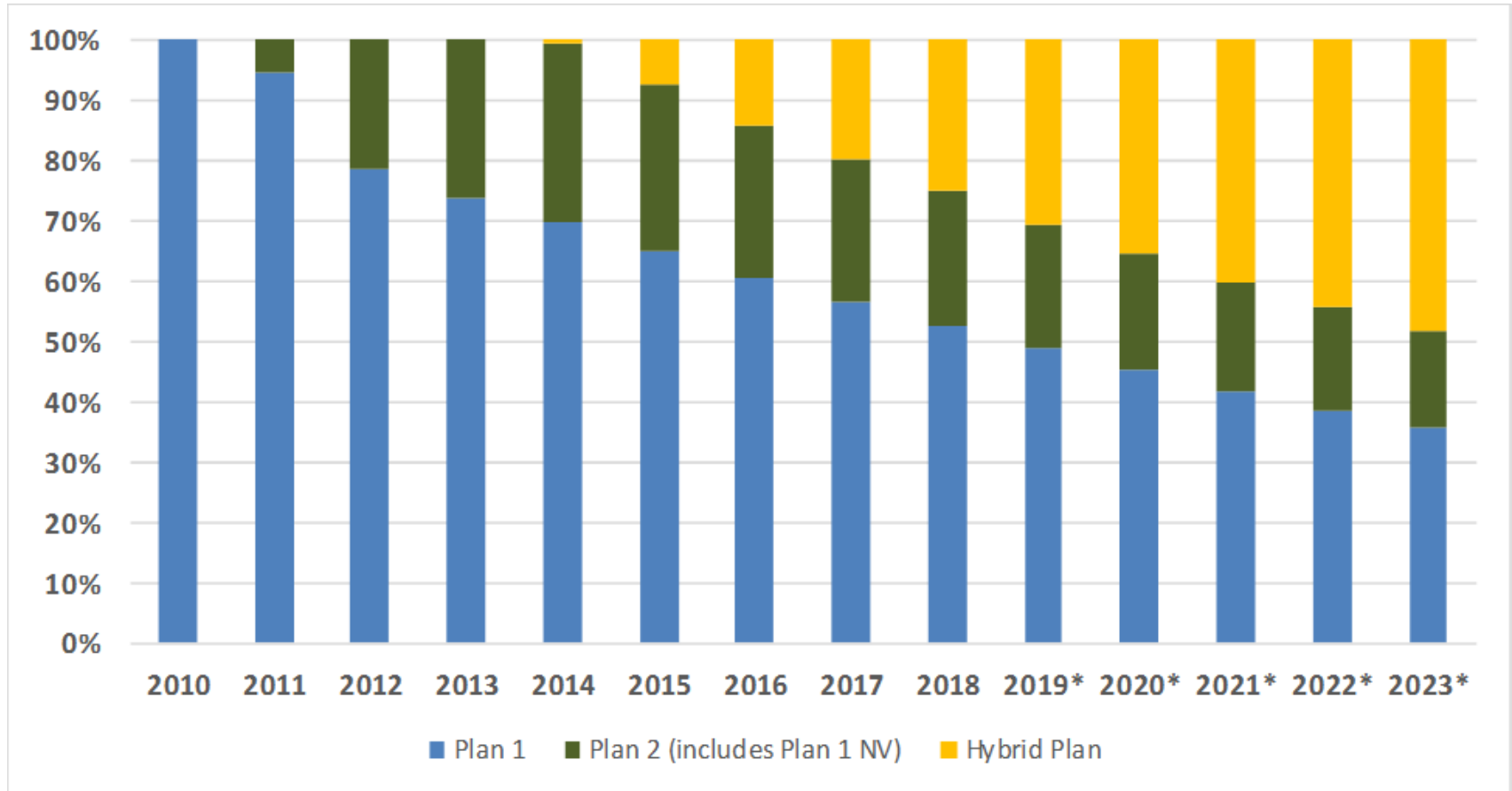
Risk Distribution in a Defined Contribution Pension Plan		
Risk	Employer	Employee
Investment		X
Inflation		X
Longevity		X
Market Timing		X
Portability/Accrual		X
Vesting		X

State Active Member Breakdown



* Fiscal years 2019-2023 show projected membership breakdown based on historical turnover experience.

Teacher Active Member Breakdown

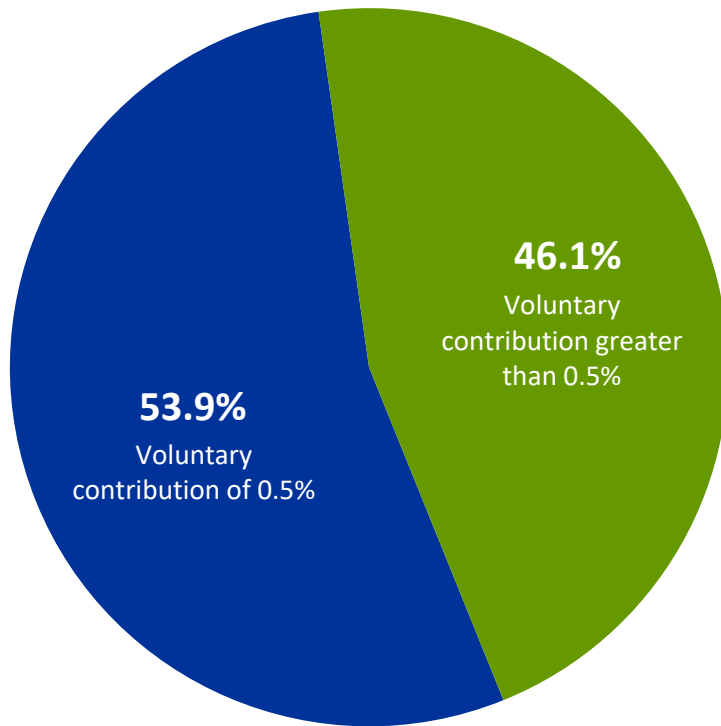


* Fiscal years 2019-2023 show projected membership breakdown based on historical turnover experience.

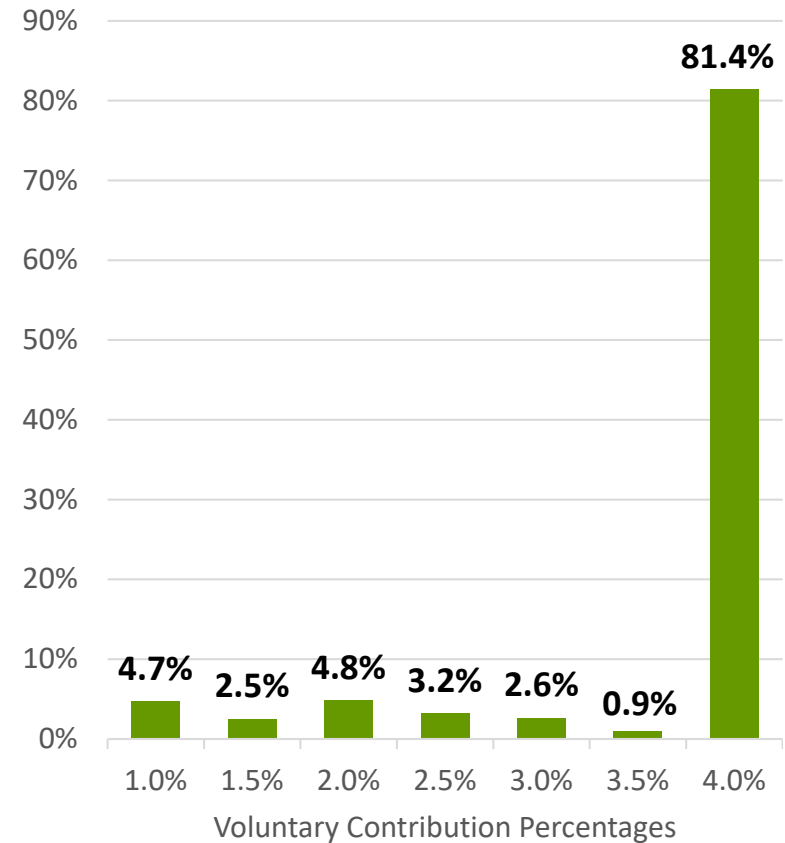
Note: The turnover experienced in the Teacher Plan has been less than the turnover experienced by the State Plan. Thus, the Teacher Plan is migrating to the Hybrid Plan slower than the State Plan.

Hybrid 457 Plan: Voluntary Contribution Elections

Active members who had a voluntary contribution effective Oct. 1, 2018



Active members with a voluntary contribution greater than 0.5%



Percentage of Hybrid Members with an Active Election by Age and Salary



For those with active elections, salary level has a larger influence on participation than age of member.

Salary	Age					Total Population
	< 30	30-39	40-49	50-59	60+	
< \$30,000	6%	8%	11%	14%	15%	10%
\$30,000-\$49,999	21%	22%	24%	30%	31%	23%
\$50,000-\$79,999	33%	37%	35%	42%	45%	36%
\$80,000-\$99,999	55%	54%	49%	51%	54%	52%
> \$100,000	47%	58%	63%	66%	65%	63%

SmartStep

Implemented **SmartStep**, which allows members to increase their voluntary contributions at a date they choose.



Implemented the **hybrid paycheck calculator** so members see the change in their paycheck if making voluntary contributions.

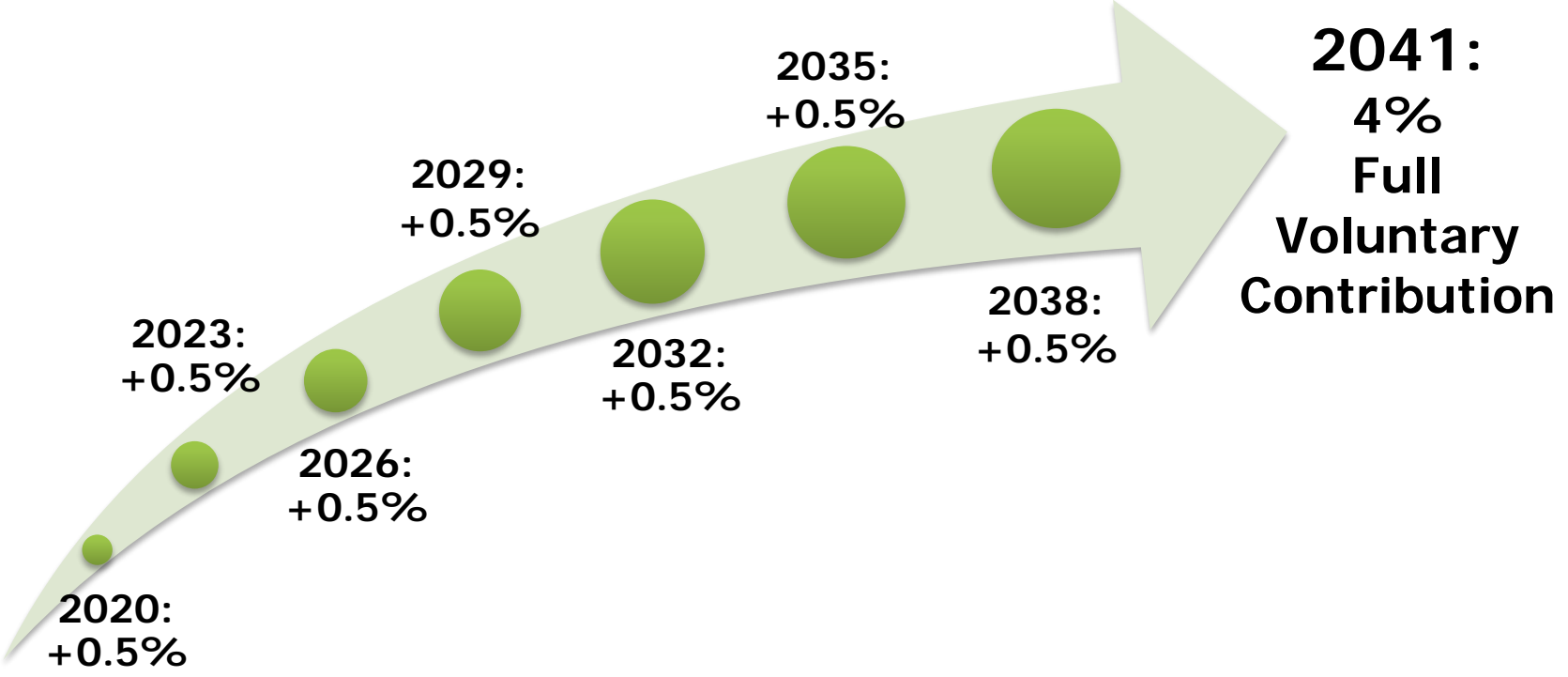


Implemented **enhanced voluntary contribution messaging** on account pages of members not making a voluntary contribution.



GoHybrid was launched June 2018 and it allows employees to elect a voluntary contribution before the hire date or enrollment in VRS.

Current Auto-Escalation for Hybrid Members



An employee hired prior to September 1, 2019, starting with 0% voluntary contributions, would reach the full voluntary contribution of 4% by 2041, if voluntary contributions only increased every three years as part of auto-escalation.

Modernization Update



Guiding Principles

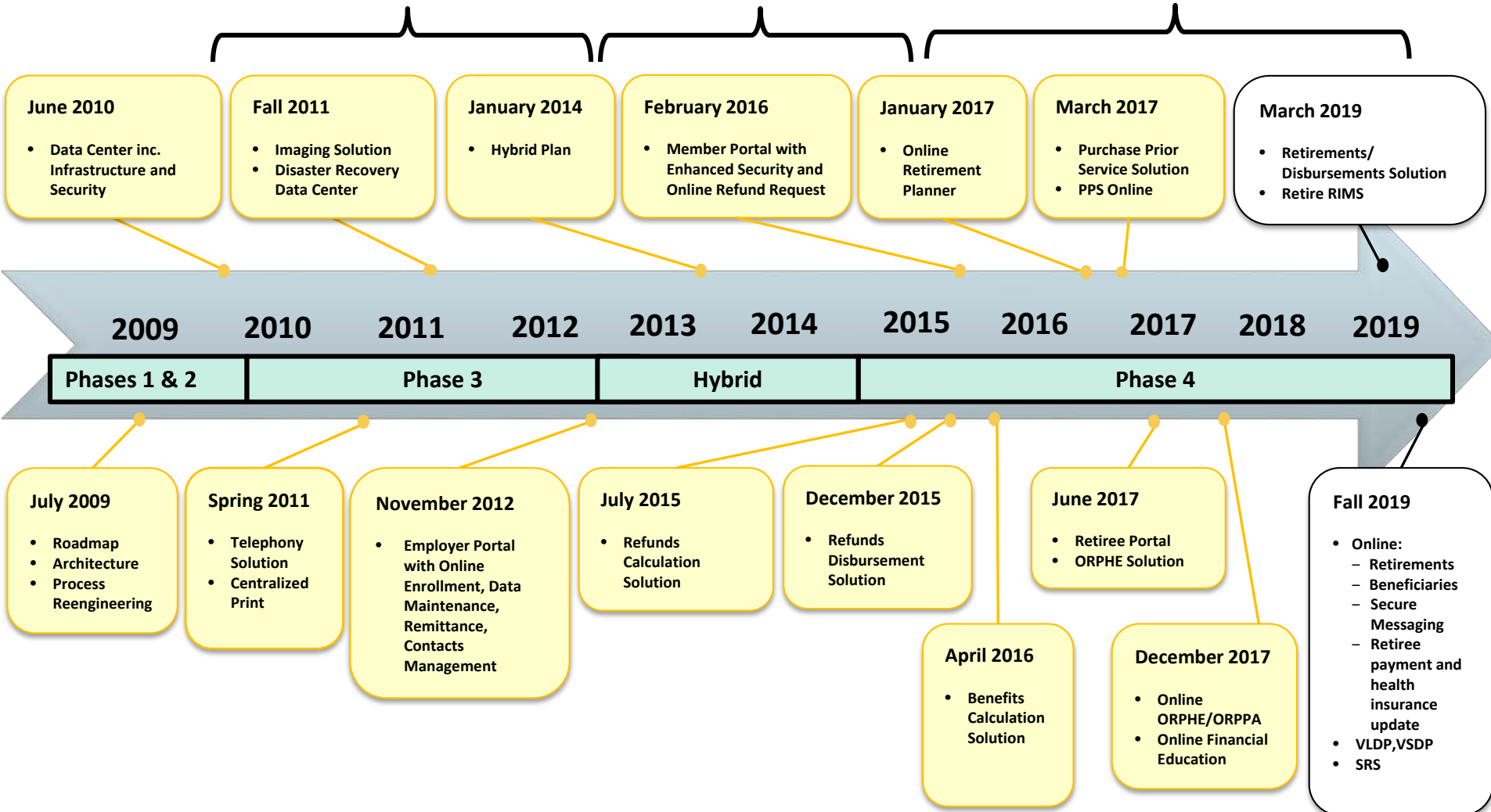
- Web-based, self-service for members and employers
- Reliable, accurate, high quality and efficient delivery of member benefits
- Paperless, to the extent possible
- Safeguard member confidence and VRS reputation
- Security of member's data and personal information
- Provide consistent and robust education and counseling

VRS Modernization

Phase 3: Infrastructure and Functionality for Employers

Hybrid Plan (VNAV & RIMS)

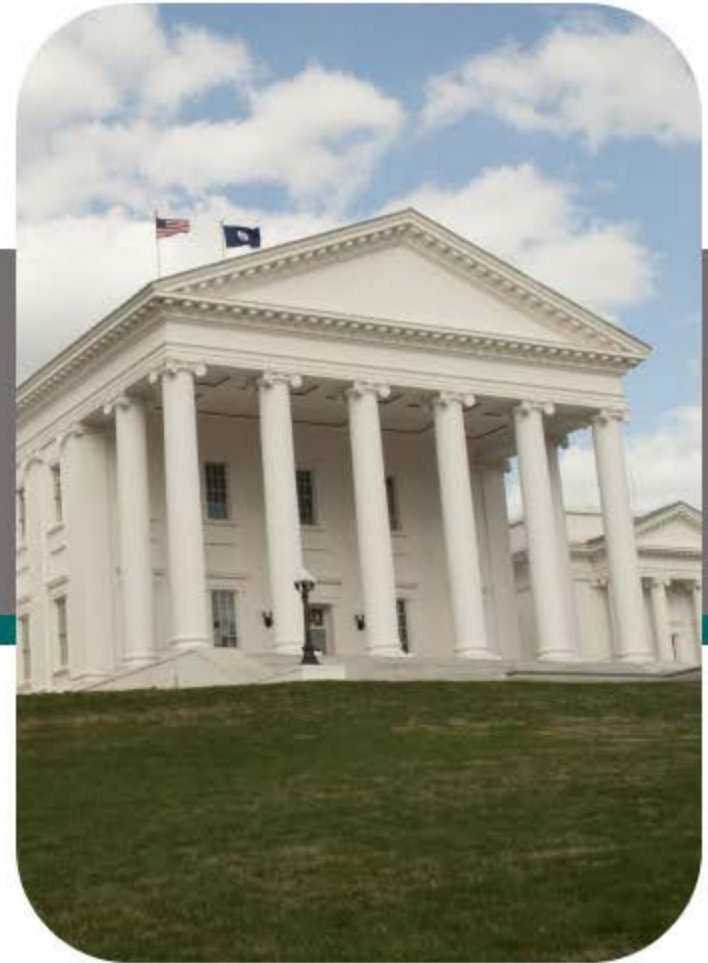
Phase 4: Functionality for Members and Retirees



Remaining Phase 4 Releases

Release	Implementation Date
Replace RIMS – <ul style="list-style-type: none">• Retirements and disbursements• Miscellaneous functionality:<ul style="list-style-type: none">– VLDP– Security Request System replacement– Long Term Care– Member Account Maintenance– Actuarial and Interface Files– Reporting Data Mart	Planned for Spring 2019
Online Retirement – <ul style="list-style-type: none">• Online Retirement• Miscellaneous functionality:<ul style="list-style-type: none">– myVRS Retiree Payment Maintenance– myVRS Retiree Health Ins. Maintenance– Beneficiaries management– Secure messaging– Survivor account access	Planned for Fall 2019

2019 Legislation



Bill Number	Patron	Description
HB 1631 HB 2024 SB 1023	Leftwich (Rush) Murphy Cosgrove	Allows a retired law-enforcement officer to continue to receive his service retirement allowance during a subsequent period of employment by a local school division as a school security officer. Applies to Chapter 1 of Title 51.1
HB 1765 SB 1203	Yancey Stuart	Allows a retired law-enforcement officer to continue to receive his service retirement allowance during a subsequent period of employment by a local school division as a school security officer. Applies to Title 51.1

Bill Number	Patron	Description
HB 1694	Reid	Adds E-911 dispatchers to the list of local employees eligible to receive enhanced retirement benefits similar to those provided to State Police officers. The bill provides that such benefits would be available only to dispatchers hired starting in 2020.
HB 1824	Reid	Provides an additional 96 hours of sick leave to disabled veterans, defined in the bill as veterans with a disability rating by the U.S. Department of Veterans Affairs of at least 60 percent, available during the 12 months following such veteran's start or return to state employment after active duty or following a disability rating decision from the U.S. Department of Veterans Affairs, whichever is later. The bill provides that such additional sick leave shall be used only for the purpose of undergoing medical treatment for the service-related disability and would be provided only to those disabled veterans whose disability occurred on or after January 1, 2016.

Bill Number	Patron	Description
HB 1857	McQuinn	Requires school divisions to provide a health insurance credit of \$4 per year of service to all retired members of local school divisions with at least 15 years of creditable service. The measure does not apply to any employee who retired on disability prior to July 1, 2019, if this measure would reduce the monthly credit currently payable. Eligible employees who retired prior to July 1, 2019, but who did not receive the HIC prior to that date will only receive the \$4 per year of service HIC prospectively.

Bill Number	Patron	Description
HB 2152 SB 1122	Ingram Ruff	Increases annually the amount of the health insurance credit for retirees who rendered at least 30 years of creditable service in the Virginia Retirement System. The bill increases the credit by the same percentage as any annual post-retirement supplement that is calculated for employees hired on or after July 1, 2010.
SB 1332	Ruff	Increases annually the amount of the health insurance credit for (i) retirees who rendered at least 30 years of creditable service in the Virginia Retirement System and (ii) employees and retirees who are receiving state disability benefits. The bill increases the credit by the same percentage as any annual post-retirement supplement that is calculated for employees hired on or after July 1, 2010.

Bill Number	Patron	Description
HB 2171	Brewer	Provides that certain members of the Virginia Retirement System who retire early, if such members relied on an erroneously high estimate of benefits in their decision to retire, shall receive payments at the estimated amount. The bill provides that the benefits adjustment would apply to any member who received an erroneous estimate on or after January 1, 2017; however, the adjustment would apply only to payments made on and after July 1, 2019.
HB 2481	McNamara	Authorizes a locality that participates in the Virginia Retirement System to opt out of the group insurance program and instead establish, either by self-funding or purchasing insurance, local life insurance coverage or accidental death and dismemberment insurance.

Bill Number	Patron	Description
SB 1032	Stanley	Changes the age through which a retired law-enforcement officer covered under the Virginia Law Officers' Retirement System is entitled to receive an additional retirement allowance from the law-enforcement officer's sixty-fifth birthday to retirement age as defined by the Social Security Act. This change aligns the additional allowance with that currently provided under the State Police Officers' Retirement System.
SB 1384	McDougle	Increases by 5% the retirement allowance for judges for service earned on and after their fifty-fifth birthday. The bill provides that the increase applies only to judges who retire on or after July 1, 2019.
SB 1480	Deeds	Adds conservation officers of the Dept. of Conservation and Recreation as members of VaLORS. The bill makes conservation officers eligible to accrue retirement benefits under VaLORS only for creditable service on and after July 1, 2019.

2019 Legislation

Bill Number	Patron	Description
HJ 679	Ayala	Requests VRS to study the impact of permitting part-time public school teachers to participate in a retirement plan administered by VRS.
SB 1227	Chase	Extends the sunset provision for the critical shortage teacher program to July 1, 2025.

LODA Related: 2019 Legislation

Bill Number	Patron	Description
HB 1690	Simon	Expands the list of disabled persons and the beneficiaries of disabled or deceased persons eligible to receive benefits under the Line of Duty Act to include Metropolitan Washington Airports Authority police officers whose disability or death occurs as a direct or proximate result of the performance of their duty.
HB 2075	J. Bell	<p>Adds correctional officers and full-time sworn members of the enforcement division of the Department of Motor Vehicles to the list of public safety officers who are entitled to a presumption that hypertension and heart disease are occupational diseases compensable under Workers' Compensation.</p> <p>Also adds correctional officers to the list of public safety employees who are entitled to a presumption that certain infectious diseases are compensable occupational diseases.</p>
HB 2166	Rush	Removes from the definition of law-enforcement officer, as it applies to an investigator with Virginia Lottery, the requirement that the investigator be a full-time member.

LODA Related: 2019 Legislation

Bill Number	Patron	Description
HB 1706	Kory	Declares that PTSD suffered by a first responder (including volunteers) is an occupational disease suffered in the line of duty if it resulted from the responder's documented exposure to a qualifying event in the course of his employment. Qualifying events include seeing a deceased minor, directly witnessing the death of a minor, and seeing a decedent whose death involved grievous bodily harm of a nature that shocks the conscience.
HB 2281 HB 2513 SB 1465	Filler-Corn Hugo McPike	Creates a presumption that PTSD is an occupational disease, suffered in the line of duty, that is covered by Workers' Compensation if certain employees (i) receive a diagnosis of PTSD; (ii) suffer death or any impairment resulting in total or partial disability from work caused by the PTSD; and (iii) receive a statement from a provider that the PTSD was caused by a single critical event or multiple exposures to critical events that occurred in the course of the employment. Provides that a "critical event" results in serious injury or death to an individual; deals with a minor who has been injured, killed, abused, exploited, or a victim of a crime; deals with mass casualties; results in injury to or the death of a coworker; involves an immediate threat to the life of the claimant or another individual; or involves the abuse, cruelty, injury, exploitation, or death of an animal.

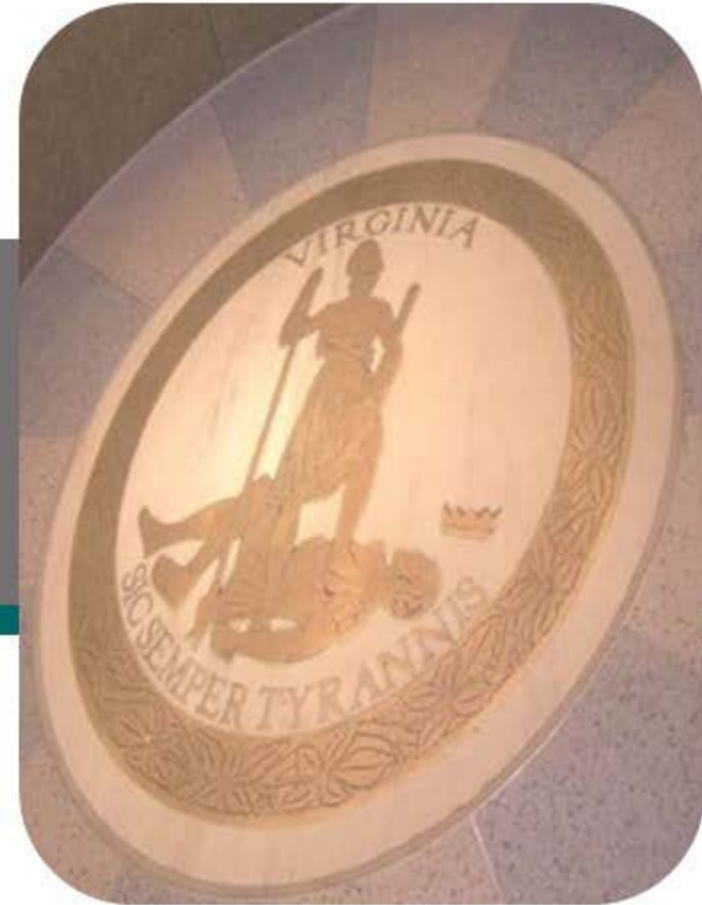
LODA Related: 2019 Legislation

Bill Number	Patron	Description
HB 1804	Hugo	Adds cancers of the colon, brain, or testes to the list of cancers that are presumed to be an occupational disease covered by the Virginia Workers' Compensation Act when firefighters and certain employees develop the cancer. The measure removes the compensability requirement that the employee who develops cancer encountered a toxic substance in the line of duty.
SB 1022	Chase	
SB 1030	Cosgrove	
SB 1172	McPike	



Virginia
Retirement
System

Appropriation Act



2019 Budget Language: Contribution Rates



Topic	Explanation of Item																				
Item 474 H. 1 and H. 2	<p>Governor’s proposed budget fully funds the actuarially recommended retirement plan contribution rates for FY 2020:</p> <table border="1" data-bbox="765 594 1611 1053"> <thead> <tr> <th></th> <th>FY 2019</th> <th>FY 2020</th> </tr> </thead> <tbody> <tr> <td>Teachers</td> <td>15.68%</td> <td>15.68%</td> </tr> <tr> <td>State Employees</td> <td>13.52%</td> <td>13.52%</td> </tr> <tr> <td>State Police</td> <td>24.88%</td> <td>24.88%</td> </tr> <tr> <td>VaLORS</td> <td>21.61%</td> <td>21.61%</td> </tr> <tr> <td>Judicial</td> <td>34.39%</td> <td>34.39%</td> </tr> </tbody> </table>				FY 2019	FY 2020	Teachers	15.68%	15.68%	State Employees	13.52%	13.52%	State Police	24.88%	24.88%	VaLORS	21.61%	21.61%	Judicial	34.39%	34.39%
	FY 2019	FY 2020																			
Teachers	15.68%	15.68%																			
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State Police	24.88%	24.88%																			
VaLORS	21.61%	21.61%																			
Judicial	34.39%	34.39%																			

Topic	Explanation of Item
Item 474- K.7	<p>SPORS and VALORS retirees are provided an HIC of \$6 per year of creditable service, up to the amount of the health insurance premium.</p> <p>SPORS and VALORS members receiving LTD or retired under § 51.1-156 receive a maximum monthly credit of (i) \$180, (ii) \$6 per year of creditable service at the time of disability retirement or eligibility for LTD.</p> <p>Retired sheriffs and deputy sheriffs are provided an HIC of \$5 per year of creditable service, up to the amount of the health insurance premium.</p> <p>Sheriffs and deputy sheriffs retiring under disability retirement receive a maximum monthly credit of \$150 or \$5 per year of creditable service.</p>

2019 Budget Language: Board of Trustees



Topic	Explanation of Item
Item 486- G	Increases the membership of the Board of Trustees to 12 members, including three ex-officio non-voting members: the Secretary of Finance, the staff director of SFC and the staff director of HAC or their designees

Appendix



Appendix: Contribution Rates



Development of Contribution Rates

Estimated State Plan Employer Rate for 2019/2020



Development of Employer Normal Cost

	Total Normal Cost Rate % of Payroll	-	Member Contribution % of Payroll	=	Employer Normal Cost % of Payroll
Plan 1	11.01%	-	5.00%	=	6.01%
Plan 2	10.06%	-	5.00%	=	5.06%
Hybrid	6.16%	-	4.00%	=	2.16%
Total Blended	9.29%	-	4.68%	=	4.61%
					Administrative Expense Load
					0.29%
					Employer Normal Cost Rate
					4.90%

Development of Unfunded Amortization of Liability

	Amortization of Unfunded Liability % of Payroll
Legacy Unfunded (26 Years Remaining)	11.10%
2014 Experience Gain (17 Years Remaining)	-0.80%
2015 Experience Gain (18 Years Remaining)	-1.20%
2016 Experience Gain (19 Years Remaining)	-0.16%
2017 Experience Gain (20 Years Remaining)	0.11%
2017 Assumption Changes (20 Years Remaining)	-1.01%
Total Unfunded Amortization	8.04%



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
4.90%	+	8.04%	=	12.94%	+	0.58%	=	13.52%

Development of Contribution Rates

Estimated Teacher Plan Employer Rate for 2019/2020



Development of Employer Normal Cost

	Total Normal Cost Rate % of Payroll	-	Member Contribution % of Payroll	=	Employer Normal Cost % of Payroll
Plan 1	12.62%	-	5.00%	=	7.62%
Plan 2	10.74%	-	5.00%	=	5.74%
Hybrid	6.45%	-	4.00%	=	2.45%
Total Blended	10.71%	-	4.75%	=	5.96%
			Administrative Expense Load		0.26%
			Employer Normal Cost Rate		6.22%

Development of Unfunded Amortization of Liability

	Amortization of Unfunded Liability % of Payroll
Legacy Unfunded (26 Years Remaining)	10.99%
2014 Experience Gain (17 Years Remaining)	-0.90%
2015 Experience Gain (18 Years Remaining)	-0.95%
2016 Experience Gain (19 Years Remaining)	-0.36%
2017 Experience Gain (20 Years Remaining)	0.09%
2017 Assumption Changes (20 Years Remaining)	-0.60%
2011 Deferred Contributions (4 Years Remaining)	0.75%
Total Unfunded Amortization	9.02%



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
6.22%	+	9.02%	=	15.24%	+	0.44%	=	15.68%

Appendix: Health Insurance Credit



Eligibility Requirements and Qualifying Plans

Eligibility Requirements

- Retiring with 15 or more years of creditable service from an eligible employer
- Retiring on disability
- Receiving a long-term disability benefit through the Virginia Sickness and Disability Program (VSDP) or the Virginia Local Disability Program (VLDP) if the employer participates in the Health Insurance Credit

Note: A member who has at least 15 years of service as a teacher, school administrator, school board employee or state employee, and retires from a political subdivision that does not offer the health insurance credit, is eligible for the health insurance credit based on years of service.

Qualifying Health Plans

- Individual health plans
- Coverage as a dependent on a spouse's plan
- Employer-sponsored health plans, including the Commonwealth of Virginia Health Benefits Program
- Medicare Part B
- Dental, vision and prescription drug plans including Medicare Part D

Note: Other types of plans for specific conditions or coverage are not eligible.

There are three prevailing models of retiree health benefit:

- A **premium-based benefit** that provides a subsidy to the true cost of the healthcare premium.
- A **fixed-dollar benefit** based on a dollar-certain subsidy that is provided to retirees regardless of cost of premiums.
- An **implied subsidy** by providing access to employers' healthcare coverage, but retiree is required to pay 100 percent of the premium. Total premium rate is effectively subsidized by insurance rate premiums of active workforce being included in the pool.

The Commonwealth provides State employees an implied subsidy in combination with a fixed dollar benefit (Health Insurance Credit) for members with 15 years or more of service.

- Members who choose to retire before Medicare eligibility are most likely to experience large increases in health insurance costs.
- Due to the employer subsidy, an active member with employee only coverage currently pays approximately 12% of the total premium per month, or \$88. A pre-Medicare retiree would pay the full \$735 per month.

Active Employee

Healthcare Plan		Employee Only	Family Coverage
COVA Care	Employee Pays	\$88	\$273
	State Pays	\$647	\$1,699
	Total Premium	\$735	\$1,972

Pre-Medicare Retiree

Healthcare Plan		Retiree Only	Family Coverage
COVA Care	Retiree Pays	\$735	\$1,972
	State Pays *	\$0	\$0
	Total Premium	\$735	\$1,972

* The HIC benefit can be used to offset pre-Medicare healthcare premiums.
Healthcare premiums based on 2018 Fiscal Year COVA Care coverage.

Retiree Health – Medicare Eligible

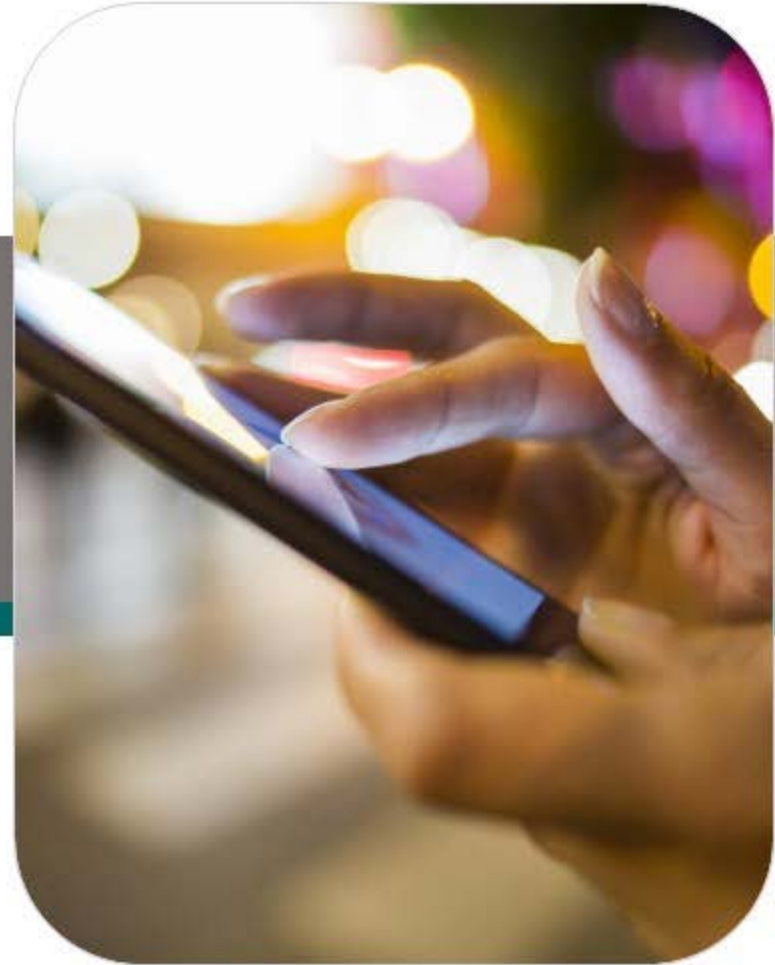
- Once retirees are eligible, they must enroll in Medicare and are no longer eligible to participate in the active health insurance plan.
- The Commonwealth provides various Medicare supplemental plans for members.
 - Supplemental plans pay secondary to Medicare.
 - Plans cover most Medicare coinsurance/co-payments for covered services.
 - The plans include an enhanced Medicare Part D benefit for outpatient prescription drug coverage.

Medicare Retiree

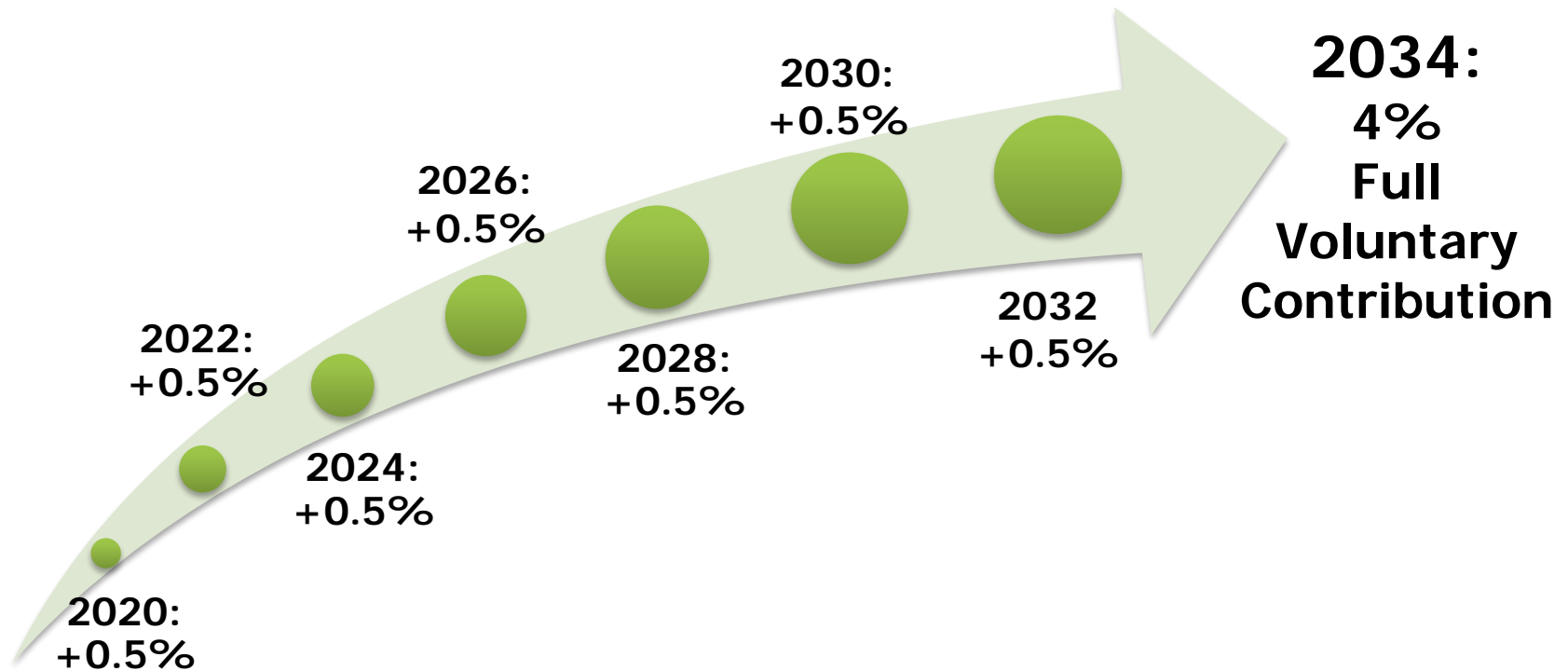
Healthcare Plan		Retiree Only	Retiree & Spouse
Advantage 65	Retiree Pays	\$277	\$554
	State Pays *	\$0	\$0
	Total Premium	\$277	\$554

* The HIC benefit can be used to offset pre-Medicare healthcare premiums.
Healthcare premiums based on 2018 Calendar Year Advantage 65 coverage.

Previous Legislation Related to the Hybrid Retirement Plan

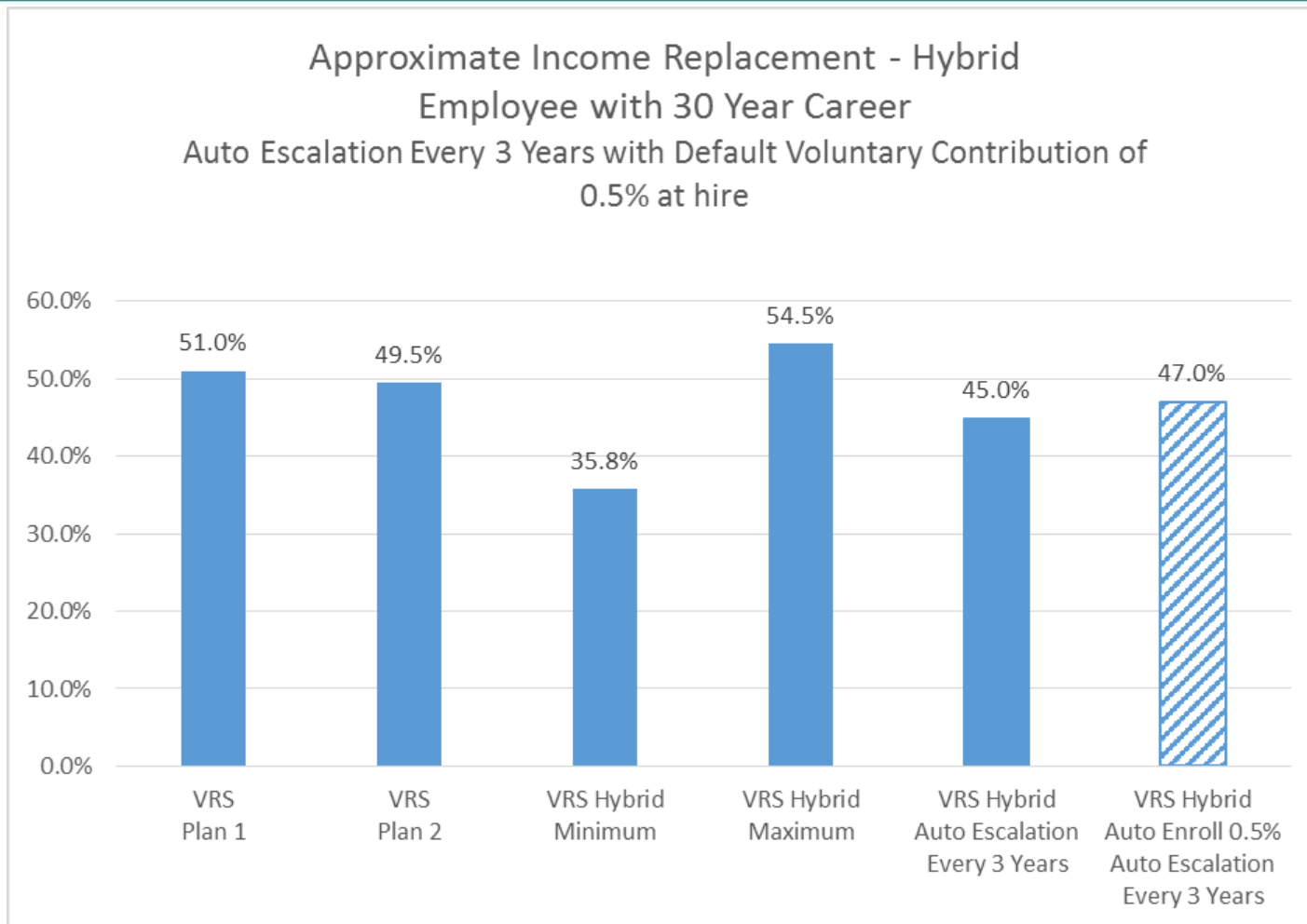


Previous Legislation Changing Auto-Escalation for Hybrid Members



An employee hired prior to September 1, 2019, starting with 0% voluntary contributions, could reach the full voluntary contribution of 4% by 2034, if voluntary contributions increased every two years as part of auto-escalation.

Hybrid Plan Considerations – Auto-Enrollment



- Default voluntary contribution would be 0.5% at hire.
- Auto-escalation occurs in 0.5% increments every 3 years.

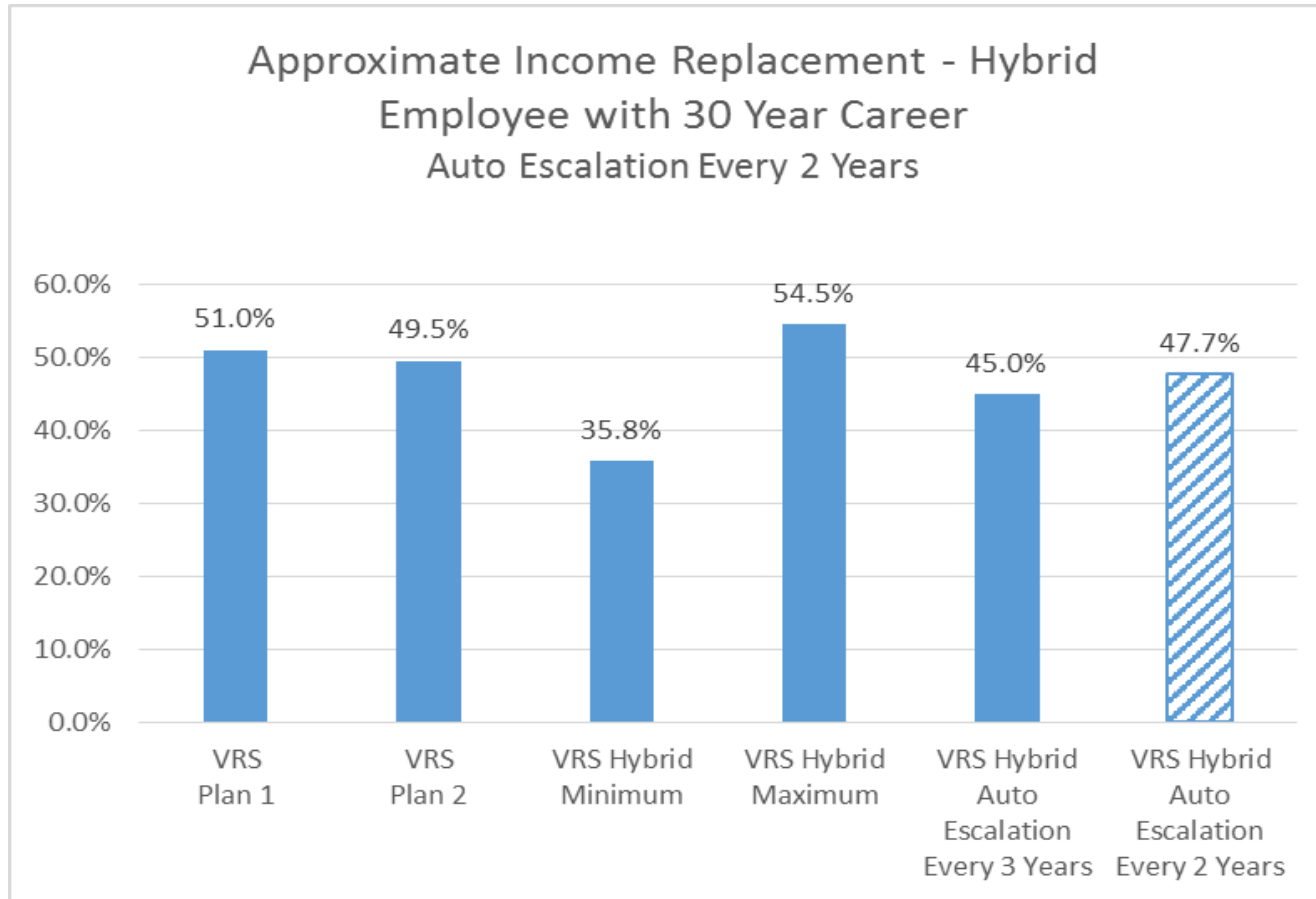
Hybrid Plan Considerations – Auto-Enrollment

Hybrid Plan Considerations Cost impact for auto-enrollment as a percent of payroll State Plan

Retention	1st Year	After 5 Years	After 10 Years	After 20 Years
50%	0.01%	0.05%	0.07%	0.10%
75%	0.02%	0.07%	0.11%	0.15%
100%	0.02%	0.10%	0.15%	0.19%

- The table above shows the estimated cost impact of adding auto-enrollment beginning in 2020 for the State plan as a percentage of covered payroll under three retention scenarios.
- Under the 75% retention scenario, this change would increase employer contributions by approximately \$13.3 million in total from fiscal years 2020-2025 (\$5.6 General Fund and \$7.7 Non-General Fund).
- The ultimate impact will depend heavily on the employees' participation in the voluntary contributions contained within the defined contribution component of the hybrid plan.

Hybrid Plan Considerations – Auto-Escalation



- Increase frequency of auto-escalation from every 3 years to every 2 years.

Hybrid Plan Considerations – Auto-Escalation

Hybrid Plan Considerations

Cost impact for auto-escalation every 2 years as a percent of payroll State Plan

Retention	1st Year	After 5 Years	After 10 Years	After 20 Years
50%	0.00%	0.03%	0.07%	0.15%
75%	0.00%	0.04%	0.11%	0.23%
100%	0.00%	0.08%	0.19%	0.25%

- The table above shows the estimated cost impact of increasing the frequency of auto-escalation from every 3 years to every 2 years for the State plan under three retention scenarios.
- Under the 75% retention scenario, this change would increase employer contributions by approximately \$6.2 million in total from fiscal years 2020-2025 (\$2.6 General Fund and \$3.6 Non-General Fund).
- The ultimate impact will depend heavily on the employees' participation in the voluntary contributions contained within the defined contribution component of the hybrid plan.