

# Virginia Government Finance Officers' Association

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Virginia  
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System

# Agenda

- VRS Overview
- Legislation
- Budget Actions

# VRS Overview

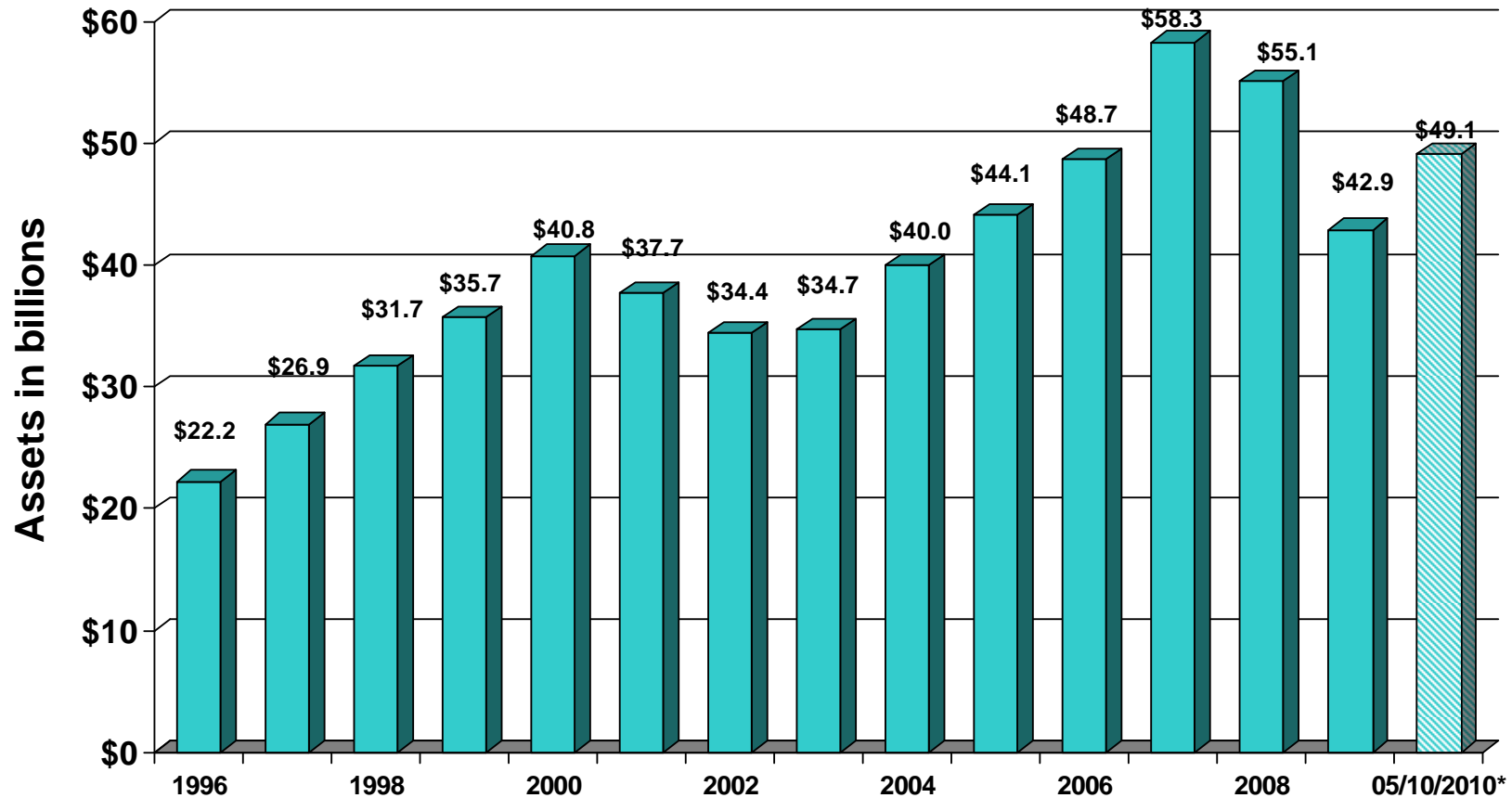


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# VRS Total Membership

|   |                |
|---|----------------|
| 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> |

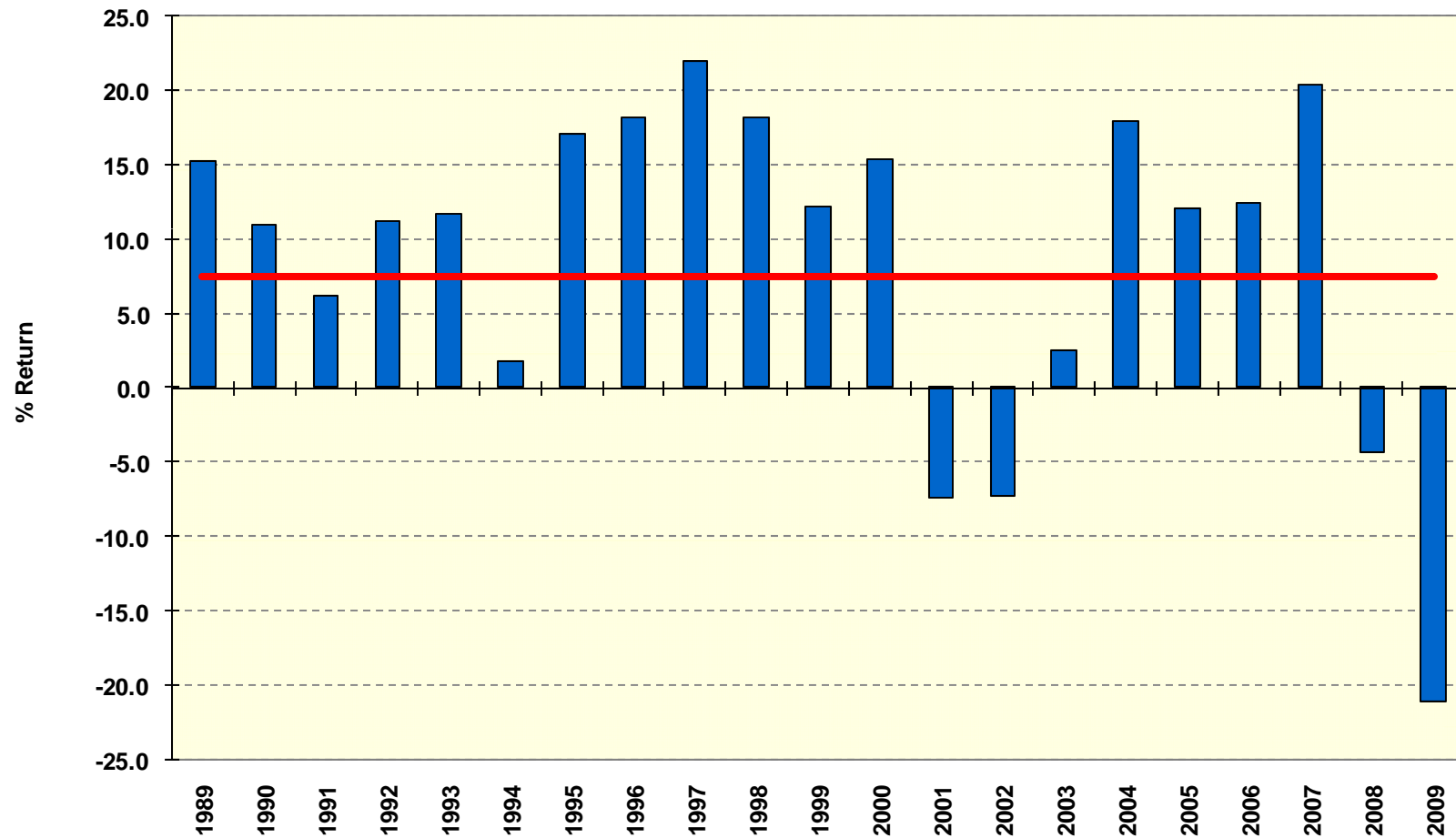
# Net Assets Available for Benefits



\* Estimate as of 05/10/2010



# VRS Fiscal Year Returns



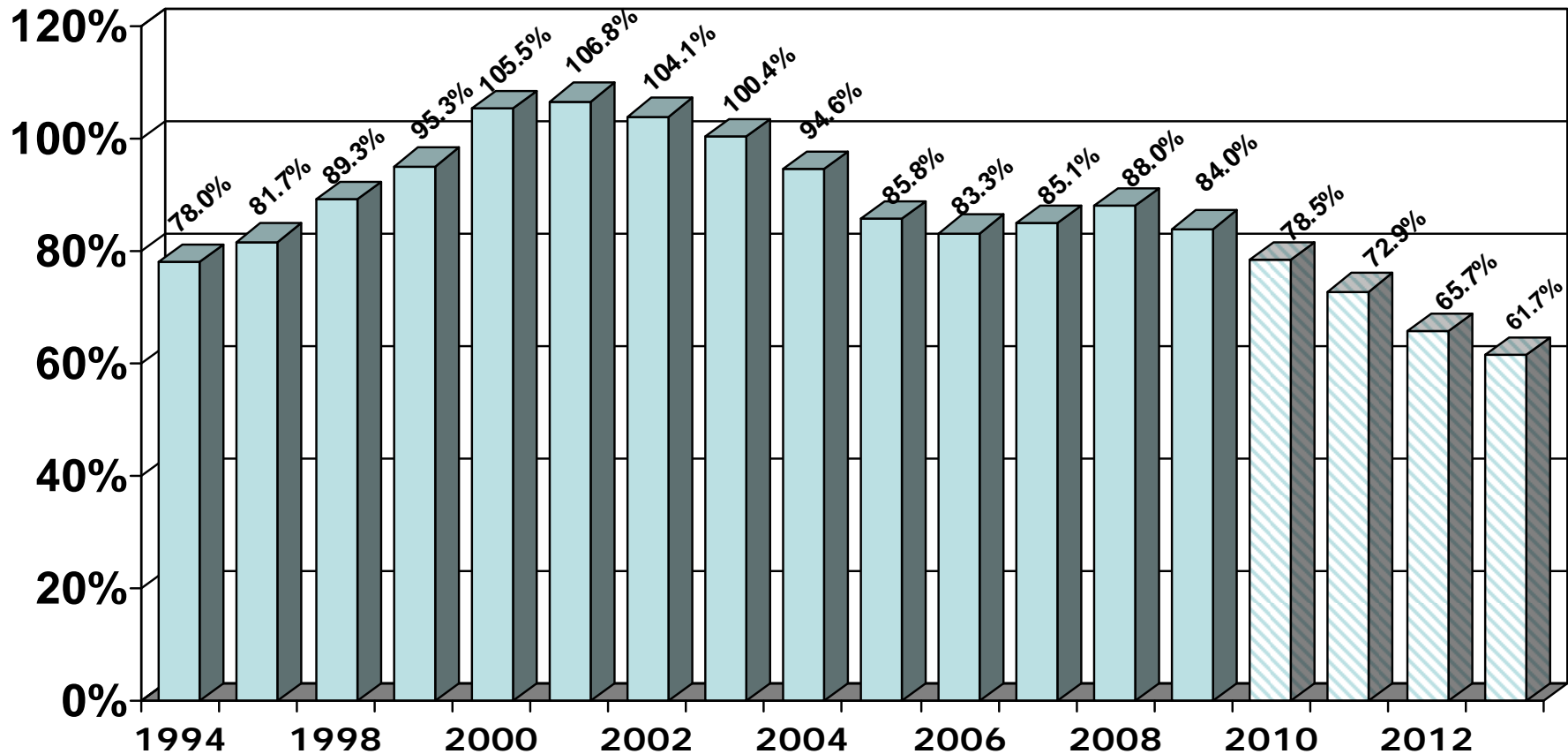
# Funded Status

- Compares assets available to pay benefits with present value of future liabilities
- Asset/liability ratio is typical measure
- Percentage of assets available to pay present value of all future liabilities (until the last member of the plan dies)

# Funding VRS Benefits

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

# Funded Status: State Employees

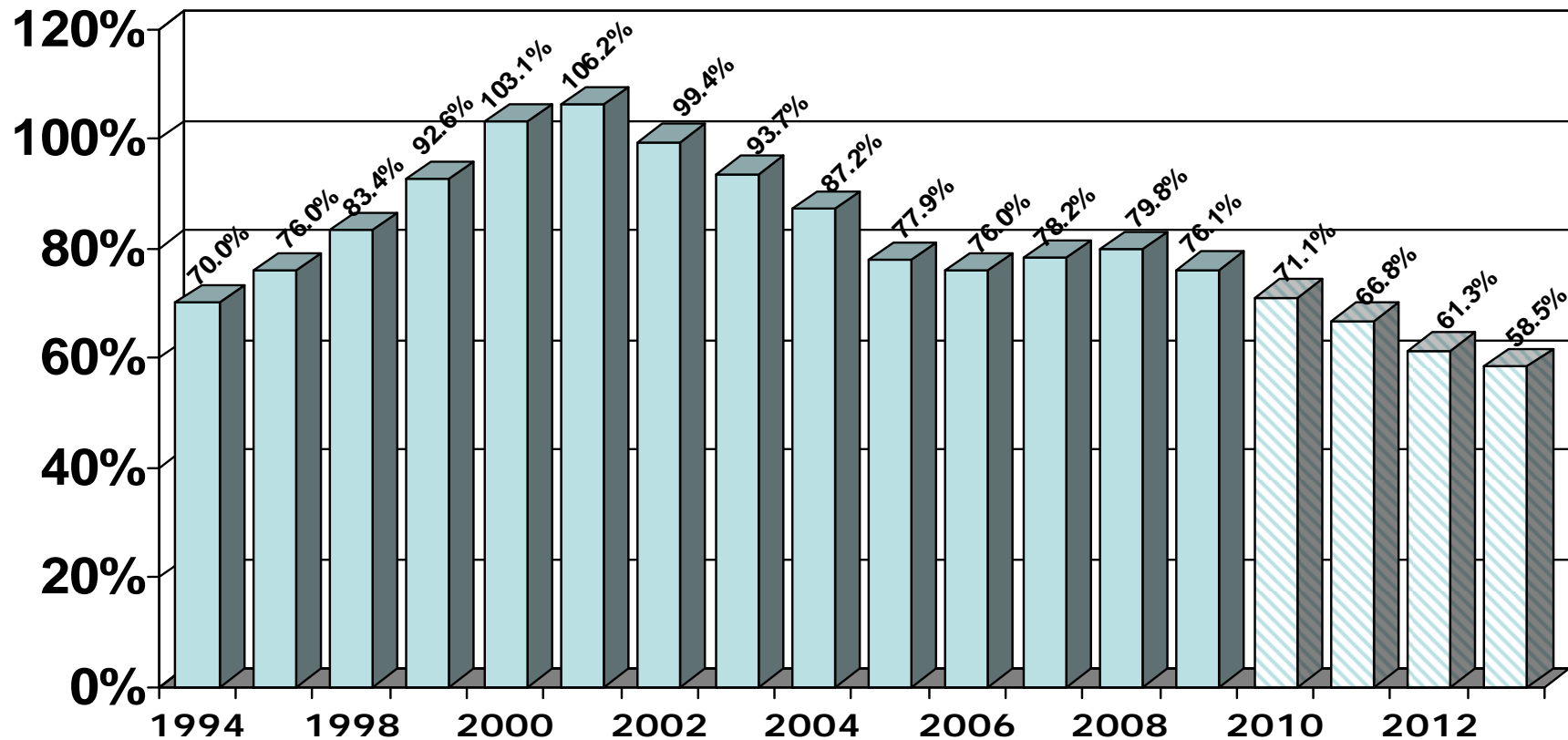


Assumptions:

- 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.



# Legislation



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# VRS Initiated Legislation

## **HB 560**

- Codifies provisions of the Appropriations Act which made changes to VSDP in the 2009 legislative session.

## **HB 561**

- Replaces dollar amount in the Optional Life Insurance section with language that the Board sets the maximum. Clarifies that members on LWOP while on active military duty are responsible for the payment of optional life insurance premiums.

## **HB 562**

- Clarifies (i) that the allowance supplement that is indexed to inflation will not reduce when there is deflation and (ii) corrects how COLA adjustments should be calculated following periods of deflation.

# Other VRS Legislation

## HB 273

- Permits the City of Alexandria to enroll its hazardous duty employees in a new version of the LEOS program. This new program would have all the plan design features of the statewide LEOS program except that it would not provide the monthly hazardous duty supplement paid until a member reaches full Social Security age. Alexandria already provides a similar supplement for its hazardous duty retirees. The added cost of this new LEOS derivative must be paid solely from local funds.

## HB 892

- Requires a VRS member to be vested before becoming eligible to withdraw any portion of his accumulated contributions made by his employer on his behalf when he ceases employment. Only member contributions paid by employers on or after July 1, 2010 will be subject to this restriction.

# Other VRS Legislation

## **SB 95**

- State police officers who incur a work-related injury in the line of duty shall receive supplemental short-term disability coverage for the first six months, providing income replacement at 100 percent of the officer's creditable compensation, without reduction. Subject to a medical evaluation and certification by the Superintendent of the State Police that the officer is likely to return to service within another 6 months, income replacement at 100 percent may be continued for another six month period. At the end of the one-year period, such officers will be eligible for supplemental long-term disability benefits, at an income replacement level of 60 percent of the officer's creditable compensation.

## **SR 10**

- Senate Committee on Finance will study the VRS investment portfolio to examine the selection of firms to manage its investment portfolio and determine if more minority-owned firms should be used.



# Other VRS Legislation

## **HB 1189/SB 232**

- Creates new plan design provisions (Plan 2) for state, teachers and local government employees hired on or after July 1, 2010
- Creates a new plan (Plan 2) for Optional Retirement Plan (ORP) members hired on or after July 1, 2010.
- Does not affect current members or current retirees, who are under Plan 1. Members who left employment and did not take a refund are deferred members and remain in Plan 1.

# Other VRS Legislation

## HB 1189/SB 232

- **5-Year AFC:** Average Final Compensation calculation will include the 60 highest consecutive months of creditable service, rather than the current 36 months.
- **Normal Retirement Age:** Normal retirement age for general employees will increase from age 65 to the age at which a member becomes eligible for full Social Security benefits. SPORS, VaLORS and political subdivision hazardous duty members retain age 60 as normal retirement age.

# Other VRS Legislation

## HB 1189/SB 232

- **Retirement with a Reduced Benefit:**
  - State employees, teachers and political subdivision employees: Age 60 with at least five years of service
  - SPORS, VaLORS and political subdivision hazardous duty members: Age 50 with at least five years of service (no change)
  - Retirement at age 50 with 10 year of service eliminated
- **Retirement with an Unreduced Benefit:**
  - State employees, teachers and political subdivision employees: Normal retirement Social Security age with at last five years of service **or** service and age total 90
  - SPORS, VaLORS and political subdivision hazardous duty members: Age 60 with at least five years of service or age 50 with at least 25 years of service (no change)

# Other VRS Legislation

## HB 1189/SB 232

- **Service Weighting for Judges:** New judges in Plan 2 will have their actual service on the bench weighted in accordance with the following factors:
  - If first appointed to the bench prior to age 45 – 1.5 years of weighted service for each actual year of service on the bench
  - If first appointed to the bench between ages of 45 and 55 – 2.0 years of weighted service for each actual year of service on the bench
  - If first appointed to the bench at age 55 or over – 2.5 years of weighted service for each actual year of service on the bench

# Other VRS Legislation

## HB 1189/SB 232

- **COLA Formula:**
  - The Plan 2 COLA formula will match the annual increases in the CPI-U for the first 2% and one-half of the additional increases in CPI-U, until it caps at 6%.
  - The Plan 1 COLA formula remains unchanged and will continue to match the annual increase in CPI-U for the first 3% and one-half of the additional increases in CPI-U, until it caps at 5%.

# Other VRS Legislation

## HB 1189/SB 232

- **ORP Contribution Rates:** Establishes an 8.5% employer contribution rate for ORP members (reduced from 10.4%). Employers are given the option to increase their contribution from 8.5% to 8.9% so long as the increased contributions are not paid from state funds. ORP employees also will be required to make a 5% member contribution.
- **Purchase of Prior Service:** New employees eligible to purchase prior service will have one year from their date of employment to purchase or enter into a contract to purchase such service. The cost of this service will be its actuarially determined “normal cost” as set by the VRS Board. If such service is purchased after the one-year window, it will be priced at full actuarial cost. Implementation of this provision is delayed until January 1, 2011.

# Other VRS Legislation

## HB 1189/SB 232

### o **Member Contributions:**

- o Plan 2 state employees will pay the 5% member contribution on a salary reduction basis.
- o Local Plan 1 employees will see no change in the treatment of their member contributions, unless they are employed by one of the 37 small jurisdictions that do not pick up and pay member contributions. Those 37 employers may elect to pick up member contributions. Except for these 37 employers, the status quo would be maintained for the next two years and local Plan 1 employees would not be subject to any requirement to pay retirement costs.
- o Local Plan 2 employees will be subject to HB1189/SB232 and required to pay their 5% member contributions, unless their employer elects to pick up and pay all or any portion of the member contributions on their behalf. The option to pick up and pay member contributions for Plan 2 employees will not be available to the 37 employers unless they also elect to pick up and pay the full 5% member contributions for their Plan 1 employees.

# Other VRS Legislation

## HB 1189/SB 232

- **Implementation Dates:** Nearly all Plan 2 provisions become effective on July 1, 2010 for newly hired employees. Two exceptions are provided as follows:
  - The one-year window for the purchase of prior service at less than full actuarial cost will not begin until January 1, 2011.
  - New employees with written employment contracts executed prior to March 15, 2010, but who commence covered employment on or after July 1, 2010, will be deemed to be Plan 1 members.

# Budget Actions



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# Budget

## Cash Match

- Remains unchanged for the last quarter of FY 2010.
- Budget restores funding for Cash Match for state employees at half the employer match in FY 2011 (up to \$20 per month) and at the full match in FY 2012 (up to \$40 per month)

## Furlough

- One furlough day for all state employees; no change in retirement or life insurance benefits for members

## Severance Benefit for Localities

- Modeled after the state's Workforce Transition Act (WTA), localities may elect to provide a severance payment to employees involuntarily terminated for reasons other than cause. Like the state employee WTA program, members may elect enhanced retirement in lieu of a severance. Costs associated with the enhanced retirement credit will become part of each plan's unfunded liabilities and amortized long-term in future employer contribution rates.
- The transitional severance benefit program for local employees is continued through each year of the new biennium.

## Line of Duty

- Benefits under the Line of Duty Act (LODA) will be paid from an advance from the Group Life Insurance Fund in FY 2011
- State and local employers begin paying LODA benefits in FY 2012
- VRS will collect membership data from state and local employers, including volunteer fire departments/rescue squads
- VRS Board will set contribution rates beginning July 1, 2011
- The Department of Accounts (DOA) will continue benefit determination and paying benefits to beneficiaries
- VRS will conduct actuarial services, rate setting, premium collection and money management
- After the first rate-setting exercise, local governments will be granted a one-time opportunity to opt out of the program and elect to finance its ongoing benefit obligations locally

# Budget

## Line of Duty

- VRS will transfer \$500,000 from the Group Life Insurance Trust Fund to the Line of Duty Health Benefits Trust Fund as reimbursement for death claims paid on behalf of officers killed in the line of duty between July 1, 2009 and June 30 2010.
- VRS will transfer \$1,250,000 from the Health Insurance Trust Fund to the general fund of the state treasury as reimbursement for health insurance credits otherwise payable to Line of Duty Act beneficiaries between July 1, 2000 and June 30, 2010.

# Budget

## Contribution Rates

- **2010** - Eliminates employer contributions to VRS in the last five pay periods of Fiscal Year 2010. VRS estimates the rate holiday will reduce contributions to VRS from about \$2.4 billion in FY 2010 to about \$2.1 billion.
- **2011-2012** – Contribution rates for the pension programs and OPEBs funded by the General Assembly are provided in the following charts.
- **2012 – 2014** - In setting the employer retirement contribution rates in subsequent biennia, the Board shall calculate a separate, supplemental employer contribution rate that will amortize the FY 2011 and 2012 contribution shortfalls over a 10-year period using the Board's assumed long-term rate of return. The Governor shall include funds to support payment of such Board-approved, supplemental employer contribution rates in the budget submitted to the General Assembly.

# Retirement Contribution Rates

|                       | <b>Current Rates*<br/>FY 2010</b> | <b>2009 Board Certified Rates<br/>FY 2010-12*</b> | <b>HB 30 (Budget)<br/>FY 2011</b> | <b>HB 30 (Budget)<br/>FY 2012</b> |
|-----------------------|-----------------------------------|---|-----------------------------------|-----------------------------------|
| <b>State Employee</b> | 11.26%                            | 13.46%  | 7.13%                             | 7.08%                             |
| <b>Teacher</b>        | 13.81%                            | 17.91%  | 8.93%                             | 10.16%                            |
| <b>VaLORS</b>         | 19.23%                            | 20.93%  | 10.12%                            | 10.07%                            |
| <b>SPORS</b>          | 25.05%                            | 30.56%  | 12.76%                            | 12.73%                            |
| <b>JRS</b>            | 39.51%                            | 51.79%  | 33.81%                            | 33.65%                            |
| <b>ORP**</b>          | 10.40%                            | N/A   | 8.50%                             | 8.50%                             |

\*Current FY 2010 rates are based on assumptions applied in the 2009 Appropriations Act (8% rate of return, 3% inflation rate, and a 30-year amortization). Board certified rates are based on the following assumptions (7.5% rate of return, 2.5% inflation rate, and a 20 year amortization period). These rates do not reflect the suspension of payments in the 4<sup>th</sup> quarter.

\*\*For any person who becomes a member on or after July 1, 2010, the ORP contribution will be at least 8.5%, but not in excess of 8.9% of creditable compensation. The portion of the employer contribution in excess of 8.5% can not be funded from general funds.

*Contribution rates include the 5% member contributions.*



# OPEB Contribution Rates

|                                     | Current Rates<br>FY 2010* | 2009 Board<br>Certified<br>Rates<br>FY 2010-12 | HB 30<br>(Budget)<br>FY 2011 | HB 30<br>(Budget)<br>FY 2012 |
|-------------------------------------|---------------------------|--|------------------------------|------------------------------|
| <b>Group Life Insurance:</b>        |                           |  |                              |                              |
| <b>State Employee</b>               | 0.79%                     | 1.11%  | 0.28%                        | 0.28%                        |
| <b>Teacher**</b>                    | 0.27%                     | 1.11%  | 0.28%                        | 0.28%                        |
| <b>Health Insurance<br/>Credit:</b> |                           |  |                              |                              |
| <b>State Employee</b>               | 1.00%                     | 1.06%  | 0.10%                        | 0.10%                        |
| <b>Teacher</b>                      | 1.04%                     | 1.08%  | 0.60%                        | 0.60%                        |
| <b>VSDP</b>                         | 1.00%                     | 0.66%  | 0.00%                        | 0.00%                        |

\*FY 2010 rates are the original rates and do not reflect the suspension of payments in the 4<sup>th</sup> quarter.

\*\*For FY 2010, the state reimbursement for teachers is 0.27%. For FY 2011 and FY 2012, the state reimbursement for teachers will be 0.28%, the remaining 0.05% will be the employee share. However, the Group Life rate remains under discussion, and the total rate may be amended to 0.28% instead of 0.33%.



Thank you!



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