



## 2012 Spring Conference

### Retirement and OPEB Plans -What's Changing Here (Virginia) And There (Other States)

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Barry Faison, VRS  
David Boomershine, BCG



# Agenda

- Background
- Private Sector vs. Public Sector
- Virginia's Retirement Plans
- Recent Changes/Update: Pension Plans
  - Funding: Cost Volatility
  - Actuarial Assumptions
  - Accounting
  - Plan Design – Roundup
  - Pension Reform Initiatives in Virginia
- Recent Changes/Update: OPEB Plans
  - Funding
  - Actuarial Assumptions
  - Plan Design
  - Virginia's OPEB Plans
- Current Issues

# Background

## Interested Parties: Retirement Plans/Budget Concerns

- Governing Bodies
- Employees/Retirees
- Unions
- Taxpayers
- Bond Rating Agencies
- Federal Government -?



# Private Sector vs. Public Sector

## Recent Changes

### Issues

### Impacts:

	Private Sector		Public Sector	
	Pension	Retiree Medical	Pension	Retiree Medical
<b>Federal Legislation</b>	✓			
<b>Accounting</b>	✓	✓		✓
<b>Asset Losses</b>	✓		✓	
<b>Valuation Interest Rates</b>	✓	✓	✓	✓

Result: Increased cost and liability volatility for Private Sector Pension Plans

# Virginia's Retirement Plans

- Virginia Retirement System
  - State Employees (single employer plan)
  - Teachers (multiple-employer cost-sharing plan)
  - Political Subdivisions (agent multiple-employer plan)
- State Police Officers' Retirement System
- Judicial Retirement System
- Virginia Law Officers' Retirement System
- Alternate DC plans for Higher Education

# Funded Ratios for Virginia DB Plans

## June 30, 2011 (Dollars in Millions)

System	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Fuded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
State	14,406	20,408	6,002	70.6%	3,686	162.8%
Teachers	25,166	37,772	12,606	66.6%	6,922	182.1%
Political Subs	12,987	17,005	4,018	76.4%	4,100	98.0%
<b>VRS Total</b>	<u>52,559</u>	<u>75,185</u>	<u>22,626</u>	69.9%	<u>14,708</u>	153.8%
SPORS	617	986	369	62.6%	100	370.3%
JRS	371	569	198	65.2%	59	336.8%
VaLORS	926	1,683	757	55.0%	356	212.5%

# Funding of Virginia DB Plans

(at various valuation dates and interest assumptions)

System	2009 (Actuarial Value of Assets & 7.5% Interest Rate)	2010 (Actuarial Value of Assets & 7.5% Interest Rate)	2010 (Actuarial Value of Assets & 7.0% Interest Rate)	2011 (Actuarial Value of Assets & 7.0% Interest Rate)	2011 (Market Value of Assets & 7.0% Interest Rate)
<b>State</b>	84.0%	79.7%	75.2%	70.6%	68.6%
<b>Teachers</b>	76.1%	73.1%	68.6%	66.6%	64.9%
<b>Political Subs</b>	85.1%	81.9%	77.7%	76.3%	75.0%
<b>SPORS</b>	73.6%	70.8%	66.8%	62.6%	60.7%
<b>JRS</b>	72.5%	69.4%	66.5%	65.2%	63.5%
<b>VaLORS</b>	64.7%	62.6%	58.6%	55.0%	54.1%

# Virginia Retirement Plan Funding

- Employer contribution rates set biennially by the VRS Actuary and certified by the VRS Board of Trustees using VRS assumptions (7.0/2.5/30)
- Contribution rates for state employee groups and teachers funded in the Appropriation Act using different assumptions (8.0/2.5/30)
- Political subdivision rates are not impacted by the Appropriation Act



# Recent Changes/Update: Pension Plans

- Funding: Cost Volatility
  - Cost Increases
    - Asset losses
    - Discount rate
    - Unfunded Liability impact - examples

(\$ in millions)

	Asset Losses		Discount Rate	
	Prior Year	Current Year	Prior Year	Current Year
Actuarial Liability	\$100	\$105	\$100	\$115
Assets	80	75	80	85
Unfunded Actuarial Liability	20	30	20	30

- Amortization costs increase 50%

# Recent Changes/Update: Pension Plans

- Funding: Cost Volatility
  - Cost Decreases
    - Asset gains
    - Plan population limits (employment freeze, layoffs)
    - Compensation controls (freeze, decreases, furloughs)
  - Other Funding Approaches
    - Pension Obligation Bonds: pay off Unfunded Liability

# Recent Changes/Update: Pension Plans

- Actuarial Assumptions
  - Discount Rate – Key
    - Median at 8.0%
    - Average at 7.8%
    - Trending down from 8.0% to 7.5%
    - CALPERS adopted 7.5%
    - Some at 7.0%, including Virginia
  - Other Economic Assumptions
    - Salary increases
    - COLAs
  - Mortality Table Update
- Indicate Cost Increases



# Recent Changes/Update: Pension Plans

- Accounting – GASB Proposal Update
- Impacts:
  - Net pension liability
  - Discount rate basis - ?
  - Use of Entry Age Normal Cost Method
  - Amortization periods
  - Additional required information
  - Cost Sharing multiple employee plans
- Accounting vs. Funding Separation – Less Clarity

# Recent Changes/Updates: Pension Plans

- Plan Design – Roundup: Typical changes from 2008 to 2011
  - State Sponsored Plans (2012 GAO Study)
    - Usually for new employees
    - Adjusted benefits – 24 States
    - Eligibility requirements – 29 States
    - COLAs – 18 States
    - Increased employee contributions – 25 States
    - Switched to Hybrid approach – 3 States



# Recent Changes/Update: Pension Plans

	# States including changes for current employees/retirees
• Plan Design – Roundup:	
– State Plans: More Details	
• Adjusted Benefits	6
– Benefit % reduced	
– Increased pay averaging period	
• Eligibility requirements	6
– Increased retirement age/service	
– Vesting	
• COLAs	5/8
• Increased employee contributions	20
• Switched to Hybrid	0

# Recent Changes/Update: Pension Plans

- Hybrids
  - In public sector: combination DB and DC plans
  - In private sector: Cash Balance Plan
  - 6 States and District of Columbia have DC or Hybrid primary plans
  - 1 State has a Cash Balance primary plan
  - 6 States offer DC or Hybrid optional alternatives to primary DB plans
- Note definite private sector trend from DB to DC/Hybrid
- Some public sector trend from DB to DC/Hybrid
- Also note 1 State plan has cap on employer contribution commitment to DB plan
- Clear interest in DC plans due to private sector trends

# Recent Changes Update: Pension Plans

A few case studies:

- Illinois: Funding and cash flow woes; plan changes
- Rhode Island: Drastic plan changes
- Utah: Hybrid plan with employer cost cap for DB plan
- Colorado/Minnesota/South Dakota: COLA wars



# Pension Reform Initiatives in Virginia

Year	DB Plans
2008	Virginia General Assembly requests JLARC Compensation Study
2010	Virginia General Assembly creates Plan 2 for members hired on or after July 1, 2010 <ul style="list-style-type: none"> <li>- Normal retirement changed to Social Security normal retirement age</li> <li>- Unreduced benefits commencing at Rule of 90</li> <li>- Reduced early retirement benefits moved to age 60 with at least 5 years of service</li> <li>- Members required to pay 5 percent member contribution (Local option)</li> <li>- COLA formula revised</li> <li>- Five-year AFC formula</li> </ul>
2011	Virginia General Assembly enacted 5/5 program for Plan 1 state employees <ul style="list-style-type: none"> <li>- State employee Plan 1 members required to pay 5% member contribution</li> <li>- Offset with 5% salary increase</li> </ul> JLARC updated study on pension reform

# 2012 Pension Reform Initiatives in Virginia

Bill #	Summary of Changes
SB 497	<p>Local government and school employees required to pay 5% member contribution</p> <ul style="list-style-type: none"> <li>- Effective 7/1/2012, but authorized to phase-in over maximum of 5 years</li> <li>- Must provide offsetting salary increases</li> </ul>
HB1130/ SB 498	<p>Changes to DB Plan effective 1/1/2013 for Plan 2 and non-vested Plan 1 members</p> <ul style="list-style-type: none"> <li>- Five-year AFC formula (including hazardous duty)</li> <li>- Multiplier reduced to 1.65% (does not apply to SPORS, VALORS &amp; LEOS)</li> <li>- Unreduced benefits commencing at Rule of 90</li> <li>- COLA formula revised (Max 3% - first 2% CPI-U plus ½ of next 2%)</li> <li>- Phase-in to fully fund VRS Board certified rates by 2018-2020 biennium</li> </ul>
HB1130/ SB 498	<p>Changes to DB Plan effective 1/1/2014:</p> <ul style="list-style-type: none"> <li>- New mandatory Hybrid Plan for all new employees except public safety employees with hazardous duty coverage</li> <li>- DB Component with 1.00% multiplier (30% replacement with 30 years service)</li> <li>- DC component with employee and employer contributions (Mandatory minimum of 1% employee and 1% employer to max of 5% employee and 3.5% employer)</li> </ul>

# Recent Changes/Update: OPEB Plans

- Funding: Cost Volatility
  - Contribution Policy
    - Continue pay-as-you-go (Paygo)
    - Partial funding
    - Full funding
  - Discount rate basis
  - Healthcare cost trending
  - Reduced funding vs. original plan
  - Other funding approaches: OPEB Bonds – pay off Unfunded Liability

# Recent Changes/Update: OPEB Plans

- Actuarial Assumptions

- Discount rate basis: sample ARC comparison

• Paygo	4%	\$ 120 M
• Partial Funding	6%	100 M
• Full Funding	8%	75 M

- Healthcare trending

- Mortality Table Update

# Recent Changes/Update: OPEB Plan

- Plan Design: variety of changes
  - Cost sharing: retirees' % share of costs
  - Eligibility requirements
  - Tiered coverage/subsidies: years of service
  - Employer contribution caps
    - Hard cap
    - Increasing cap
  - Spouse/family coverage
  - Cost containment provisions
  - Wellness programs
  - Access only
- Mostly Soft Freeze approach:
  - Future new hires
  - Future retirees
  - Future retirees not close to retirement
- Buyout of benefits

# Virginia's OPEB Plans

- Group Life Insurance
  - Employer provided Group Term Insurance product
  - Multiple-employer cost-sharing pool
- Retiree Health Insurance Credit
  - State Employees (single employer plan)
  - Teachers (multiple-employer cost-sharing plan)
  - Political Subdivisions (agent multiple-employer plan)
- Virginia Sickness and Disability Program
  - State employees (single employer plan)

# Funded Ratios for VRS OPEB Plans

## June 30, 2011 (Dollars in Millions)

System	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Fuded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
HIC - State	111	897	786	12.4%	5,623	14.0%
HIC - Teachers	86	1,230	1,144	7.0%	6,922	16.5%
HIC - Pol Sub	14	32	18	43.6%	826	2.2%
HIC - Others	2	36	34	5.6%	740	4.6%
<b>HIC - Total</b>	<u>213</u>	<u>2,195</u>	<u>1,982</u>	9.7%	<u>14,111</u>	14.0%
Group Life	852	2,359	1,507	36.1%	16,543	9.1%
VSDP	330	263	(67)	125.6%	3,372	-2.0%

# Current Issues

- Comparison vs. Private Sector Plans
- Taxpayer Concerns
  - DB plans
  - OPEB plans
- Union Reactions
- Pension Plan Changes
  - Soft freezes
  - Employee contributions
  - COLAs
  - DC plans
  - Capping employer contribution commitment
- Valuation Discount Rate Basis/Reduction



# Current Issues

## Current Questions

- Not enough cost reduction?
- Cost/liability volatility concerns remain; especially vs. Private Sector?
- Changing workforce?
- More changes coming?
- Future of economy?



Questions?