Pension Reform Conference Report Summary

March 10, 2012

Comparison of VRS Reform Proposals

	Senate SB 498, SB 497	House HB 1129, HB 1130	Conference
Employer Rates VRS Board: State = 13.07% VRS Board: Teachers = 16.77% 7.0% rate of return	SB 498: Phase-in to Board-Approved rates over 3 biennia Surcharge on Classified ORPs		SB 498: Phase-in to Board-Approved rates over 3 biennia Faculty OPR: Permissive surcharge Surcharge on Classified ORPs
Plan structure for new employees	SB 498: Mandatory Hybrid 4% DB + 1% mandatory DC and up to 3.5% match, auto-escalator with opt-out, "target date" funds; continues disability coverage	HB 1130: Optional DC (State Employees Only) (5% mandatory up to 8.5% match) HB 1129: Multiplier of 1.6 for new employees	SB 498: Mandatory Hybrid (VRS & JRS) 4% DB + 1% mandatory DC and up to 3.5% match, auto-escalator with opt-out, "target date" funds; continues disability coverage
Reduced benefits for current employees	No Action	HB 1129: AFC from 3 to 5 years, Reduced COLA	All Employees: Delayed COLA for early retirees with 20 or fewer years of service Plan 1 Employees (Nonvested Only) and Plan 2 Employees: AFC at 5 years Multiplier: 1.65% Reduced COLA JRS (Nonvested Only) Multiplier: 1.65%
Additional payment towards liability by employees	Not Addressed	Not Addressed	Not Addressed
5% "employee" contribution for teachers/locals hired before July 1, 2010	SB 497: Mandatory employee share; Salary offset required. May be phased-in.	HB 30: Optional	SB 497: Mandatory employee share; Salary offset required. May be phased-in.

SB 498 Key Features

- Plan design modifications ***and*** payment of Board Rates are needed.
- Plan design modifications (Changes are in ***Italics***.):
  - Retain Plan 1 for current members.
  - ***Delayed COLA for early retirees with under 20 years of service.***
  - ***Implement JLARC recommendations for Plan 1 (Nonvested only) and Plan 2 members (Hired on or after July 1, 2010).***
  - ***Reduce multiplier to 1.65% for nonvested judges.***
  - New Mandatory Hybrid Plan for new employees hired on or after January 1, 2014.

    (Applies to judges elected to a first term on or after January 1, 2014)
  - Current employees have the option to move to new plans.
  - Applies to state employees, local employees***, judges,*** and teachers.
  - No changes for SPORS, VALORS, or LEORS.
  - Effective January 1, 2014.
- Phase-in full payment of Board's Rates for state employees and teachers over three biennia.

SB 498: Why a Hybrid?

- The **Hybrid Plan** reduces costs to VRS employers.
  - ($24) million in FY 2015 – the first full year.
  - ($200) million in FY 2034.
- External pressure to replace the traditional **Defined Benefit** pension plan with a **Defined Contribution (DC)** plan.
  - A Defined Contribution plan is not possible with the existing large Unfunded Liability.
  - The Hybrid Plan moves the Commonwealth as far in the DC direction as possible without triggering the accelerated payment of the Unfunded Liability.
- The public workforce in Virginia needs stability after several years of turmoil in their retirement programs.

SB 498: Why Phase-in the VRS Board's Rates?

- **<u>Any</u> short-payment of the VRS Board Rates translates directly into an increase in the Unfunded Liability.**
- The VRS Board rates are the standard used under the Governmental Accounting Standards Board's (GASB) rules for measuring pension liabilities.
- Significant under-payment of the VRS Board's rates **<u>will</u>** negate the impact of changes in retirement benefit design on the Unfunded Liability.
- Excessive negative cash flow must be stopped if VRS is to realize the benefits of positive investment performance on the Unfunded Liability.
- Public employers in Virginia can not afford to pay the VRS Board's rates immediately.
- Phase-in of the VRS Board's rates allows a period of adjustment from the current, **<u>artificially low</u>**, budgeted rates.

SB 498 Key Features

SB 498 Key Features: Hybrid Retirement Plan

- The Hybrid Retirement Plan has two key components:
  1. A **Defined Benefit (DB)** retirement "Backbone", and
  2. A **Defined Contribution (DC)** component.

- Disability Coverage.
  - Continue VSDP for state employees.
  - Extend VSDP to local employees and teachers.

SB 498 Key Features: The Defined Benefit (DB) Retirement "Backbone"

The **Defined Benefit (DB)** retirement "Backbone".

- Provides a ***guaranteed*** retirement benefit.
- 1% multiplier = 30% of AFC after 30 years.
- 4% employee contribution with the remainder contributed by the employer.
- ***Allows continued amortization of the current Unfunded Liability.***

SB 498 Key Features: The Defined Contribution (DC) component.

The **Defined Contribution (DC)** component.

- **Employee:** Mandatory contribution of 1% with up to 4% additional.

  (Maximum = 1% +4% = 5%).

- **Employer:** Match of 100% up to 2%, and 50% of the next 3% up to a total of 2.5%.

  (Max = 1%+1%+1.5%=3.5%).

- Automatic contribution escalator with employee opt-out feature.

- Multiple VRS-sponsored investment options.

SB 498 Key Features: JLARC Recommendations.

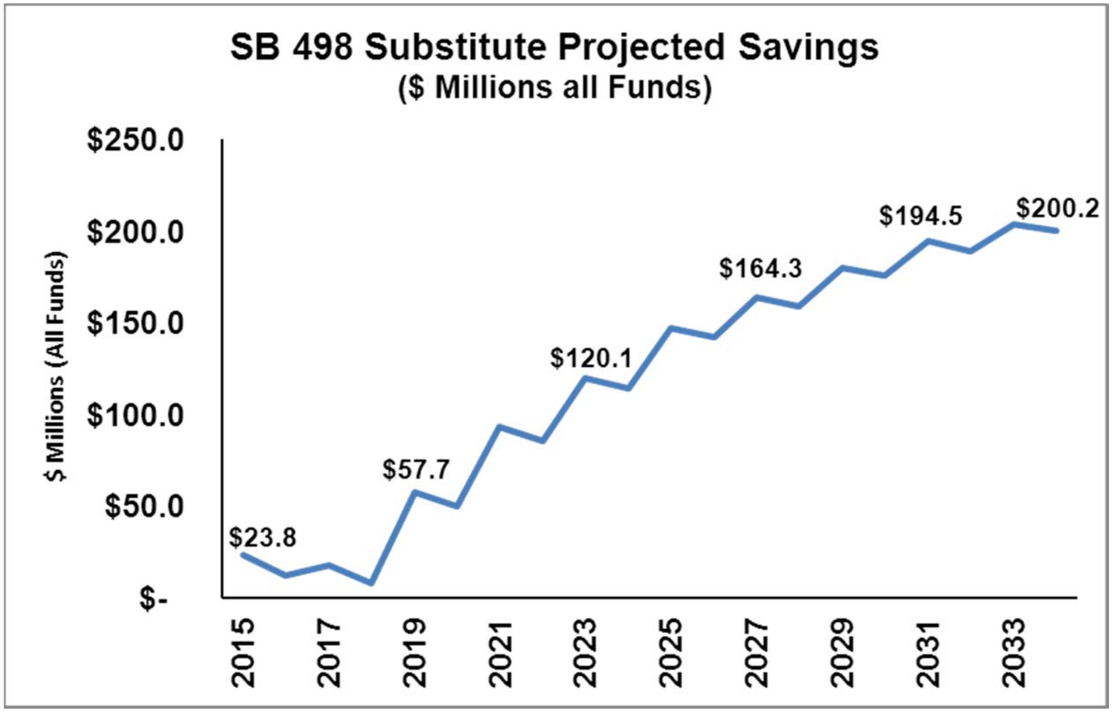
- Three recommendations from the 2011 JLARC report will be implemented for Plan 1 (Nonvested Only) and Plan 2 employees (Hired on or after July 1, 2010).
  - Cap the annual Cost of Living Adjustment (COLA) at 3%.

    COLA = First 2% of CPI + (Next 2% of CPI÷ 2)

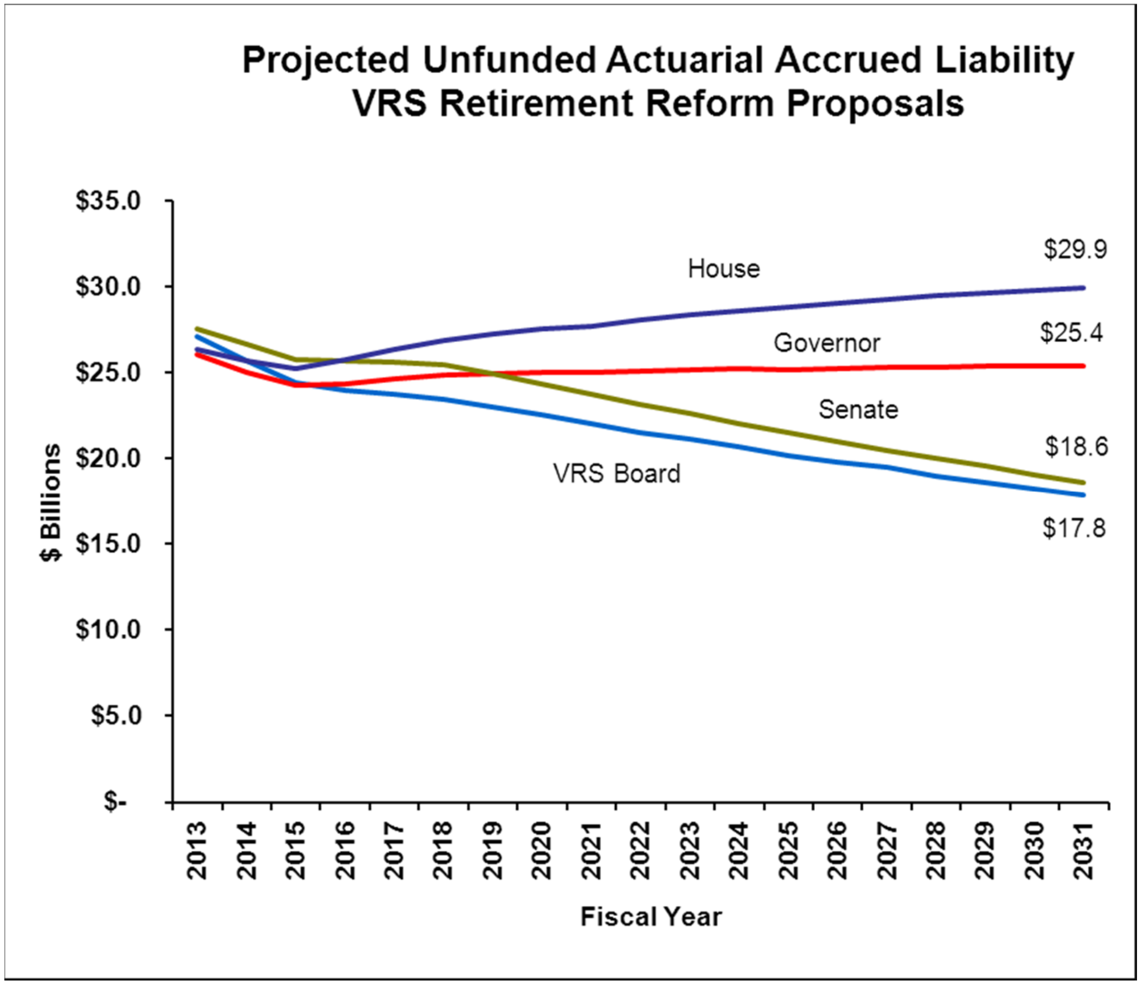
  - Reduce the retirement multiplier from 1.70% to 1.65%.
  - Calculate average final compensation (AFC) using the highest 60 months instead of highest 36 months.
- All VRS employees with fewer than 20 years of service.
  - Delay first COLA until normal retirement date.
- Judges (Nonvested Only) .
  - Reduce the retirement multiplier from 1.70% to 1.65%.

SB 498 Key Features: Fiscal Impact

- VRS will require a NGF appropriation in FY 2013 and FY 2014.
- No fiscal impact on state agencies or local governments in 2012-14.
- Savings from SB 498 (As passed by Senate) range from $23.8 million (All Funds) in FY 2015 to $200.2 million (All Funds) FY 2034.
  - Actual savings should be greater.
  - Assumes a ratio of 4:1 employees at minimum to maximum employee contribution to the DC component



Comparative Impact on the Unfunded Liability



Projected Unfunded Liabilities under Pension Reform Proposals
($ in Billions)

Fiscal Year	VRS Board	Governor	Senate	House
2013	$ 27.1	$ 26.1	$ 27.5	$ 26.4
2014	$ 25.6	$ 25.0	$ 26.7	$ 25.6
2015	$ 24.4	$ 24.3	$ 25.8	$ 25.3
2016	$ 24.0	$ 24.4	$ 25.7	$ 25.7
2017	$ 23.7	$ 24.6	$ 25.6	$ 26.3
2018	$ 23.4	$ 24.9	$ 25.4	$ 26.9
2019	$ 23.0	$ 25.0	$ 24.9	$ 27.2
2020	$ 22.5	$ 25.0	$ 24.3	$ 27.5
2021	$ 22.0	$ 25.0	$ 23.7	$ 27.7
2022	$ 21.5	$ 25.1	$ 23.1	$ 28.0
2023	$ 21.1	$ 25.2	$ 22.6	$ 28.4
2024	$ 20.7	$ 25.2	$ 22.0	$ 28.6
2025	$ 20.2	$ 25.2	$ 21.5	$ 28.8
2026	$ 19.8	$ 25.2	$ 20.9	$ 29.0
2027	$ 19.4	$ 25.3	$ 20.5	$ 29.3
2028	$ 19.0	$ 25.3	$ 20.0	$ 29.5
2029	$ 18.6	$ 25.4	$ 19.5	$ 29.6
2030	$ 18.2	$ 25.4	$ 19.0	$ 29.8
2031	$ 17.8	$ 25.4	$ 18.6	$ 29.9

Are all Unfunded Liabilities created equal?