

# Follow-up Review of Retirement Programs for State and Local Employees

Senate Finance Committee

May 19, 2011

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# Study Mandate

JLARC to conduct follow-up review of Virginia's employee retirement programs, including any related employee sickness and disability coverage

Request of Senate Finance Committee Chair dated Feb 28, 2011

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## 2008 JLARC Report Found State's Compensation to be Competitive

Element	Compared to Market
<b>Total Cash</b>	—
• Salary	—
• Bonuses	—
<b>Total Benefits</b>	+
• Health insurance	+
• Defined Benefit Retirement Plan	+
<b>Total Compensation</b>	96% of median

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## 2008 Report Contained Detailed Review of Retirement Benefits

- Retirement plan achieves purposes
- Retirement plan is competitive
- Contributing less than the actuarially required rate increases future liabilities of the plan
- JLARC and PwC options for reducing cost
  - Changes to existing plan
  - Alternative plan designs, mandatory for new employees

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# Changes to Retirement Program Since 2008

- Changes to design of current plan created “Plan 2” for new hires (2010, HB 1158)
  - Employees pay 5% member contribution
  - Retirement eligibility based on “rule of 90”
  - COLA reduced
  - Average Final Compensation lengthened to five years
- All existing and future employees pay the 5% member contribution (2011 Appropriation Act)
  - Offset by 5% salary increases for Plan 1 employees

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## **General Assembly Has Considered Alternative Plan Designs (2011)**

- Optional defined contribution plan, with defined benefit plan as default
- Maximum employer and employee contribution totaled 16.5–17% of pay
- Applied to newly hired and existing employees

Senate Bills 1115 and 1008  
House Bill 2410

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# Study Issues

1. What should be the goals of Virginia's State and local government retirement plans?
2. Do current defined benefit plans achieve these goals? If not, how should current plans be changed?
3. How should retirement plans be funded?
4. If an alternative retirement plan is desirable, which option would best meet needs of the State, its localities, and school divisions?
5. What is estimated fiscal impact of any recommended changes to the retirement plans?

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# Research Activities

- Review literature
- Interviews
  - Virginia Retirement System
  - DHRM and other State agency HR staff
  - Other states' retirement systems
  - National policy and academic experts
  - Employer groups
- Focus groups/survey of State & local employees
- Consultant analysis: plan design & actuarial impact

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# Proposed Consultant/Actuary Work

- Mercer to advise on plan design and policy considerations for potential changes
  - JLARC's actuary since 2000, participated in 2008 study
- Cavanaugh Macdonald to calculate actuarial impact of potential changes
  - VRS actuary since 2008
- Options assessed will include alternative plan designs and changes to existing plans

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# Study Schedule

- Planning May – June
- Research June – September
- Consultant Work June – September
- Report drafting September – November
- Briefing to JLARC December 12, 2011