



# VRS Presentation to Senate Finance

September 17, 2015



# Overview

# VRS Total Membership

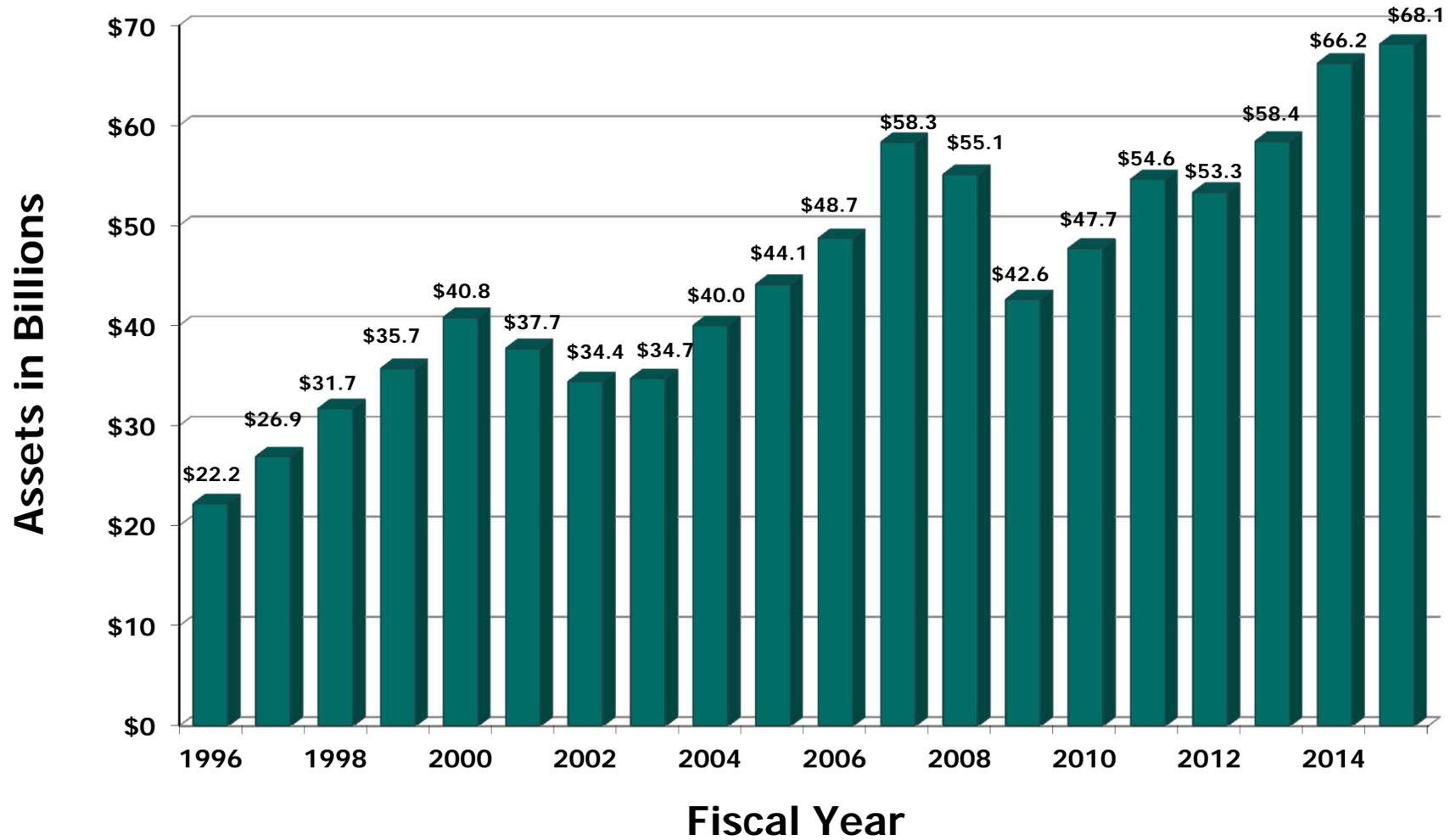


	Plan 1	Plan 2	Hybrid	Total
Teachers	94,790	39,779	11,189	145,758
Political Subdivisions	62,016	33,706	9,709	105,431
State Employees	49,673	20,949	7,582	78,204
State Police Officers' Retirement System (SPORS)	1,446	554	–	2,000
Virginia Law Officers' Retirement System (VaLORS)	5,002	3,773	4	8,779
Judicial Retirement System (JRS)	289	69	46	404
<b>Total Active Members</b>	<b>213,216</b>	<b>98,830</b>	<b>28,530</b>	<b>340,576</b>

Total Active Members	Retirees/ Beneficiaries	Inactive/ Deferred Members	VRS Total Population
340,576	184,769	134,425	659,770

As of June 30, 2015

# VRS Assets



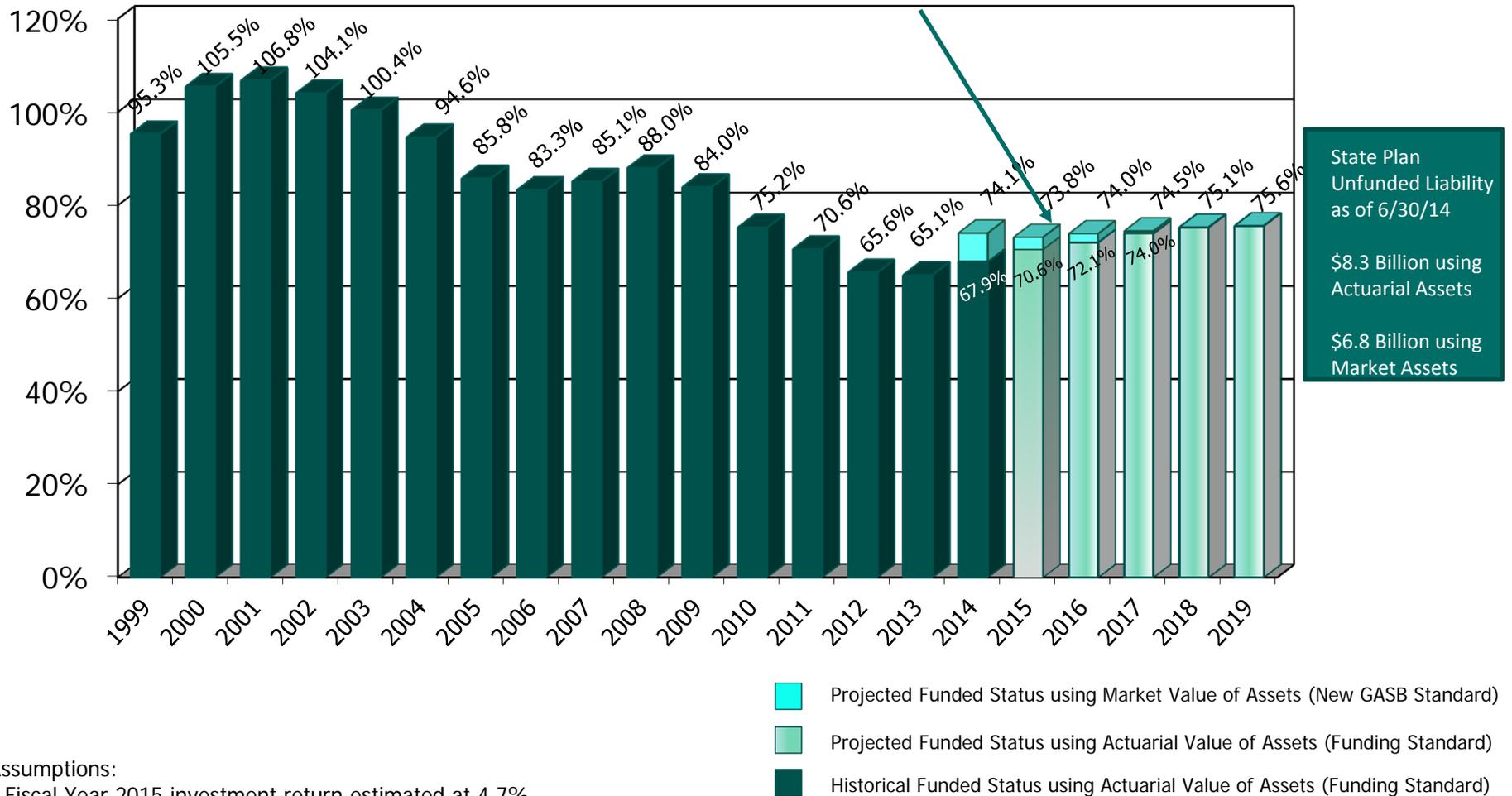


## Funded Status

# Funded Status: State Employees



New GASB Accounting Rules will reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.



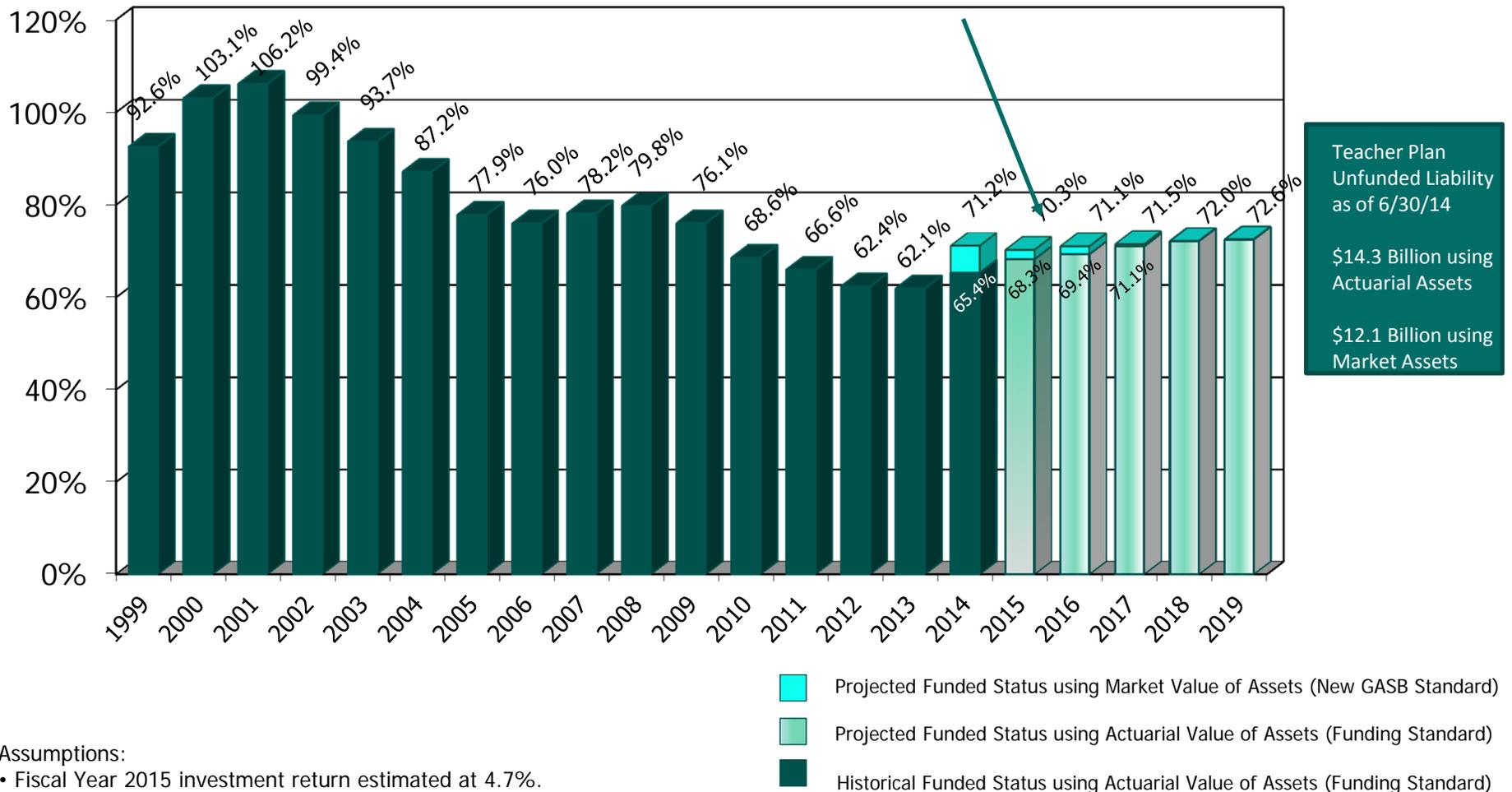
**Assumptions:**

- Fiscal Year 2015 investment return estimated at 4.7%.
- Other projected years' investment returns assume 7.0% with 2.5% inflation rate.
- Assumes contributions move to 90% of Board-certified rate effective fiscal year 2016.

# Funded Status: Teachers

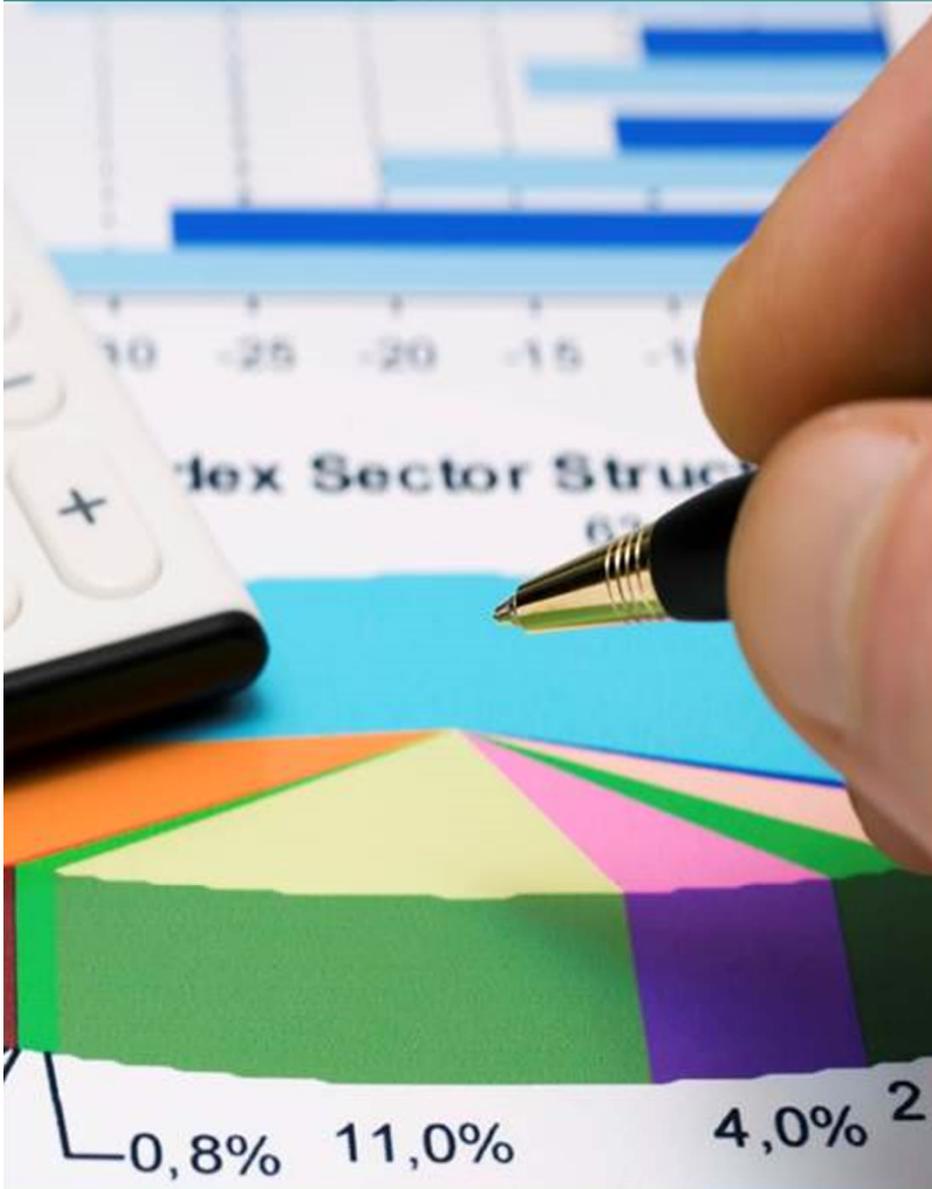


New GASB Accounting Rules will reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.



**Assumptions:**

- Fiscal Year 2015 investment return estimated at 4.7%.
- Other projected years' investment returns assume 7.0% with 2.5% inflation rate.
- Projected funded status reflects additional \$192.9 million contribution to Teacher Plan on 6/30/15.



## VRS Employer Rate Information

# Estimated VRS Employer Contribution Rates



General Assembly committed to phase-in contribution rates for the teacher and state plans to the VRS board-certified rates as follows:

	July 1, 2012	July 1, 2014	July 1, 2016	July 1, 2018
<b>State</b>	67.02%	78.02%	90.00%* (effective August 2015)	100%
<b>Teachers</b>	69.53%	79.69%	89.84%	100%

\* General Assembly accelerated phase-in for state plan.

## Estimated Contribution Rates by Fiscal Year

	2013-14	2015 & 2016	2017 & 2018	2019 & 2020
<b>State</b>	8.76%	14.22% (12.33%)	13.15% (13.01%)	13.40% (13.57%)
<b>Teachers</b>	11.66%	14.06% (14.50%)	14.76% (15.22%)	15.68% (16.18%)

- Above contribution rates are net of employee contributions.
- Teacher rates for FY 2016 were lowered due to additional contribution of \$192.9 million applied to deferred contribution balance during FY 2015. The subsequent rates for FY 2017-2020 were also lowered to reflect the accelerated payment received. (Rate prior to accelerated payment is in parenthesis.)
- State rates shown for FY 2016-2018 reflect increase in contribution to 90% of Board-certified rates. This increase is effective August 10, 2015.

# Development of Contribution Rates

## Estimated State Plan Employer Rate for 2017



Development of Employer Normal Cost

Development of Unfunded Amortization of Liability

	Total Normal Cost Rate % of Payroll	-	Member Contribution % of Payroll	=	Employer Normal Cost % of Payroll
Plan 1	9.60%	-	5.00%	=	4.60%
Plan 2	8.74%	-	5.00%	=	3.74%
Hybrid	5.12%	-	4.00%	=	1.12%
<b>Total Blended</b>	<b>9.00%</b>	-	<b>4.87%</b>	=	<b>4.13%</b>

	Amortization of Unfunded Liability % of Payroll
Legacy Unfunded (29 Years Remaining)	10.83%
2015 Experience Gain (20 Years Remaining)	-0.85%
2014 Experience Gain (19 Years Remaining)	-0.78%
2011 Deferred Contributions (6 Years Remaining)	0.97%
<b>Total Unfunded Amortization</b>	<b>10.17%</b>



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
4.13%	+	10.17%	=	14.30%	+	0.28%	=	14.58%



Expected Employer Contribution Requirement								
Board Certified Rate Defined Benefit Plan	x	Phase -In Percentage	=	Expected Phased Defined Benefit Rate	+	Employer Contribution Rate to Hybrid DC Component	=	Expected Employer Rate
14.30%	x	90.00%	=	12.87%	+	0.28%	=	13.15%

# Teacher Plan – 10-Year Payback Schedule for Deferred Contributions from 2010-2012 Biennium



## Original Amortization Schedule

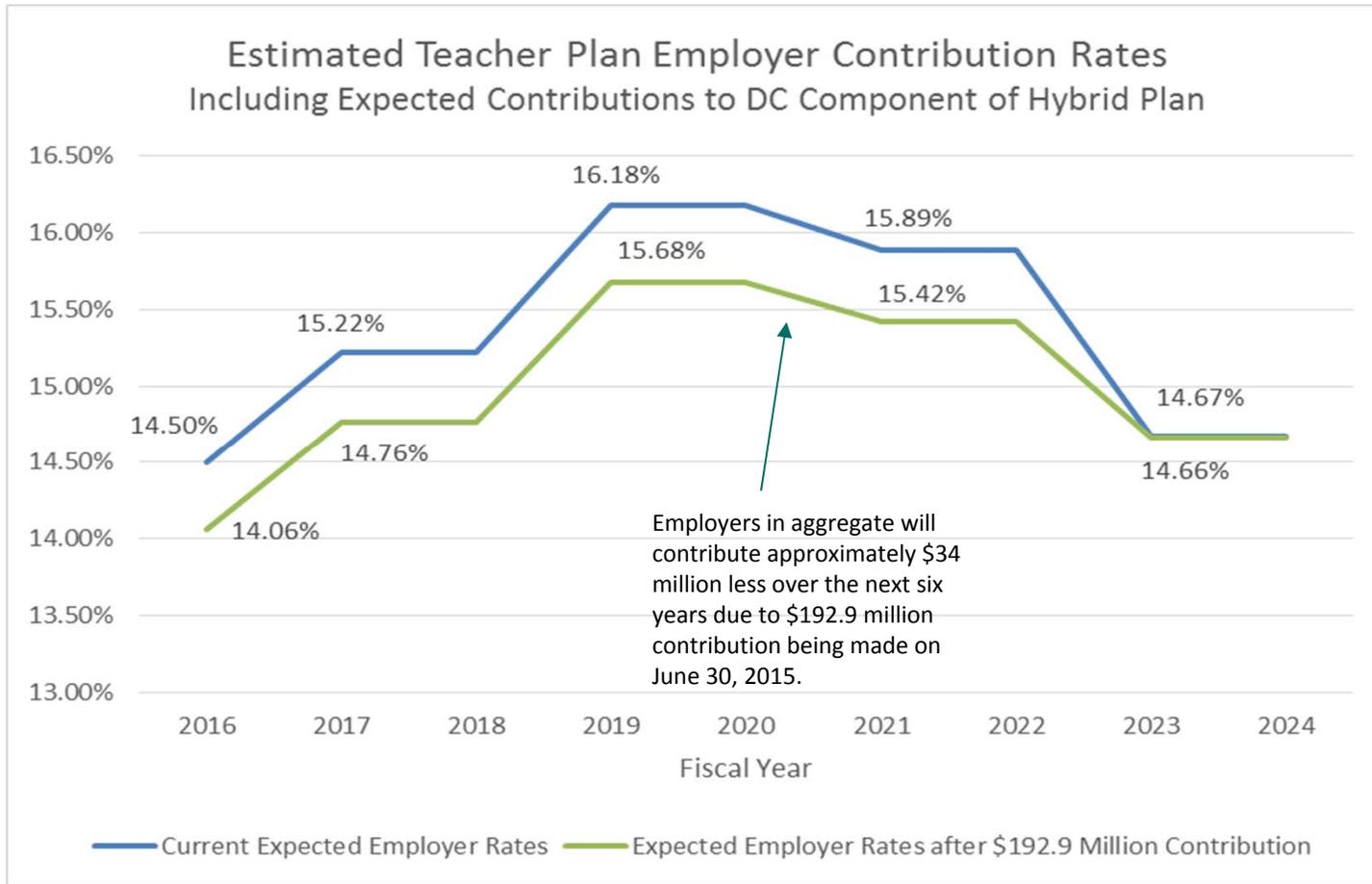
Date	Outstanding Balance	Years Remaining On Amortization Schedule	Amortization Payment
6/30/2011	\$ 741,432,106	10	\$99,232,610
6/30/2012	\$ 691,780,147	9	\$99,232,610
6/30/2013	\$ 634,025,864	8	\$99,232,610
6/30/2014	\$ 572,228,782	7	\$99,232,610
6/30/2015	\$ 506,105,904	6	\$99,232,610
6/30/2016	\$ 435,354,424	5	\$99,232,610
6/30/2017	\$ 359,650,341	4	\$99,232,610
6/30/2018	\$ 278,646,972	3	\$99,232,610
6/30/2019	\$ 191,973,367	2	\$99,232,610
6/30/2020	\$ 99,232,610	1	\$99,232,610
6/30/2021	\$ -	0	

## Modified Amortization Schedule

Date	Outstanding Balance	Years Remaining On Amortization Schedule	Amortization Payment
6/30/2011	\$ 741,432,106	10	\$99,232,610
6/30/2012	\$ 691,780,147	9	\$99,232,610
6/30/2013	\$ 634,025,864	8	\$99,232,610
6/30/2014	\$ 572,228,782	7	\$99,232,610
6/30/2015	\$ 313,221,904	6	\$61,413,682
6/30/2016	\$ 269,434,797	5	\$61,413,682
6/30/2017	\$ 222,582,593	4	\$61,413,682
6/30/2018	\$ 172,450,735	3	\$61,413,682
6/30/2019	\$ 118,809,647	2	\$61,413,682
6/30/2020	\$ 61,413,682	1	\$61,413,682
6/30/2021	\$ -	0	

Reflects accelerated payment of \$192.9 million reflected in 2015 Budget Bill to pay down outstanding balance of contributions deferred during the 2010-2012 biennium.

# Teacher Plan Projected Employer Contribution Rates Impact of \$192.9 Million Contribution



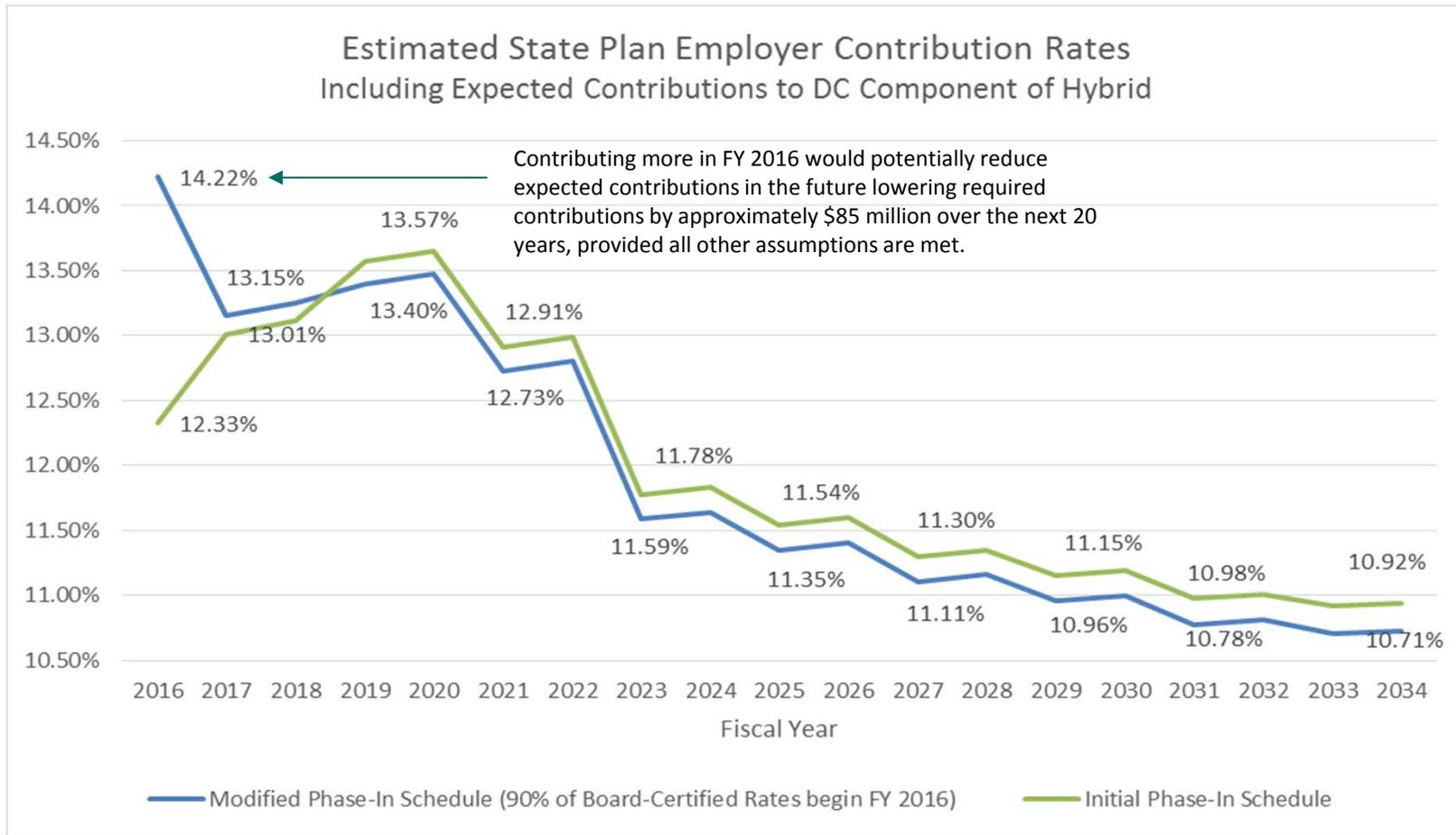
- Assumes employer match to defined contribution portion of the hybrid plan of 1.5% of payroll for members in the hybrid plan.
- Teacher rates in fiscal years 2016-2020 reflect accelerated payment of \$192.9 million to pay back deferred contributions from 2010-2012 biennium. Accelerated payment is reflected in 2015 budget bill.
- Fiscal Year 2015 investment return estimated at 4.7%.
- Other projected years assume all actuarial assumptions are met, including 7.0% rate of return with 2.5% inflation.

# State Plan – 10-Year Payback Schedule for Deferred Contributions from 2010-2012 Biennium



Date	Outstanding Balance	Years Remaining On	
		Amortization Schedule	Amortization Payment
6/30/2011	\$ 278,155,318	10	\$37,012,205
6/30/2012	\$ 258,064,458	9	\$37,018,133
6/30/2013	\$ 236,519,567	8	\$37,018,133
6/30/2014	\$ 213,466,534	7	\$37,018,133
6/30/2015	\$ 188,799,789	6	\$37,018,133
6/30/2016	\$ 162,406,371	5	\$37,018,133
6/30/2017	\$ 134,165,415	4	\$37,018,133
6/30/2018	\$ 103,947,591	3	\$37,018,133
6/30/2019	\$ 71,614,520	2	\$37,018,133
6/30/2020	\$ 37,018,133	1	\$37,018,133
6/30/2021	\$ -	0	

# State Plan Projected Employer Contribution Rates Impact of Funding at 90% Level beginning Fiscal Year 2016



- Assumes employer match to defined contribution portion of the hybrid plan of 1.5% of payroll for members in the hybrid plan.
- State rates in fiscal year 2016 reflect increase to 90% of Board-certified rate. Increase in rate from 12.33% to 14.22% is contingent on additional funding being available as reflected in current 2015 revenue forecast.
- Fiscal Year 2015 investment return estimated at 4.7%.
- Other projected years assume all actuarial assumptions are met, including 7.0% rate of return with 2.5% inflation.

# Estimated Increase in Funding State and Teacher Plans



## Estimated Contribution Rates by Fiscal Year

	2015	2016	2017	2018
<b>State</b>	12.33%	14.22%	13.15%	13.15%
<b>Teachers</b>	14.50%	14.06%	14.76%	14.76%

## Estimated Change in Funding Compared to 2015 Fiscal Year (\$Millions)

		2016	2017	2018
<b>State</b>	General Fund	\$32.2	\$14.0	\$14.0
	Non-General Fund	\$42.1	\$18.3	\$18.3
<b>Teachers</b>	General Fund	(\$13.1)	\$20.9	\$20.9
	Local Funds	(\$20.0)	\$31.8	\$31.8

\* Estimated increase in funding based on estimates derived from 2014 actuarial report.

# Estimated Total Funding Requirements State and Teacher Plans



## Estimated Contribution Rates by Fiscal Year

	2015	2016	2017	2018
<b>State</b>	12.33%	14.22%	13.15%	13.15%
<b>Teachers</b>	14.50%	14.06%	14.76%	14.76%

## Estimated Total Funding (\$Millions)

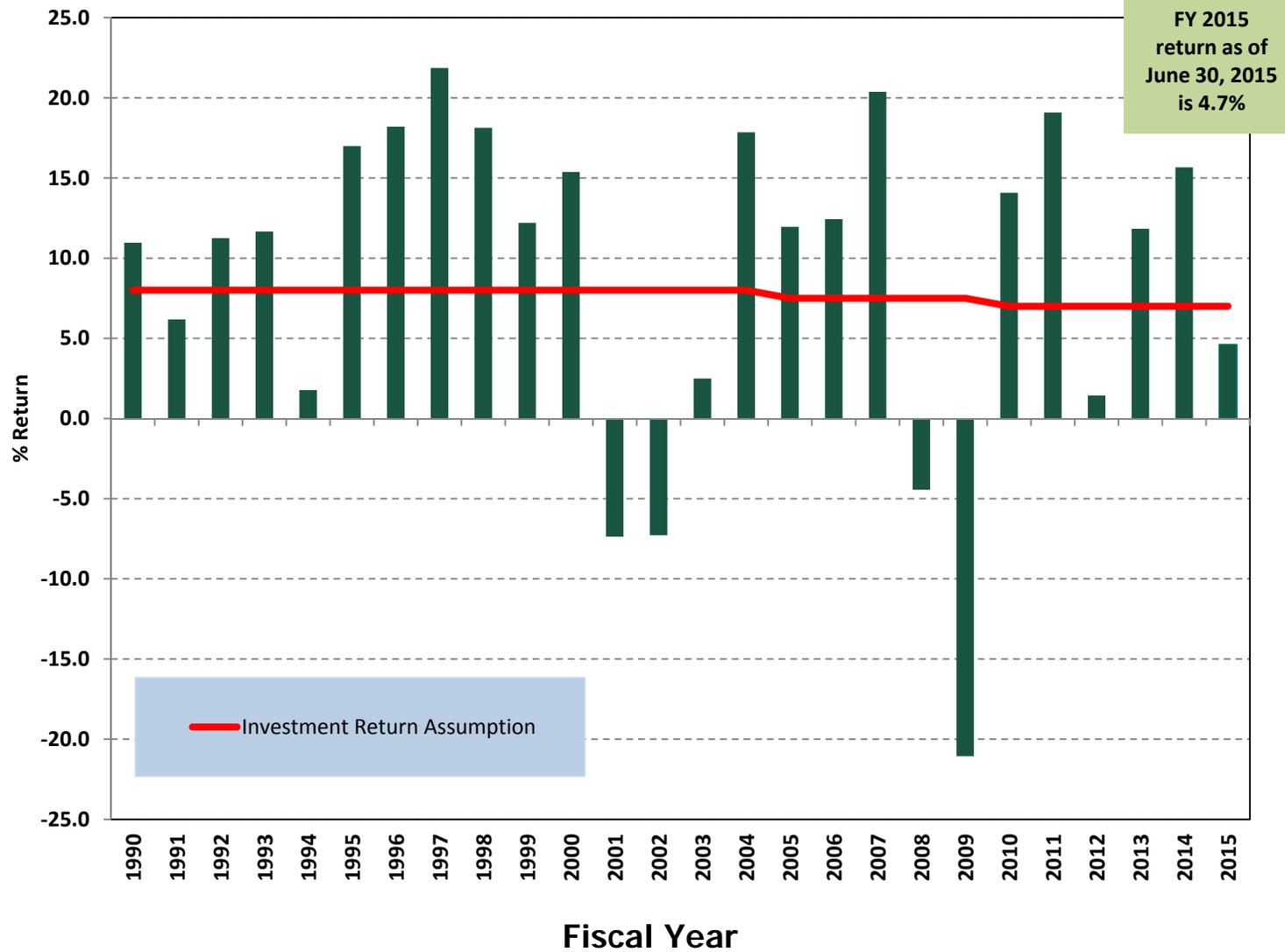
		2016	2017	2018
<b>State</b>	General Fund	\$242.6	\$224.4	\$224.4
	Non-General Fund	\$316.5	\$292.7	\$292.7
<b>Teachers</b>	General Fund	\$419.7	\$440.6	\$440.6
	Local Funds	\$637.5	\$669.3	\$669.3

\* Estimated funding based on estimates derived from 2014 actuarial report.



# Investments

# VRS Fiscal Year Returns



# Fund Performance



	<b>VRS Return</b> (As of June 30, 2015)
3-year	10.6%
5-year	10.3%
10-year	6.7%
15-year	5.4%
20-year	8.2%
25-year	8.5%

# Investment Overview



- VRS ranks as the 22<sup>nd</sup> largest public or private pension plan in the U.S. and 49<sup>th</sup> in the world
- Approximately two-thirds of the benefit payment received by a retiree is paid from investment earnings

# Investment Professionals Pay Plan



- Program Goals
  - Attract, motivate and retain skilled investment professionals by offering competitive compensation
  - Align compensation with investment performance
- Pay Plan
  - Developed by independent consultant
  - Approved by the VRS Board of Trustees
  - Reviewed by JLARC

# Investment Professionals Pay Plan



- Target base salaries at the 75<sup>th</sup> percentile of a peer group of other leading public funds
- Provide incentive compensation target opportunities so in combination with base salary, total compensation levels approximate the median (50<sup>th</sup> percentile) of a blended peer group
  - Peer Group Weighted:
    - 75% to leading public funds
    - 25% to a broad range of private sector firms

# Investment Professionals Pay Plan



- Independent review concluded VRS investment team saved about **\$41 million** annually in fees
  - Savings a combination of use of internal management as well as ability of external managers to negotiate lower fees below the industry standard
- Internal management - Over last five years internal asset management has added approximately **\$717 million** to the fund through excess returns over benchmarks
- External management - Over the same five-year period staff that manages external assets generated results that have added approximately **\$865 million** to the total fund
- The incentive pool comprises less than one one-hundredth of a percent of the overall assets under management by the Investments Department.

Note: Data presented above applies to fiscal year 2014, the most recent comparison data available.



# Legislative Studies

# Legislative Studies



Bill Number	Summary	Report Date Due
<b>HB 2204</b>	Examine <b>Line of Duty Act</b> (LODA) recommendations from JLARC; develop proposals on issues from report; report to Chairmen of House Appropriations and Senate Finance; General Assembly will consider re-enacting the bill during 2016, including moving administration to VRS and health benefit administration to DHRM	Oct. 1, 2015
<b>HB 1969</b>	Review <b>cash balance retirement plans</b> implemented in other statewide retirement systems; compare long-term costs to current VRS plan designs; assess financial risks to employers and employees; administrative impact of cash balance plan; recommend funding structure	Nov. 1, 2015
<b>HB 1998</b>	Convene a working group to review current state and federal laws and regulations that encourage citizens of Commonwealth to <b>save for retirement</b> by participating in retirement savings plans; review options for self-employed, part-time employees, full-time employees without retirement savings plans, etc.	Jan. 1, 2017



## Summary

- Gratified that the Governor and General Assembly committed to funding contribution rates, including:
  - Acceleration of contribution rates to the state plans to 90 percent one year ahead of schedule
  - Infusion of \$192.9 million to the VRS Teacher Plan
- Looking forward:
  - Sticking with the funding plan has been viewed positively by the bond-rating agencies
  - Long-range prognosis for the health of the plan is positive with adherence to funding plan