

# Joint Legislative Audit and Review Commission VRS Presentation

July 12, 2010



Virginia  
Retirement  
System

# Agenda

- VRS Overview  
*Diana F. Cantor, VRS Board Chair*
- Investments Overview  
*Charles W. Grant, CIO*
- Administration Overview  
*Robert P. Schultze, Director*

# Chair's Remarks

*Diana Cantor*  
*VRS Board Chair*



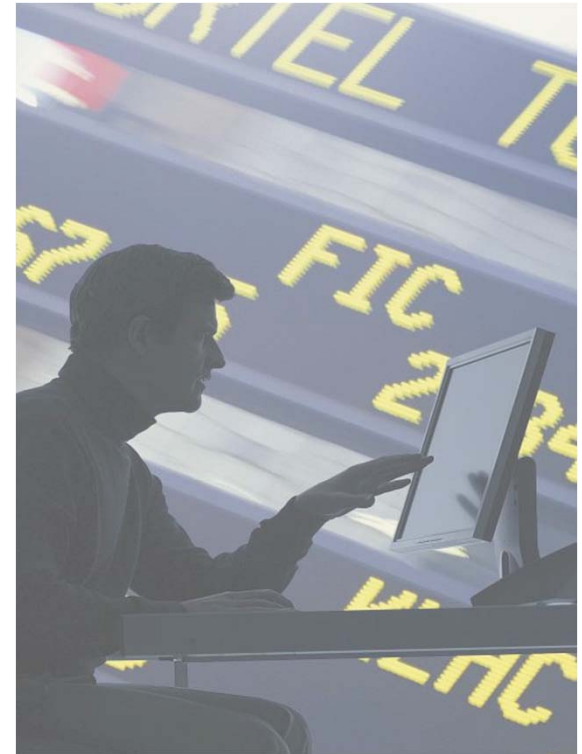
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# VRS Board Members

- Diana F. Cantor  
*Chair*
- John M. Albertine, Ph.D.  
*Vice Chair*
- A. Marshall Acuff Jr.
- Edwin T. Burton III, Ph.D.
- Robert L. Greene
- Mitchell L. Nason
- Colette Sheehy
- Paul W. Timmreck
- Raymond B. Wallace Jr.

# Investments

*Charles Grant*  
*Chief Investment Officer*



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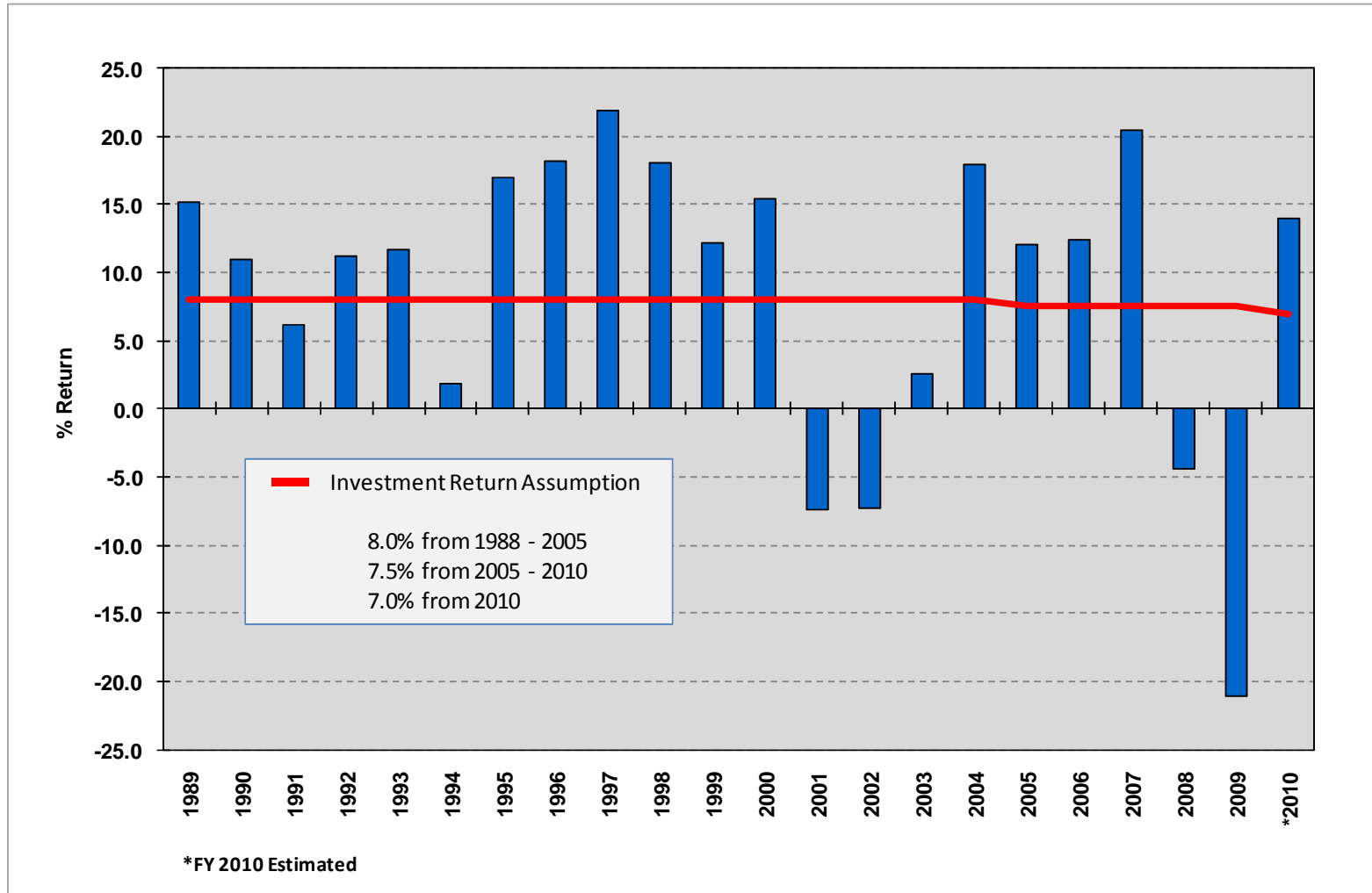


# Total Performance Ending 3/31/10

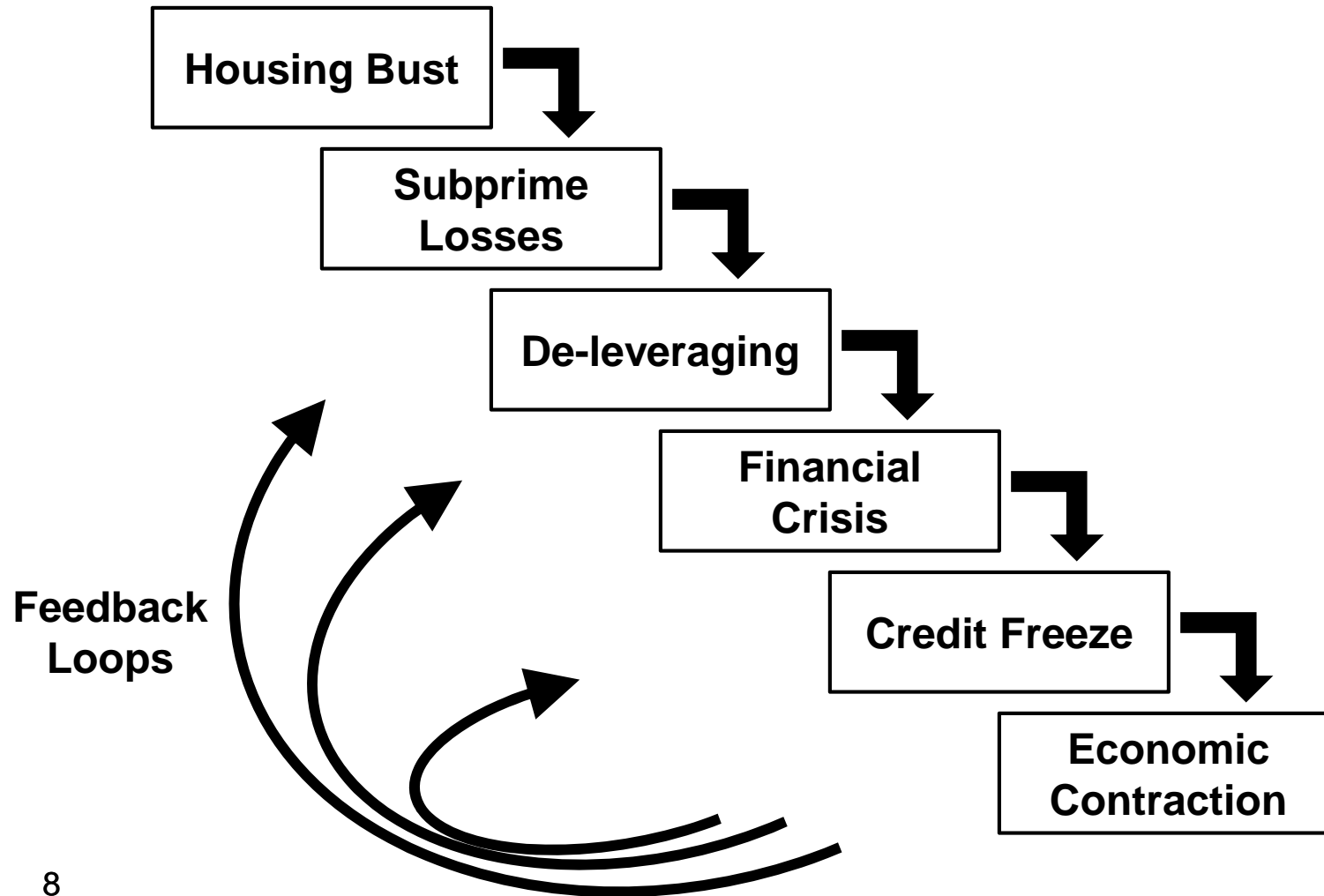
	VRS (%)	Intermediate Benchmark (%)	Long-Term Benchmark (%)
1 Yr	31.2	32.3	
3 Yr	-1.9	-1.7	
5 Yr	4.4	4.2	
10 Yr	3.5	3.1	2.2
15 Yr	8.4	7.9	7.8
20 Yr	8.5	8.3	8.5

6 Performance is annualized and net of fees

# VRS Fiscal Year Returns

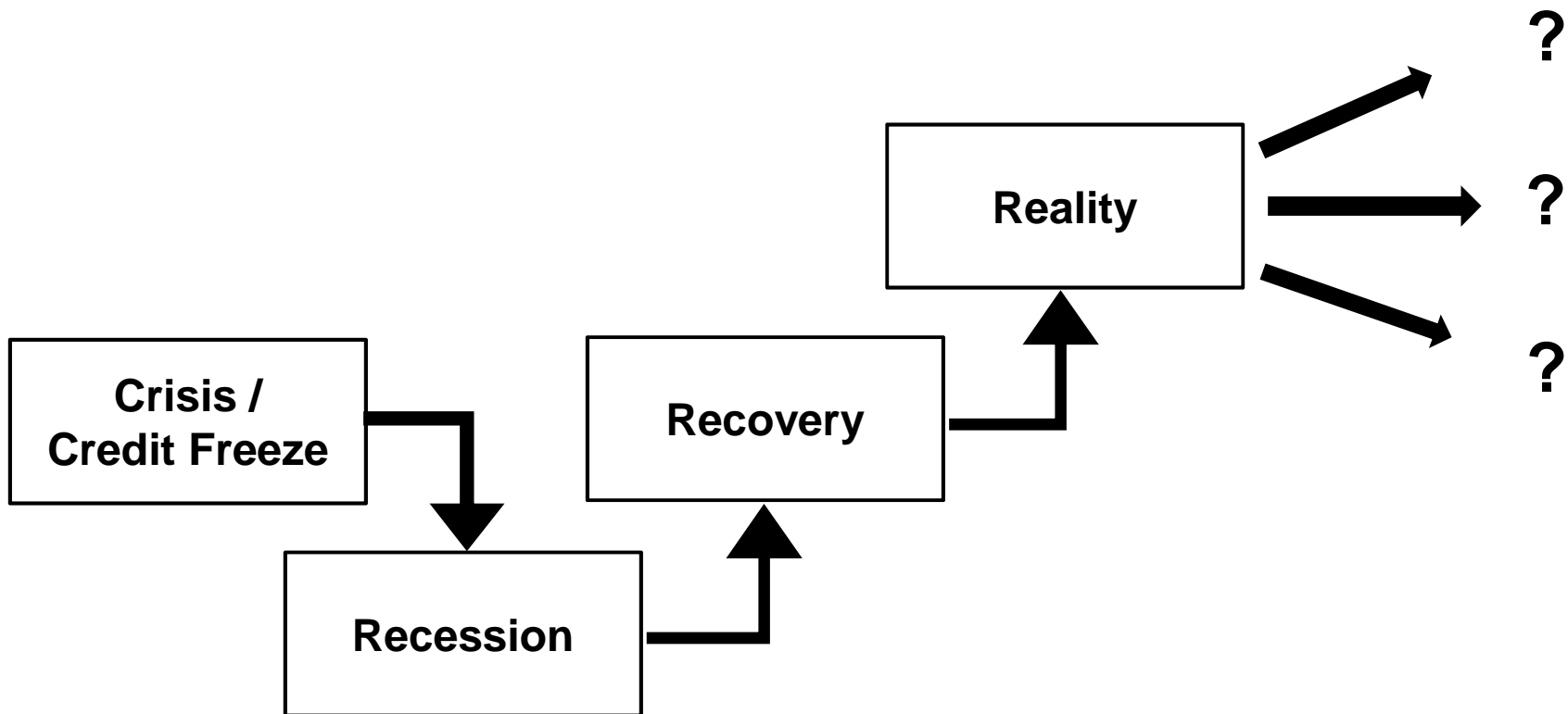


# Catalysts for "The Great Recession"

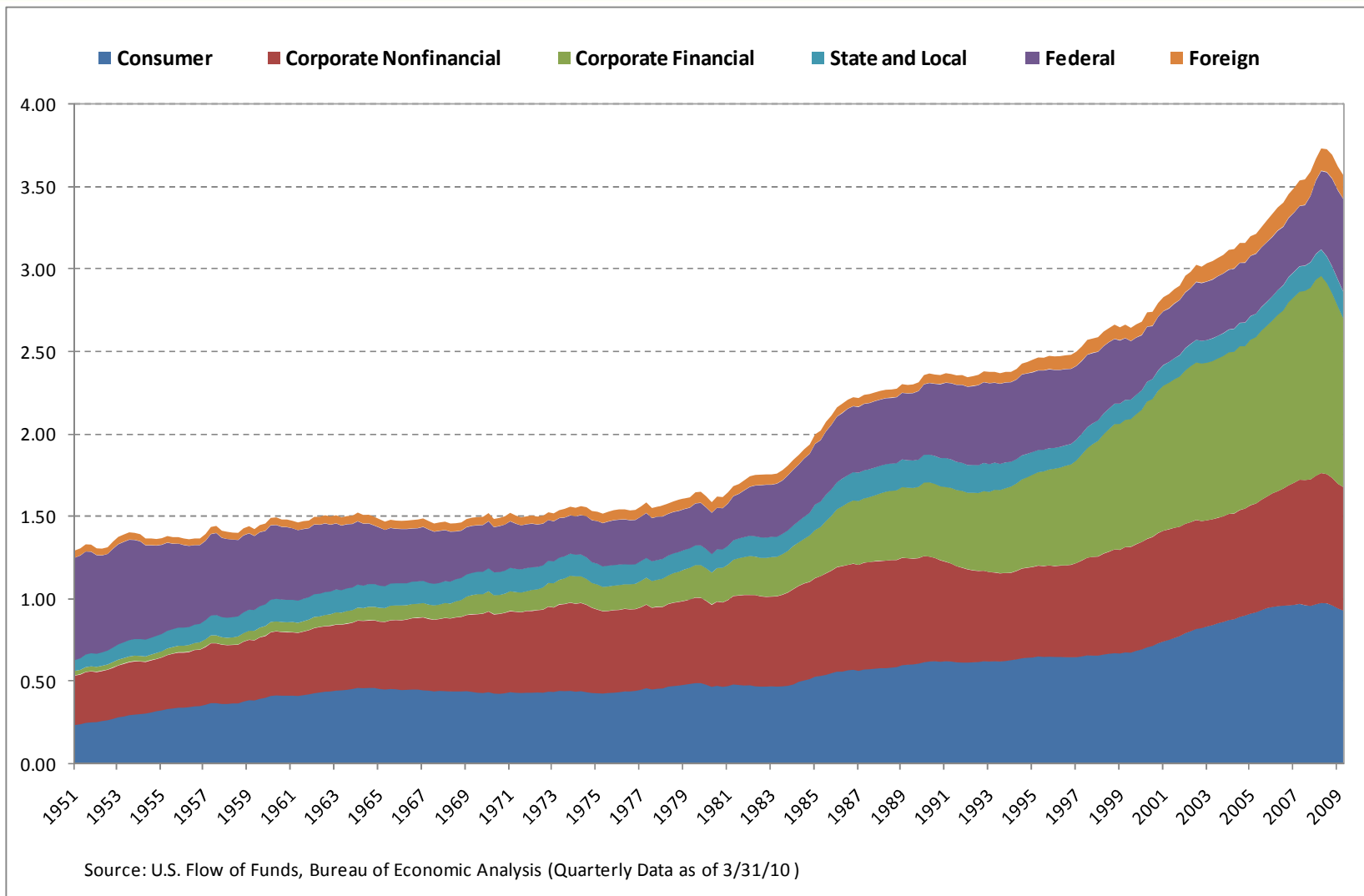




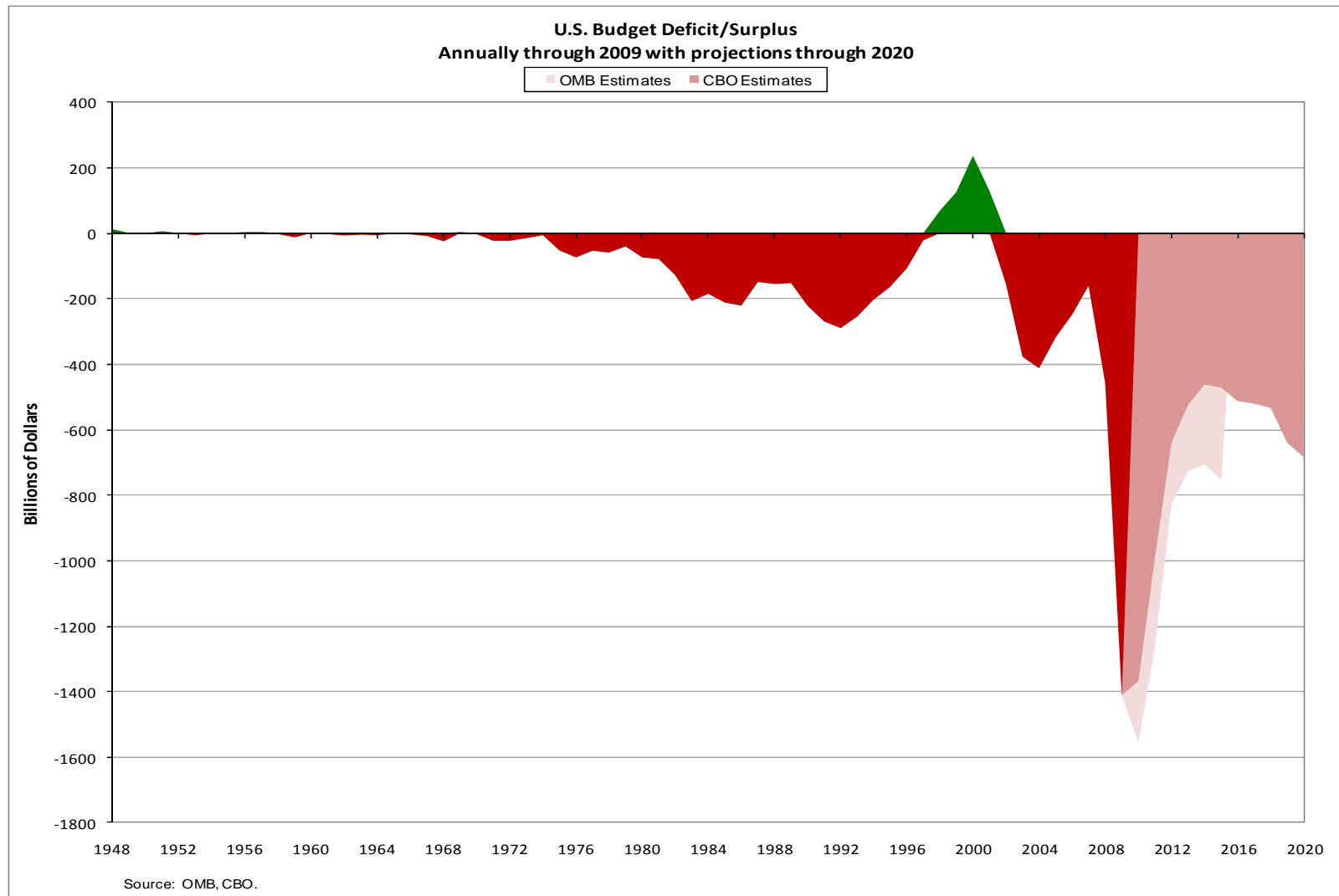
# From Recovery to Reality



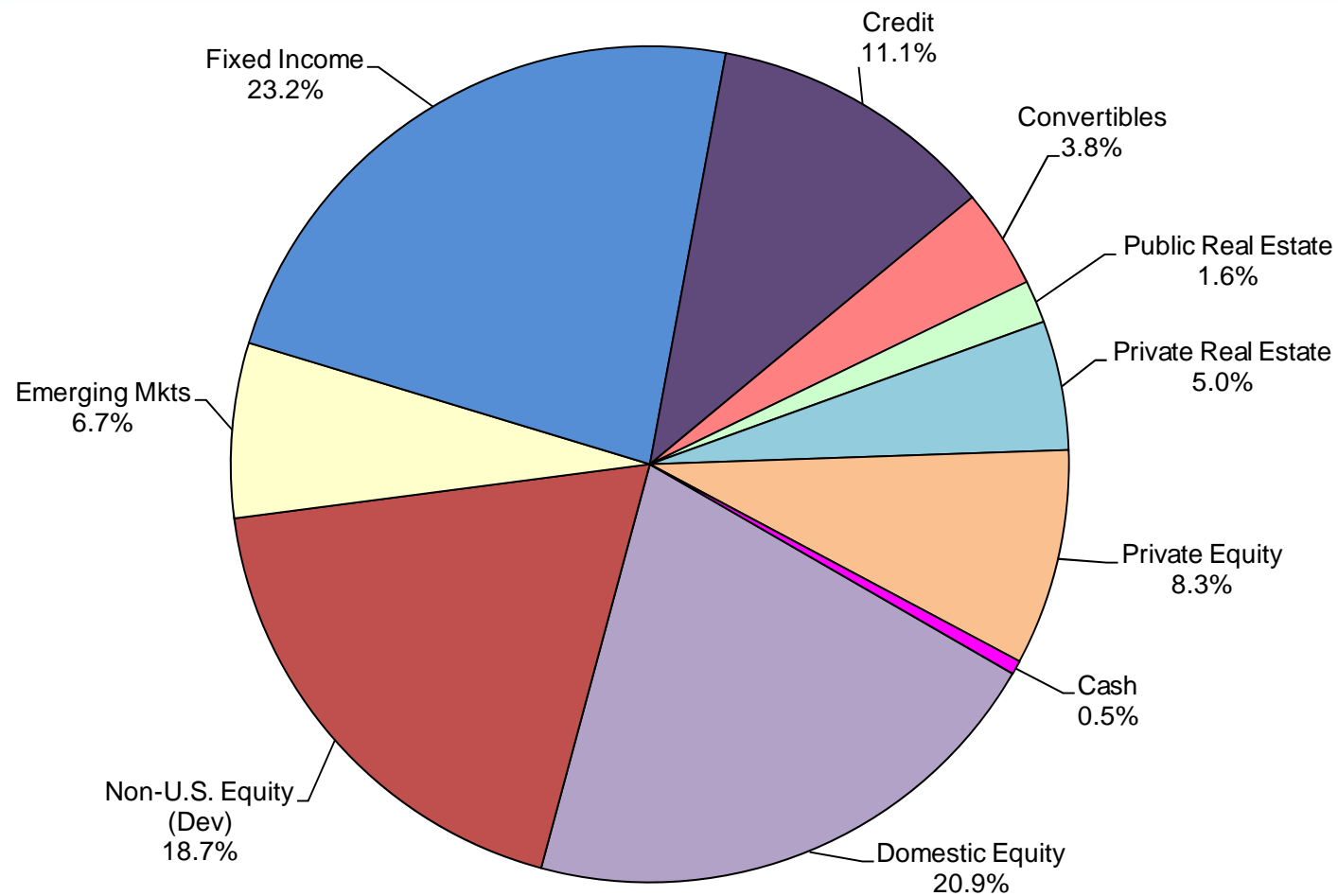
# Same Old Problem: Too Much Debt



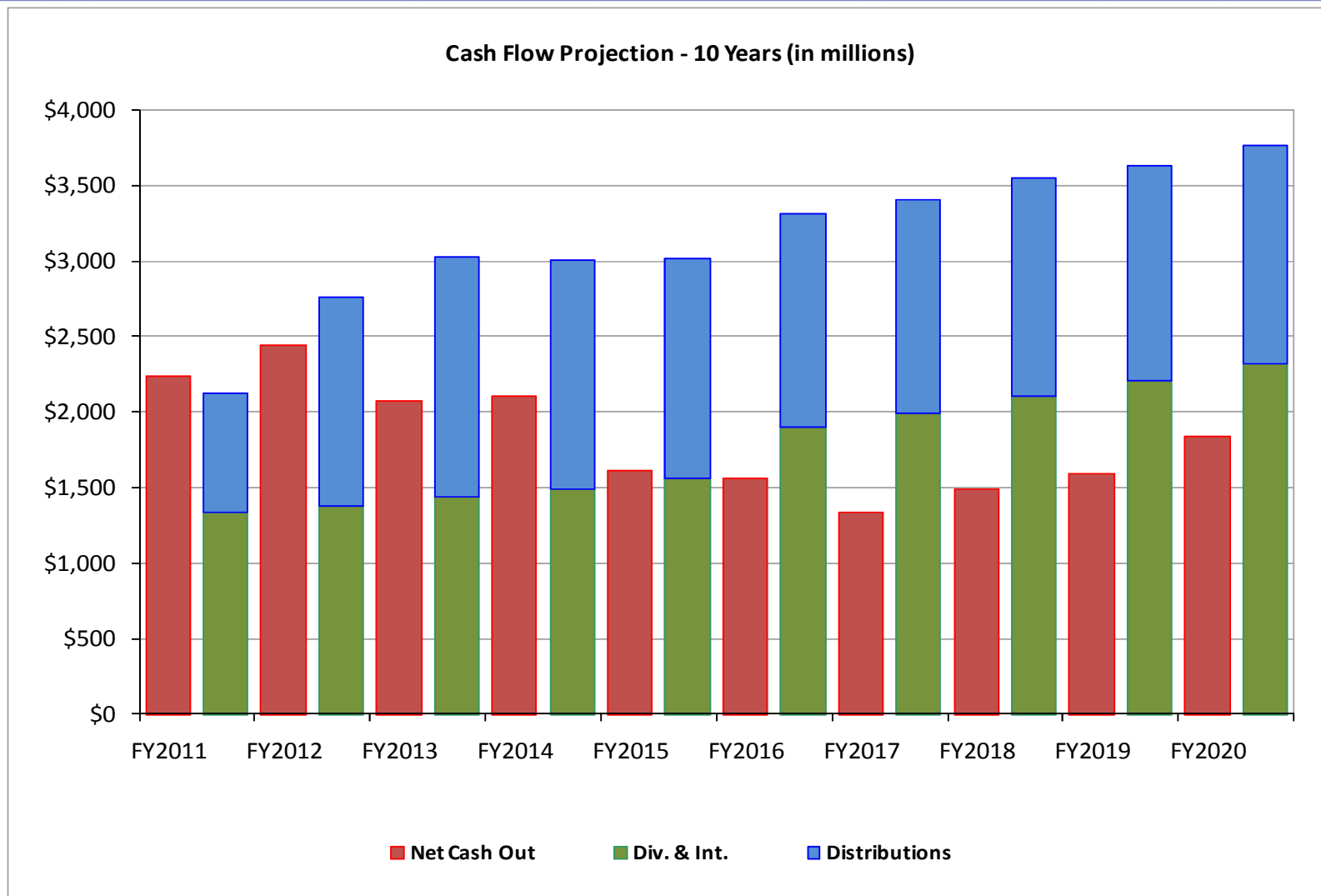
# U.S. Budget Deficit / Surplus



# Asset Allocation: 3/31/10



# Cash Flow Projection





# Challenging Outlook

- Continued deleveraging in private sector, and eventually in public sector.
- Potential for higher regulation and taxation.
- Government policy will be challenging: austerity versus stimulus?
- Headwinds to growth, especially in developed world.
- Moderate equity returns expected.

# Administration

*Robert Schultze*  
*Director*



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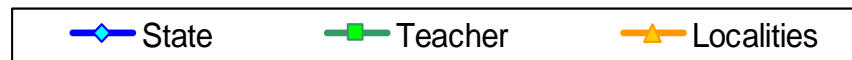
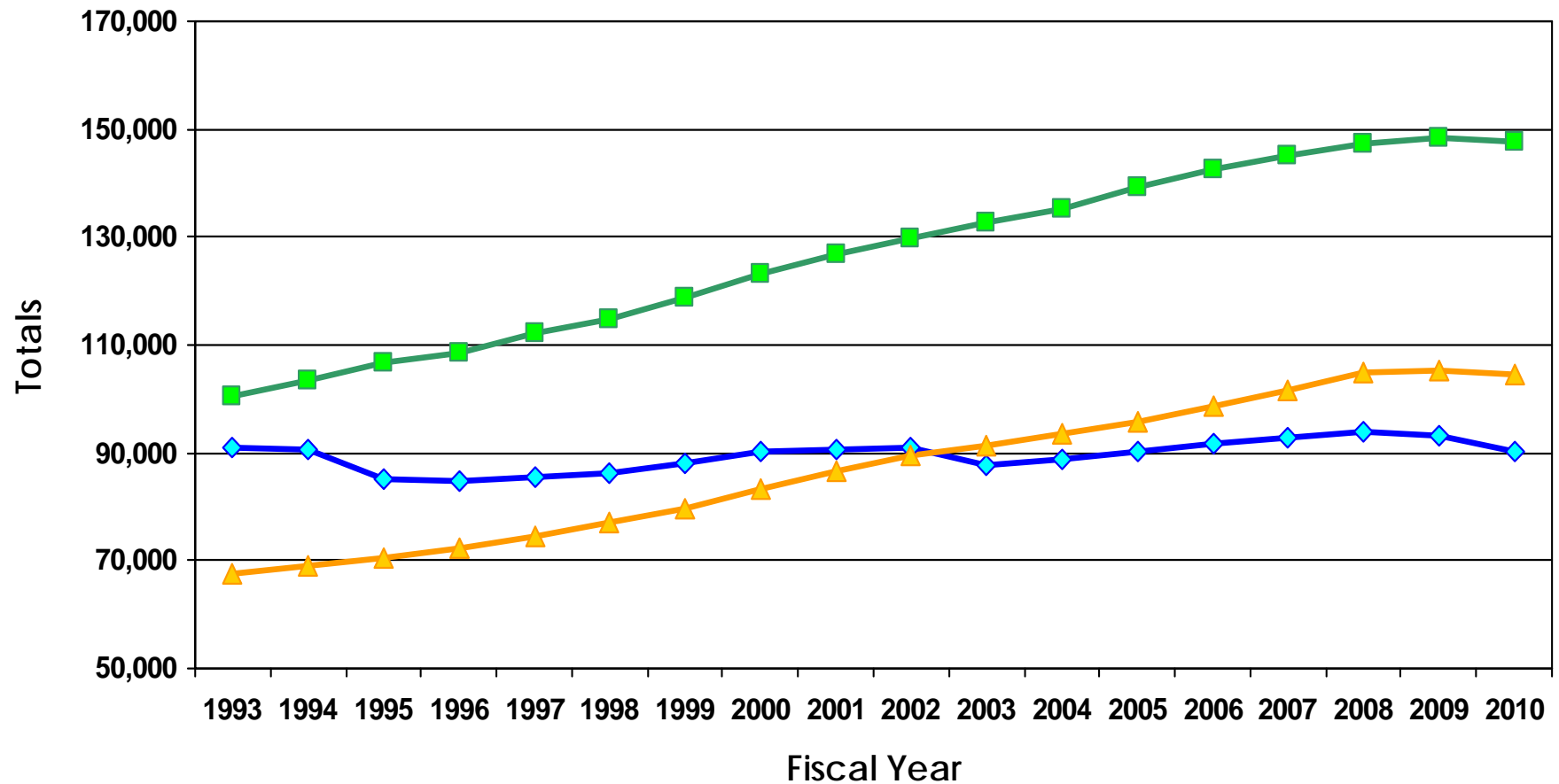
# VRS Overview

- VRS is the 22nd largest public or private pension system in the U.S.
- There are almost 600,000 members, retirees and beneficiaries.

# VRS Total Membership

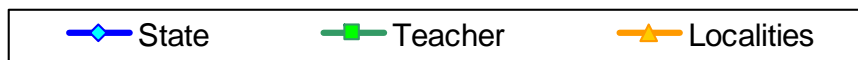
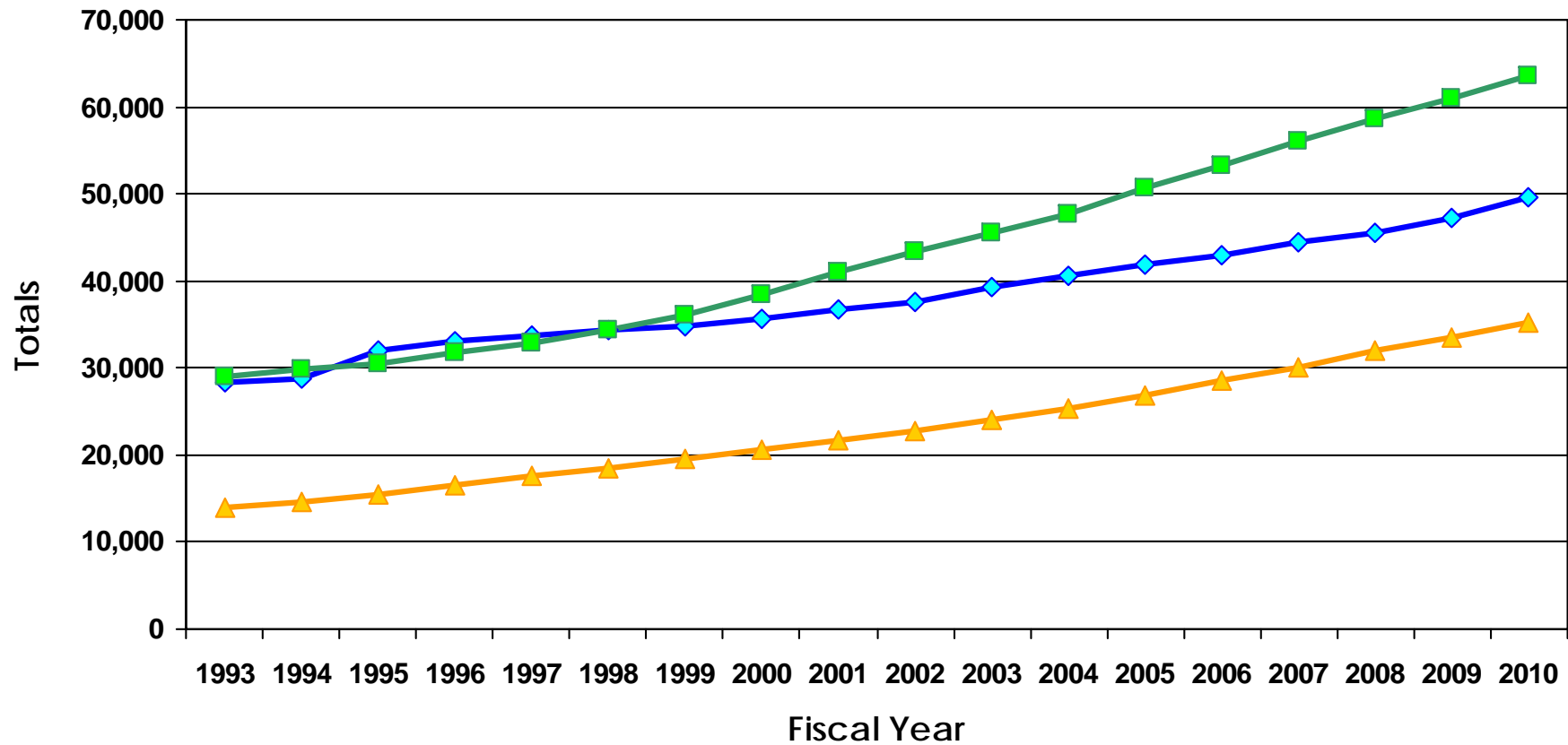
Teachers	147,817
Political Subdivisions	104,385
State Employees	78,613
State Police Officers' Retirement System (SPORS)	1,766
Judicial Retirement System (JRS)	408
Virginia Law Officers' Retirement System (VaLORS)	9,620
<b>Total Active Members</b>	<b>342,609</b>
Retirees/Beneficiaries	148,496
Inactive/Deferred Members	105,774
<b>VRS Overall Impact</b>	<b>596,879</b>

# Active Members

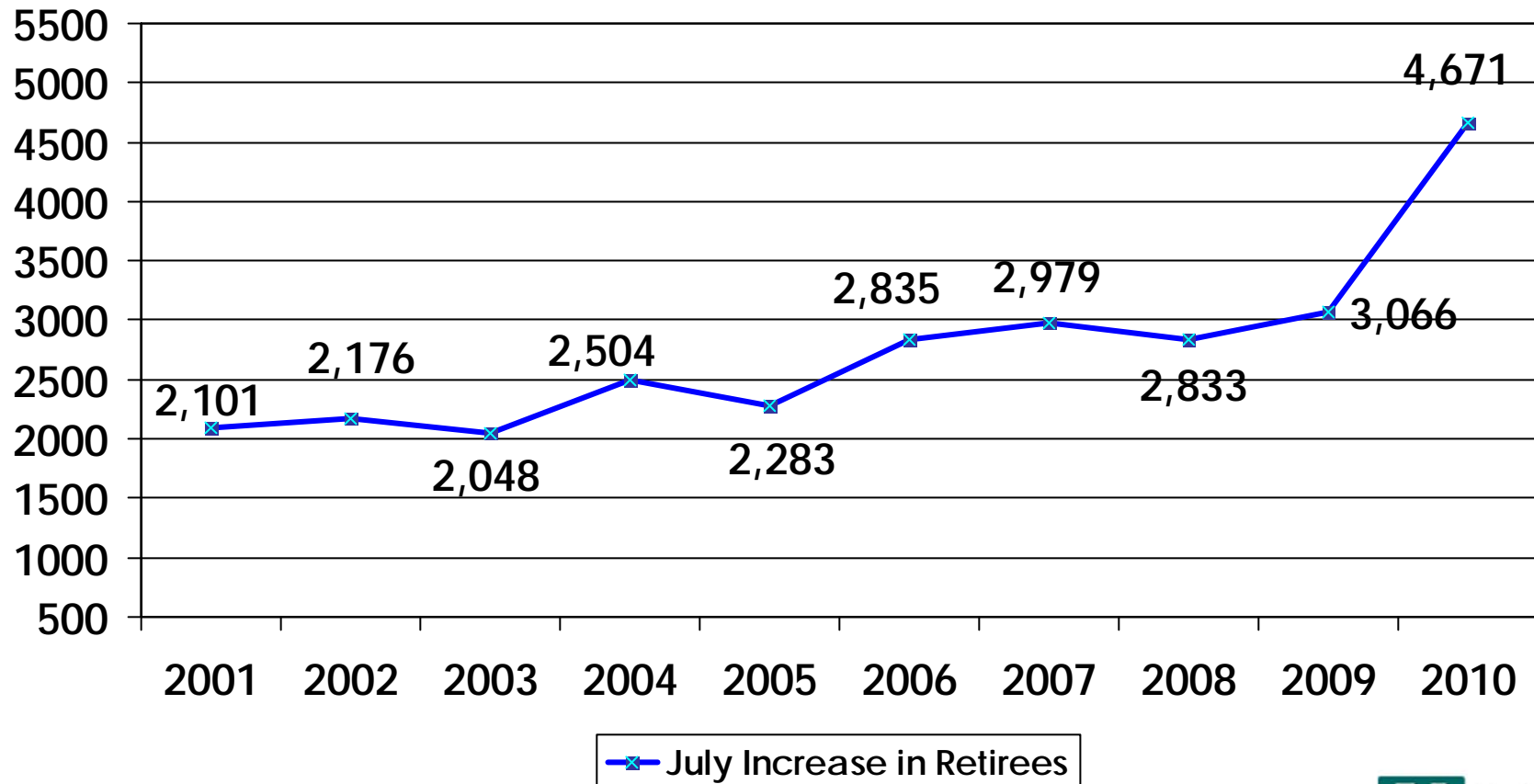




# Retirees



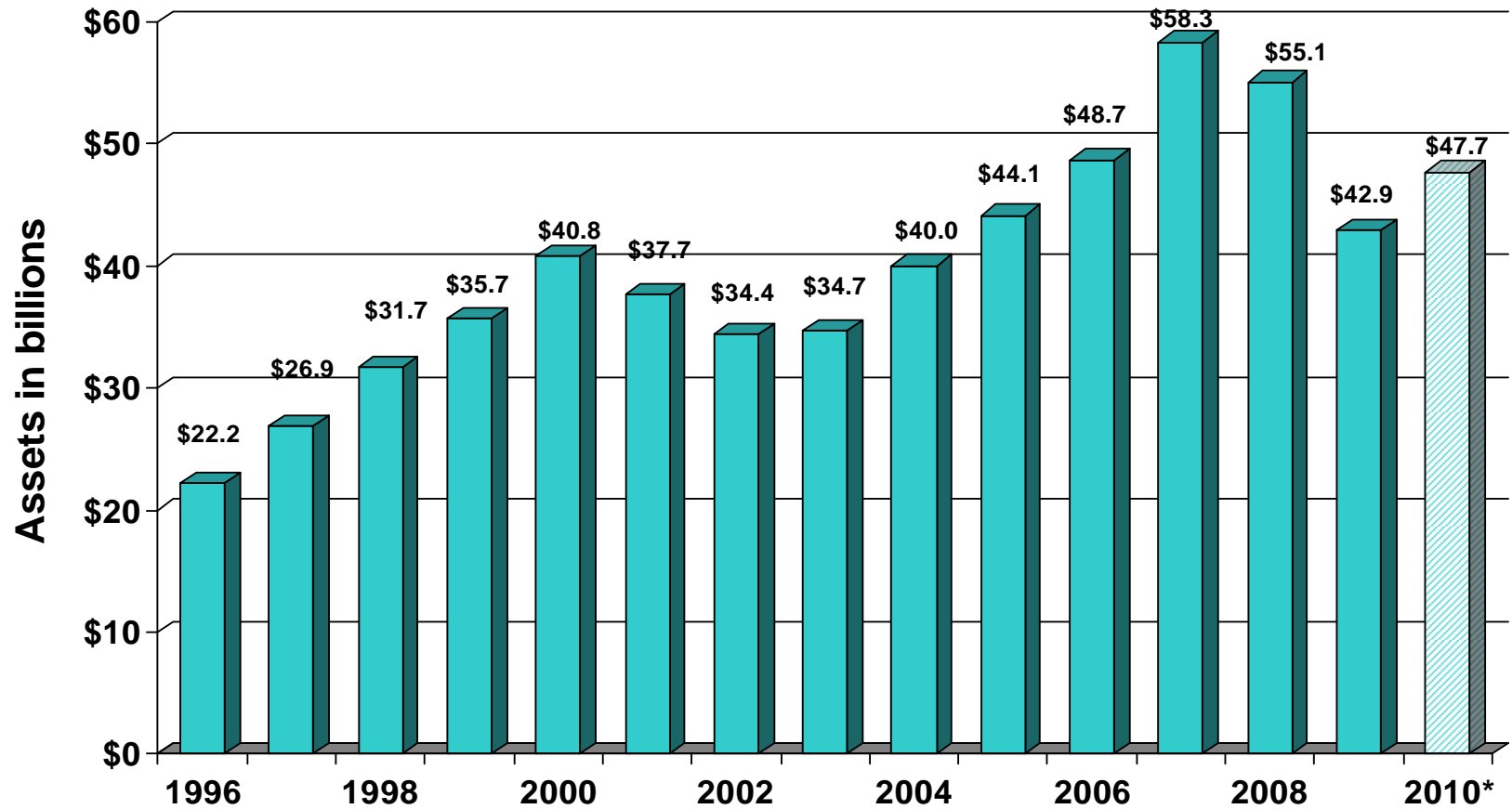
# July Retirements by Fiscal Year



# Funding VRS Benefits

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

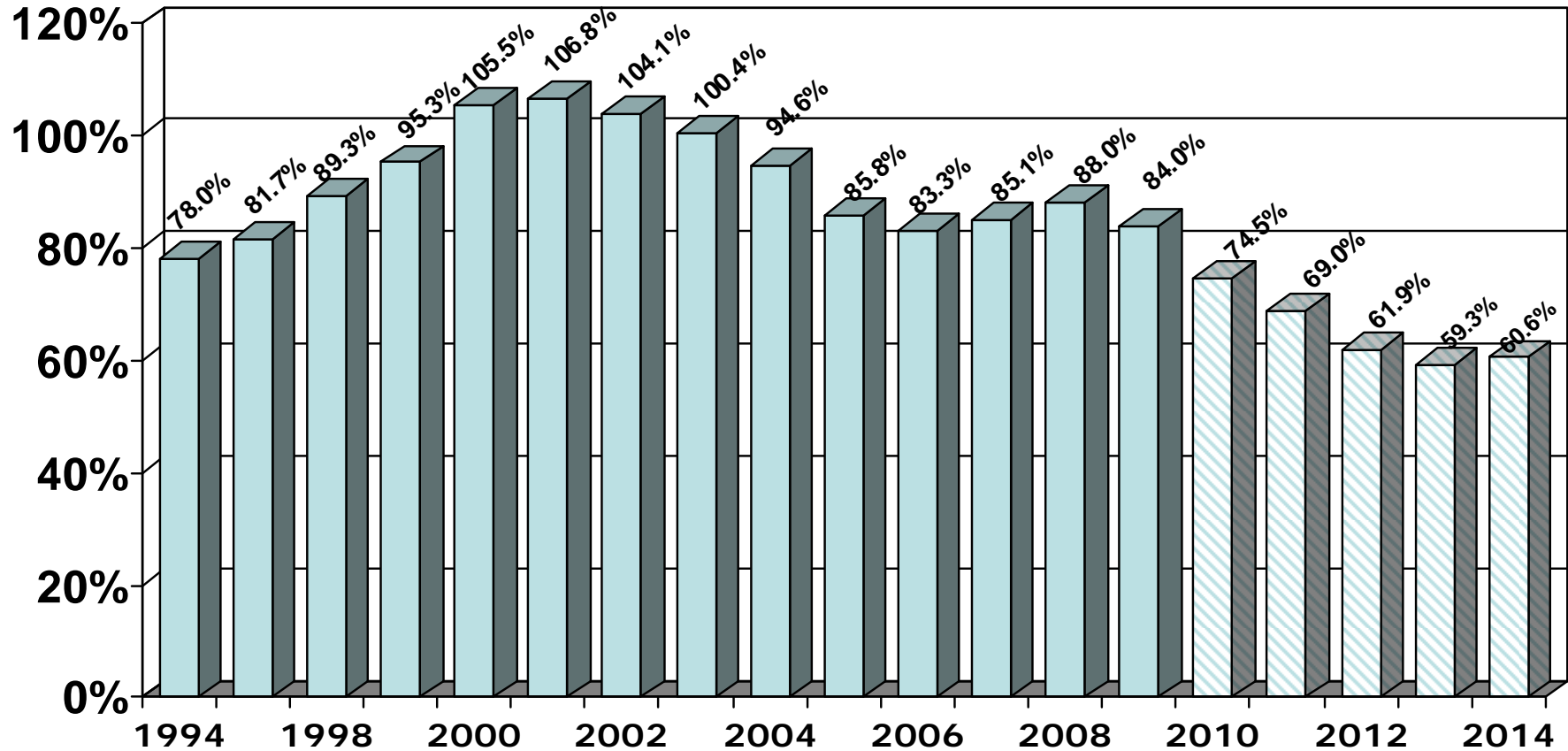
# Net Assets Available for Benefits



\* Estimated asset amount as of 6/30/10



# Funded Status: State Employees

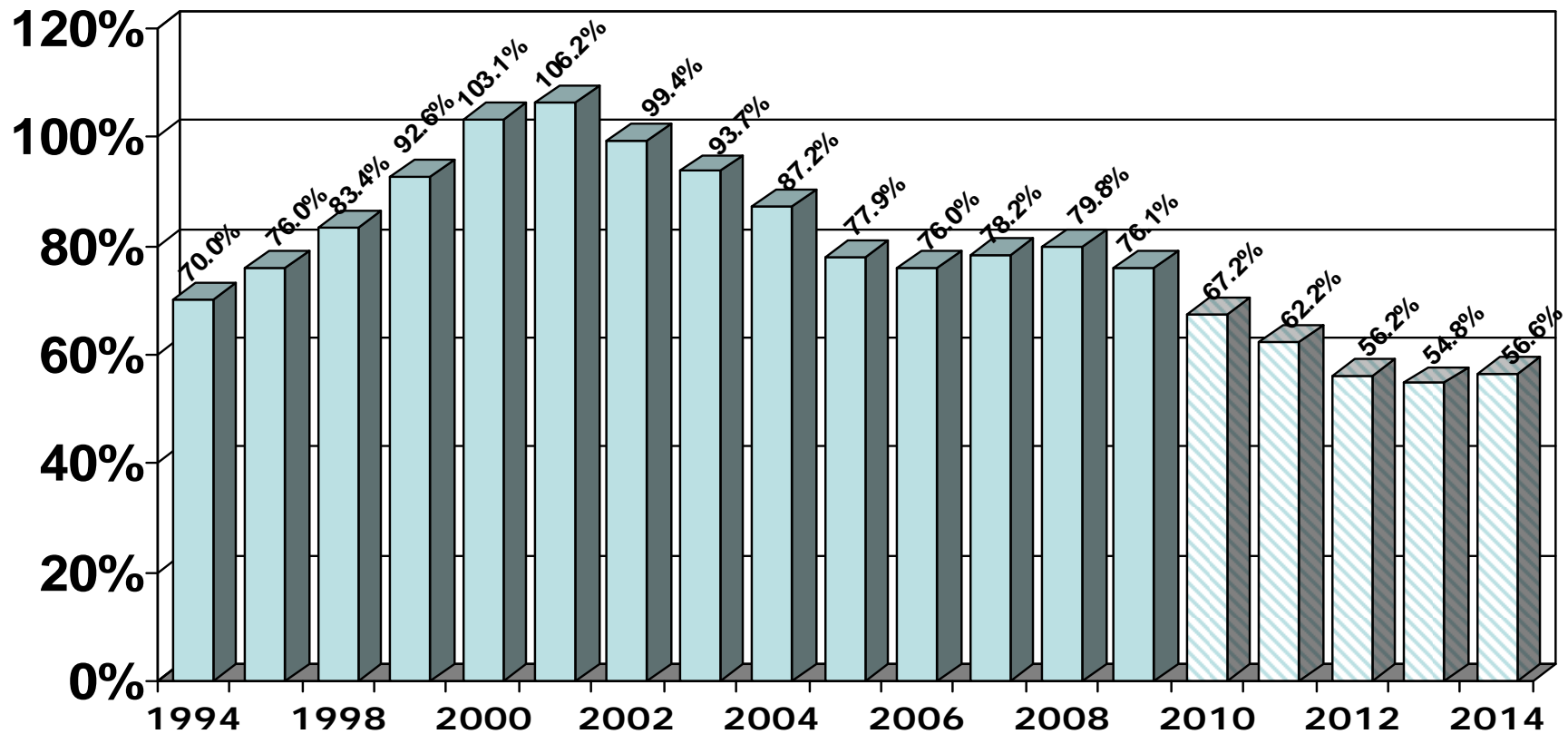


Assumptions:

- FY 2010 investment return estimated at 16.5%.
- All projected years investment return is 7.0%.



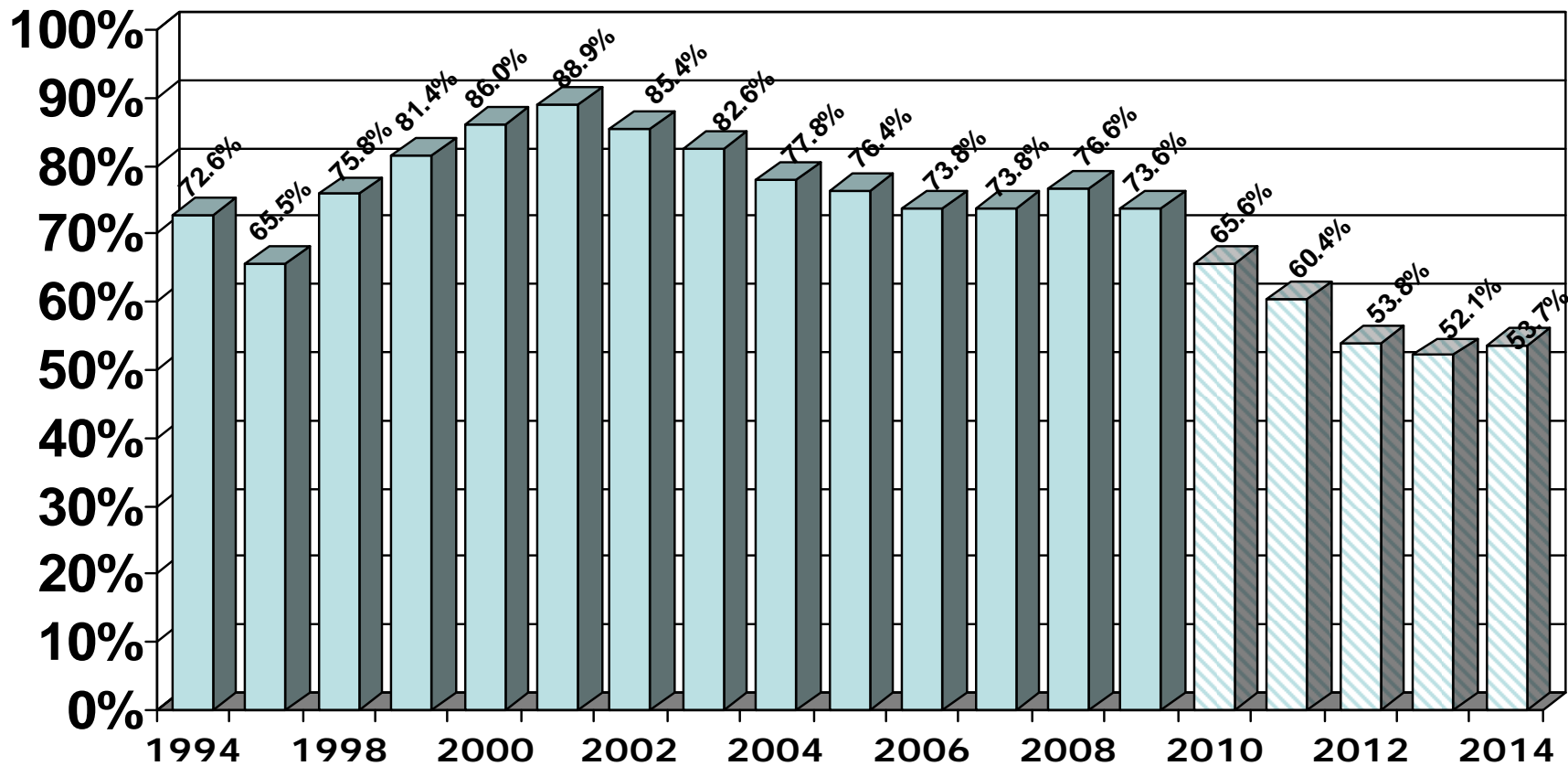
# Funded Status: Teachers



Assumptions:

- FY 2010 investment return estimated at 16.5%.
- All projected years investment return is 7.0%.

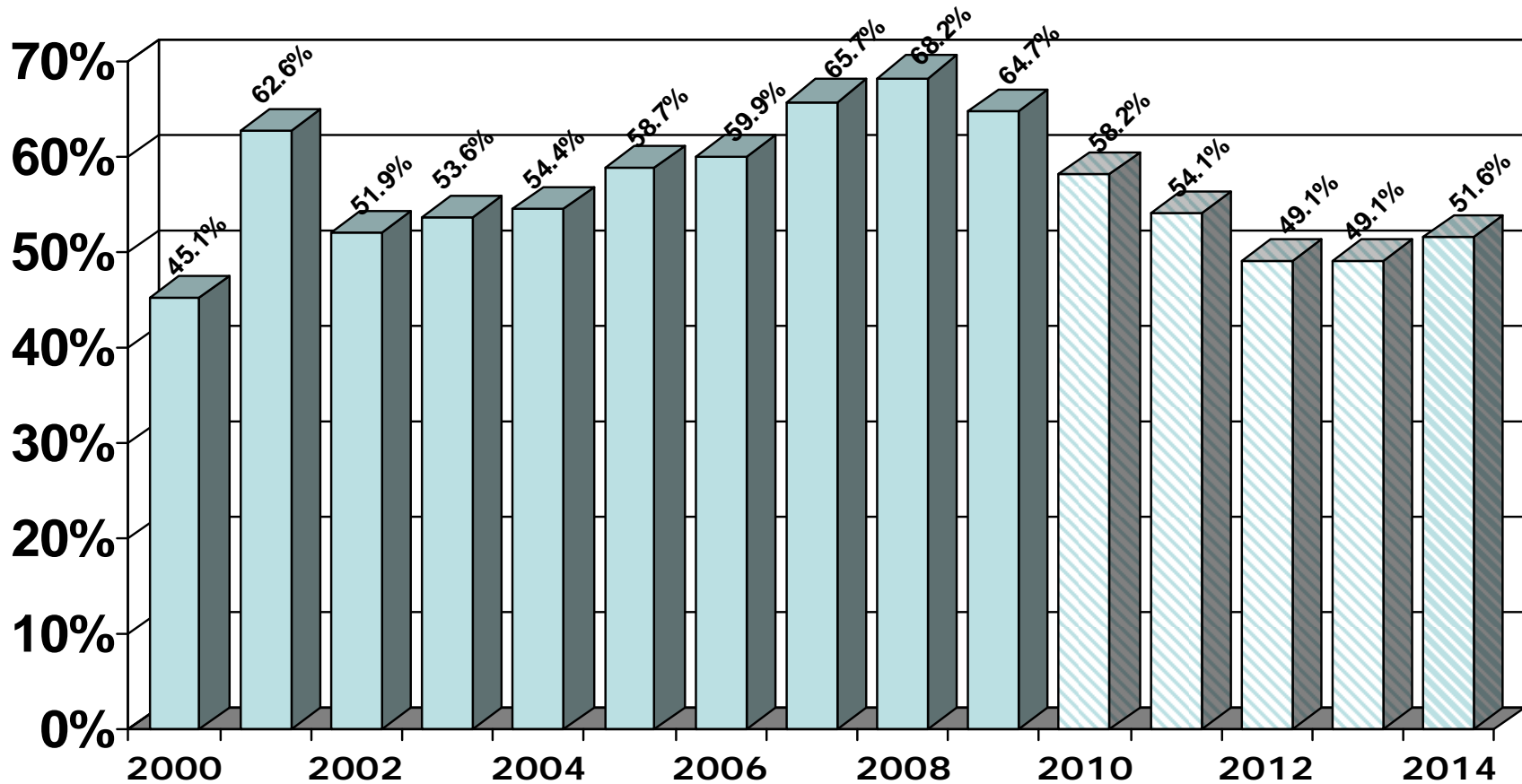
# Funded Status: State Police



Assumptions:

- FY 2010 investment return estimated at 16.5%.
- All projected years investment return is 7.0%.

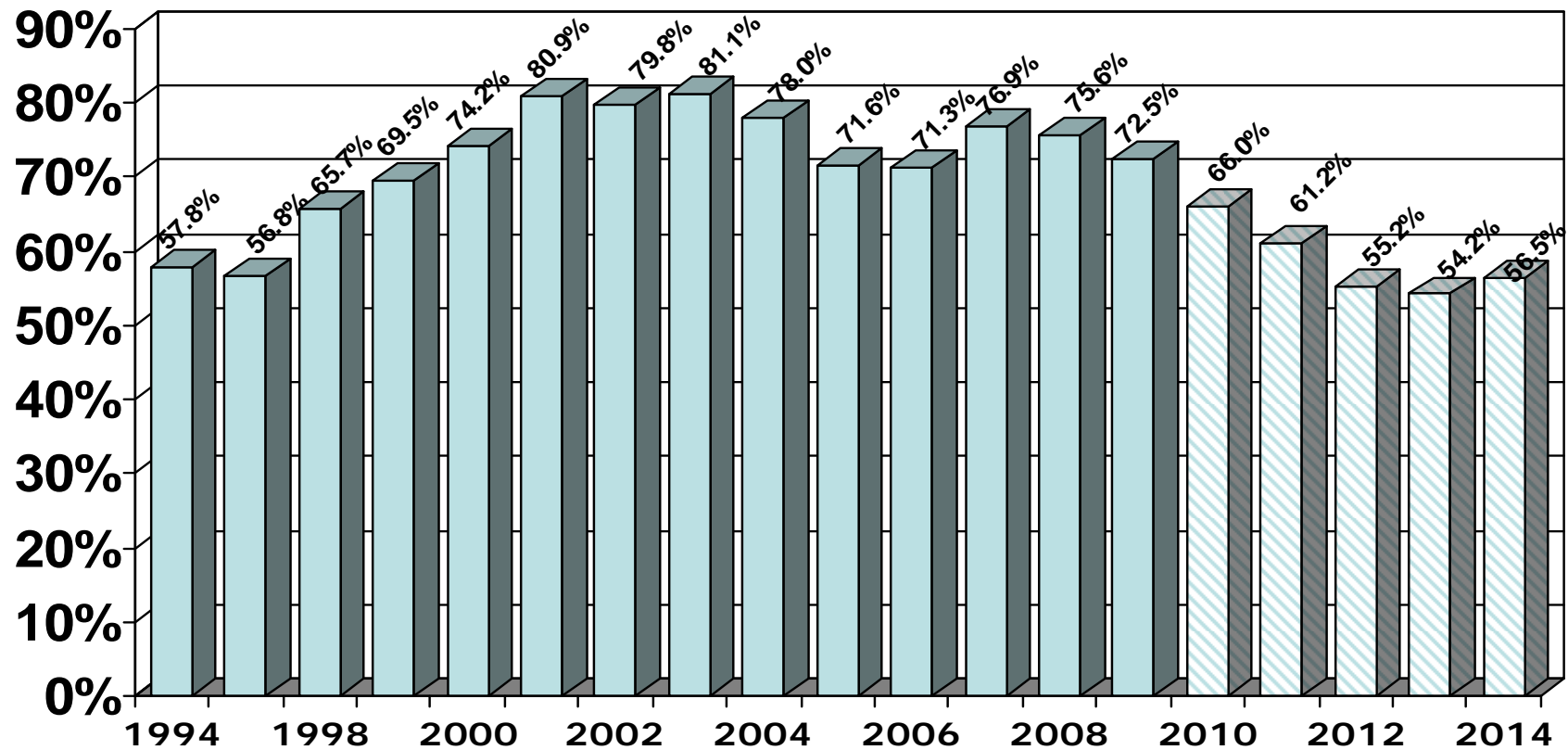
# Funded Status: VaLORS



Assumptions:

- FY 2010 investment return estimated at 16.5%.
- All projected years investment return is 7.0%.

# Funded Status: JRS



Assumptions:

- FY 2010 investment return estimated at 16.5%.
- All projected years investment return is 7.0%.

# Retirement Contribution Rates

	<b>Rates* FY 2010</b>	<b>2009 Board Certified Rates FY 2010-12*</b>	<b>Appropriations Act 2010-2011</b>	<b>Appropriations Act 2011-2012</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%

\*General Assembly rates for FY 2010 rates are based on the following assumptions (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

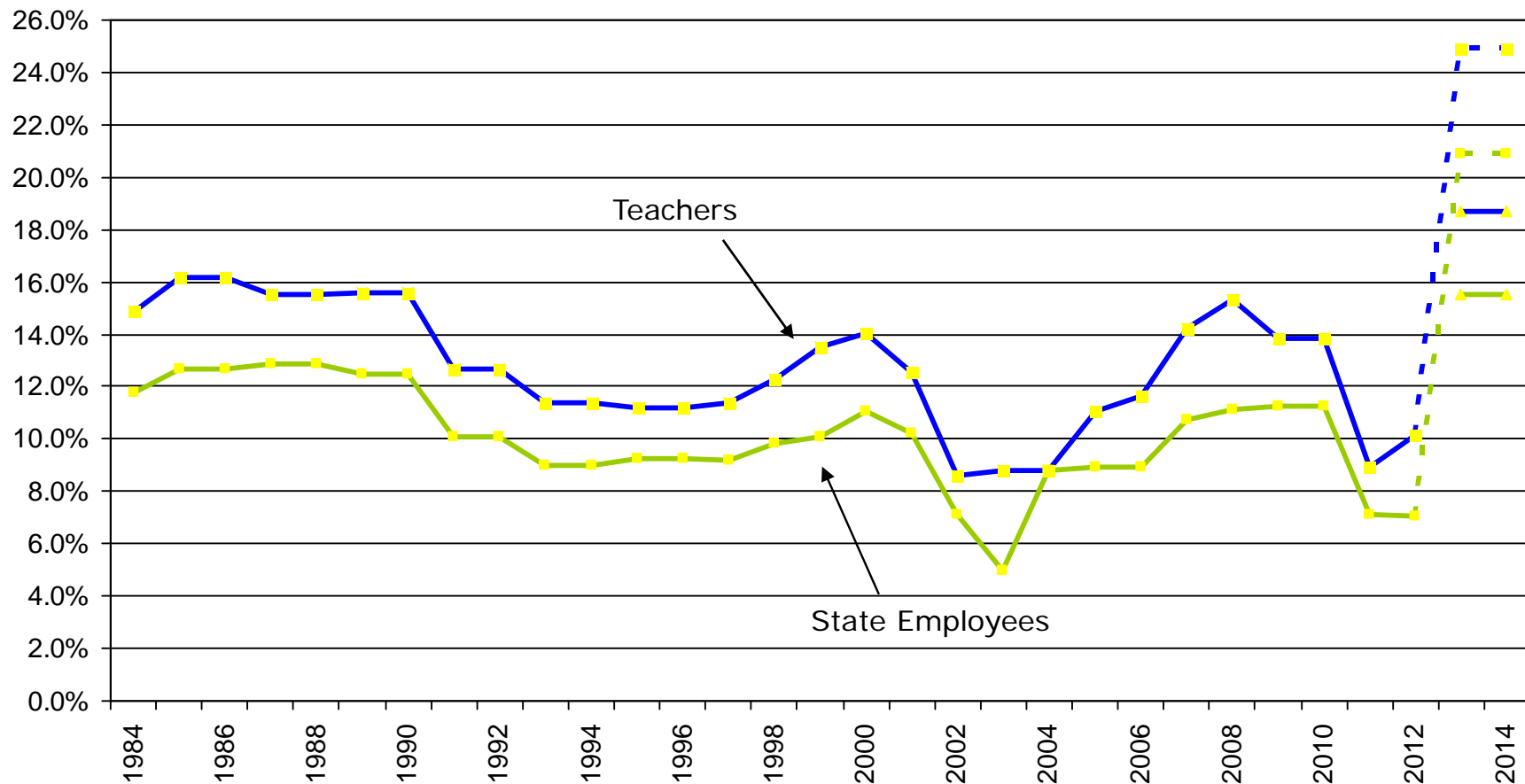
	Rates FY 2010*	2009 Board Certified Rates FY 2010-12	Appropriations Act 2010-2011	Appropriations Act 2011-2012
<b>Group Life Insurance:</b>				
<b>State Employee</b>	0.79%	1.11%	0.28%	0.28%
<b>Teacher**</b>	0.27%	1.11%	0.28%	0.28%
<b>Health Insurance Credit:</b>				
<b>State Employee</b>	1.00%	1.06%	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 was 0.27%. For FY 2011 and FY 2012, the state reimbursement for teachers will be 0.28%. No employee contribution in FY 2011-12.



# Teacher and State Contribution Rates FY '84 – '14



- Above rates include the 5% member contributions paid by employers.
- Assumes 7.00% rate of return and 2.50% inflation rate.

# 2010 General Assembly Highlights



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# 2010 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 shall examine how VRS selects firms to manage its investment portfolio and determine if more minority firms should be used.



# 2010 Legislation

## HB 892

- Requires that members who are not vested are not eligible for a refund of any contributions employers may make to their member contribution accounts after July 1, 2010 or the interest accrued on those funds.
- Vested members will continue to receive a refund of employer-paid member contributions and member-paid contributions, plus interest.
- All member-paid contributions are refundable regardless of vesting.



# 2010 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.



# 2010 Legislation

	VRS Plan 1	VRS Plan 2
<b>Average Final Compensation</b>	Average of 36 highest consecutive months of creditable compensation	Average of 60 highest consecutive months of creditable compensation
<b>Member Contributions (DB Plan)</b>	Employee or employer contributes 5% employee contribution	<b>State employees</b> contribute 5% on pre-tax salary reduction basis. <b>Schools/political subdivisions employees</b> may contribute some or all of the 5%, depending upon the election by the employer
<b>Member Contributions (ORP Plan)</b>	10.4% employer contribution	8.5% employer contribution and 5% member contribution on a pre-tax basis. Higher education may increase the employer contribution to 8.9% provided it is paid with non-state funds.
<b>Normal Retirement Age</b>	Age 65	Social Security Normal Retirement Age
	SPORS, ValORS and political subdivision hazardous duty: Age 60	Same as Plan 1

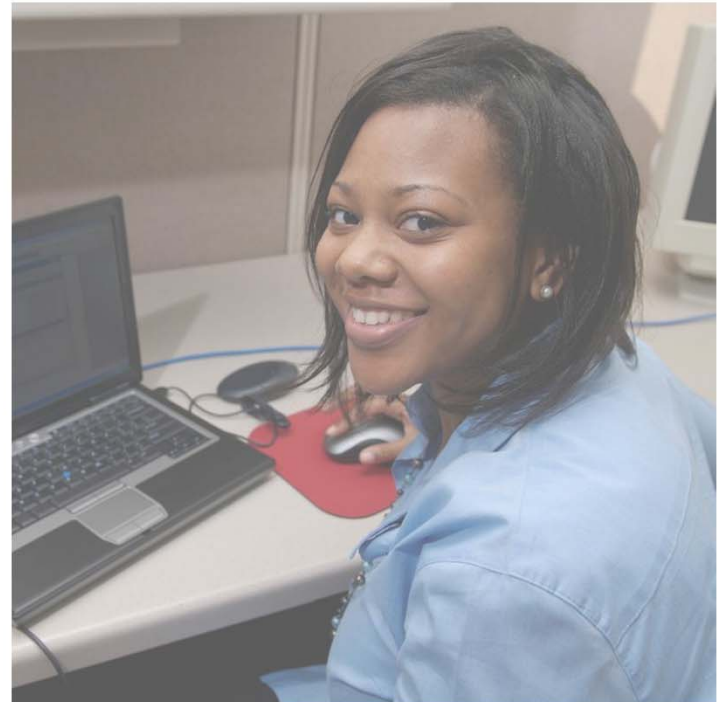
# 2010 Legislation

	VRS Plan 1	VRS Plan 2
<b>Retirement Multiplier</b>	<p>VRS: 1.7%</p> <p>SPORS: 1.85%</p> <p>VaLORS: 1.7% or 2.0%</p> <p>Sheriffs: 1.85%</p> <p>Political subdivision hazardous duty: 1.7% or 1.85%, depending upon election</p>	Same.
<b>Unreduced Retirement</b>	<p>VRS: Age 65 with at least 5 years of service or age 50 with at least 30 years of service</p>	VRS: Normal Social Security retirement age with at least five years of service credit or when age and service equal 90
	<p>SPORS, VaLORS, political subdivision hazardous duty: Age 60 with at least five years of service or age 50 with at least 25 years of service</p>	Same.
	<p>JRS: Age 65 with weighted service equal to at least 5 years of service or age 60 with weighted service equal to at least 30 years of service</p>	Same.

# 2010 Legislation

	VRS Plan 1	VRS Plan 2
<b>Reduced Retirement</b>	VRS: Age 55 with at least 5 years of service or age 50 with at least 10 years of service	VRS: Age 60 with at least five years of service
	SPORS, VaLORS, political subdivision hazardous duty: Age 50 with at least five years of service	Same.
	JRS: Age 55 with weighted service equal to at least 5 years of service	Same.
<b>COLA</b>	Matches first 3 percent increase in the Consumer Price Index-Urban and one-half of the remaining increase up to a maximum COLA of 5 percent, when provided	Matches first 2 percent increase in the Consumer Price Index-Urban and one-half of the remaining increase up to a maximum COLA of 6 percent, when provided

# Service Delivery



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# Service Delivery

## CEM Benchmarking Service

- Compares measures of service and costs across public plans
- 11 large state plans in VRS peer group



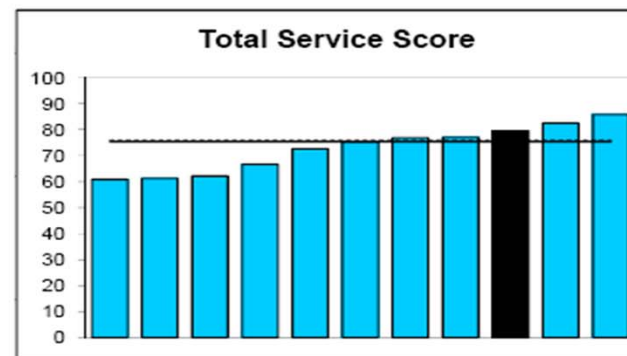
# Service Delivery

Virginia RS

## Key Takeaways

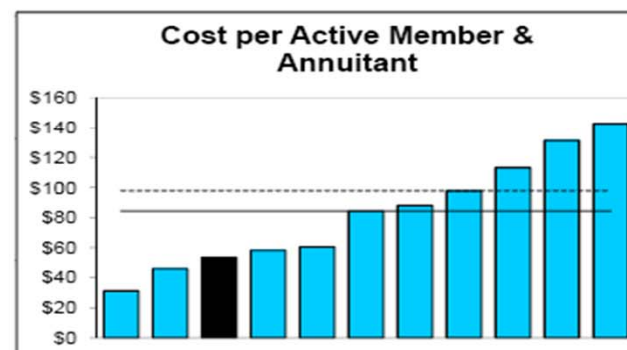
1. Your Total Service Score of 80 was above the peer median of 75.

- Your Total Service Score increased an average of 3.4 points per annum between 2007 and 2009, versus 1.3 points for your peers.
- You scored well in all key service measures.



2. Your Total Cost of \$53 per Active Member & Annuitant was below the peer median of \$84.

- Your Total Cost continues to be below-median despite rising Major Project expenditure.





# Future Challenges

- Pension reform implementation
- Contribution rate in future budgets
- New GASB accounting rules for pension valuation and contribution rates
  - At least two years away
  - Could impose limits on
    - Return assumption
    - Amortization period

Thank you!



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