

VRS Overview

for the

Joint Legislative Audit and Review Commission

July 11, 2011



Virginia
Retirement
System

Agenda

VRS Overview

- *Diana F. Cantor
VRS Board Chairman*

Investments Overview

- *Charles W. Grant, CIO*

Administration Overview

- *Robert P. Schultze, Director*

Chairman's Remarks

Diana Cantor
VRS Board Chair



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VRS Board Members

Diana F. Cantor, *Chairman*

John M. Albertine, Ph.D., *Vice Chairman*

A. Marshall Acuff, Jr.

Edwin T. Burton III, Ph.D.

Robert L. Greene

Mitchell L. Nason

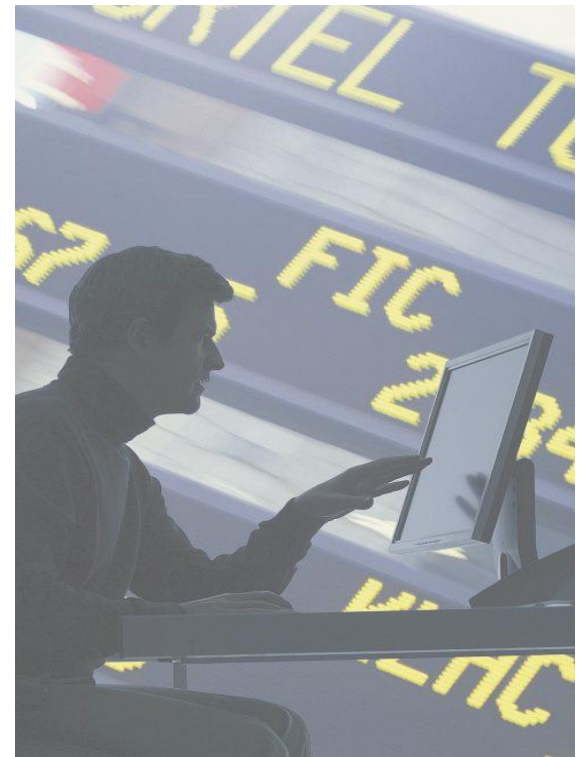
Colette Sheehy

Paul W. Timmreck

Raymond B. Wallace, Jr.

Investments

Charles Grant
Chief Investment Officer



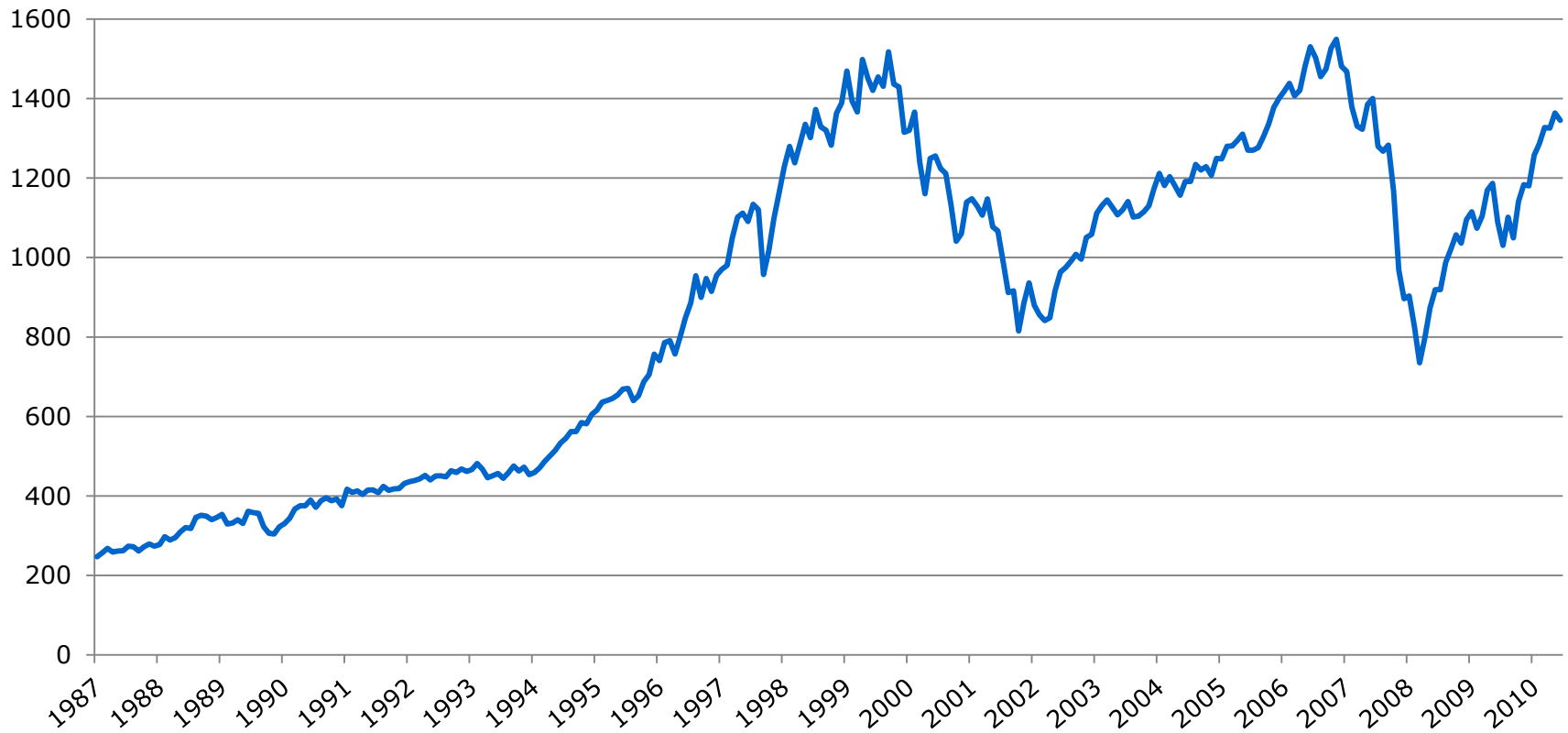
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Last Year's "Challenging Outlook"

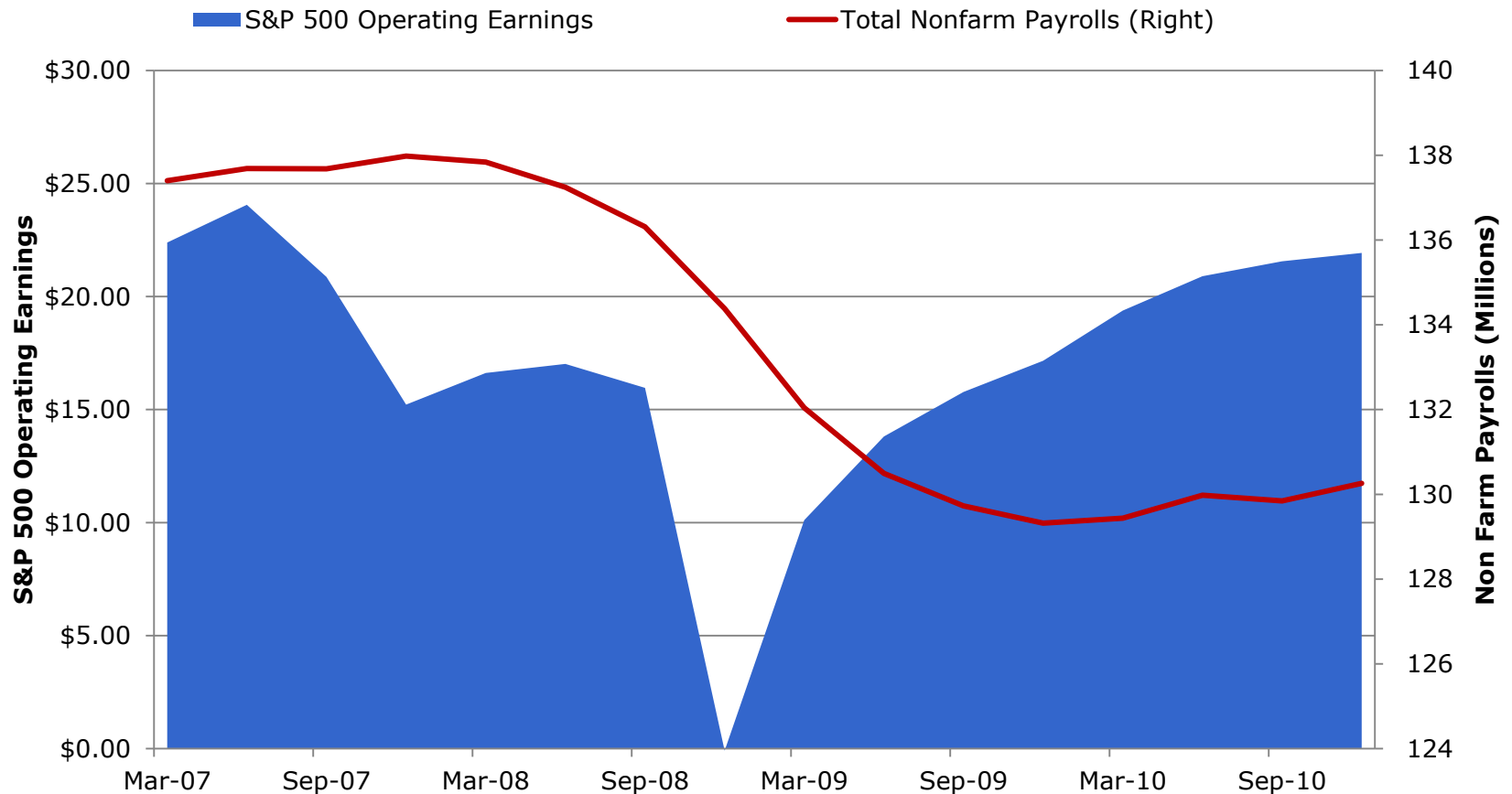
- Continued deleveraging in private sector, and eventually in public sector.
- Potential for higher regulation and taxation.
- Government policy will be challenging: austerity versus stimulus?
- Headwinds to growth, especially in developed world.
- Moderate equity returns expected.

U.S. Stock Market

S&P 500 Index



“V-Shaped Recovery” in Earnings



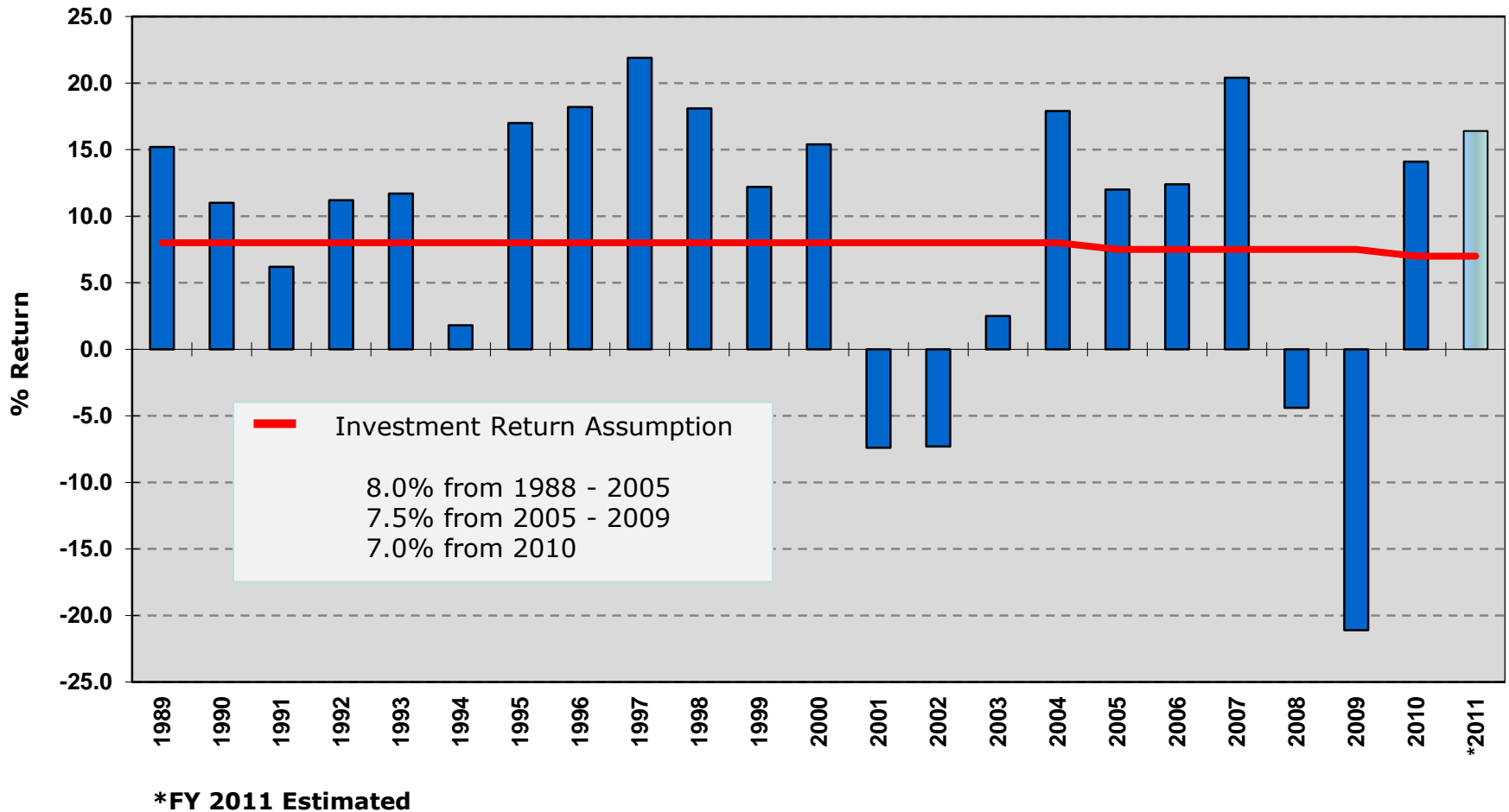
Total Fund Performance

Ending 3/31/11

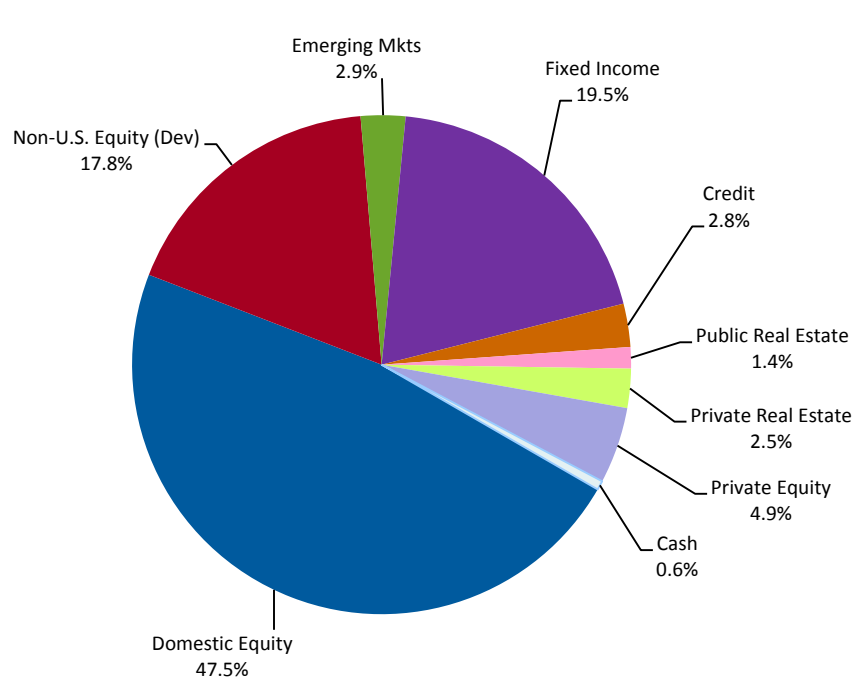
	VRS (%)	Intermediate Benchmark (%)	Long-Term Benchmark (%)
1 Yr	13.0	13.0	
3 Yr	1.7	2.2	
5 Yr	3.9	3.9	
10 Yr	5.9	5.7	4.6
15 Yr	7.8	7.3	7.0
20 Yr	8.6	8.3	8.4

9 Performance is annualized and net of fees

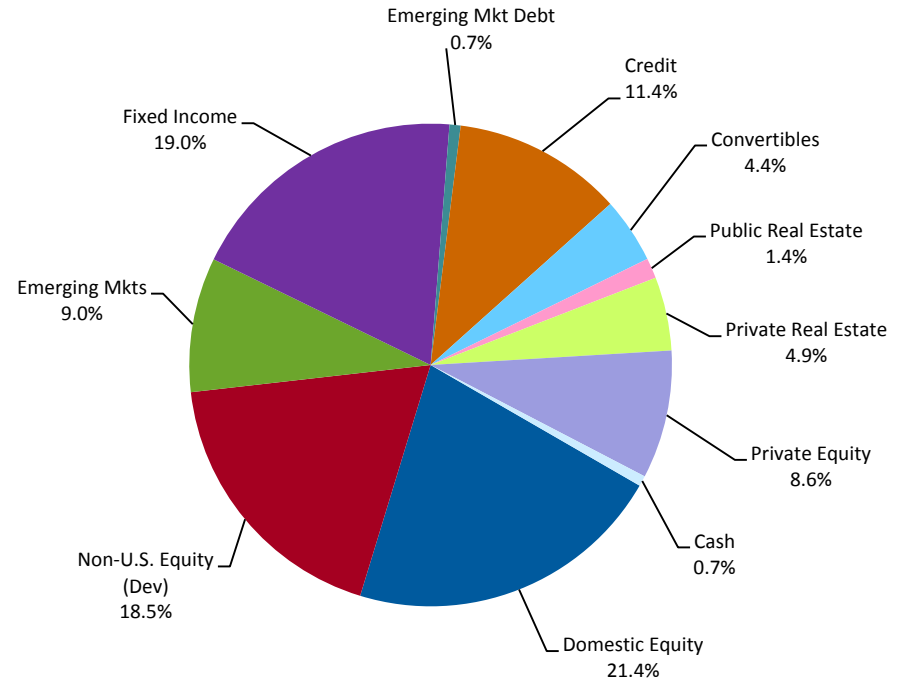
VRS Fiscal Year Returns



Asset Allocation: March 2005 vs. March 2011



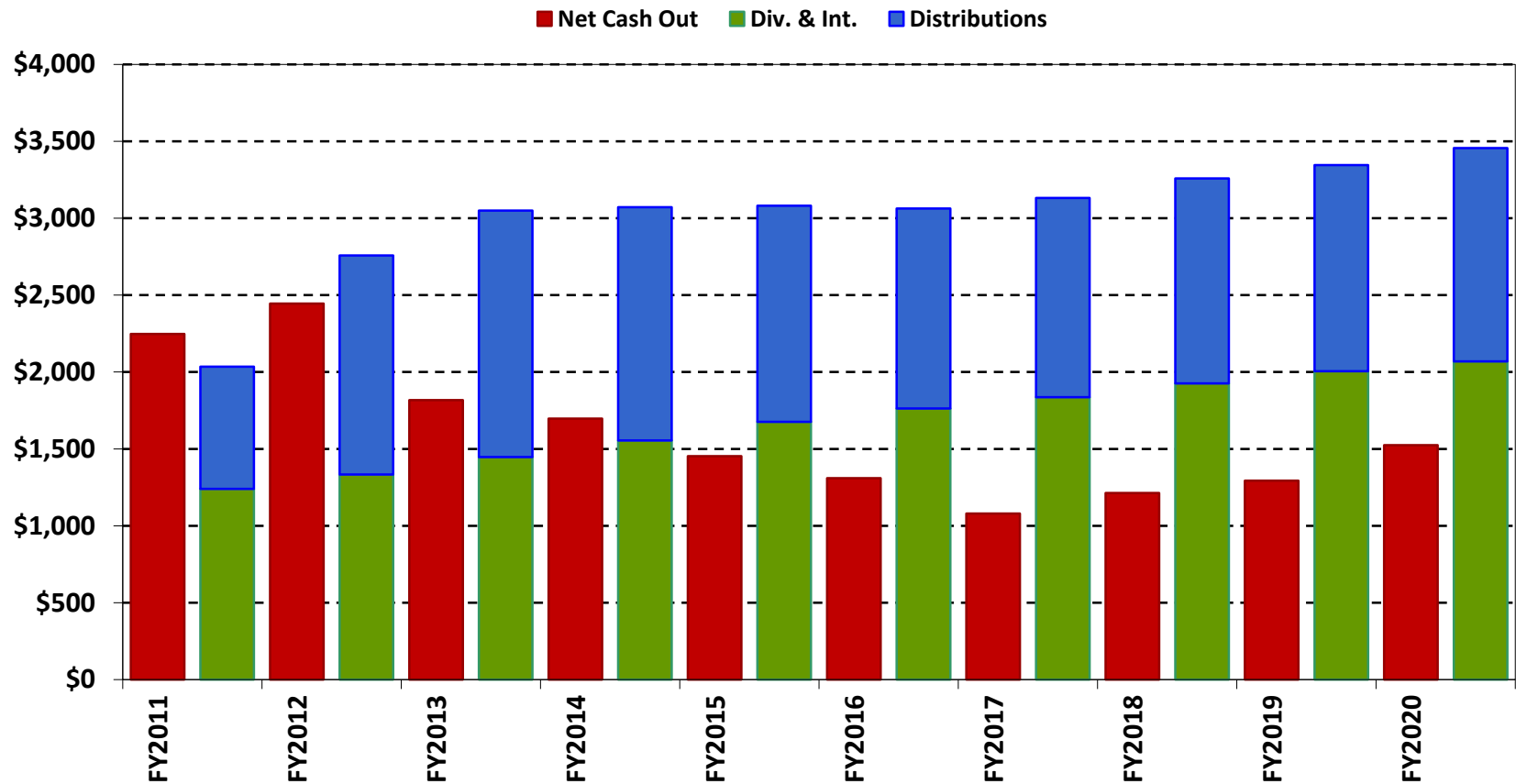
March 2005
\$43.1 billion



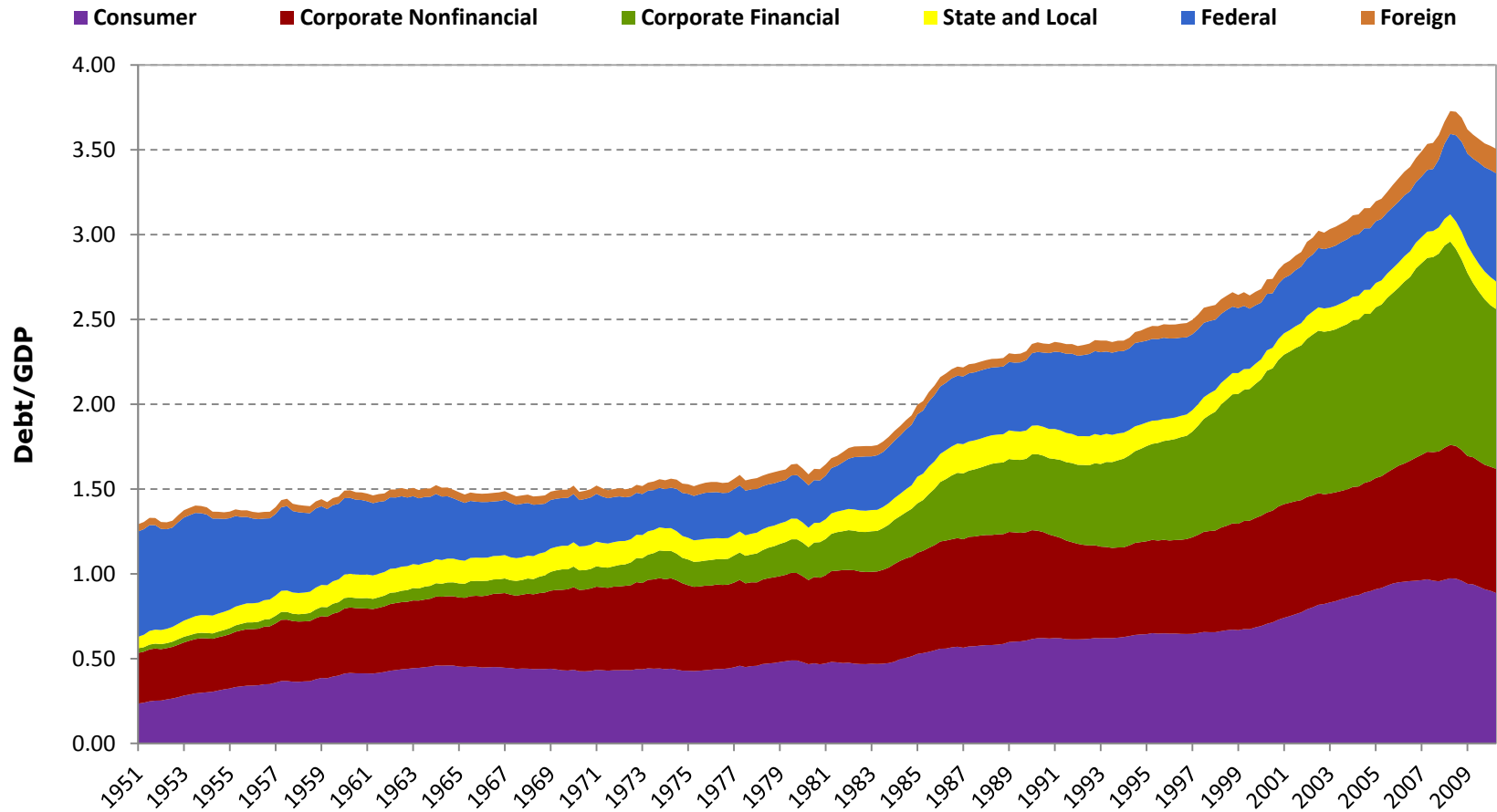
March 2011
\$54.3 billion

Cash Flow Projection

Cash Flow Projection - 10 Years (in millions)

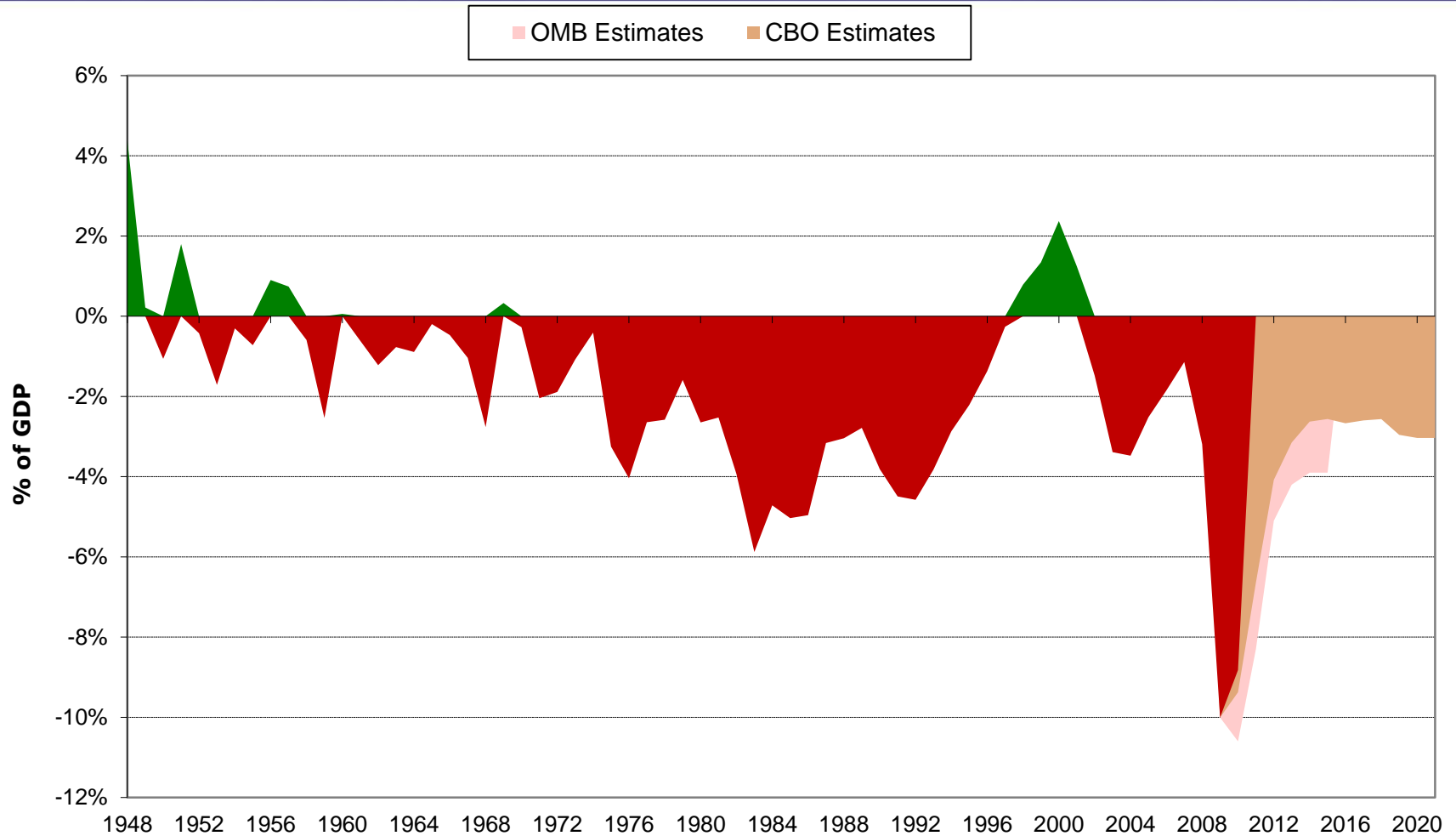


Same Old Problem: Too Much Debt

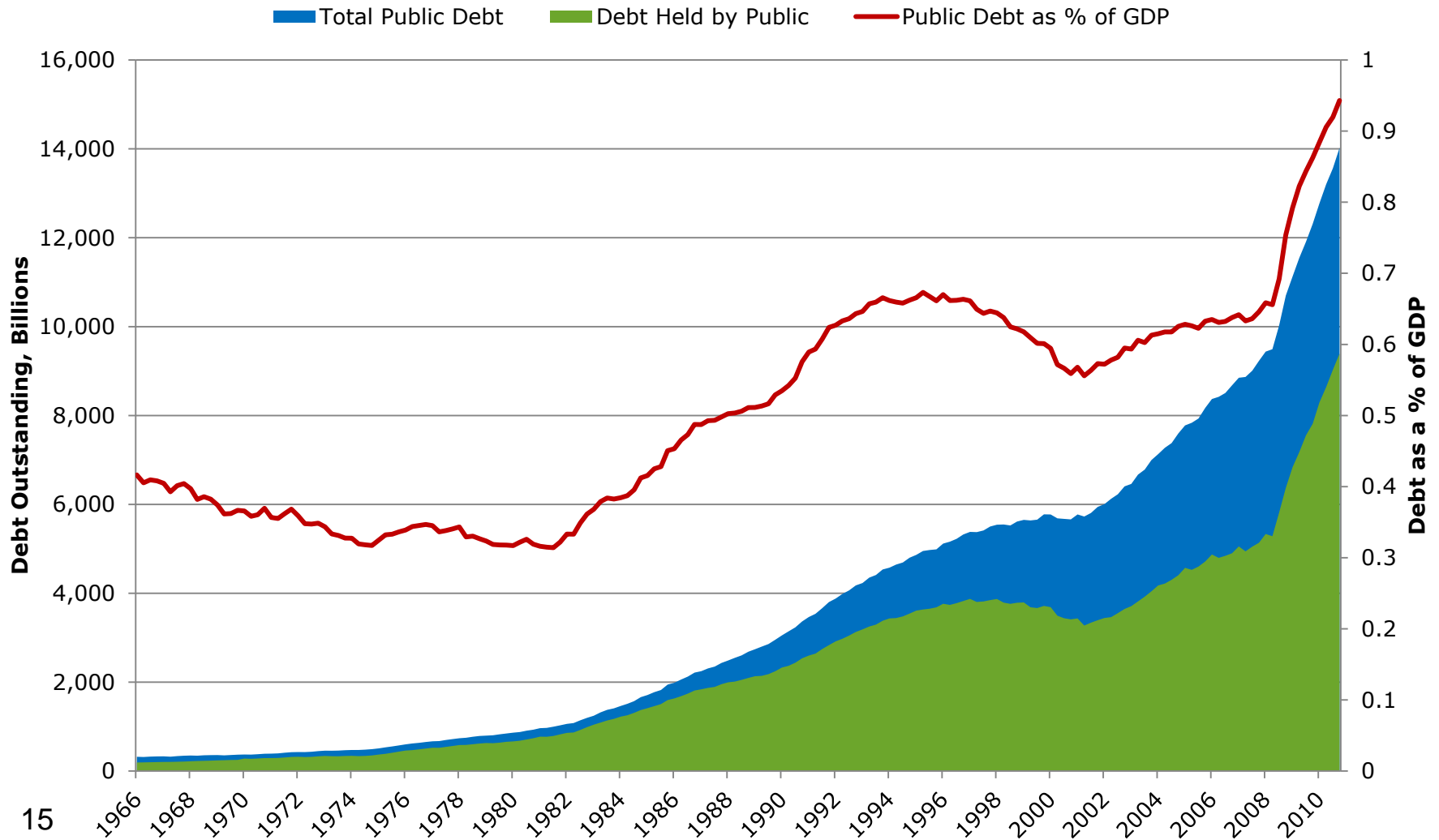


Source: U.S. Flow of Funds. Bureau of Economic Analysis (Quarterly Data as of 3/31/11)

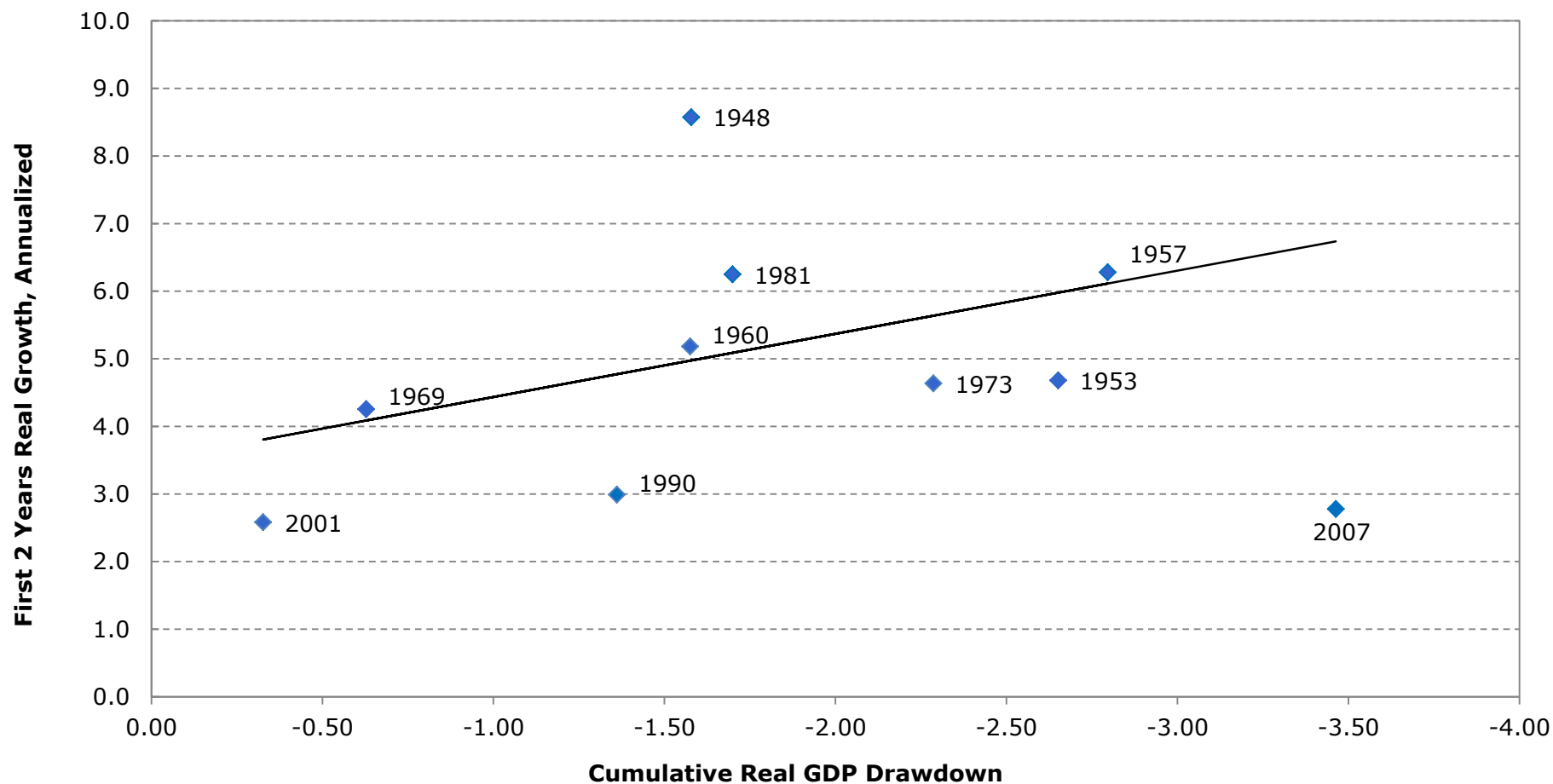
U.S. Budget Deficit / Surplus



U.S. Federal Debt Outstanding and as % of GDP



Recessions and Recoveries



Source: BEA, NBER. 2007 Recession includes available data (7 Quarters)

The Age of “Extreme Policy”

Fiscal:	TARP	10/08	\$ 700 B
	ARRA	2/09	787 B
	Tax Cut Extension	12/10	855 B
Monetary:	QE 1	2008/09	1,300 B
	QE 2	2010/11	600 B
TOTAL:			\$4,242 B

Outlook

- Extreme policy is ending. Now what?
- Debt burden still high – deleveraging will continue.
- Developed world growth will be sub-par.
- Emerging world growth will be higher, but inflation risk poses policy challenges.
- It will take time to achieve balance.
- VRS is positioned for a moderate return environment.

Administration

Robert Schultze
Director



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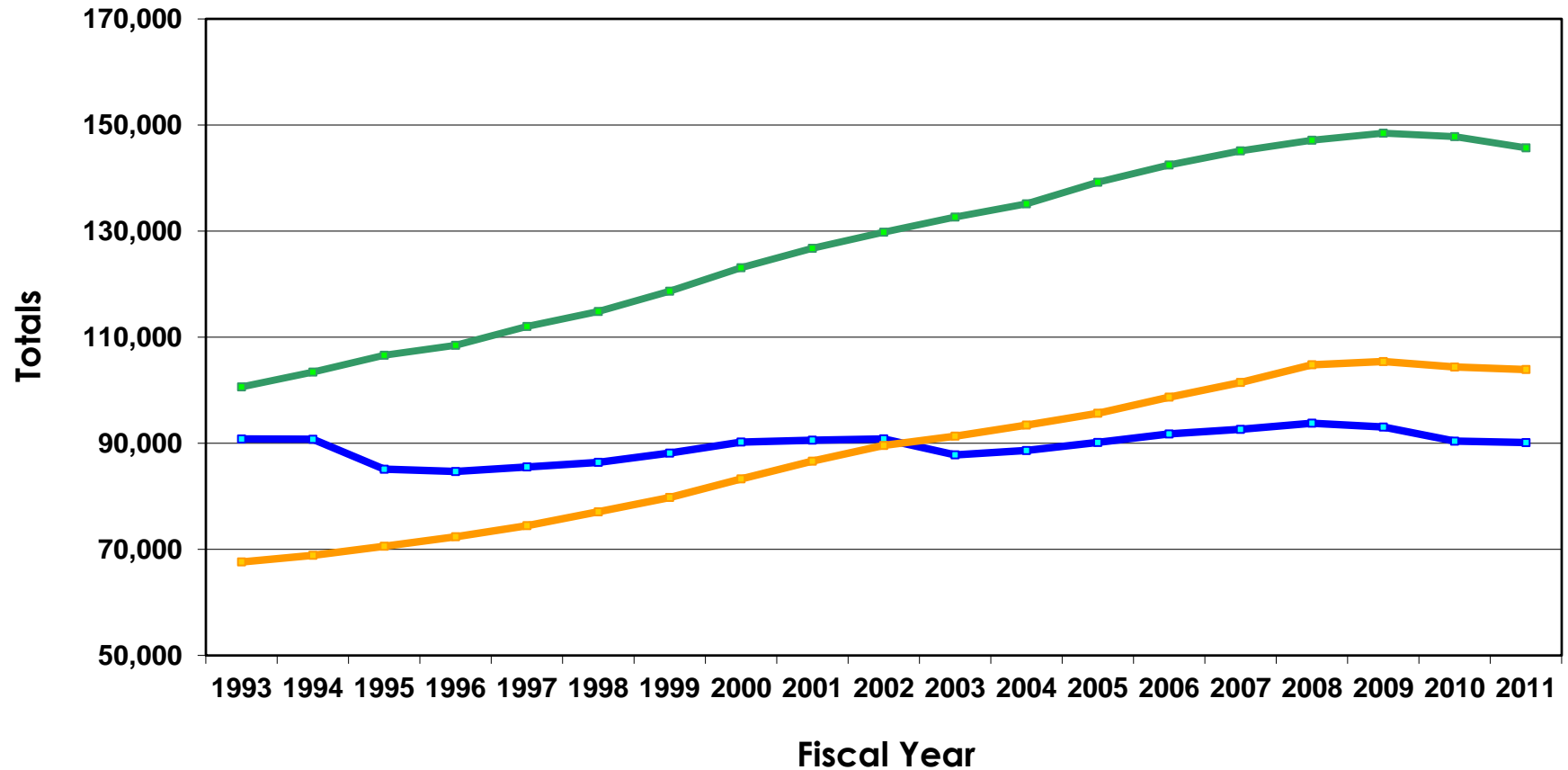
VRS Overview

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

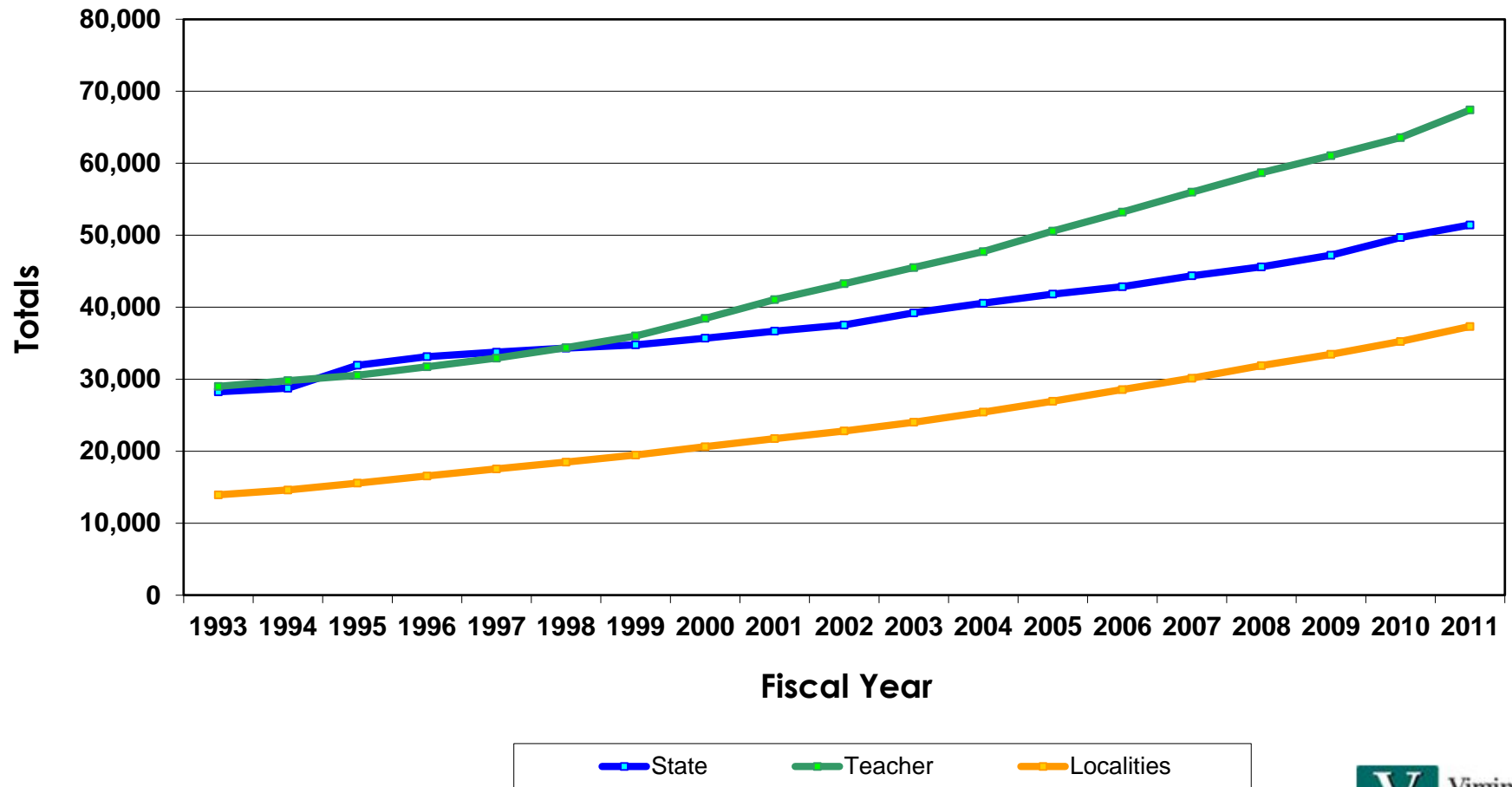
VRS Total Membership

Teachers	145,707
Political Subdivisions	103,902
State Employees	78,392
State Police Officers' Retirement System (SPORS)	1,741
Judicial Retirement System (JRS)	394
Virginia Law Officers' Retirement System (VaLORS)	9,604
Total Active Members	339,740
Retirees/Beneficiaries	156,165
Inactive/Deferred Members	105,067
VRS Overall Impact	600,972

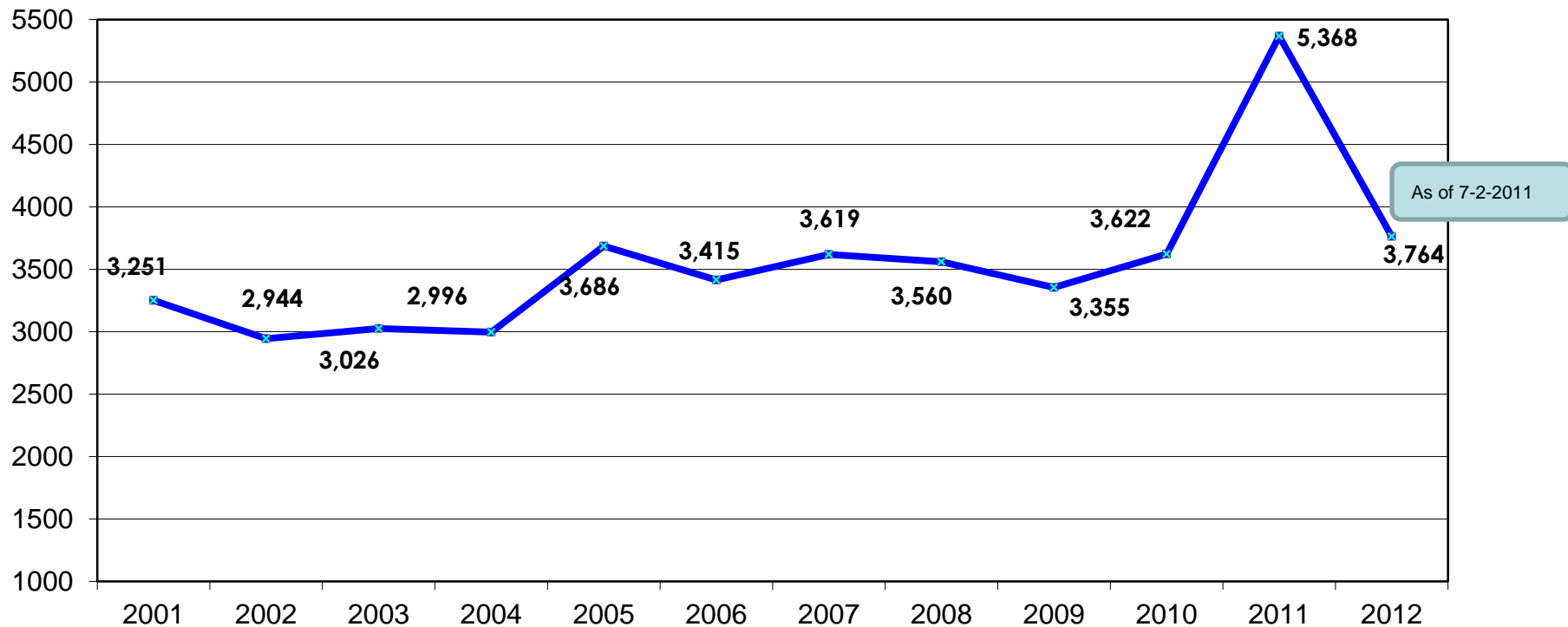
Active Members



Retirees



July Retirements by Fiscal Year



Benefit Comparison

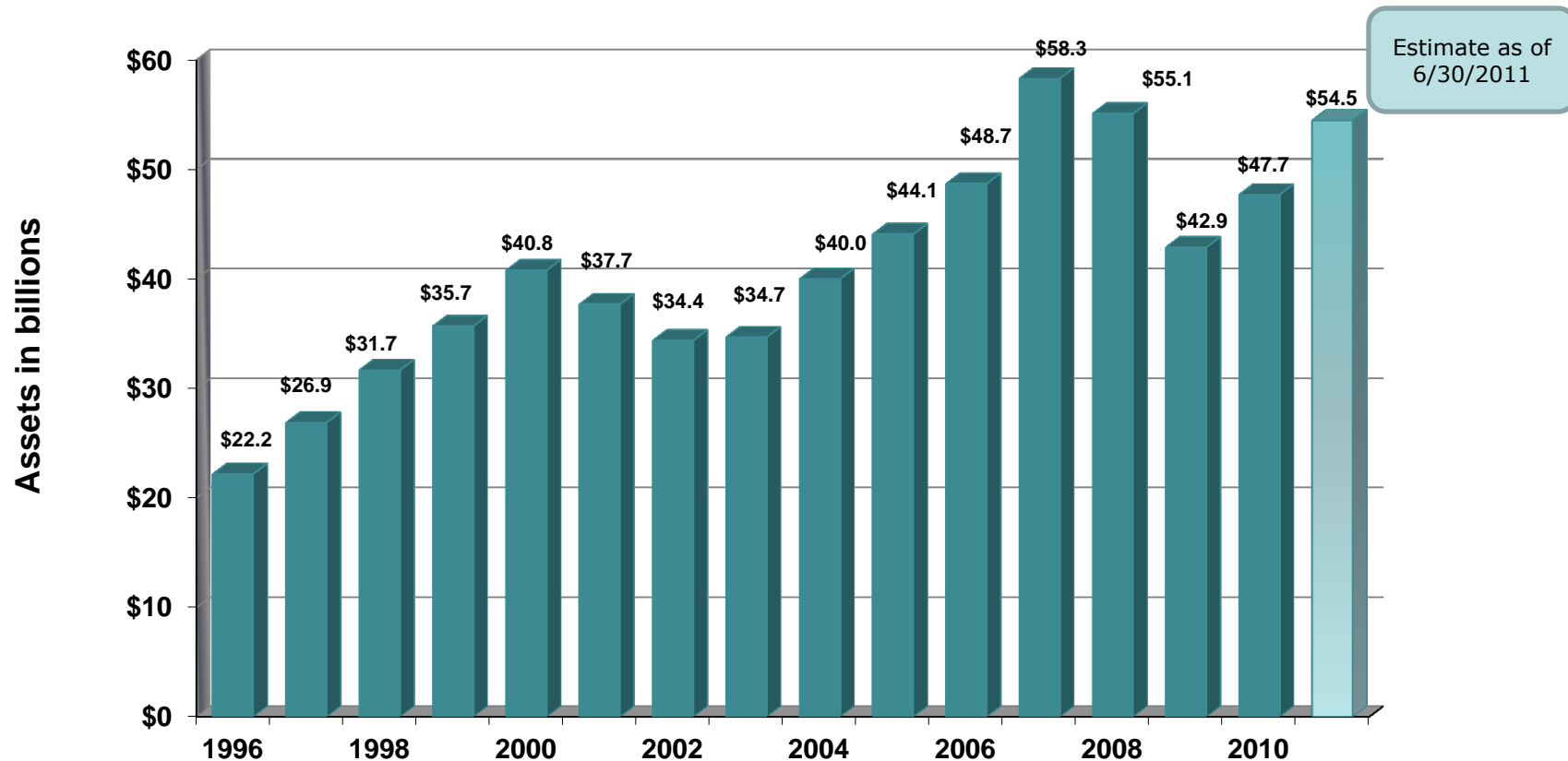
	State	Teachers	Local
Actives:			
Average Age	47.89	45.02	45.90
Average Service	12.91	11.65	10.70
Average Salary	\$46,222	\$47,958	\$39,329
Retirees:			
Avg. Age @ Retirement	60.64	59.25	61.20
Avg. Service @ Retirement	24.61	24.61	18.80
Avg. Benefit @ Retirement	41.84%	41.84%	33.60%
Avg. Annual Benefit	\$17,023	\$20,814	\$14,664

Information obtained from the June 30, 2010 Actuarial Valuation.

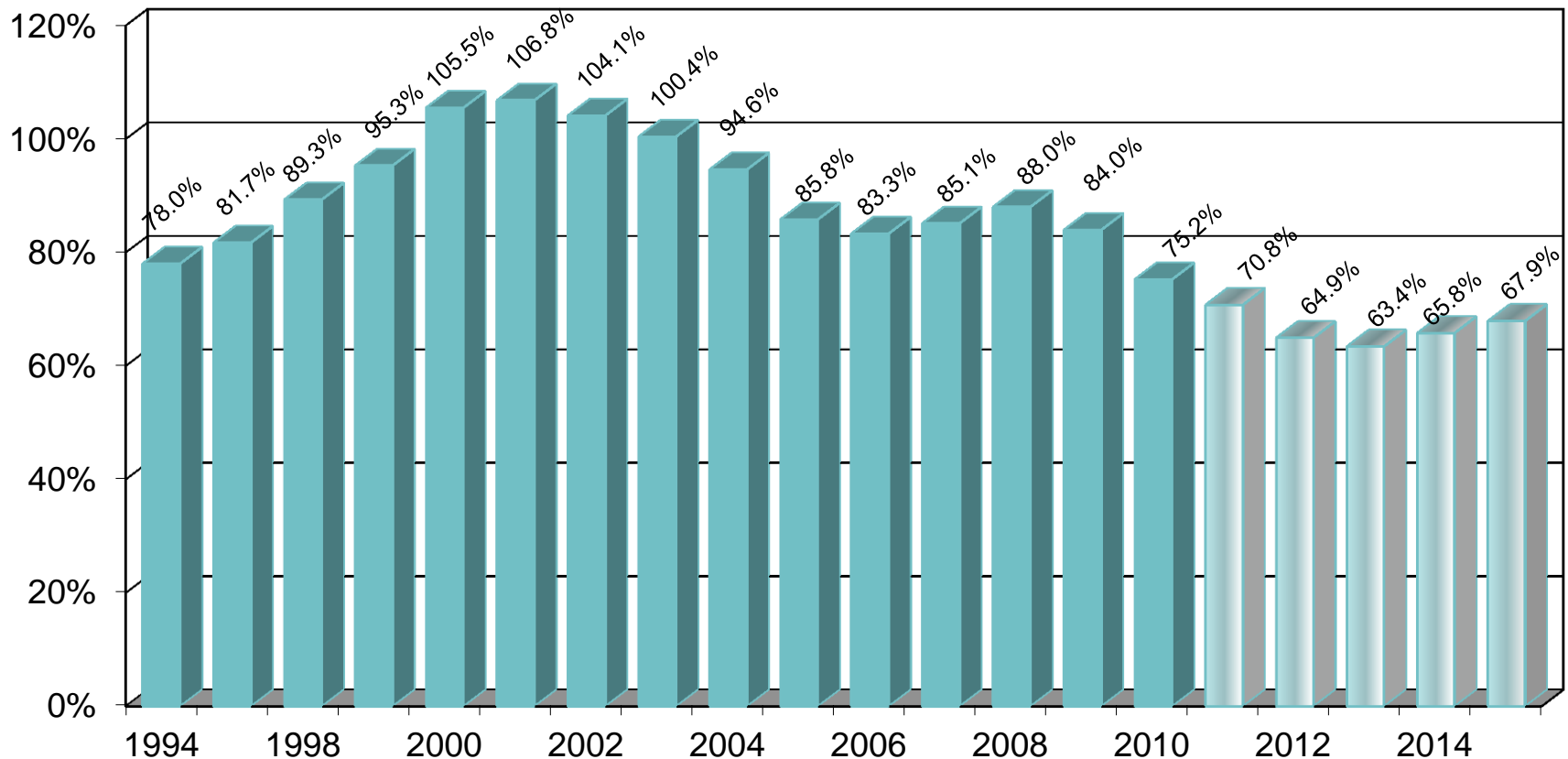
Funding VRS Benefits

- 66% of benefit costs funded by investment earnings
- 34% of benefit costs funded by employee/employer contributions

Net Assets Available for Benefits



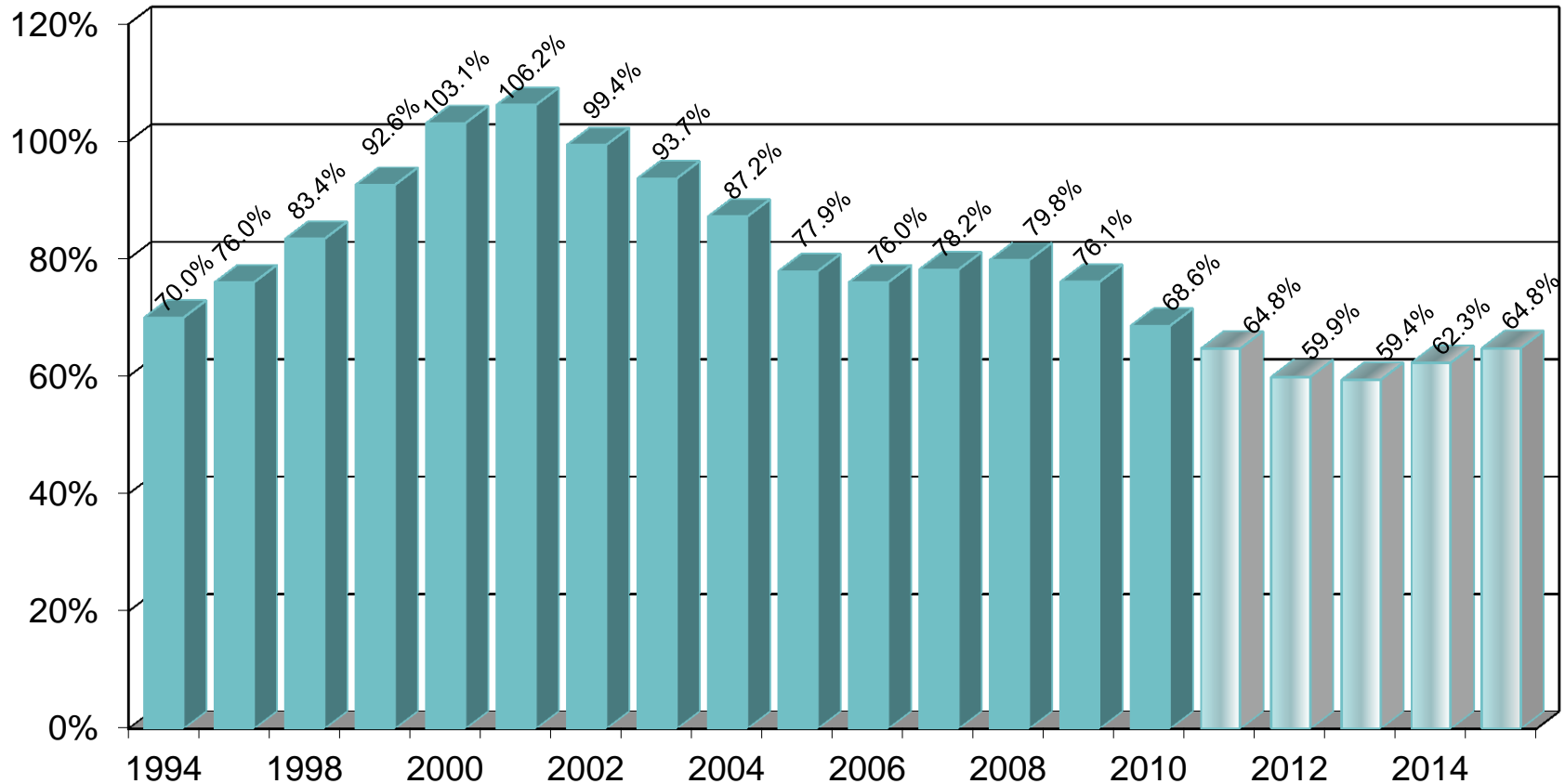
Funded Status: State Employees



Assumptions:

- FY 2011 investment return estimated at 16.8%.
- All projected years' investment return is 7.0% and 2.5% inflation rate.

Funded Status: Teachers



Assumptions:

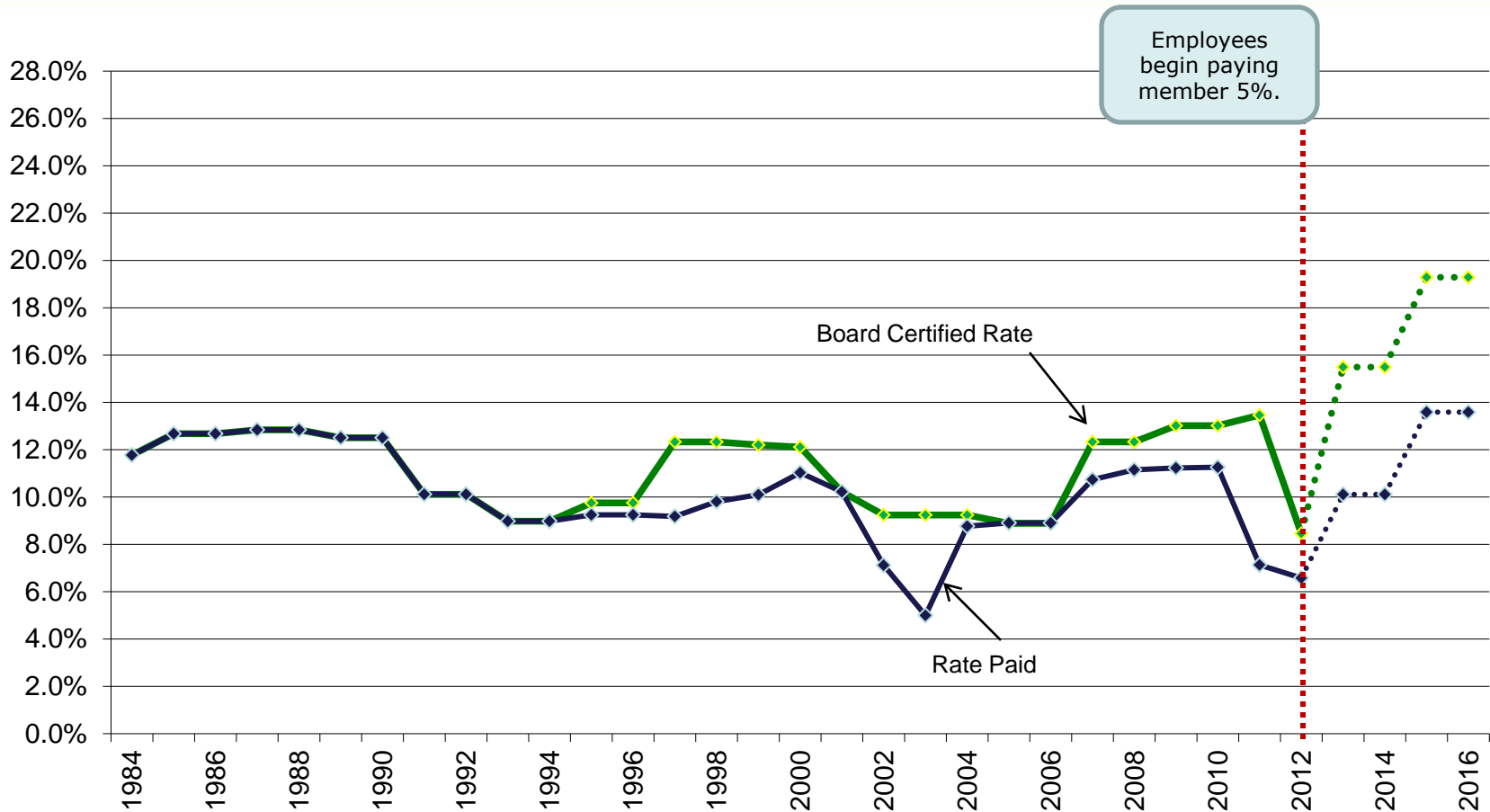
- FY 2011 investment return estimated at 16.8%.
- All projected years' investment return is 7.0% and 2.5% inflation rate.

Reasons for Decline in Funded Status

- Decline in funded status:
 1. Two recessions since 2000, producing investment gains below actuarial assumptions
 2. More conservative estimates of long-term future investment gains:
 - Pre-2005: 8.0%
 - 2005 – 2009: 7.5%
 - 2010 – Present: 7.0%
 3. Asset smoothing delays recognition of recent investment gains
 4. Long-term trend (since mid-90s) of funding contribution rates below board certified rates

State Contribution Rates

FY '84 – '16



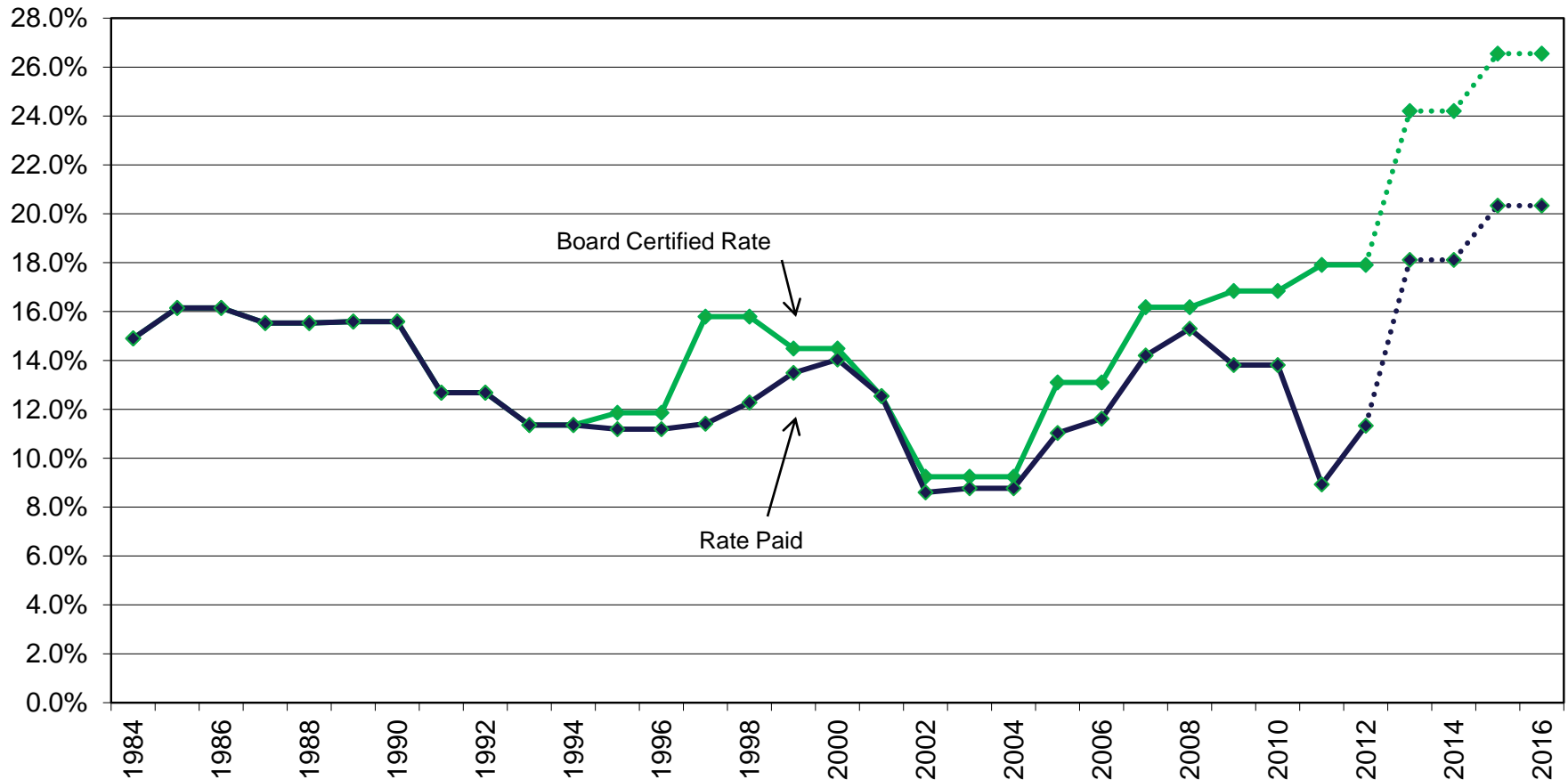
• Above rates include the 5% member contributions, until FY 2012. Beginning 6/25/2011 all state employees pay the 5% member contribution.

• During FY 2012 the state will pay 2.08% during the period of 6/25/2011 – 3/24/2012 and 6.58% during the period of 3/25/2012 – 6/24/2012.

• Board projections include 7% assumed rate of return, 2.5% inflation rate and 20-year amortization; Rate paid projections include General Assembly assumptions of 8% assumed rate of return, 3% inflation rate and 30-year amortization.

Teacher Contribution Rates

FY '84 – '16



• Above rates include the 5% member contributions paid by employers.

• Board projections include 7% assumed rate of return, 2.5% inflation rate and 20-year amortization; Rate paid projections include General Assembly assumptions of 8% assumed rate of return, 3% inflation rate and 30-year amortization.

Retirement Contribution Rates

	Board Certified 2011 & 2012	Fiscal Year 2011	6/25/2011 – 3/24/2012	3/25/2012 – 6/24/2012
State	8.46%	2.13%	2.08%	6.58%
Teachers	12.91%	3.93%	6.33%	6.33%
SPORS	25.56%	7.76%	7.73%	21.16%
VaLORS	15.93%	5.12%	5.07%	13.09%
Judges	46.79%	28.81%	28.65%	42.58%

Notes: Rates above do not include the 5% member contribution. For state agencies, the rates for all of FY 2012 and the period June 25, 2011 through March 24, 2012 represent the normal cost from June 30, 2009, using the actuarial assumptions of 8.00% investment return, 3.00% inflation and 30-year funding for the UAAL. Rates were reduced for each fiscal year by the expected savings associated with new Plan 2 employees. Rates for March 25, 2012 through June 24, 2012 represent the revised amounts from the Governor's Amendment #55. The teacher rates were developed using the normal cost from June 30, 2009 actuarial valuation and the actuarial assumptions of 8.00% investment return, 3.00% inflation and 30-year funding of the UAAL. Rates were reduced in FY 2011 for the expected savings associated with Plan 2 employees. For FY 2012 the rate also includes an additional 2.40% added by the General Assembly.

OPEB Contribution Rates

Employer OPEB Contribution Rates Fiscal Year 2012

	Certified	Paid
Group Life Insurance (All employer groups)	1.11%	0.28%
Health Insurance Credit		
State	1.06%	0.10%
Teacher	1.08%	0.60%
Local	Varies	Varies
VSDP	0.75%	0.00%

Contribution Impact

Impact of VRS Pension Contributions on State Budget

	Fiscal Year 2012
General Fund Budget	\$16.5 billion
General Fund Allocation for Retirement: State Employee VRS Contributions Teacher VRS Contributions Total:	 \$107.2 million <u>\$166.2 million</u> \$273.4 million
Percent of General Fund Allocated for VRS Pension Costs	1.65%
Average Allocation Among States (Boston College Center for Retirement Research)	3.80%

System Liabilities

Unfunded Liabilities by Plan

Plan	6/30/2010 (in billions)	Percent Paid by General Fund	Liabilities Paid by General Fund (in billions)
State Employees (includes SPORS, JRS, VaLORS)	\$6.00	54.74% (average)	\$3.28
Teachers	\$11.64	33.36%	\$3.88
Total	\$17.64	40.59% (average)	\$7.16

Upcoming GASB Standards Change

- GASB changing standards for pension liabilities:
 - Exposure drafts available this summer
 - Anticipated new standards effective for FY 2013 or FY 2014
- Reported liabilities will increase due to a discount rate that blends long-term investment assumption with municipal bond rate
- Unfunded liabilities of cost-sharing plans (school teachers) must be apportioned among participating employers

2011 General Assembly Highlights



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2011 Legislation

VRS - Requested Legislation

Bill Number	Patron	Description
HB 1794	Tata	Authorizes VRS to collect overpayment of retirement benefits from the retiree's employer under certain conditions.
HB 1795	Tata	Amends certain provisions of the Workforce Transition Act and retirement plans administered by VRS to recognize the difference in benefits accorded a person who becomes a VRS member before July 1, 2010 (Plan 1) and on or after July 1, 2010 (Plan 2).
HB 1796	Tata	Makes certain technical changes to the administration of a various VRS plans, including (i) permitting multiple deductions for purchase of prior service and for the purchase of partial months; (ii) clarifying the extent of coverage for the voluntary LTC insurance programs previously administered by DHRM (iii) clarifying the retirement options of persons receiving disability benefits under VSDP; (iv) clarifying the eligibility for the HIC as it relates to participants in the defined contribution plan for certain employees of public school divisions and the defined contribution plan for certain political appointees.
HB 1797	Tata	Clarifies that only employees participating in the VSDP are to benefit from LTC insurance paid by the Commonwealth for state employees.

2011 Legislation

Other Legislation

Bill Number	Patron	Description
HB 2095	Jones, S. C.	Provides that a member could forfeit his retirement benefits if convicted of a felony that arose out of misconduct in any position covered under the VRS.
HB 2096	Jones, S. C.	Permits any constitutional officer who has 20 or more years of creditable service, and whose office is abolished, to retire with unreduced benefits (i) at the age of 60 if the officer is first elected to office after July 1, 2010, and (ii) at the age of 50 for all others.
SR 22	McEachin	Study the investment portfolio managed by the VRS. In conducting its study, the committee shall examine how the Virginia Retirement System selects firms to manage its investment portfolio and determine if more minority-owned firms should be used to help the VRS manage its investment portfolio.

2011 Budget

Employer Contributions

Budget Actions

Accelerate the timing of state agency payments to VRS from a quarterly basis to monthly to enable VRS to invest state funds sooner and potentially yield higher investment gains on state agency contributions.

Increase employer contribution rates.

Plan 1 state employees to pay a 5 percent member contribution on July 1, 2011 along with an offsetting salary increase of 5 percent.

Comment

VRS estimates that accelerated payments would yield about \$1.7 million in additional investment gains (assuming 7% annual return).

	FY2012 Increase in Contributions (in millions)	
	Governor's <u>Proposal</u>	Final <u>Action</u>
State Employees	\$153.8	\$50.0
Teachers	<u>157.4</u>	<u>92.1</u>
Total	\$311.2	\$142.1

No change in language restricting local employers from imposing the 5% member contribution upon Plan 1 members.

2011 Budget

DC Plans

Budget Actions

As of the July 1, 2011 pay date, the cash match for salaried state employees who participate in the 457 Deferred Compensation Plan and the 403 (b) plan will return to 50 percent of their contribution, not to exceed \$20 per pay period.

Line of Duty Act Fund

Budget Actions

Authorizes the State Comptroller to advance Line of Duty death benefits to pay funeral expenses when a death is likely to be covered under the program. In the event that a subsequent investigation determines that the death was not covered, VRS would deduct the previously paid funeral expenses from any other benefits owed to the beneficiaries of the deceased.

Extends the deadline for localities to opt out of the Line of Duty Act Fund, administered by VRS, to July 1, 2012.

Thank you!



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