



2014 Quadrennial Actuarial Audit of the Virginia Retirement System

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Agenda

- ◆ Background and Scope of the Actuarial Audit
- ◆ Key Findings
- ◆ Summary of Recommendations
- ◆ Comments and Questions



Background and Purpose of an Actuarial Audit

- ◆ In accordance with §30-81 of the Virginia Retirement System Oversight Act, GRS was retained to conduct the 2014 Quadrennial Actuarial Audit of the Virginia Retirement System
- ◆ The purpose of this actuarial audit is to provide and independent verification that the actuarial results prepared by VRS's consulting actuary, Cavanaugh Macdonald Consulting, are technically sound and conform to the appropriate Actuarial Standards of Practice



Scope of the Actuarial Audit

- ◆ Review the 2013 actuarial valuation of the VRS statewide plans, valuations for select local government entities, and the three Other Post Employment Benefit (OPEB) plans
 - ▶ Review the census data used by the Consulting Actuary for appropriateness and consistency
 - ▶ Review the actuarial assumptions and methods for appropriateness
 - ▶ Verify the calculation of the unfunded actuarial accrued liability and the employer contribution rates
 - ▶ Assess adherence to the Actuarial Standards of Practice (ASOPs)



Key Findings

- ◆ The work performed by VRS's consulting actuary regarding the VRS benefit programs is reasonable, based on appropriate assumptions, and the reports generally comply with the Actuarial Standards of Practice



Key Findings (Cont'd)

- ◆ The investment return assumption of 7.00% is reasonable and appropriate
- ◆ The Board's funding policy is reasonable and appropriate
 - ▶ Appropriate balance of cost stability and maintaining intergenerational equity
 - ▶ Expect the plan to eventually attain a 100% funded ratio



Summary of Recommendations

◆ Experience Study

- ▶ Recommend VRS's consulting actuary produce a comprehensive report of the experience study report
- ▶ Report should explain basis for all assumptions recommended for use in performing future valuations
 - Improves documentation and disclosure of the assumption changes

◆ Calculation of the Actuarial Accrued Liability

- ▶ Recommend VRS's consulting actuary modify the application of assumptions and plan provisions for determining the liability for some member groups
 - Appropriate application of assumptions and plan provisions



Summary of Recommendations (Cont'd)

- ◆ Projection of Members' Pay in Year of Decrement
 - ▶ Recommend VRS's consulting actuary consistently apply the assumption that members leave active service in the beginning of the year when projecting future pay
 - Provides increased stability in the contribution rates
- ◆ Calculation of the Amortization Rate
 - ▶ Recommend VRS's consulting actuary modify the method to better simulate the plan's actual experience of receiving contributions throughout the year
 - Provides increased stability in the contribution rates

Comments and Questions





Disclosures

- ◆ This study was performed at the request of the Commonwealth of Virginia Joint Legislative Audit and Review Commission (“JLARC”). It may be shared with other interested parties only with the permission of the JLARC. If shared with other parties, it should be shared in its entirety.
- ◆ This report was prepared by Gabriel, Roeder, Smith & Company (“GRS”) in its role as actuary for the JLARC in accordance with §30-81 of the Code of Virginia to provide the General Assembly the results of an actuarial audit of the Virginia Retirement System. This report should not be relied upon for any other purpose or by any other party. GRS is not responsible for the unauthorized use of this report.
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