

JLARC Legislator's Guide Virginia Retirement System – VRS

2016



About VRS

The Virginia General Assembly maintains a retirement system for state employees and the employees of school divisions and participating political subdivisions as required under the Constitution of Virginia (Article X, Section 11).

The Virginia Retirement System (VRS), the nation's 22nd largest public or private pension system, administers retirement plans and other benefit programs for more than 660,000 current and former members. VRS members include most employees in Virginia state and local government, including public school divisions. Members participate in one or more retirement plans, including defined benefit and defined contribution plans, and programs for life insurance, sickness and disability, and other post-employment benefits.

VRS fast facts – 2015

MEMBERSHIP as of September 30, 2015



337,579 Actively employed members

189,189 Retired members & beneficiaries

134,957 Inactive members

661,725 Total

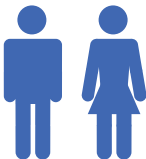
ASSETS as of September 30, 2015



\$65.4 billion

Total VRS trust fund assets

STATE EMPLOYEES AT RETIREMENT as of June 30, 2015^a



64 Average age

23 Average years of service

39% Average VRS benefit received as percentage of pay

SOURCE: VRS administration and investment data.

^a Represents members of the State Employees Plan only.

Legislative oversight

The General Assembly makes changes to VRS through legislation. The Senate Finance Committee and the House Appropriations Committee are responsible for legislation affecting VRS, including changes to benefits and state contributions to the VRS trust fund. The General Assembly approves the VRS administrative budget and state contributions to the retirement system in the annual appropriation act.

Under the Virginia Retirement System Oversight Act, the Joint Legislative Audit and Review Commission (JLARC) oversees and evaluates VRS on an ongoing basis (Title 30, Chapter 10 of the Code of Virginia). JLARC publishes semiannual VRS oversight reports, oversees a quadrennial actuarial audit, and produces other reports as requested. The Auditor of Public Accounts also conducts an annual financial audit of VRS.

State contributions to VRS

STATE CONTRIBUTIONS for fiscal year 2015



\$1,023 million to retirement plans

\$202 million to other benefit programs

\$1,225 million total state contributions

STATE CONTRIBUTION RATES approved by the General Assembly



Retirement	FY 2015	FY 2016
Teachers	14.50%	14.06%
State	12.33	14.22
VaLORS	17.67	19.00
SPORS	25.82	27.83
JRS	51.66	50.02

SOURCE: Appropriation acts, VRS financial data, and Department of Education standards of quality data. NOTE: Contributions are shown as a percentage of employee salary unless otherwise noted.

Operations

VRS is an independent agency governed by a board of trustees. The board is responsible for overseeing VRS operations, including management of the VRS trust fund, which it does through the assistance of several standing committees. The board also issues policies and procedures to guide operations, appoints an internal auditor to review agency operations, and employs an actuary to perform annual valuations of VRS plans and programs.

VRS board – nine members

Five members appointed by the **governor**

Two with investment management experience, **one** with employee benefit plan management experience, **one** local government employee, and **one** public institution of higher education employee or retiree

Four members appointed by the **General Assembly**

Two with investment management experience, **one** state government employee or retiree, and **one** public school division employee or retiree

The board appoints a director to lead VRS and a chief investment officer to oversee the VRS trust fund. The director oversees the administrative departments, which manage benefits administration, customer service, finances, human resources, policy, and IT. The chief investment officer oversees the investment department, which manages the VRS trust fund according to policies set by the board. As an independent agency, VRS is exempt from some personnel and procurement laws and regulations that apply to executive branch agencies.

The VRS operating budget was \$71.3 million for FY 2016 and was entirely funded by the VRS trust fund

VRS operations are entirely funded through the VRS trust fund; the agency does not receive general fund appropriations. The VRS operating budget was \$71.3 million for FY 2016. The operating budget includes most agency expenses, but does not include payments for outside investment services (\$370 million in FY 2015). It also does not include payments to retirees and beneficiaries (\$4.6 billion in FY 2015).

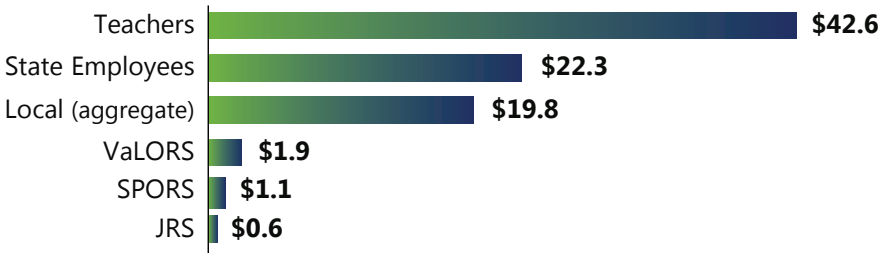
Retirement plans

VRS administers defined benefit retirement plans, or pension plans, for state and local employees. The two largest plans are the Teachers Plan and the State Employees Plan. Other plans include those for state police officers (SPORS), other Virginia state law officers (VaLORS), judges (JRS), and individual retirement plans for 585 local political subdivisions. Plan members are divided into three benefit groups, depending on when they were hired: Plan 1, Plan 2, and Hybrid Plan. Plan 1 and Plan 2 are defined benefit plans. The Hybrid Plan has defined benefit and contribution components.

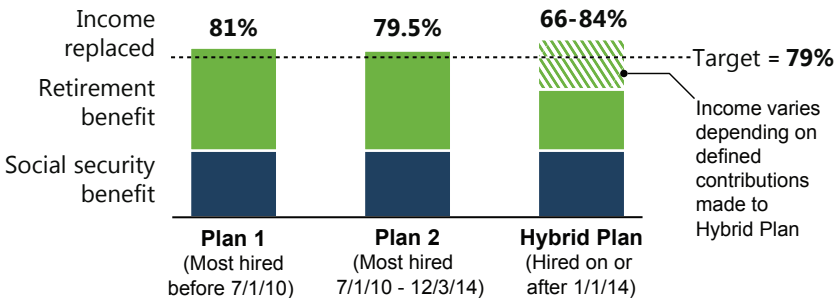
Members with enhanced hazardous duty benefits—public safety officers in SPORS, VaLORS, and more than half of local plans—receive relatively higher benefits per year of service and are eligible to retire with fewer years of service. Some of these members receive a hazardous duty supplement from when they retire until age 65 or when they become eligible for social security, depending on their plan. Members with enhanced benefits are exempt from the Hybrid Plan.

Defined benefit plans at a glance

PLAN SIZE BY TOTAL LIABILITY as of June 30, 2015 (\$ billions)



INCOME REPLACEMENT RATIO BY BENEFIT GROUP



SOURCE: VRS plan financial information and actuarial analysis. NOTE: Local plan size is the aggregate liability of all 585 plans for political subdivisions. Income replacement for State Employees Plan member retiring at age 65 with \$55,000 salary and 30 years of service.

VRS also administers eight defined contribution plans. Optional retirement plans for higher education faculty, political appointees, and school superintendents are primary plans offered in lieu of a defined benefit plan. The Commonwealth 457 and Virginia 401(a) Cash Match plans are available to most state employees, and some local employees, for supplementing their defined benefit plan. The Hybrid Plan, which features both defined benefit and contribution components, is only open to that group's members. About 133,000 state and local employees participate in one or more defined contribution plans. The plans held total assets of \$3.4 billion as of September 30, 2015. Assets are individually owned and held separate from the VRS trust fund.

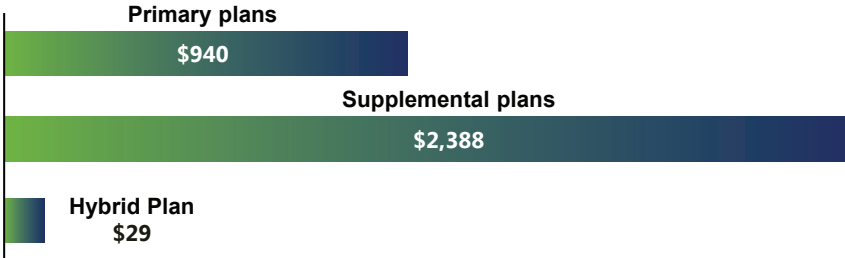
The defined contribution plans are provided by private companies under contract with VRS. These companies charge participants for the investment management and account administration services they provide.

Defined contribution plans at a glance

TYPES OF PLANS



PLAN ASSETS as of September 30, 2015 (\$ millions)



SOURCE: VRS plan financial information.

Other benefit programs

VRS administers several additional benefit programs for members.

Retiree health insurance credit – Provides a reimbursement to offset the cost of health insurance premiums, equal to \$1.50 to \$4 per year of the employee's creditable service each month. Available to retired state employees, teachers, and employees of participating local governments who have at least 15 years of service.

Group life insurance – Provides basic group life insurance for death and dismemberment. Available to active state employees, teachers, and employees of participating local governments. Employees have the option to purchase additional coverage for themselves and other family members.

Disability programs – The Virginia Sickness and Disability Program (VSDP) provides eligible state employees with sick leave, family leave, and personal leave, as well as short- and long-term disability benefits for non-work- and work-related illnesses and injuries. The Virginia Local Disability Program (VLDP) provides disability benefits for employees of participating school divisions, local governments, and political subdivisions. VRS members who are not covered under VSDP or VLDP are covered under traditional disability retirement benefits.

Line of Duty Act program – Provides health insurance and death benefits for state and local government employees and volunteers who die or become disabled in the performance of public safety duties. The Department of Accounts administers the program and VRS manages funds for those state agencies and localities that have chosen to pool their funds. Administrative duties will shift to VRS and the Department of Health and Human Resources if legislation passed by the 2015 General Assembly is reenacted in 2016.

Other programs – Include voluntary, employee-paid, group long-term care insurance and a voluntary program that allows employees to purchase prior service credit toward retirement.

Funding

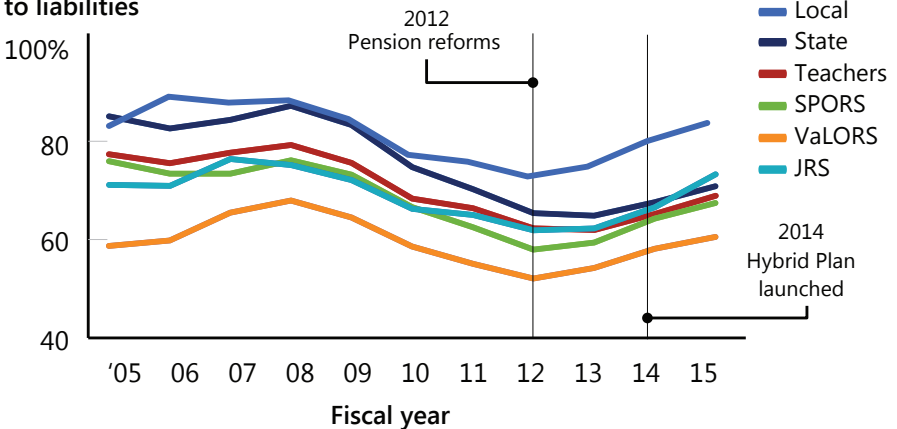
The financial assets used to pay VRS retirement and other benefits are pooled in the VRS trust fund. VRS receives revenues for the fund from three sources: employer contributions, member contributions, and investment income.

Employer contributions come from state agencies, school divisions, and local political subdivisions. The recommended employer contribution rate for each plan is calculated by the VRS actuary every two years. The rate covers the cost of plan benefits and repays a portion of outstanding liabilities. The state pays employer contributions for the State Employees, SPORS, VaLORS, and JRS plans. The state pays about one-third of the Teachers Plan costs, and school divisions pay the rest. Each local plan has its own unique employer contribution rate that is paid by the local body.

The health of a pension plan is commonly measured by its funded status, which is the ratio of plan assets to liabilities. The five state-supported plans had a funded status ranging from 61 to 74 percent as of June 30, 2015. Local plans had an aggregate funded status of 84 percent.

Funded status of VRS retirement plans

Ratios of assets to liabilities



SOURCE: VRS annual reports and VRS actuarial valuation reports.

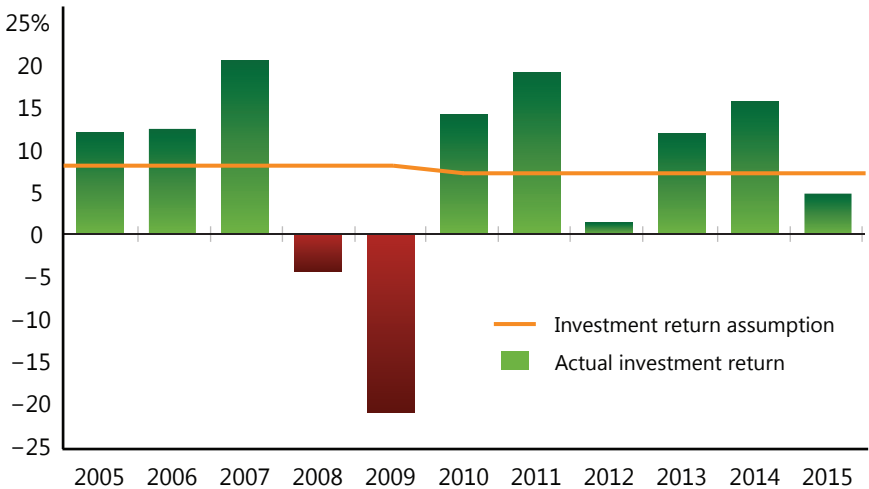
Investments

VRS invests the trust fund's assets to provide additional income to pay for retirement and other benefits. Investment income covers approximately two-thirds of the cost of benefits. VRS assumes an annual seven percent rate of return on investments, but actual returns vary from year to year.

Trust fund investments are allocated among different asset classes in order to maximize returns while controlling risks. The asset classes are global public equity (stocks), investment-grade fixed income (bonds), and alternative investments (private equity, real assets, and high yield credit and convertibles). Asset allocations are set by the VRS board, and investments are managed by the investment department.

Virginia statute places restrictions on how VRS trust fund assets can be used and managed. VRS assets must remain separate and independent from all other state funds and must be administered solely in the interest of the members and beneficiaries of the retirement system (Article X, Section 11, Constitution of Virginia). The VRS board has broad authority for determining how funds are invested, but is required to maintain a diverse investment portfolio and make decisions with "the care, skill, prudence, and diligence" of a "prudent person" (§ 51.1-124.30, Code of Virginia).

VRS fiscal year investment returns



SOURCE: VRS annual reports and investment department data. NOTE: Investment return assumption was reduced from 7.5 percent in FY 2009 to 7.0 percent in FY 2010.



Additional resources

For more information on JLARC oversight of VRS, see jlarc.virginia.gov.

For more information on VRS and its benefit plans, see varetire.org.

For an online policy guide to state pension plans by the National Conference of State Legislatures, see www.ncsl.org/research/fiscal-policy/pensions.aspx.



JLARC.VIRGINIA.GOV

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