

# LEGISLATOR'S GUIDE TO

# The Virginia Retirement System

An informational Handbook and Reference  
Prepared by the VRS Oversight Staff of the  
Joint Legislative Audit and Review Commission

Second Edition — May 1999

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## **Preface to the Second Edition of the *Legislator's Guide to the Virginia Retirement System***

Section 30-81E of the *Code of Virginia* requires that the Joint Legislative Audit and Review Commission (JLARC) prepare and maintain an informational guide to the Virginia Retirement System (VRS) for the members of the General Assembly. In accordance with that mandate, JLARC has prepared the 1999 edition of the *Legislator's Guide to the Virginia Retirement System*. The availability of accurate and timely information about VRS is essential, given that the General Assembly is constitutionally required to maintain a retirement system for public employees.

This edition of the *Legislator's Guide* updates the information related to the VRS administrative structure, benefit programs, pension funding, investments, and State retirement legislation originally presented in the 1996 edition. This edition also incorporates the benefit program changes authorized by the 1999 General Assembly. Finally, new information on the VRS investment and deferred compensation programs has been included.

The *Legislator's Guide* will be updated and revised periodically to continue enhancing its usefulness to the General Assembly. In furtherance of this, the version maintained on the JLARC Internet website (<http://jlarc.state.va.us>) will be updated as new information becomes available. Moreover, we welcome any comments on the format, content, and usefulness of the material contained in this edition.

On behalf of the Commission staff, I would like to acknowledge the support and cooperation of the Virginia Retirement System Board of Trustees, the Director, and the Chief Investment Officer, as well as the assistance of VRS staff in the completion of this second edition of the *Legislator's Guide*.



Philip A. Leone  
Director

May 27, 1999

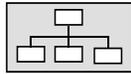


## Topic Index to this Guide

A detailed contents page is provided on the blue divider sheet at the beginning of each substantive chapter



**Frequently-Asked Questions  
Concerning VRS** ..... Pages Q&A-1 to Q&A-8



**Organization, Management and  
Oversight Structure** ..... Pages I-1 to I-18

Board of Trustees and Advisory Committees  
Management and Staffing  
Strategic Planning  
Legislative Oversight



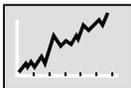
**Benefit Programs and Services** ..... Pages II-1 to II-62

Structure and Level of Benefits  
Recent Changes in Benefit Structure



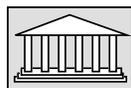
**Funding of Benefits** ..... Pages III-1 to III-22

Pension Funding Policy  
Adequacy of Pension Funding  
Group Life Insurance Funding



**Investments** ..... Pages IV-1 to IV-13

VRS Investment Fund Portfolio Overview  
Recent Issues of JLARC's *VRS Oversight Report*



**State Retirement Legislation** ..... Pages V-1 to V-9

State Legislation  
Sections of the *Code of Virginia* Applicable to VRS





## Responses to Frequently-Asked Questions Concerning VRS

### What type of retirement plan is VRS?

According to Section 401(a) of the Internal Revenue Code, VRS is classified as a defined benefit plan. A defined benefit plan will pay each eligible member a specific benefit amount based primarily on years of service, age, and compensation.

### How are VRS benefit levels established?

All VRS benefits are established and modified by the General Assembly through the legislative process.

▶ For related information, see pages II-1, II-48 to II-61

### How are VRS benefits funded?

VRS benefits are funded by member contributions, employer contributions, and investment earnings. Member and employer contributions are invested by VRS in order to accumulate sufficient assets to pay for future pension benefits. In other words, tomorrow's pension benefits are paid for today. A member's pension benefit is guaranteed by his or her employer's continued participation in VRS, and by the employer's continued payment of the required employer contribution.

Each VRS member has an account consisting of member contributions plus interest credited at an annual rate of four percent. The member contribution, which most employers pay on behalf of their employees, is set by statute at five percent of compensation. All of the individual member accounts together comprise the VRS member reserves.

Member contributions, including employer-paid member contributions, are refundable to a member who terminates employment prior to retirement.

Each employer has an account which accumulates employer contributions, transfers of investment income, and amounts transferred from individual member accounts upon a member's retirement. Employer accounts are charged with benefit payments. All of the individual employer accounts together comprise the VRS employer reserve.

The employer contribution rate typically changes every two years based on an actuarial valuation that considers projected pension benefits, active employee withdrawal rates, retirement rates, life expectancies, future salary increases, inflation projections, and future investment earnings. There are separate employer contribution rates for State employees, teachers, State Police, and judges. In addition, each political subdivision has its own employer contribution rate. Employer contributions are not refunded to members.

▶ For related information, see pages III-1 to III-10

### How are VRS funds invested?

The VRS Board of Trustees is responsible for ensuring that VRS funds are currently invested in a prudent and diversified manner. At the present time, VRS funds are invested in four types of assets: public equity (U.S. and international stocks), fixed income (primarily bonds), real estate, and private equity. The chief investment officer has been delegated authority by the Board to allocate assets within the approved policy.

A professional advisory committee (the Investment Advisory Committee) assists the VRS Board of Trustees in investment matters. The VRS investment department, led by the Chief Investment Officer, manages and oversees the investment of funds on a day-to-day basis. The majority of investments are managed externally by private investment firms hired by VRS, although some are managed internally by VRS staff.

▶ For related information, see page IV-1 to IV-2, IV-4 to IV-11

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**Are VRS pension benefits adequately funded?**

Overall, the level of VRS pension benefit funding is reasonably sound. As of the June 1996 actuarial valuation, VRS has sufficient assets to cover 80 percent of the projected future benefits of all its current members. In addition, VRS has accumulated sufficient assets to cover 100 percent of the future pension benefits of current retirees. The funding level for current active members is not as high.

The funding level for active judges is particularly low. As of June 30, 1996, VRS had not accumulated any assets to cover the future pension benefits for active judges. This low level of funding is due in part to the increased liability from prefunding the COLA.

The cost of living adjustment, which helps protect the pension benefit from the effect of inflation, has historically been funded differently from the pension benefit itself. Using a pay-as-you-go approach, today's cost-of-living-adjustments are paid for today and tomorrow's are paid for tomorrow. Legislation enacted by the 1996 General Assembly requires that full prefunding of the COLA be phased in over a five-year period, beginning in fiscal year 1998.

▶ For related information, see pages III-1 to III-3, III-7 to III-20

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**What is the relationship between the amount of money in an employee's member account and the amount of the VRS benefit?**

The two are not related, with one exception. VRS provides a defined benefit which is equal to the benefit multiplier times years of service times average final compensation. Provided that an individual is eligible to retire, a pension benefit equal to this amount is paid regardless of the amount in the member's account. Member contributions are used to help fund the defined benefit, but the contributions themselves do not make up the benefit.

The exception applies to an individual retiring under the 50/10 early retirement provision. In this situation, a retiree receives a benefit equal to the greater of the benefit formula calculation using actuarial reduction factors, or the actuarial present value of his accumulated contributions plus interest.

The defined benefit approach to providing retirement benefits differs from a defined contribution benefit plan, under which a member's benefit is directly tied to the amount of his contributions. Under a defined contribution retirement plan, which is increasingly common in the private sector, accumulated contributions plus investment earnings are paid to the individual at retirement. That is the extent of the retirement benefit.

▶ For related information, see pages II-4 to II-9

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**Can an employee borrow against his or her VRS account balance?**

No, this is not permitted by the *Code of Virginia*.

**How long does it take for a member to receive a refund?**

A member leaving the retirement system should receive a refund within 45 to 60 days of the last payroll run reported to the VRS.

**Why does VRS only pay four percent interest on refunded member contributions?**

The four percent interest rate is set by Section 51.1-147 of the *Code of Virginia*.

**How can a member roll-over a refund so that it is not taxed?**

A member may instruct VRS to roll over the amount of her refund into another qualified employer retirement plan or to an individual retirement account. If the refund is not rolled-over, VRS is required to withhold 20 percent for federal income tax purposes. If the recipient of the refund is a Virginia resident, VRS is required to withhold an additional four percent for Virginia income tax purposes.

**How does social security affect a retiree's VRS benefit?**

VRS and social security are separate systems. Social security benefits do not affect VRS benefits. The only exceptions to this are if a member retires due to a work-related disability, retires due to regular disability and receives the minimum guaranteed benefit, or dies from a work-related cause while in service. In each case, a social security award will effectively decrease the VRS benefit.

▶ For related information, see pages II-9, II-14, II-51 to II-52, II-56

**When can an employee retire with unreduced benefits?**

In order to receive a pension benefit without any reduction factor being applied, an employee must satisfy certain age and service requirements. These requirements vary depending on whether the individual is a State employee or teacher, a political subdivision employee, a State Police officer, or a judge.

Currently, State employees, teachers and most political subdivision employees can retire with unreduced benefits at 65 years of age with five years of service. State employees, teachers, and employees of political subdivisions which selected this benefit are also eligible to retire with unreduced benefits at age 50 with 30 years of service. In addition, some political subdivisions do not allow unreduced retirement, and instead allow their employees who are at least 55 years old to retire when the sum of their age and years of service equals 90. State Police officers, employees in the Virginia Law Officers' Retirement System (effective October 1, 1999), and most local law enforcement personnel whose employers provide LEOS benefits may retire at either 60/5 or 50/25. Some political subdivisions that provide LEOS benefits do not allow unreduced retirement at 50/25, but rather permit unreduced retirement at 55/30. Judges may retire at either 65/5 or 60/30.

While VRS members of sufficient age can retire with unreduced benefits with as little as five years of service, a greater number of years of service produces a larger pension benefit.

▶ For related information, see pages II-4, II-48 to II-49

**What is the earliest that an employee can retire and receive some type of benefit?**

State employees, teachers, and political subdivision employees may retire at 55 years of age with five years of service, or at 50 with 10 years of service. State Police officers, employees covered by the Virginia Law Officers' Retirement System, and most local law enforcement personnel whose employers provide LEOS benefits, may retire

at 50/5. Some political subdivisions only permit their law enforcement officers to retire early at 55/5. However, a substantial reduction factor is applied to the benefits of individuals who choose to retire early.

▶ For related information, see pages II-4, II-48 to II-49

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**Is an employee allowed to purchase additional service credit in order to increase his or her pension benefit?**

Yes. Additional service credit may be purchased, provided that the employee satisfies at least one of the conditions required by the *Code of Virginia*. For example, an individual may purchase additional service credit, at a cost of five percent of salary for each year purchased, for time periods when the individual was on personal sick leave, maternity leave, educational leave, leave for temporary employment with the General Assembly, or for periods for which the employee has received a refund previously. Service purchased at five percent of salary through a payroll deduction may be purchased on a before- or after-tax basis.

In addition, employees with 25 years of service in the system may purchase additional service credit, at a cost of five percent of salary per year purchased, for periods when he was in active military service of the United States, creditable service in another public employee retirement system, or federal civilian service (up to four years).

An employee may also purchase additional service credit, at a cost of 15 percent of salary per year purchased, for periods when he was covered under a different public employee retirement system, was in the federal civil service, or was in active military service.

An employee may also be granted additional service credit at no cost under certain circumstances. If the member left a VRS covered position on a military leave of absence and returned to a covered position within 12 months of receiving an honorable or general discharge, he may be granted service credit. The employee may also receive up to two years credit if she is vested and as a teacher was required to go on involuntary maternity leave prior to July 1, 1974.

Up to one year of service credit can be purchased at a five percent rate for leave without pay taken for the birth or adoption of a child. Finally, if an employer makes a payment for unused sick leave, the employee can use the gross payment to purchase VRS service at 20 percent of salary. To utilize this benefit, the employee must take an immediate retirement.

▶ For related information, see pages II-10 to II-11, II-53 to II-55

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**What type of pension benefit payment options are available?**

A payment option is selected at the time that an employee applies for retirement. Available options include : basic benefit, 100 percent survivor option, 50 percent survivor option, leveling option, and a special survivor option. In general, an employee may not change the payment option once the retirement date has passed.

The basic benefit is the amount due based on an employee's average final compensation and years of service, calculated using the VRS benefit formula. At the time of a retiree's death, if the amount of his accumulated contributions plus four percent interest exceeds the amount of pension benefits that he received, the excess is paid to his designated beneficiary in a lump sum.

The survivor options allow a retiree to receive a reduced pension benefit and thereby provide a benefit to a second person (the contingent annuitant) after the retiree's death. The amount of benefit reduction for the retiree depends on (1) the age of retiree and

contingent annuitant at the retirement date, (2) the age difference between the two individuals, and (3) the percentage of the pension benefit (up to 100%) designated by the retiree to be provided to the contingent annuitant.

The leveling option is basically a loan from VRS that allows the retiree to receive an amount larger than the basic benefit in the early years of retirement and repay the loan in the later years of retirement by receiving an amount less than the basic benefit. The VRS member determines the age at which the reduction will occur. Upon a member's death, his survivor does not receive a benefit, other than a refund of excess member contributions. There are very complex tax implications related to the leveling option. Members are encouraged to consult a tax advisor when considering this benefit.

▶ For related information, see pages II-12, II-55

**How much of a cost-of-living adjustment will a retiree receive?**

The annual VRS cost-of-living adjustment (COLA) is based on the U.S. consumer price index (CPI). A retiree will receive a COLA equal to the first three percent in the CPI, plus one-half of the next four percent increase in the CPI, up to a maximum COLA of five percent.

**When does a retiree start receiving a COLA?**

The first COLA is effective on July 1 of the second calendar year after retirement. For example, if an employee retires on September 1, 1998 he will receive a COLA effective July 1, 2000, and paid with the August 1, 2000, payment.

▶ For related information, see pages II-13, II-55

**How much does the COLA protect a retiree's pension benefit from inflation?**

That depends upon the actual inflation rate. The COLA provides complete protection from inflation, if the annual inflation rate is no more than three percent. Taking as an example a State employee who retires after 20 years of service with a final average salary of \$25,000, four percent inflation will erode three percent of the benefit after 20 years while six percent inflation will erode 14 percent of the benefit after 20 years.

However, social security benefits offer full protection from inflation. A substantial portion of a VRS retiree's total retirement income is from social security. This helps to lessen the impact of the fact that the VRS benefit is not fully protected from inflation.

**Is the VRS pension benefit taxable?**

The VRS benefit is subject to federal income tax and, if the retiree resides in Virginia, to State income tax. The amount of tax due is based on total taxable income and the number of deductions claimed. However, if the retiree paid his member contribution on an after-tax basis, a certain portion of each pension check is excluded from State and federal income tax. In the event that a retiree lives longer than the life expectancy used in Internal Revenue Service regulations, the entire benefit is again taxable.

**How can an employee determine the amount of his or her pension benefit at an assumed future retirement date?**

Upon request, VRS staff can prepare an estimate of an active member's future pension benefit. Employers may also prepare benefit estimates by using benefit calculation software provided to each employer by VRS. In addition, an employee may calculate his or her own benefit estimate using VRS benefit calculation software available on the Internet, or through information published in the *Handbook for Members*.

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**Is the VRS benefit subject to attachment by creditors or the courts?**

The *Code of Virginia* limits the attachment of VRS benefits to the following instances: pursuant to an IRS tax levy, to satisfy a debt to a member's employer, to pay child support, or to make alimony payments or satisfy other marital property rights as stated in an approved domestic relations order.

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**How much life insurance coverage does an employee have through VRS?**

An employee's basic coverage equals the amount of her annual salary, rounded to the next highest thousand, and then doubled. In the event of accidental death while employed, the amount of coverage equals annual salary rounded to the next highest thousand and then quadrupled. In addition, VRS members have the option of purchasing additional life insurance coverage.

▶ For related information, see pages II-15 to II-16, II-56 to II-57

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**Is the amount of a member's life insurance coverage reduced after retirement?**

Yes. A retiree's natural death coverage reduces at the rate of two percent each month until it reaches 25 percent of its original value. It takes a little more than three years for the maximum reduction to occur. Coverage for accidental death and dismemberment ceases at retirement.

▶ For related information, see pages II-15 to II-16, II-56 to II-57

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**What other types of VRS benefits, besides life insurance, are available to a retiree's survivors upon his death?**

Survivor benefits may be payable upon a retiree's death. The amount of the survivor benefit depends on the pension benefit payment option that the member selected. Under the basic benefit or the leveling option, the beneficiary receives an amount equal to the difference -- if any -- between the retiree's accumulated member contributions plus interest and the total pension benefits that were received. If a survivor option is selected, the contingent annuitant will receive either 100 percent or 50 percent of the retiree's pension benefit.

If an employee dies while still in active service, a death benefit may be payable. The amount of the death benefit depends on the age at the time of death, and whether the beneficiary named is the spouse, minor child, mother, or father. Effective July 1, 1999, death in service benefits for the survivors of active members would be increased to the equivalent of a 100 percent joint and survivor option, regardless of the age of the member at his or her death.

If an employee dies from a work-related cause, the spouse, if not remarried, is eligible for a monthly survivor benefit. If ineligible, the benefit would go to the minor children until age 18. If there are not eligible children, the benefit would be paid to the parents, if living. If the survivor qualifies for social security benefits, the survivor will receive 33.3 percent of the employee's average final compensation, offset by any workers' compensation benefit that may be payable to the survivor. The refund of the member contributions and interest is paid to the named beneficiary. If the survivor does not qualify for social security survivor benefits, the benefit equals 50 percent of the employee's average final compensation, plus a refund of contributions and interest.

▶ For related information, see pages II-12, II-14, II-55 to II-56

**How do benefits for State Police, Virginia law officers (effective October 1, 1999), local law enforcement officers and firefighters, and judges differ from those for State employees, local employees and teachers?**

The basic benefit structure is similar for each of the employee groups, but there are a few significant differences. First, State Police, Virginia law officers (effective October 1, 1999), and local law enforcement officers and full-time firefighters of participating localities are generally eligible for full retirement benefits at an earlier age. Retired State Police, Virginia law officers, local law enforcement officers, and firefighters with 20 years of hazardous duty service also receive a monthly supplemental pension benefit until age 65.

Like the other employee groups, judges receive a benefit multiplier equal to a straight 1.7 percent. Judges also receive a service credit multiplier of either 3.5 or 2.5 depending on the date of their original election or appointment. However, judges cannot retire with unreduced benefits until they have attained age 60 and 30 years of service credit (or age 65 with 5 years of service credit).

▶ For related information, see pages II-4 to II-21, II-48 to II-61

**How is an employee's State health insurance coverage affected on retirement for the cost of her premium for individual coverage?**

Generally, a retired State employee may enroll in the State's group health insurance plan within 31 days of terminating employment, provided that she does not defer retirement. The entire amount of the premium must be paid by the retiree. However, if the member has at least 15 years of total service, she is eligible to receive a monthly credit of \$4 for each year of service, up to a maximum of \$120, not to exceed the cost of her health insurance premium. The credit is payable whether or not the retiree is enrolled in the State's group health insurance plan.

▶ For related information, see pages II-17, II-57 to II-59

**Is a retired public school teacher eligible to receive a VRS health insurance credit?**

Eligible retired teachers and other professional school employees can receive a monthly health credit to be used towards the cost of their individual health insurance premiums. To receive the health insurance credit, eligible employees of local public school boards must have at least 15 years of VRS service and participate in a qualified health insurance plan.

The monthly amount of the credit is \$2.50 per year of service, not to exceed \$75 per month or the amount of the retiree's health insurance premium for single coverage. In addition, local school divisions can, at their own option and expense, provide an additional health insurance credit of \$1 per year of service for eligible retirees with a maximum of \$30 per month. When added to the basic credit, the total amount of the credit may not exceed the retiree's cost of individual coverage.

▶ For related information, see pages II-17, II-57 to II-59

**How does the deferred compensation plan work?**

A State employee may elect to contribute, on a pre-tax basis, up to 25 percent of her compensation (or \$8,000, whichever is less) to the deferred compensation program administered by VRS. The amount contributed is invested by professional investment managers, and a range of investment options are available. The amount contributed, along with the investment earnings, accumulates on a tax-deferred basis until the amounts are distributed, generally after retirement.

In addition, an employer match for the deferred compensation program was approved by the 1999 General Assembly. Effective

between January 1, 2000 and April 1, 2000, employees participating in the program will be eligible to receive an employer contribution of up to a maximum of \$50 or 50 percent of the participant's contribution to the program on a semi-monthly basis, whichever is less. However, the amount of the employer's contribution may be less based on available funding and employee participation rates.

Local governments that do not have deferred compensation plans may participate in the State's plan. Employers at their discretion can provide a match to the employees' contribution.

▶ For related information, see page II-18, II-59

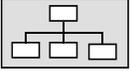
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**How can an employee find out more about VRS benefits and retirement planning?**

A good source of information is the Pre-Retirement Education Program (PREP) offered throughout the year. Employers also have a series of videos on VRS-related topics, including information for new members, members terminating employment, and members planning for retirement.

In addition, the *Handbook for Members* provides a summary of the benefits available through VRS. The VRS newsletters, *Memo to Members* and *Memo to Retirees*, are additional resources that provide up-to-date information on recent benefit modifications and other changes at VRS.

Finally, VRS' home page on the Internet (<http://www.state.va.us/vrs/vrs.htm>) is another very good source of timely information to members. Information available to members on VRS' Internet home page includes: recent legislation affecting VRS, recent benefit changes, VRS forms and publications, and information on activities at VRS.



## Contents of Part I: Organization, Management, and Oversight Structure

Page

**Overview** ..... I-1

### **Board of Trustees and Advisory Committees**

Board of Trustees Membership ..... I-5  
Investment Advisory Committee Membership ..... I-6  
Governing, Advisory, and Staff Organization Chart ..... I-7

### **Management and Staffing**

Benefit Programs and Services Department - Organization Chart ..... I-8  
Finance Department - Organization Chart ..... I-9  
Administration Department - Organization Chart ..... I-10  
Investment Department - Organization Chart ..... I-11  
Roles of VRS Board of Trustees, Investment Advisory Committee, and  
Chief Investment Officer in Administering Investment Program ..... I-12

### **Strategic Planning**

Strategic Plan -- Challenges and Goals ..... I-13  
Strategic Business Objectives for 1999 ..... I-14  
Administrative Projects in Progress ..... I-15  
Data Integrity Project ..... I-16  
Administrative Expenses and Employee Positions ..... I-17

### **Local Retirement Systems**

Political Subdivisions with Employee Retirement Systems Independent of VRS ..... I-18



## Part I: Organization, Management, and Oversight Structure

A retirement system for State employees is required by the *Constitution of Virginia*. Article X, Section 11 states that “The General Assembly shall maintain a retirement system for State employees and employees of participating political subdivisions. The funds of the retirement system shall be deemed separate and independent trust funds, shall be segregated from all other funds of the Commonwealth, and shall be invested and administered solely in the interest of members and beneficiaries thereof.” This constitutional mandate necessitates close and continual oversight of the Virginia Retirement System by the legislative branch.

Primary responsibility for governing the Virginia Retirement System (VRS) is delegated through statute to the Board of Trustees. The Board is assisted in its endeavors by standing committees and an investment advisory committee. Professional staff, led by a director and chief investment officer appointed by the Board, carry out the administrative duties of the agency and invest the system’s assets. Finally, legislative oversight of VRS is provided through a number of different entities and processes.

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### Board of Trustees and Advisory Committee Structure

VRS is governed by a nine-member Board of Trustees (the Board). The Board has several statutory responsibilities including appointing a director and a chief investment officer, employing an actuary to perform a biennial actuarial valuation, publishing an annual financial report, and issuing regulations for the administration of the retirement system. The Board has three standing committees: administration and personnel, benefits and actuarial, and audit and compliance.

Five of the trustees are appointed by the Governor and confirmed by the General Assembly. Four trustees are required to be appointed by the General Assembly through the Joint Rules Committee. In addition, the *Code of Virginia* requires that a number of trustees meet certain professional requirements in order to be appointed to the board. Currently, statute requires that four trustees have at least five years of investment experience and that one other trustee have at least five years of experience in the administration of employee benefit plans.

The Board also appoints qualified individuals to its investment advisory committee (IAC). The statutory responsibility of the IAC is to provide the Board with “...sophisticated, objective, and prudent investment advice.” The members of the IAC, which consists of seven to nine members, are required to have extensive investment experience. The *Code* also requires that the IAC carry out specific responsibilities including reviewing and evaluating investments and investment opportunities, making recommendations to the Board regarding investments, and making recommendations to the Board regarding asset allocation issues.

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### Management and Staffing Structure

In FY 1999, VRS has 170 approved staff positions, making it a relatively small but growing State agency. VRS staff perform four major functions. First, the majority of VRS staff administer benefit programs, process applications for benefits and maintain member

records. Second, approximately 35 staff provide information to members, retirees, and employers. Third, approximately 30 staff manage and monitor VRS investments while also providing support to the IAC. Fourth, a small number of staff, including top management, provide direct support to the Board of Trustees and its standing committees. Finally, other staff provide internal agency support in the areas of accounting, human resources, procurement, payroll, budgeting, information systems, technology support, data processing, and internal audit.

VRS is an independent State agency, and as such is outside of the executive, legislative and judicial branches of government. While VRS is not exempt from all statutory and regulatory procedures generally applicable to State agencies, it is exempt from several key constraints. First, even though it must still submit its budget to the Department of Planning and Budget (DPB) for review and approval, in practice VRS is now exempt from any cap on the number of agency employee positions as set by DPB. Second, VRS is not bound by the compensation, position classification and performance evaluation system designed and administered by the Department of Personnel and Training, and has implemented a competency and performance-based pay system. VRS employees are also exempt from the Virginia Personnel Act. Third, VRS is not obligated to use the procurement system administered by the Department of General Services. However, VRS still must comply with the provisions of the Virginia Public Procurement Act. Furthermore, an opinion of the Attorney General stated that VRS must continue to comply with the Comptroller's regulations and procedures governing reimbursement of official travel expenses.

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### **Strategic Planning Process**

In 1996, VRS finalized the development of a strategic plan designed to assist the agency in carrying out its mission. The VRS strategic plan was developed in a bottom-up, participatory manner. Through the strategic planning process, agency mission and vision statements were developed. Seven goals were established and a number of strategies developed to enable staff to address the goals. Finally, to measure the agency's progress in meeting established goals and objectives, strategic business objectives (SBOs) were developed by VRS.

The SBOs are intended to be a management tool in VRS' ongoing efforts to facilitate customer service activities and support in all applicable agency operations. In addition, the SBOs are linked with the VRS pay for performance system. Specifically, if VRS meets or exceeds both the mandatory SBOs and a specific number of remaining SBOs, pay for performance increases for the agency's entire administrative staff will be larger. Finally, the results of this strategic planning process were in part responsible for VRS receiving the U.S. Senate Productivity and Quality Assurance Award in both 1998 and 1999.

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### **Major Administrative and Technology Initiatives**

In addition to administering benefits and investing the system's assets, VRS staff are also focusing on a number of initiatives designed to improve service or meet changing technology. For example, VRS staff will be working to complete implementation of the

Interactive Voice Response (IVR) system and the new Virginia Sickness and Disability Program (VSDP). In addition, staff will be implementing the statutory changes to the VRS benefit structure that were approved by the 1999 General Assembly Session.

However, two major initiatives will receive substantial agency-wide support and resources during 1999. First is the project to make the agency's information technology systems and computer programs Year 2000 compliant. At the present time, the goal is to have all changes made and testing completed by June 30, 1999. The second initiative is the data integrity project. When this project is complete, the information in all active and many retired members' records will have been verified as completely accurate. This project is scheduled to be completed by June 2000.

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## Legislative Oversight Structure

The legislative oversight structure for VRS is multifaceted. JLARC, the two legislative money committees, and the Auditor of Public Accounts (APA) each play a role. The Virginia Retirement System Oversight Act (the Oversight Act), passed by the 1994 General Assembly, provides the statutory framework for ongoing legislative monitoring and evaluation of VRS. Under the provisions of the Oversight Act (§30-78 through §30-84 of the *Code of Virginia*), JLARC is required to oversee and evaluate VRS on a continuing basis and to perform special studies and reports as requested by the General Assembly or either of the two money committees.

Under the provisions of the Oversight Act, the areas of review and evaluation to be conducted by JLARC shall include, but are not limited to, the following:

- Structure and governance of the retirement system,
- Structure of the investment portfolio,
- Investment practices, policies and performance, including the effect of investment performance on employer contributions,
- Actuarial policy and the actuarial soundness of the trust funds, and
- Administration and management of the retirement systems.

The Oversight Act requires the preparation of several different reports and publications concerning VRS. These include the following:

- An informational guide to VRS for members of the General Assembly,
- A semi-annual investment report,
- A biennial status report, and
- A quadrennial actuarial report.

*Legislative Money Committees.* The Senate Finance Committee and the House Appropriations Committee both have important VRS oversight responsibilities. During the General Assembly Session, each committee is responsible for reviewing and evaluating the cost and merit of legislation affecting VRS. This includes bills to change the level or structure of benefits, as well as Appropriations Act provisions affecting contribution rates. Committee staff, with the assistance of the legislative actuary, coordinate the review. VRS staff

and the VRS actuary also play a key role in the review of legislation by providing necessary information and fiscal impact statements to the committee.

Both money committees continue their oversight during the interim period between sessions. Committee staff contact VRS staff on an informal, as needed, basis as legislative questions and issues arise. In addition, both committees typically have VRS staff make a presentation at least once during the interim period on issues of legislative interest and concern.

*Auditor of Public Accounts.* The APA conducts an annual financial audit of VRS. The purpose of the audit, which evaluates the retirement system's overall financial statement, is to obtain reasonable assurance that the financial statement is free of material misstatement. The audit also assesses the accounting principles used, and significant estimates made, by VRS management. The Oversight Act requires that the APA report the findings of the annual audit to the Governor, the General Assembly, JLARC, and the VRS board on or before the first day of the General Assembly Session.

### VRS Board of Trustees

Trustee	Board Seat Held	Occupation/Employer	Appointed by	Current Term Expires
R. William Bayliss, III	Employee Benefit Plan Expert	Managing Director, Wheat First Union	Governor Allen	2/28/02
Edwin T. Burton, III (Chairperson)	Investment Expert	Adjunct Professor, University of Virginia	Governor Allen	2/28/01
Stuart W. Connock	State Employee	Commonwealth of Virginia (retired)	Joint Rules Committee	2/28/01
Clifford A. Cutchins, III	Investment Expert	Chairman of the Board (retired), Sovran Financial Corporation	Joint Rules Committee	2/28/03
Elise Lindbloom Emanuel	School Teacher	Williamsburg/James City County Schools	Joint Rules Committee	2/28/02
Dr. D. Bruce Johnsen	Faculty Member/Employee of State-Supported Institution of Higher Education	Professor, George Mason University School of Law	Governor Gilmore	2/28/04
W. Forest Matthews, Jr.	Political Subdivision Employee	Director of Finance, Henrico County	Governor Gilmore	2/28/03
Charles B. Walker	Investment Expert	Vice Chairman and Chief Financial Officer, Albemarle Corporation	Joint Rules Committee	2/28/04
James C. Wheat, III	Investment Expert	Colonade Capital	Governor Allen	2/28/00

Source: Virginia Retirement System.

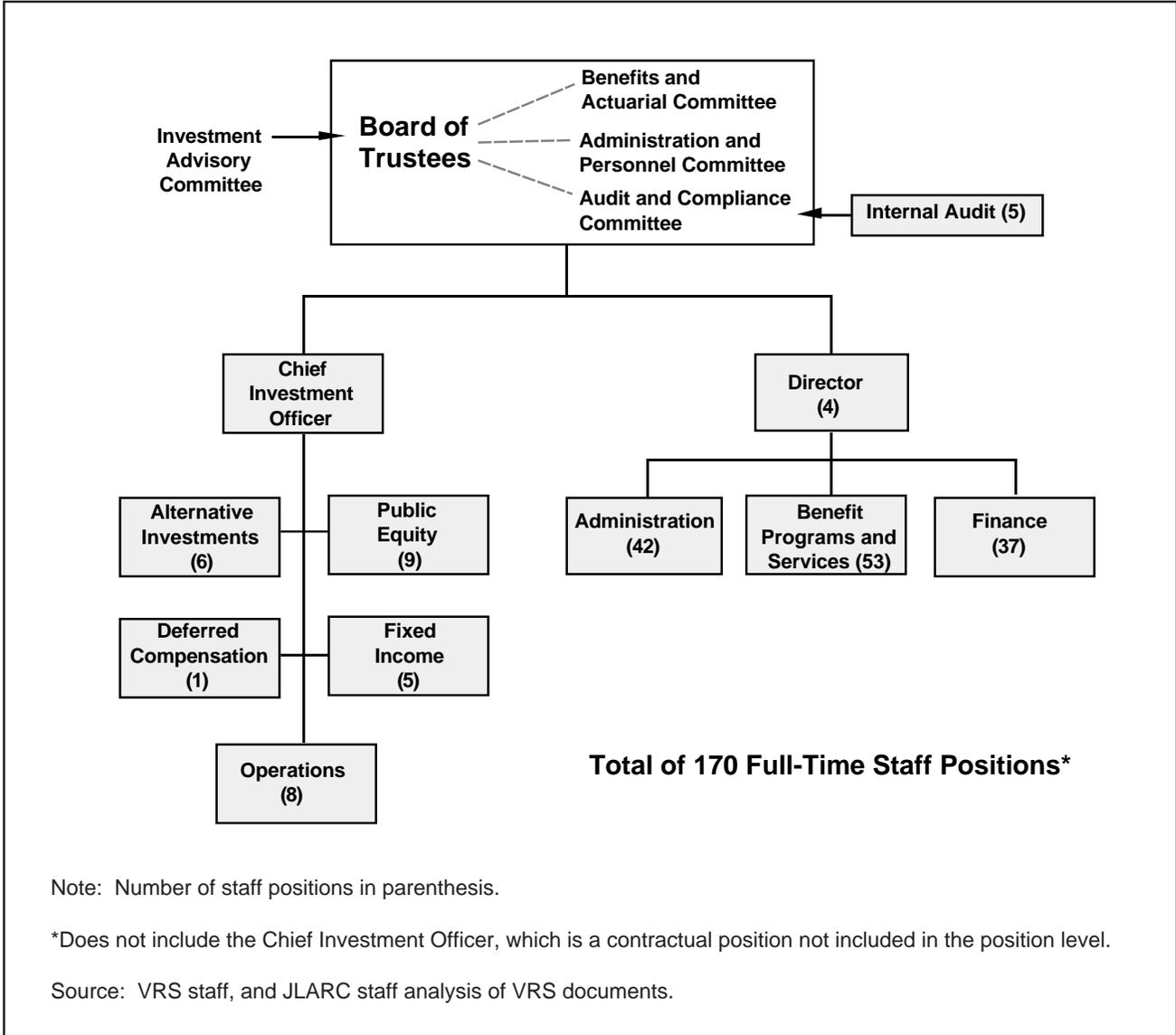
### VRS Investment Advisory Committee

Member	Occupation/Employer	Current Term Expires
Hunter E. Craig	President, Hunter E. Craig Co.	3/31/00
Joe Grills	Former CIO, IBM Retirement Funds	3/31/00
Alice W. Handy	Treasurer, University of Virginia	3/31/00
Doyle E. Hull	Chairman, Norfolk Redevelopment and Housing Authority	3/31/00
Lawrence E. Kochard	Adjunct Professor, University of Virginia	3/31/00
Louis W. Moelchert, Jr. (Chairperson)	Vice President for Business and Finance, University of Richmond	3/31/00
J. Garnett Nelson	President, Mid-Atlantic Holdings, LLC	3/31/01
Stuart A. Sachs	Retired, Sovran Capital Management	3/31/01
Charles B. Walker	Vice Chairman and Chief Financial Officer, Albemarle Corporation (Also a VRS Trustee)	No Expiration Date

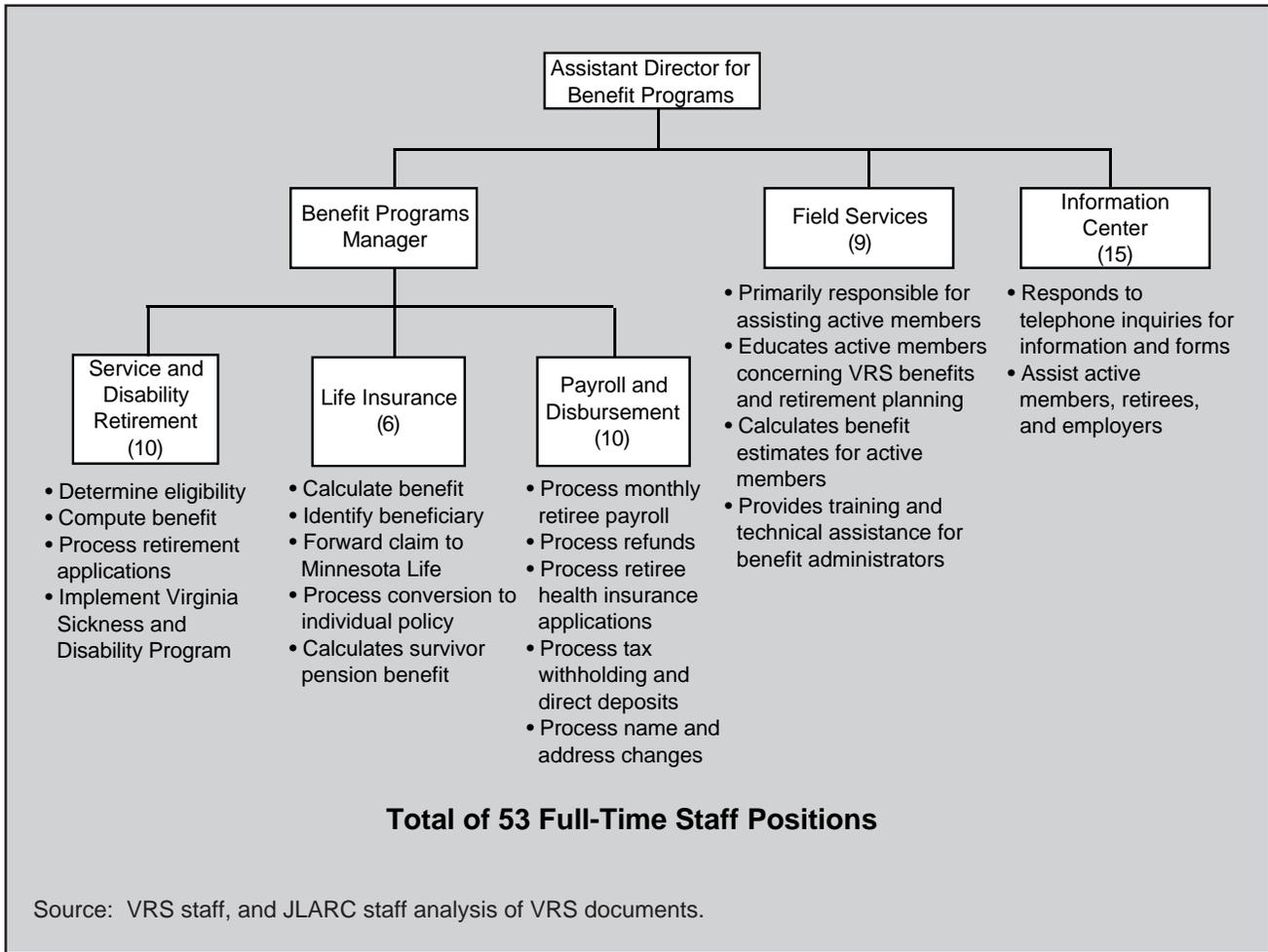
Note: As a VRS trustee, Charles Walker's term as an IAC member does not have an expiration date.

Source: Virginia Retirement System.

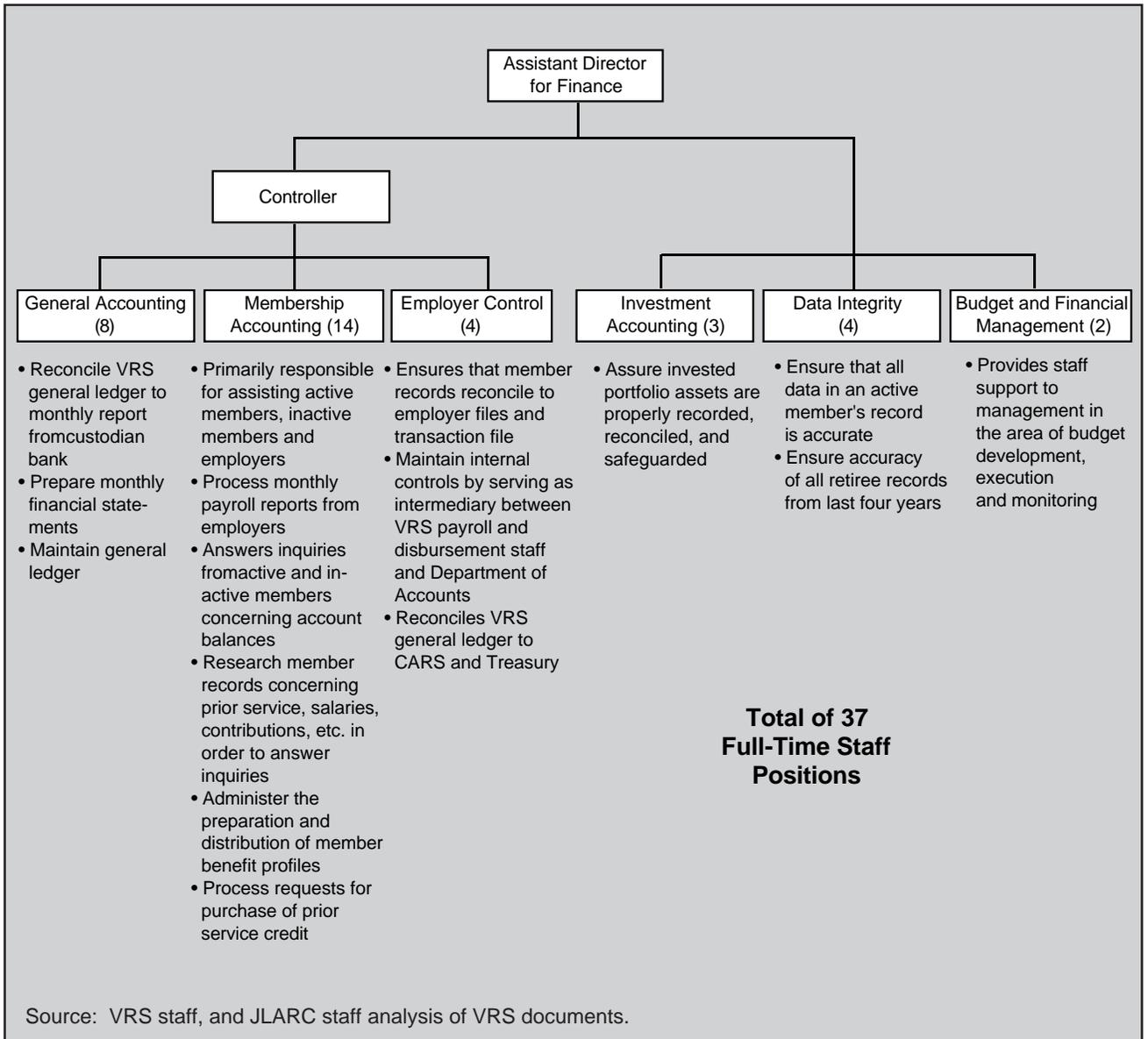
**VRS Governing, Advisory and Staff Organization, December 1998**



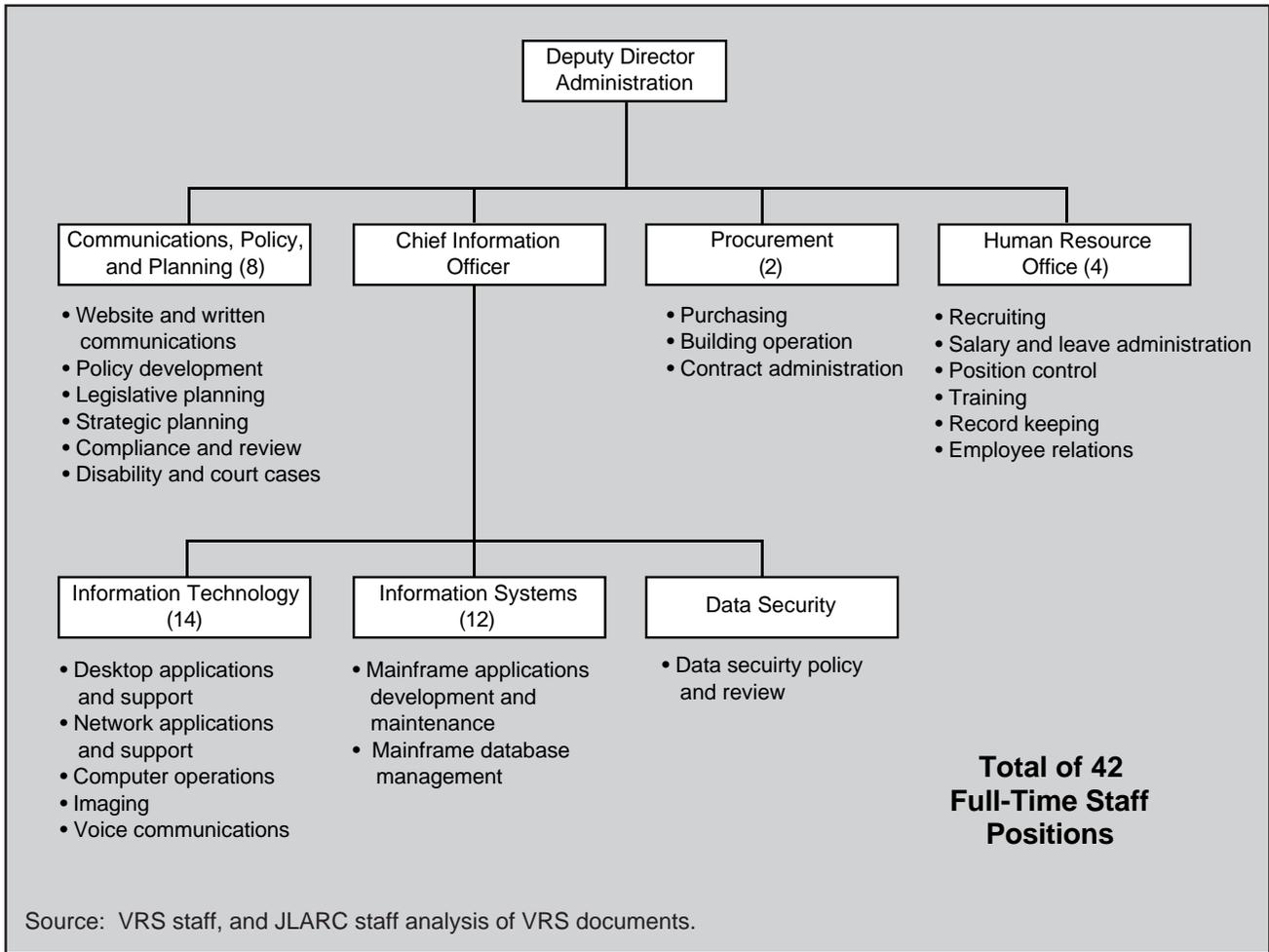
### Benefit Programs and Services Department, December 1998



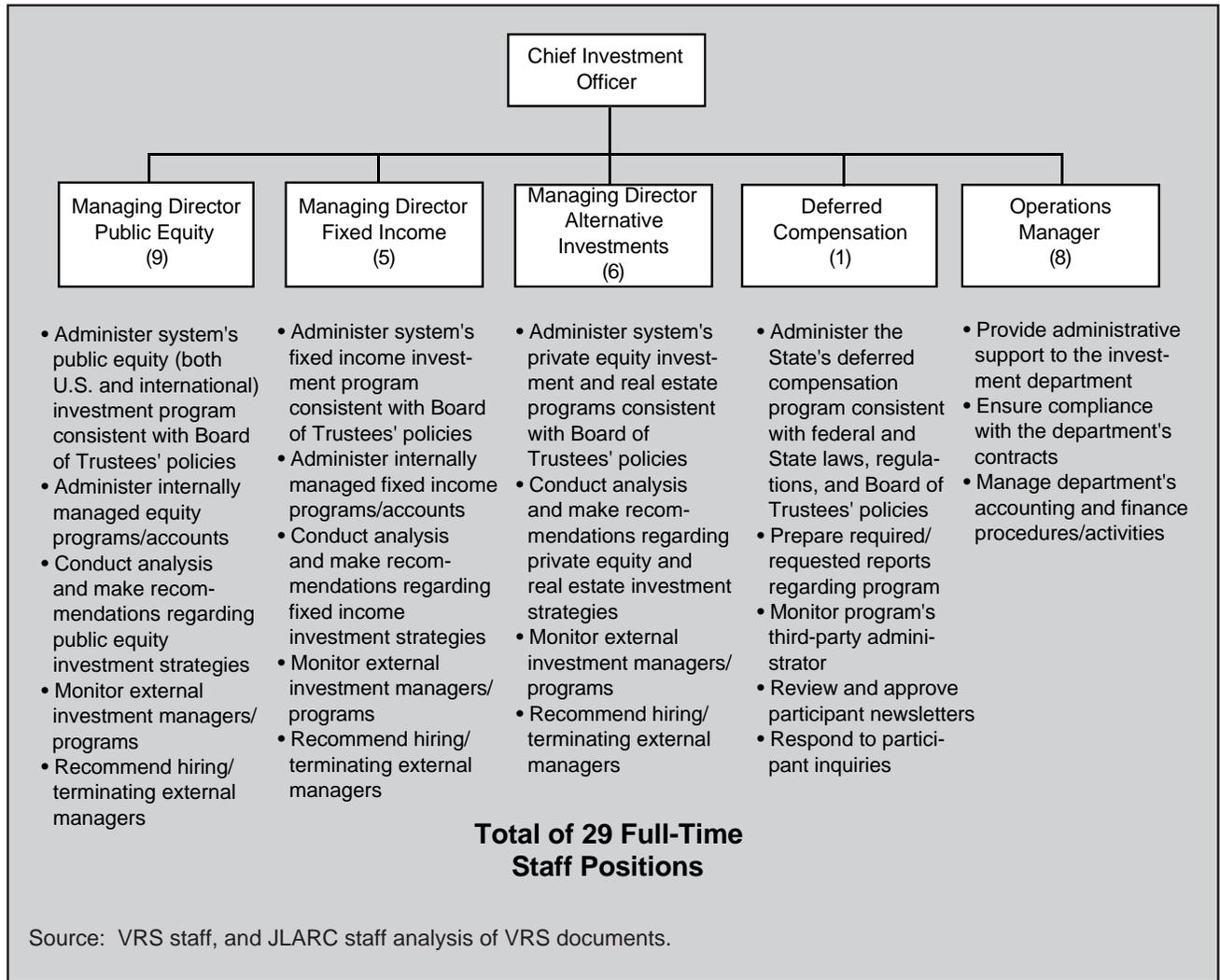
## Finance Department, December 1998



## Administration Department, May 1999



## Investment Department, March 1999



## Roles of VRS Board of Trustees, Investment Advisory Committee, and Chief Investment Officer in Administering Investment Program

○ = Review    ✓ = Recommend    ✕ = Approve	Chief Investment Officer	Investment Advisory Committee	Board of Trustees
<b>Policy and Guidelines</b>			
Approval of Proposed Policy/Guidelines	✓	✓	✕
Approve Long-Term Asset Allocation Guidelines	✓	✓	✕
Approve New Asset Classes	✓	✓	✕
Set Actuarial Rate			✕
<b>Program Structure</b>			
Determine Allocation Within Guidelines	✕	✓	○
Approval of Proposed Structure	✕	✓	○
Rebalancing of Manager Allocations Within Approved Ranges	✕	○	○
<b>Manager Strategy</b>			
Initiation and Development of Search	✓	○	○
Screenings and Interviews	○	○	○
Hiring Decision	✕	✓	○
Fee Negotiation	✕	○	○
Ongoing Monitoring	○		
Quarterly Performance	○	○	○
Manager Dismissals	✕	✓	○
<b>Consultants</b>			
Selection of Consultants	✕	○	○
Termination of Consultants	✕	○	○
<b>Administration</b>			
Hire Chief Investment Officer		✓	✕
Soft Dollar Budget	✕	○	○
Hire/Dismiss Custodian Bank	✓	○	✕
Source: Virginia Retirement System, <i>Investment Reference Manual</i> .			

## VRS Strategic Plan – Challenges and Goals

<b>Challenges</b>	<b>Goals</b>
<i>Customer Service</i>	<ol style="list-style-type: none"> <li>1. To provide all members with the type and quality of information needed to make knowledgeable choices about their retirement</li> <li>2. To ensure that customers receive information through methods that are easily accessible, understandable, and accurate</li> </ol>
<i>Organization and Workplace</i>	<ol style="list-style-type: none"> <li>3. To develop staff who are well informed and who have the necessary skills to perform efficiently and effectively</li> <li>4. To evolve into an organization that proactively manages its programs and, to the extent possible, shapes its own destiny</li> <li>5. To create a work environment that maximizes the effectiveness of staff through accurate, streamlined systems for information-sharing and decision-making</li> </ol>
<i>External Relations</i>	<ol style="list-style-type: none"> <li>6. To be perceived by others as an independent, nonpolitical organization which strives for excellence in all aspects of its organization</li> <li>7. To have VRS recognized as an informed and collaborative partner in the government and business environments</li> </ol>
Source: JLARC staff review of Virginia Retirement System Strategic Plan - 1996.	

### VRS Strategic Business Objectives for 1999

Objective	Goal/Target
Year 2000 computer projects completed	100%
Comprehensive system scheduled availability	98.5%
Member benefits processed in a timely manner (refunds in 60 days; service retirements placed on expected payroll if received 90 days in advance)	98%
Calls answered by Information Center within 30 seconds	90%
Employer payrolls updated and posted on time	95%
No more than 10 percent of calls to Information Center transferred	--
Administrative costs per member do not exceed \$50	--
Data integrity project on schedule	--
Investments exceed established benchmarks	--
Source: Virginia Retirement System.	

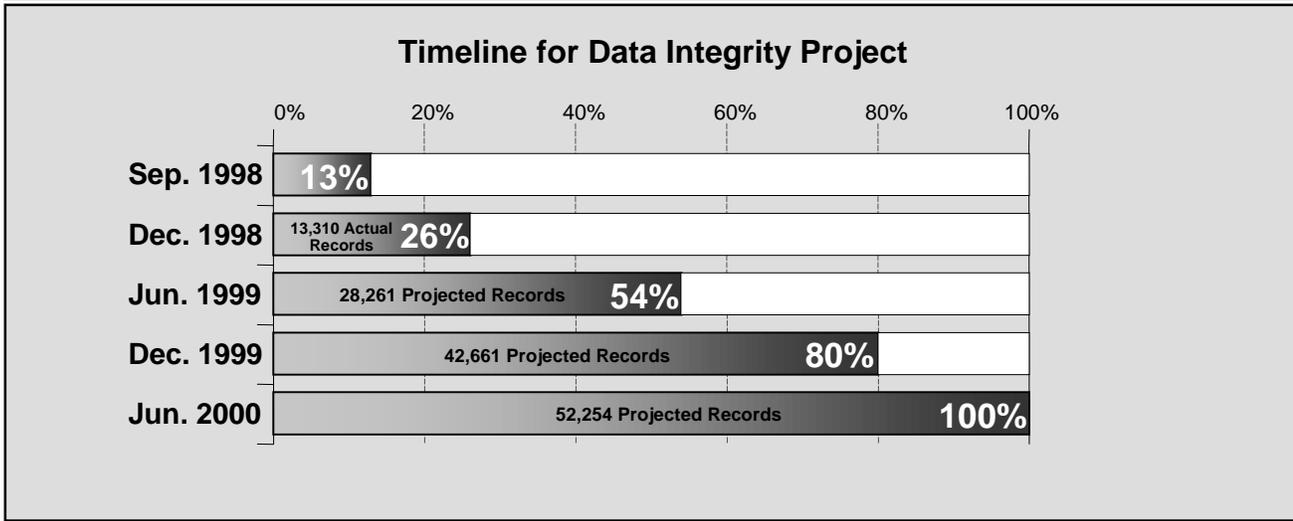
### VRS Administrative Projects in Progress

Project	Description
Implementation of Benefit Changes From Recent General Assembly Sessions	<p>In the spring and summer of 1999, VRS will focus on implementing the changes to the retirement system's benefit structure authorized by both the 1998 and 1999 General Assembly. Major benefit programs that VRS will be implementing include the new:</p> <ul style="list-style-type: none"> <li>• Virginia Sickness and Disability Program (VSDP),</li> <li>• Virginia Law Officers' Retirement System (VaLORS),</li> <li>• Volunteer Firefighters' and Rescue Squad Workers' Pension Fund, and</li> <li>• Employer-match program for the deferred compensation program.</li> </ul> <p>In addition to the implementation of these new programs, VRS staff will continue to implement the remaining changes to the existing benefit structure that were approved by the General Assembly.</p>
Interactive Voice Response Telephone System	<p>VRS staff is continuing the development of the interactive voice response telephone system (IVR). IVR will enable callers to directly access information, including member account balances, stored in VRS databases. The intent of IVR is to make it easier and more convenient for VRS members to obtain important information from VRS.</p>
Consultant Study of Fiduciary Roles and Responsibilities	<p>Examination by Cortex Applied Research consulting firm of the roles and responsibilities of the Board of Trustees and the various committees and advisory committees serving the Board. This review examined the role of the Board and the various committees and the VRS director and chief investment officer. VRS staff will be addressing many of the recommendations and will report to the Board during 1999.</p>
Cost Effectiveness Measurement Project	<p>VRS is participating in a study of peer public retirement systems that evaluates both VRS' cost and service effectiveness relative to the peer systems. Findings from this study will be used by VRS staff to continue to refine and strengthen customer service in a cost-effective manner.</p>
Year 2000 Management Information System Modifications and Testing	<p>VRS management and information technology staff will continue to focus on having all mainframe, network, and desktop systems both Year 2000 compliant and tested by June 1999. This includes contacting VRS' business partners in order to determine the status of their Year 2000 compliance efforts.</p>

Source: JLARC interviews of VRS staff and review of VRS documents.

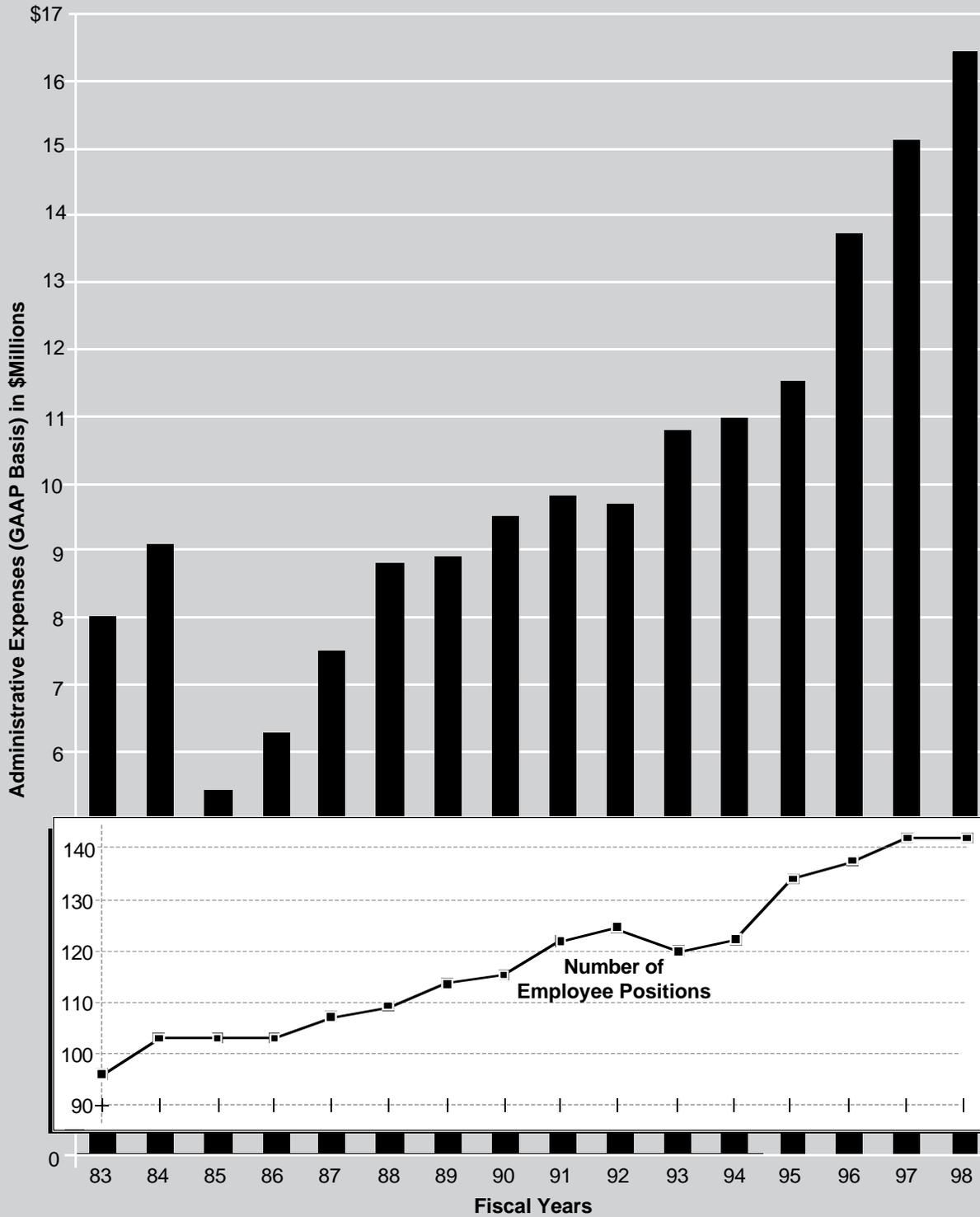
## VRS Data Integrity Project

<b>Overview</b>	<ul style="list-style-type: none"> <li>The data integrity project is a major initiative designed to ensure all information and data contained in active members and selected retiree files is accurate. Completion of the data integrity project is necessary for VRS to fully implement automated systems such as IVR and desktop information systems that will enable members, employers, and VRS staff to more easily access VRS data.</li> <li>These automated systems will enable VRS to improve customer service for both members and employers. Moreover, the verified data in members' files will eliminate the need for cumbersome and time-consuming historical research resulting in VRS more rapidly responding to member and employer issues.</li> </ul>
<b>Project Scope</b>	<ul style="list-style-type: none"> <li>About 53,000 records (out of 276,000 total records) have been identified as requiring review.</li> <li>Records will require more than 17,000 hours to research.</li> <li>Five full-time and two hourly staff have been assigned.</li> <li>Staff from other VRS departments have also been assigned or have volunteered to work on this project.</li> </ul>
<b>Project Status</b>	<ul style="list-style-type: none"> <li>Research has been completed on more than 13,300 member records through December 1998.</li> <li>Data integrity project is scheduled to be completed by June 2000.</li> </ul>



Source: Virginia Retirement System, February 1999.

### VRS Adminstrative Expenses and Employee Positions



Source: VRS staff, and JLARC staff analysis of VRS annual report data and employment data.

## Political Subdivisions with Employee Retirement Systems Independent of VRS

Political Subdivision	Type of Retirement Plan
<b>Cities</b>	
Charlottesville	Defined Benefit
Danville	Defined Benefit
Falls Church	Defined Benefit
Newport News	Defined Benefit
Norfolk	Defined Benefit
Richmond	Defined Benefit
Roanoke	Defined Benefit
<b>Counties</b>	
Arlington	Defined Benefit
Fairfax	Defined Benefit
Powhatan	Defined Contribution
<b>Towns with Population Greater than 5,000</b>	
Farmville	Defined Contribution
<p>Note: Section 51.1-800 of the <i>Code of Virginia</i> requires political subdivisions with a population greater than 5,000 to provide a retirement system for their employees either by participating directly in VRS, or by establishing a local retirement system that equals or exceeds two-thirds of the service retirement allowance that the employee would have received from VRS. VRS is responsible for determining compliance by each political subdivision with the standard. Localities will forfeit Alcoholic Beverage Control profits if they fail to comply with the standard.</p> <p>Source: Virginia Retirement System.</p>	



## Contents of Part II: Benefit Programs and Services

Page

**Overview** ..... II-1

### Structure and Level of Benefits

Distribution of Active VRS Members by Employer Group ..... II-3

Amount of VRS Pension Expenses by Type of Benefit ..... II-3

Distribution of Retirees by Number of Years of Active Service ..... II-3

Distribution of Retirees by Age ..... II-3

VRS Benefit Structures for:

- Service Retirement ..... II-4
- Virginia Sickness and Disability Program ..... II-7
- Disability Retirement ..... II-9
- Purchase of Prior Service Credit ..... II-10
- Benefit Payment Options ..... II-12
- Cost of Living Adjustment ..... II-13
- Death-While-In-Service Benefits ..... II-14
- Group Life Insurance ..... II-15
- Optional Life Insurance Program ..... II-16
- Retiree Health Insurance Credit ..... II-17
- Deferred Compensation ..... II-18
- Optional Defined Contribution Retirement Program ..... II-19

Key VRS Benefit Provisions Selected by Political Subdivisions ..... II-22

Key VRS Benefit Provisions for Local School Systems' Professional Employees ..... II-32

Law Enforcement Officers Retirement System Coverage Among Political Subdivisions ... II-36

Comparative Data on Selected State Employee Retirement Systems ..... II-40

Comparison of Employee Contribution Rates of State Employee Retirement Systems .... II-41

### Recent Changes in Benefit Structure

Major Milestones in Development of Benefit Structure ..... II-42

Major Studies of Benefit Issues Since 1985 ..... II-44

Chronology of VRS Benefit Changes ..... II-48



## Part II: Benefit Programs and Services

The entire VRS benefit and membership structure is designed and modified according to legislation enacted by the General Assembly. The key elements of the benefit structure include the types of benefits offered to members, the amount of each benefit, and conditions of eligibility for receipt of each benefit. Although VRS is frequently referred to as the State retirement system, State employees constitute only one part of the VRS membership. Taken together, teachers employed by local school boards and employees of political subdivisions actually comprise the majority of VRS members.

VRS is responsible for administering numerous benefit programs that have been created by the General Assembly. These programs include service and disability retirement, pension death benefits, life insurance, deferred compensation, the short- and long-term disability program, and the retiree health insurance credit. VRS staff are also responsible for implementing legislated changes to the benefit structure.

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### VRS Benefits Are Generous and Competitive

Overall, the pension benefit provided by the VRS defined benefit plan is extremely competitive with benefits provided by other state employee retirement systems. Several key factors are responsible for the overall strength of the VRS benefit structure:

- VRS members are covered by social security which increases their total retirement benefit.
- The benefit multiplier is close to the average multiplier of those state retirement systems which provide social security benefits.
- Final average compensation used to determine the benefit is calculated over a relatively short period of 36 months.
- Unreduced retirement benefits may be received after as few as five years, provided that the employee is 65 years old.
- Automatic cost-of-living adjustments, based on increases in the U.S. consumer price index, are paid annually.
- An employee leaving state service may receive a refund of his member contributions plus four percent interest.
- The State, and most of its political subdivisions, pays the full amount of the required member contribution, which is five percent of creditable compensation.

The 1999 General Assembly passed legislation which significantly increases the competitiveness of VRS' retirement benefits, and which reduces the age requirement for unreduced benefits with 30 years of service. Effective July 1, 1999, State employees and teachers are eligible to retire with unreduced benefits with 30 years of service at age 50, instead of at age 55. Local political subdivisions have the option of providing this enhanced benefit.

---

### Recent Changes in VRS Benefit Structure

The VRS benefit structure has become increasingly competitive and generous, and also more complex. While a few entirely new benefits have been added, such as the retiree health care credit and the optional life insurance program, most of the changes in the benefit structure have resulted from modifications of existing benefits. For example:

- Age and service requirements for receipt of an unreduced pension benefit were reduced in 1987, 1990, and 1999.
- Benefit formulas and multipliers for service and disability retirement were significantly revised in 1990 and 1999.
- The ability of employees to purchase additional service credit was increased several times throughout the 1980's and 1990's.
- Eligibility for early retirement, with a reduced benefit, was expanded in 1995.
- The retiree health care credit for teachers was made mandatory, with the cost to be paid by the State, effective July 1, 1998.
- The Virginia Sickness and Disability Program was established in January 1999.

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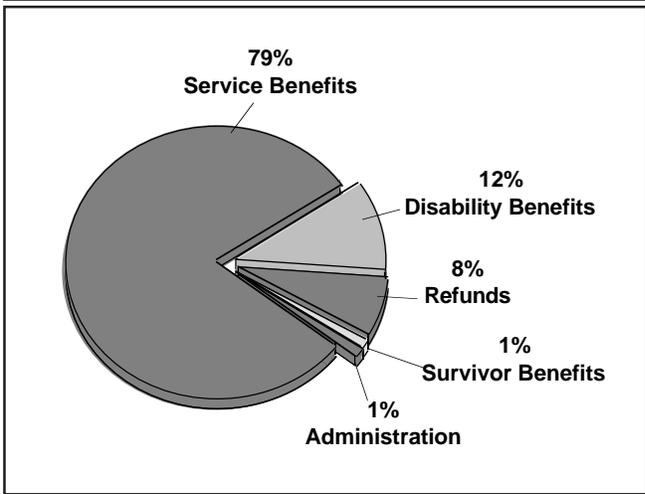
## **Administration of VRS Benefits**

The period of time during which VRS benefits have been increased and made more generous has coincided with increasing administrative and operational challenges for VRS management and staff. These challenges have resulted from several factors, one of the most important being a growing membership. The increasing number of members - particularly retired members - has placed great demands on the VRS customer service and retirement payroll functions. For example, not only has the number of requests for information and benefit calculations increased, but the questions asked by VRS members are becoming more sophisticated and difficult to answer. This is a function of the growing complexity of the retirement statutes, as well as a reflection of increased financial sophistication on the part of VRS members.

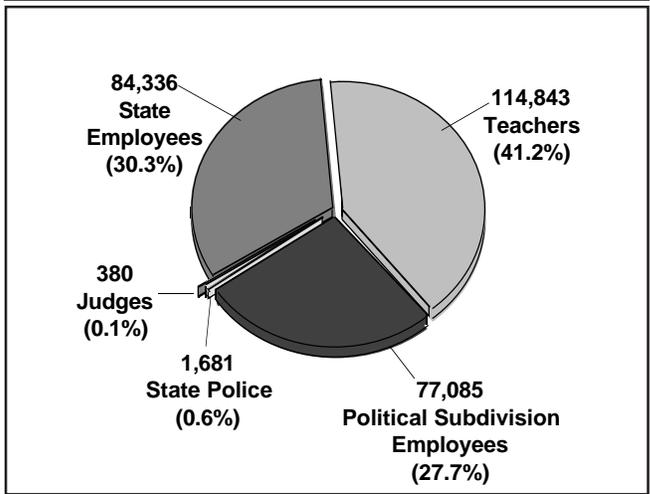
Other factors, not directly related to the increased number of members, also create operational challenges for VRS. For example, the modification of the benefit formula and multipliers for service and disability retirement increased the demand on counselors and staff in the benefit programs department. In addition, the January 1999 implementation of the new Virginia Sickness and Disability Program increased the workload of staff in the benefit programs department. Finally, changes in the amount and type of prior service credit for service and disability retirement that can be purchased also adds to the workload of VRS staff.

VRS continues to examine and develop strategies by which it can improve its operations and customer service while effectively administering the retirement system for members and beneficiaries. Moreover, it continues to do this while addressing critical agency operations like the Year 2000 modifications on its information systems and the data integrity project.

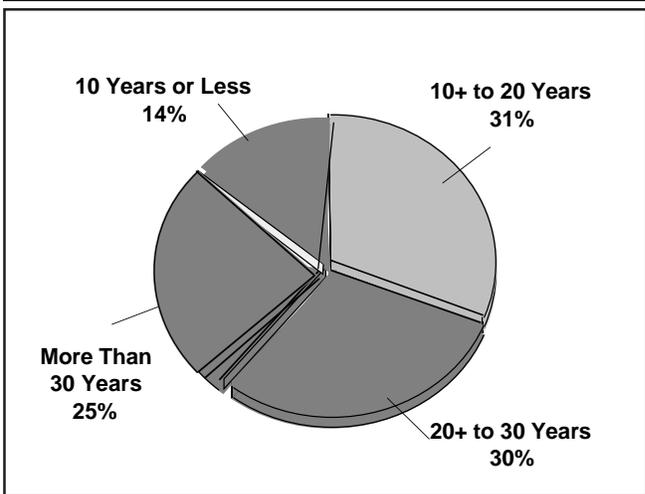
**FY 1998 VRS Pension Expenses**



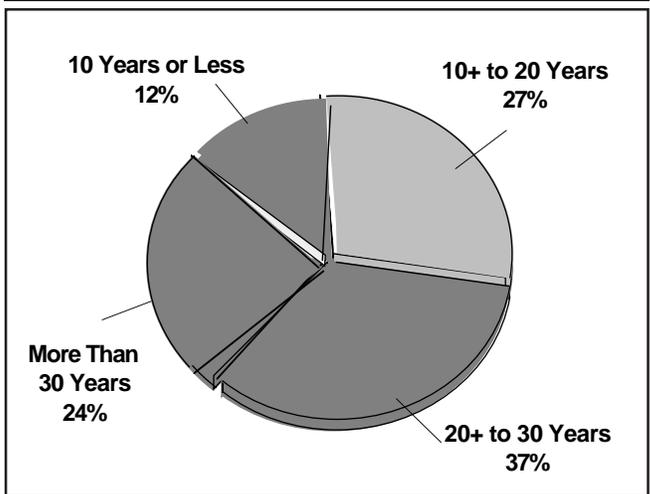
**Distribution of Active Members**



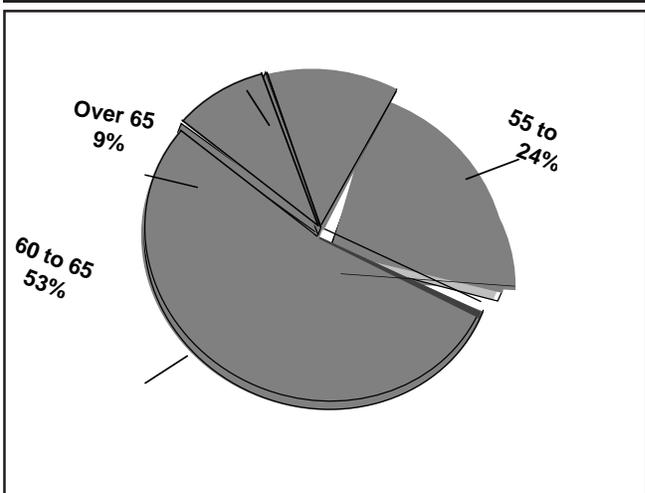
**Years of Service at Retirement: All Retirees**



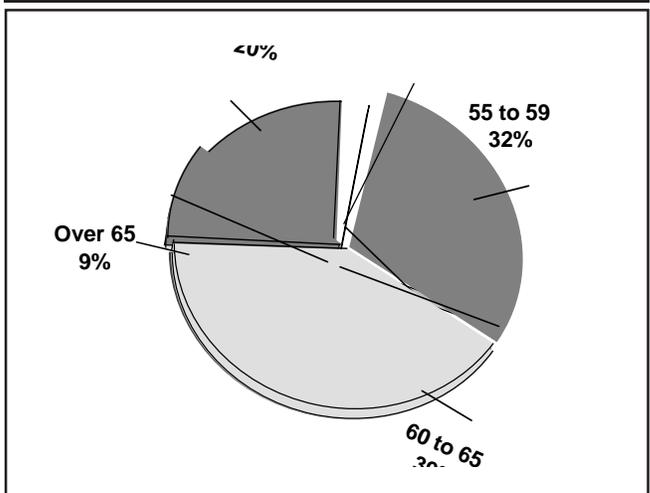
**Years of Service at Retirement: FY 1998 Retirees**



**Age Distribution: All Retirees**



**Age Distribution: FY 1998 Retirees**



Source: JLARC staff analysis of VRS annual report data. Data as of June 30, 1998.

**Benefit Structure: Service Retirement**

<b>Benefit Provision</b>	<b>VRS State/Teacher</b>	<b>VRS Political Subdivision</b>	<b>VaLORS* /SPORS/LEOS</b>	<b>JRS</b>
Defined Benefit Formula	(Multiplier) X (Average Final Compensation) X (Years of Service)	(Multiplier) X (Average Final Compensation) X (Years of Service)	(Multiplier) X (Average Final Compensation) X (Years of Service)	Same
Defined Benefit Multiplier	1.7 percent of Average Final Compensation	Same	Same	Same
Calculation of Average Final Compensation	Average of the highest 36 consecutive months of creditable compensation	Same	Same	Same
Service Credit Multiplier	None	None	None	3.5 for judges elected or appointed to an original term commencing prior to January 1, 1995; 2.5 for judges elected or appointed after that date
Annual Supplemental Benefit	None	None	\$9,264 to age 65 (if retiree has 20 years of hazardous duty service)	None
Vesting	5 years	5 years	5 years	5 years
Normal Retirement with Unreduced Benefit (Age/Years of Service)	65/5 50/30 55/20 (agency heads who are involuntarily terminated)	65/5 Rule of 90 55/30 (local option) 50/30 (local option) 55/20 (city managers; county administrators, executives, and managers; town managers; and school superintendents who are involuntarily terminated) (optional)	60/5 50/25 (optional for LEOS)	65/5 60/30

*(continues)*

### Benefit Structure: Service Retirement (continued)

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS/LEOS	JRS
Early Retirement with Reduced Benefit  (Age/Years of Service)*	55/5  50/10	Same	50/5 (optional for LEOS)	55/5
Early Retirement Benefit Reduction Factor  Age 55 to 65 with less than 30 years service  Age 50 to 55 with ten years service	0.5 percent for each month short of normal retirement for first 60 months, plus 0.4 percent for all additional months  Additional 0.6 percent for each month short of age 55*	Same  Same	Same  Same	Same  Not Applicable
Mandatory Retirement Age	None	None	70 for SPORS (except for gubernatorial appointees or elected officials).  Localities may impose a mandatory retirement age for LEOS based on bona fide occupational qualifications.	70 if appointed or reappointed after 7/1/93
Maximum Compensation Used to Compute Benefits, and Maximum Benefit Amounts	Compensation used in computing benefits shall not exceed \$265,000 (pre-January 1996 members) or \$160,000 (post-January 1996 members). Benefit amounts adjusted accordingly.  Benefit can not exceed lesser of 100 percent of average final compensation or \$130,000	Same	Same	Same; in addition benefits shall not exceed 78 percent AFC

(continues)

### Benefit Structure: Service Retirement (continued)

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS/LEOS	JRS
Refunds	Accumulated member contributions plus employer-paid member contributions made after 7/1/80, plus four percent interest	Same	Same	Same

\*VaLORS is effective October 1, 1999.

\*\* Early retirement benefits under the 50/10 provision are calculated as the greater of (1) retirement deferred to age 55 with the additional 0.6 percent monthly reduction factor or (2) the actuarially-determined present value of accumulated member contributions plus interest.

Source: VRS staff, and JLARC staff analysis of VRS documents.

### Benefit Structure : Virginia Sickness and Disability Program (VSDP)

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
Eligibility	Teachers not eligible	Not eligible	LEOS not eligible	Not eligible
Enrollment	Employees hired on or after 1/1/99 automatically enrolled  Employees hired before 1/1/99 had the option to enroll	N/A	Same as VRS State	N/A
Vesting	None	N/A	Same as VRS State	N/A
Sick Leave	<p><i>Months of State Service</i>      <i>Sick Leave</i></p> <p>Less than 60 = 64 hours</p> <p>60 - 119 = 72 hours</p> <p>120 or more = 80 hours</p>	N/A	Same as VRS State	N/A
Family and Personal Leave	<p><i>Months of State Service</i>      <i>Sick Leave</i></p> <p>Less than 60 = 32 hours</p> <p>60 - 119 = 32 hours</p> <p>120 or more = 40 hours</p>	N/A	Same as VRS State	N/A
Short-Term Disability (Work Related)	<p><i>Months of State Service</i>      <i>100% Income Replacement</i></p> <p>Less than 60 = 65 workdays</p> <p>60 - 119 = 85 workdays</p> <p>120 -179 = 85 workdays</p> <p>180 or more = 85 workdays</p> <p><i>Months of State Service</i>      <i>80% Income Replacement</i></p> <p>Less than 60 = 25 workdays</p> <p>60 - 119 = 25 workdays</p> <p>120 -179 = 40 workdays</p> <p>180 or more = 40 workdays</p> <p><i>Months of State Service</i>      <i>60% Income Replacement</i></p> <p>Less than 60 = 35 workdays</p> <p>60 - 119 = 15 workdays</p> <p>120 -179 = 0 workdays</p> <p>180 or more = 0 workdays</p>	N/A	Same as VRS State	N/A

(continues)

**Benefit Structure : Virginia Sickness and Disability Program (continued)**

<p>Short-Term Disability (Non-work Related)</p>	<p><i>Months of State Service</i>      <i>100% Income Replacement</i></p> <p>Less than 60 = 5 workdays          60 - 119 = 25 workdays          120 -179 = 25 workdays          180 or more = 25 workdays</p> <p><i>Months of State Service</i>      <i>80% Income Replacement</i></p> <p>Less than 60 = 20 workdays          60 - 119 = 25 workdays          120 -179 = 50 workdays          180 or more = 75 workdays</p> <p><i>Months of State Service</i>      <i>60% Income Replacement</i></p> <p>Less than 60 = 100 workdays          60 - 119 = 75 workdays          120 -179 = 50 workdays          180 or more = 25 workdays</p>	<p>N/A</p>	<p>Same as VRS State</p>	<p>N/A</p>
<p>Long-Term Disability</p>	<p>60 percent of compensation</p>	<p>N/A</p>	<p>Same as VRS State</p>	<p>N/A</p>

\*VaLORS is effective October 1, 1999.  
 Source: JLARC staff analysis of VRS documents.

### Benefit Structure : Disability Retirement

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
Vesting	None (Not available if participating in VSDP)	None	None (Not available if participating in VSDP)	None
Defined Benefit Multiplier	1.7 Percent of AFC	Same	Same	Same
Defined Benefit Formula - Regular Disability (if vested)	(Multiplier) X (AFC) X (Years of Service) or minimum guarantee, whichever is higher	Same	Same	Same
Enhanced Service Credit	If less than age 60, service credit equals lesser of (1) twice amount of actual service or (2) actual service plus number of years to age 60	Same	Same	Same
Minimum Guaranteed Defined Benefit - Regular Disability (only benefit payable if not vested)	50 percent AFC (if not qualified for primary social security benefits)  33.3 percent AFC (if qualified for primary social security benefits)	Same	Same	Same
Work-Related Disability Defined Benefit  Benefits offset by workers compensation award  Accumulated member contributions and interest refunded to retiree	Higher of: Regular Disability Benefit Formula or, 50 percent AFC (if qualified for primary social security), or 66.6 percent AFC (if not qualified for primary social security)	Same	Disability Retirees who meet age and service requirements for service retirement may elect the higher of disability or service retirement allowance, less any worker's compensation payments	Same
Presumption of Work-Related Disability from respiratory disease, heart disease and hypertension	No	No	Yes	No

\*VaLORS is effective October 1, 1999.

Source: JLARC staff analysis of VRS documents.

**Benefit Structure : Purchase of Prior Service Credit for Service and Disability Retirement**

Benefit Provision	VRS State/Teacher	VRS Political Sub-division	VaLORS* /SPORS /LEOS	JRS
<p>Five Percent Purchase Rate</p> <p>Can be used to qualify for unreduced early retirement</p> <p>May be paid in a lump sum or by payroll deduction</p> <p>Service credit can't be used in the calculation of a retirement benefit for another plan</p> <p>Can be purchased on an after-tax or before-tax basis if employer permits</p>	<p>Received refund after 7/1/42</p> <p>On personal sick leave after 1/1/64 (maximum of four years)</p> <p>On maternity leave after 1/1/64</p> <p>On leave without pay for the birth or adoption of a child (Maximum purchase of one year)</p> <p>On educational leave or leave for temporary employment with General Assembly (Maximum purchase of four years)</p> <p>Originally hired after age 60, excluded from VRS due to age, and individual paid member contribution during time period in question (Cost is five percent of salary during time period in question)</p> <p>Service as a full-time salaried teacher or instructional aid prior to 7/1/74</p> <p>Active military service, civilian service with the United States, service in the retirement system of a political subdivision or public school system of this or another state (Maximum purchase of four years – provided individual is vested with at least 25 years of service)</p>	<p>Same</p>	<p>Same</p>	<p>Same</p>
<p>15 Percent Purchase Rate</p> <p>Can not be used to qualify for unreduced early retirement or for the early retirement reduction for reduced early retirement</p> <p>Must be vested in VRS to purchase</p> <p>Service credit can't be used in the calculation of a retirement benefit for another plan</p> <p>Must be paid in a lump sum</p>	<p>Service in another public employee retirement system</p> <p>Federal Civil Service</p> <p>Active military service</p>	<p>Same</p>	<p>Same</p>	<p>Same</p>

(continues)

**Benefit Structure : Purchase of Prior Service Credit for Service and Disability Retirement  
(continued)**

Benefit Provision	VRS State/Teacher	VRS Political Sub-division	VaLORS* /SPORS /LEOS	JRS
Service Credit Granted at No Cost to Member	Return to VRS-covered position from military leave of absence within 12 months of honorable or general discharge Originally hired after age 60, excluded from VRS due to age, employer paid member contribution during time period in question Vested member who, as a teacher, was required to take involuntary maternity leave prior to 7/1/74, and subsequently returned to service (Maximum two years credit) State employees who were forced to take leaves of absence without pay between 1/1/64 and 1/1/73 because of childbirth or pregnancy can regain up to two years of service credit at no cost as long as they have not withdrawn all accumulated contributions and have re-entered covered service	Same	Same	Same
20 percent or actuarial value purchase rate	Purchase of service credit for accumulated sick leave for which a payment is made. Service is purchased at the actuarial value or 20 percent of salary, whichever is less.	Same	Same	Same

\*VaLORS is effective October 1, 1999.

Source: VRS staff, and JLARC staff analysis of VRS documents.

**Benefit Structure : Benefit Payment Options**

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
Basic Defined Benefit (Service and disability retirement)	Retiree receives benefit based on benefit formula minus any reductions that apply. Upon death, difference between accumulated member contributions plus 4 percent interest and total benefit payments paid in lump sum to designated beneficiary	Same	Same	Same
100 Percent Survivor (Service and disability retirement)	Retiree receives less than basic benefit. Upon death, contingent annuitant continues to receive same monthly benefit			
50 percent Survivor (Service and disability retirement)	Retiree receives less than basic benefit but more than 100 percent survivor benefit. Upon death, contingent annuitant continues to receive half of monthly benefit			
Special Survivor Option (Service retirement only)	Retiree can designate any percentage survivor option he/she chooses for the contingent annuitant. Member's benefit is reduced based upon the choice made.			
Leveling (Service retirement only)	Retiree receives more than basic benefit in early years of retirement and less (maximum 50 percent reduction) than the basic benefit in later years. Upon death, any difference between benefit payments and accumulated contributions plus interest are paid to beneficiary			

\*VaLORS is effective October 1, 1999.

Note: Disability information presented in this table does not apply to individuals participating in VSDP.

Source: JLARC staff analysis of VRS documents.

**Benefit Structure : Cost of Living Adjustment**

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
Amount	First 3 percent of consumer price index increase; Plus half of each consumer price index percentage increase from 3 percent to 7 percent; Maximum 5 percent cost of living adjustment	Same	Same	Same
Eligibility	Start to receive on July 1 of second calendar year after retirement	Same	Same	Same

\*VaLORS is effective October 1, 1999.

Source: JLARC staff analysis of VRS documents.

### Benefit Structure : Death While in Service

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
<i>Benefit Amount for:</i>				
Non-Work Related Death	Amount equal to 100 percent joint and last survivor option (or refund of member contributions and four percent interest if beneficiary chooses and beneficiary is spouse, dependent child, or parent)	Same	Same	Same
Work-Related Death	33.3 percent of AFC if beneficiary qualifies for primary social security survivor benefits. Refund of member contributions and interest paid to named beneficiary. 50 percent of AFC if not qualified for primary social security. Refund of member contributions and interest paid to named beneficiary	Same	Same	Same
<i>Authorized Payee for:</i>				
Non-Work Related Death	Monthly benefits payable to designated beneficiary but only if designated beneficiary is a surviving spouse, minor child, mother or father in that order of precedence. If no beneficiary is designated, a retirement allowance can be paid to either a surviving spouse, minor child, or parent. The retirement allowance will be paid to the first person qualifying in the order listed.	Same	Same	Same
Work-Related Death	Spouse, minor child, or parent (in that order of precedence). Refund paid to named beneficiary.	Same	Same	Same

\*VaLORS is effective October 1, 1999.

Source: JLARC staff analysis of VRS documents.

### Benefit Structure : Group Life Insurance

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
<i>Benefit Amount for:</i>				
Natural Death	Annual salary rounded to next highest thousand and then doubled	Same	Same	Same
Accidental Death	Annual salary rounded to next highest thousand and then quadrupled	Same	Same	Same
Dismemberment (accidental loss of one limb or sight in one eye)	Annual salary rounded to next highest thousand	Same	Same	Same
Dismemberment (accidental loss of two or more limbs or sight in both eyes)	Annual salary rounded to next highest thousand and then doubled	Same	Same	Same
Conversion to Individual Life Insurance Policy	Within 31 days of the end of the month following termination of employment	Same	Same	Same
Coverage After Retirement	<p>Natural death benefit amount decreases two percent each month until it reaches 25 percent of original amount (Reduction does not begin until age 65 for disability retirees. For long-term disability recipients under VSDP, reduction begins at the time of service retirement)</p> <p>Accidental death and dismemberment coverage ceases at retirement (For VSDP long-term disability recipients, accidental death and dismemberment ceases at time of service retirement)</p>	Same	Same	Same

\*VaLORS is effective October 1, 1999.

Source: JLARC staff analysis of VRS documents.

### Benefit Structure : Optional Life Insurance Program

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
Amount of Employee Coverage	One, two, three or four times annual salary, up to maximum of \$500,000 coverage	Same	Same	Same
Amount of Family Coverage (Four options for spouse/ child coverage. Available option depends on amount of employee coverage purchased)	.5 X employee salary (spouse) / \$5,000 (child) 1 X employee salary (spouse) /\$5,000 (child) 1.5 X employee salary (spouse) /\$10,000 (child) 2 X employee salary (spouse) /\$15,000 (child)	Same	Same	Same
Amount of Children Only Coverage	Maximum of \$5,000, \$10,000 or \$15,000 (depending on amount of employee coverage purchased)  Two covered employees may not add spouse coverage, and only one may add child coverage	Same	Same	Same
Evidence of Insurability	Employee - no (for amounts up to \$250,000 if enrolled within first 31 days of employment)  Spouse - yes (for options two, three, and four) no (for option 1) if enrolled employee adds spouse coverage within 31 days of marriage or date of employment of member  Children - yes, except for addition of first born or adopted child of previously enrolled employee or within 31 days of employment of member	Same	Same	Same
<i>Termination of Coverage for:</i>				
Employee	Service retirement, termination of optional life plan or basic group life insurance coverage, or age 65 if retired for disability	Same	Same	Same
Spouse	Earliest of termination of employee's coverage, divorce from employee, or termination of optional life plan	Same	Same	Same
Children	Earliest of termination of employee's coverage or age 21 (25 if college student) unless disabled	Same	Same	Same
Premiums	Total premium paid by employee	Same	Same	Same

\*VaLORS effective October 1, 1999.

Note: Children's coverage is limited over the first two years of life, ranging from \$2,000 to \$6,000 depending on option selected. Coverage is not provided for children less than 15 days of age.

Source: JLARC staff analysis of VRS documents.

### Benefit Structure : Retiree Health Insurance Credit

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
Eligibility	Retiree with 15 years credited service	Optional	Retiree with 15 years credited service; Optional for LEOS	Retiree with 15 years credited service
Amount	<p><i>State Employees:</i> \$4.00 per month for each year of service - \$120 maximum or cost of retiree's single coverage premium, whichever is less</p> <p><i>Teachers:</i> \$2.50 per month for each year of service - \$75 maximum or cost of retiree's single coverage premium, whichever is less</p> <p><i>Local school boards</i> may elect to provide an additional \$1.00 per month for each year of service -- \$30 maximum or cost of retiree's single coverage premium</p>	Political subdivisions may elect to provide \$1.50 per month for each year of service - \$45 maximum or cost of retiree's single coverage premium, whichever is less	<p><i>VaLORS/ SPORS:</i> \$4.00 per month for each year of service - \$120 maximum or cost of retiree's single coverage premium, whichever is less</p> <p><i>LEOS:</i> Same as political subdivisions</p>	\$4.00 per month for each year of service - \$120 maximum or cost of retiree's single coverage premium, whichever is less

\*VaLORS is effective October 1, 1999.

Note: Local social services employees, sheriff's deputies, and constitutional officers who are retired with at least 15 years of VRS service are eligible to receive a retiree health insurance credit of \$1.50 per month for each year of service, not to exceed \$45 per month or cost of retiree's single coverage premium, whichever is less. The cost of this premium is paid by the Commonwealth. Medical College of Virginia Hospital retirees in VRS or the Authority also have health credit at same rate as State. In addition, political subdivisions can elect to provide an additional retiree health insurance credit of \$1 per month for each year of service, not to exceed \$30 per month.

Source: JLARC staff analysis of VRS documents.

### Benefit Structure : Deferred Compensation

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
Eligibility	State employees eligible  Teachers optional	Optional	<i>VaLORS/SPORS:</i> Eligible  <i>LEOS:</i> optional	Eligible
Member Contributions	Annual maximum of 25 percent of salary or \$8,000, whichever is less	Same as State employees, if selected	<i>VaLORS/SPORS:</i> Same as State Employees  <i>LEOS:</i> Same as State employees, if selected	Same as State employees
Employer Contribution	Shall not exceed 50 percent of the amount the participant contributes or \$50, whichever is less (effective January 1, 2000)	Same as State employees, if selected	<i>VaLORS/SPORS:</i> Same as State Employees  <i>LEOS:</i> Same as State employees, if selected	Same as State employees
Distribution Options	Full withdrawal of account value  Partial withdrawal of account value with remainder paid as systematic withdrawal or annuity  Systematic withdrawal for either a fixed time period or a designated amount  Life Annuity	Same as State employees, if selected	<i>VaLORS/SPORS:</i> Same as State Employees  <i>LEOS:</i> Same as State employees, if selected	Same as State employees

\*VaLORS is effective October 1, 1999.

Source: VRS staff, and JLARC staff analysis of VRS documents.

**Benefit Structure : Optional Defined Contribution Retirement Program**

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
<p>Eligibility</p> <p><i>Institutions of Higher Education, and Teaching Hospitals</i></p> <p><i>MCV Hospitals Authority</i></p> <p><i>UVA Medical Center</i></p> <p><i>Virginia Port Authority</i></p> <p><i>Volunteer Firefighters' and Rescue Squad Workers' Pension Fund</i></p>	<p>Institutions of higher education may establish optional retirement plans for employees engaged in the performance of teaching, administrative or research duties.</p> <p>Teaching hospitals affiliated with institutions of higher education other than the MCV Hospitals Authority or the UVA Medical Center may establish their own retirement plans for health care providers.</p> <p>Eligible employees may elect participation in either the institution's retirement plan or VRS.</p> <p>Medical College of Virginia Hospitals Authority may establish one or more retirement plans for its employees, and may make contributions to the plan. Employees in the optional retirement program or VRS could elect on an irrevocable basis to stay in their existing plan or join the Authority's plan. Employees hired after 1/1/98 are automatically enrolled in the Authority's plan.</p> <p>University of Virginia Medical Center may establish one or more retirement plans for its employees, and may make contributions to the plan. Employees currently in the optional retirement program may stay or join any new plan. Employees currently in VRS may remain, or join any new plan. New employees can elect to join either VRS or any new plan.</p> <p>Virginia Port Authority may establish one or more retirement systems for its employees and make contributions to the plan. Employees in the Virginia Retirement System were given an irrevocable election to remain in VRS or join the Authority's plan. Employees hired after 8/1/98 became participants in the Authority's plan.</p> <p>Establishes a defined contribution retirement program for volunteer firefighters and rescue squad workers. A seven-member board will be established with the VRS Director serving as chairman. The VRS Board of Trustees will oversee the fund's investments. This legislation becomes effective on July 1, 2000.</p>	<p>Not Eligible</p>	<p>Not Eligible</p>	<p>Not Eligible</p>

(continues)

**Benefit Structure : Optional Defined Contribution Retirement Program (continued)**

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
<p><i>Certain Appointed Positions</i></p> <p><i>Local School Superintendents</i></p>	<p>Persons appointed to positions designated in the <i>Code of Virginia</i>, §2.1-116, subdivision 3, 4, or 21, and certain persons appointed by the Attorney General or Lieutenant Governor are eligible to participate in a defined contribution plan. Individuals choosing to participate in the defined contribution plan may make a one time, irrevocable election to transfer to VRS using contributions and earnings to purchase service credits. After ten years or within 90 days of leaving an eligible position, participants in the defined contribution plan will elect to either maintain participation in the optional retirement plan, purchase VRS service credit, or withdraw contributions and earnings.</p> <p>Allows local school boards to create and administer a defined contribution plan for employees of public school divisions as designated in §22.1-60 of the <i>Code of Virginia</i>.</p>			
<p>Defined Contribution Made by:</p> <p><i>State</i></p> <p><i>MCV Hospitals Authority</i></p> <p><i>UVA Medical Center</i></p> <p><i>Virginia Port Authority</i></p>	<p>10.4 percent for employees of institutions of higher education, plus .68 percent for the post-retirement health insurance credit. (Institution may provide supplement of up to 2.17 percent)</p> <p>Lesser of total required VRS employer contribution, or eight percent, for employees of teaching hospitals.</p> <p>8 percent, or the contribution required by the State if the employee was a member of VRS, whichever is less, plus .68 percent for the post-retirement health insurance credit.</p> <p>8 percent, but employees who transfer from optional retirement program to any new plan established by UVA Medical Center shall continue to receive their current defined contribution.</p> <p>8 percent, or the contribution required by the State if the employee were a member of VRS, whichever is less, plus .68 percent for the post-retirement health insurance credit.</p>	<p>Not Applicable</p>	<p>Not Applicable</p>	<p>Not Applicable</p>

(continues)

**Benefit Structure : Optional Defined Contribution Retirement Program (continued)**

Benefit Provision	VRS State/Teacher	VRS Political Subdivision	VaLORS* /SPORS /LEOS	JRS
<i>Volunteer Firefighters and Rescue Squads</i>	Members of the retirement program will make contributions, and the State will make contributions as appropriated.			
<i>Certain Appointed Positions</i>	10.4 percent plus .68 percent for the post-retirement health insurance credit.			
<i>Local School Superintendents</i>	The contribution to the optional plan is determined by the local school board.			
<p>*VaLORS is effective October 1, 1999.                      Source: JLARC staff analysis of VRS documents.</p>				

### Key VRS Benefit Provisions Selected by Political Subdivisions

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
Accomack County	x		1
Accomack/Northampton Planning District Comm.		x	1
Albemarle County Service Authority	x		1
Albemarle County	x		1
Albemarle-Charlottesville Regional Jail	x		1
Alexandria City	x		1
Alexandria Redevelopment & Housing Authority		x	3
Alexandria Sanitation Authority	x		1
Alleghany County	x		1
Alleghany Highlands Community Services Board		x	1
Amelia County	x		1
Amherst County	x		1
Amherst County Service Authority	x		1
Anchor Commission	x		1
Appomattox County	x		1
Appomattox Regional Library	x		1
Appomattox River Water Authority	x		1
Augusta County	x		1
Augusta County Service Authority	x		1
Bath County	x		1
Bedford City	x		1
Bedford County	x		1
Bedford County Public Service Authority	x		1
Bedford Public Library		x	1
Big Walker Soil and Conservation District	x		2
Blacksburg-Christiansburg-VPI Water Authority	x		1
Blacksburg-VPI Sanitation Authority	x		1
Bland County	x		3
Blue Ridge Regional Jail Authority	x		1
Botetourt County	x		1
Bristol City	x		1
Bristol Redevelopment & Housing Authority	x		1
Brunswick County	x		1
Buchanan County	x		3
Buckingham County	x		1
Buena Vista City	x		1
Campbell Co Utilities & Service Authority	x		1
Campbell County	x		1
Capital Regional Airport Commission	x		1
Caroline County	x		1
Carroll County	x		2
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.			

(continues)

### Key VRS Benefit Provisions Selected by Political Subdivisions (continued)

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
Brunswick Industrial Development Authority	x		1
Central Rappahanock Regional Library	x		1
Central Virginia Community Services Board	x		1
Central Virginia Regional Jail	x		1
Central Virginia Waste Management Authority	x		1
Charles City County	x		3
Charlotte County	x		1
Charlottesville Redevelopment & Housing Authority	x		1
Charlottesville-Albemarle Airport Authority	x		1
Chesapeake Bay Bridge & Tunnel District	x		1
Chesapeake City	x		1
Chesapeake Redevelopment & Housing Authority	x		1
Chesterfield County	x		1
Chesterfield County Health Center Commission	x		1
Clarke County	x		1
Clifton Forge City	x		3
Coeburn-Norton-Wise-Reg. Water Treatment Auth.	x		1
Colonial Heights City	x		1
Colonial Services Board	x		1
Colonial Soil & Water Conservation District	x		1
Covington City	x		1
Craig County	x		3
Crater Juvenile Detention Home	x		1
Culpeper County	x		1
Culpeper Soil & Water Conservation District	x		1
Cumberland County	x		1
Cumberland Mountain Comm SVCS	x		1
Cumberland Plateau Regional Housing Authority	x		2
Danville City	x		1
Danville Redevelopment & Housing Authority	x		1
Danville-Pittsylvania Mental Health Services Board	x		1
Dickenson County	x		3
Dinwiddie County Water Authority	x		1
Dinwiddie County	x		1
District 19 MH/MR Services Board	x		1
District Home – Waynesboro	x		1
Eastern Shore Community Services Board	X		1
Eastern Shore Public Library	x		1
Emporia City	x		1
Essex County	x		1

KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.

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### Key VRS Benefit Provisions Selected by Political Subdivisions (continued)

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
Fairfax City	x		1
Falls Church City		x	2
Fauquier County Water & Sanitation Authority	x		1
Fauquier County	x		1
Floyd County	x		1
Fluvanna County	x		1
Franklin City	x		1
Franklin County	x		3
Franklin Redevelopment & Housing Authority	x		1
Frederick Co Sanitation Authority	x		1
Frederick County	x		1
Fredericksburg City	x		1
Fredericksburg-Stafford Park Authority	x		1
Galax City	x		1
Giles County	x		1
Giles County Public Service Authority	x		1
Gloucester County	x		1
Goochland County	x		1
Goochland-Powhatan Community Services Board	x		1
Grayson County	x		3
Greene County	x		1
Greensville County	x		1
Greensville County Water and Sewer Authority	x		1
Greensville-Emporia Department of Social Services	x		1
Halifax County	x		3
Hampton City	x		1
Hampton Newport News Community Services Board	x		1
Hampton Redevelopment & Housing Authority	x		1
Hampton Roads Planning District Commission	x		1
Hampton Roads Regional Jail Authority	x		1
Hampton Roads Sanitation District	x		1
Hanover County	x		1
Harrisonburg/Rockingham Community Services Board	x		1
Harrisonburg/Rockingham Regional Sewer Authority	x		1
Harrisonburg City	x		1
Henrico County	x		1
Henry County	x		1
Henry County Public Service Authority	x		1
Highland County	x		3
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.			

(continues)

### Key VRS Benefit Provisions Selected by Political Subdivisions (continued)

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
Highlands Juvenile Detention Center		x	1
Hopewell City	x		1
Hopewell Redevelopment & Housing Authority		x	1
Industrial Development Authority of Henrico County		x	1
Isle of Wight County	x		1
James City County	x		1
James City Service Authority	x		1
Jones Memorial Library	x		3
King & Queen County	x		1
King George County	x		1
King William County	x		1
Lancaster County	x		1
Lee Co Redevelopment & Housing Authority	x		1
Lee County	x		3
Lenwisco Planning District Commission	x		1
Lexington City	x		1
Lonesome Pine Regional Library	x		1
Loudoun County	x		1
Loudoun County Sanitation Authority	x		1
Louisa County	x		1
Lunenburg County	x		3
Lynchburg City	x		1
Madison County	x		1
Manassas City	x		1
Manassas Park City	x		1
Martinsville City	x		1
Mathews County	x		1
Mecklenburg County	x		1
Meherrin Regional Library	x		1
Middle Peninsula-Northern Neck Community Services	x		1
Middle Peninsula Regional Security Center	x		1
Middlesex County		x	1
Moccasin Gap Sanitation District	x		1
Monacan Soil and Water Conservation District	x		1
Montgomery County	x		1
Montgomery Regional Solid Waste Authority	x		1
Natural Tunnel Soil & Water Conservation District	x		1
Nelson County	x		1
Nelson County Service Authority	x		1
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.			

(continues)

### Key VRS Benefit Provisions Selected by Political Subdivisions (continued)

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
New Kent County		x	1
New River Resource Authority	x		1
New River Valley Regional Jail	x		1
New River Valley Juvenile Detention Home Comm	x		1
New River Valley Planning District		x	1
Norfolk Airport Authority	x		1
Norfolk City	x		1
Norfolk Redevelopment & Housing Authority	x		1
Northampton County	x		1
Northern Neck-Essex County Group Home Comm	x		3
Northern Neck Planning District Commission	x		1
Northern Neck Regional Jail	x		1
Northern Virginia Juvenile Detention Home	x		1
Northern Virginia Health Care Center		x	2
Northumberland County	x		1
Northwestern Community Services Board	x		1
Norton City	x		1
Nottoway County		x	1
Orange County	x		1
Page County	x		1
Pamunkey Regional Jail	x		1
Patrick County	x		3
Pepper's Ferry Regional Wastewater Authority	x		1
Petersburg City	x		1
Petersburg Redevelopment and Housing Authority	x		1
Peumansend Creek Regional Jail	x		1
Piedmont Planning District Commission	x		1
Piedmont Regional Jail	x		1
Pittsylvania County Service Authority	x		1
Pittsylvania County	x		1
Planning District One Community Services Board		x	1
Poquoson City	x		1
Portsmouth City	x		1
Portsmouth Redevelopment & Housing Authority	x		1
Potomac & Rappahannock Transportation Comm	x		1
Potomac River Fisheries Comm	x		1
Prince Edward County	x		1
Prince George County	x		1
Prince William County	x		1
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.			

(continues)

### Key VRS Benefit Provisions Selected by Political Subdivisions (continued)

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
Prince William Soil & Water Conservation District	x		3
Pulaski County	x		1
Radford City	x		1
Rappahannock Area Community Services Board	x		1
Rappahannock County	x		1
Rappahannock Juvenile Center	x		1
Rappahannock-Rapidan Community Services Board	x		1
Rappahannock-Rapidan Planning District Comm		x	1
Rappahannock Regional Jail	x		1
Region Ten Community Services Board	x		2
Richmond City	x		1
Richmond County	x		1
Richmond Metropolitan Authority	x		1
Richmond Redevelopment & Housing Authority	x		1
Rivanna Solid Waste Authority	x		1
Rivanna Water & Sewer Authority	x		1
Riverside Regional Jail	x		1
Roanoke City		x	1
Roanoke County	x		1
Robert E. Lee Soil and Water Conservation District	x		1
Rockbridge Area Community Services Board	x		1
Rockbridge Area Social Services Department	x		1
Rockbridge County Public Service Authority	x		1
Rockbridge County	x		1
Rockbridge Regional Library	x		1
Rockingham County	x		1
Russell County	x		2
Russell County Water and Sewage Authority	x		2
Salem City	x		1
Scott County	x		1
Scott County Redevelopment & Housing Authority	x		1
Scott County Water & Sewage Authority	x		1
Shenandoah County	x		1
Shenandoah Valley Juvenile Detention Home Commis	x		1
Smyth County	x		1
South Central Wastewater Authority	x		1
Southampton County	x		1
Southeastern Public Service Authority	x		1
Southeastern VA Job Training		x	1
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.			

(continues)

### Key VRS Benefit Provisions Selected by Political Subdivisions (continued)

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
Southside Planning District Comm	x		1
Southside Regional Juvenile Home	x		1
Southside Regional Library Board	x		1
Spotsylvania County	x		1
Spotsylvania-Stafford-Fredericksburg Group Home	x		1
Stafford County	x		1
Staunton City	x		1
Staunton Redevelopment & Housing Authority	x		1
Suffolk City	x		1
Suffolk Redevelopment & Housing Authority		x	1
Surry County	x		1
Sussex County	x		1
Sussex Service Authority	x		1
Tazewell County	x		1
The Handley Library	x		1
The Peninsula Airport Commission	x		1
Thomas Jefferson Planning District Commission	x		1
Thomas Jefferson Soil & Water Conservation Dist.	x		1
Tidewater Regional Group Home Commission	x		1
Tidewater Transportation District	x		1
Town of Abingdon		x	1
Town of Altavista	x		1
Town of Amherst	x		1
Town of Appomattox	x		1
Town of Ashland	x		1
Town of Berryville		x	1
Town of Big Stone Gap	x		1
Town of Blacksburg	x		1
Town of Blackstone	x		1
Town of Bluefield	x		1
Town of Bowling Green	x		1
Town of Boyce	x		3
Town of Boydton	x		3
Town of Bridgewater	x		1
Town of Broadway	x		1
Town of Brookneal	x		1
Town of Cape Charles	x		3
Town of Chase City	x		3
Town of Chatham	x		1
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.			

(continues)

### Key VRS Benefit Provisions Selected by Political Subdivisions (continued)

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
Town of Chilhowie	x		1
Town of Chincoteague	x		3
Town of Christiansburg	x		1
Town of Clarksville	x		1
Town of Coeburn	x		3
Town of Colonial Beach	x		1
Town of Courtland		x	1
Town of Craigsville	x		1
Town of Crewe	x		1
Town of Culpeper	x		1
Town of Dayton		x	1
Town of Dublin	x		3
Town of Dumfries		x	1
Town of Edinburg		x	3
Town of Elkton	x		1
Town of Exmore	x		3
Town of Floyd	x		3
Town of Front Royal	x		1
Town of Gate City	x		3
Town of Glasgow	x		1
Town of Gretna	x		1
Town of Grundy	x		3
Town of Halifax		x	3
Town of Hamilton	x		1
Town of Herndon	x		1
Town of Hillsville		x	1
Town of Hurt	x		1
Town of Independence		x	1
Town of Iron Gate		x	1
Town of Jarratt		x	3
Town of Jonesville	x		3
Town of Kenbridge	x		3
Town of Kilmarnock	x		2
Town of Lawrenceville	x		3
Town of Leesburg	x		1
Town of Louisa	x		1
Town of Luray	x		3
Town of Marion	x		1
Town of McKenney		x	1
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.			

(continues)

**Key VRS Benefit Provisions Selected by Political Subdivisions (continued)**

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
Town of Middleburg	x		1
Town of Middletown	x		1
Town of Montross	x		1
Town of Mt. Jackson		x	1
Town of Narrows	x		1
Town of New Market	x		1
Town of Onancock	x		1
Town of Orange	x		1
Town of Parksley	x		1
Town of Pearisburg	x		1
Town of Pembroke	x		1
Town of Pound	x		3
Town of Pulaski	x		1
Town of Purcellville	x		1
Town of Quantico	x		3
Town of Remington	x		1
Town of Rocky Mount	x		1
Town of Round Hill	x		1
Town of Saltville	x		1
Town of Shenandoah	x		3
Town of Smithfield	x		1
Town of St. Paul	x		1
Town of Stanley	x		1
Town of Strasburg		x	1
Town of Tappahannock		x	1
Town of Tazewell		x	1
Town of Timberville	x		1
Town of Urbanna		x	3
Town of Victoria	x		3
Town of Vienna	x		1
Town of Vinton	x		1
Town of Wakefield	x		3
Town of Warrenton	x		1
Town of Warsaw	x		1
Town of Waverly		x	1
Town of Weber City	x		1
Town of Wise	x		1
Town of Woodstock	x		1
Town of Wytheville	x		1

KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.

(continues)

### Key VRS Benefit Provisions Selected by Political Subdivisions (continued)

Political Subdivision	Age 55 and 30 Years Service	Rule of 90	Payment of VRS Member Contributions
Tri-County/City Soil and Water Conservation Dist.	x		3
Upper Occoquan Sewage Auth	x		1
VA Coalfield Economic Development Authority	x		1
VA Small Business Financing Authority		x	1
Valley Community Services Board	x		1
Virginia Beach City	x		1
Virginia Biotechnological Research Authority	x		1
Virginia Highlands Airport Commission	x		1
Virginia Peninsulas Public Service Authority	x		1
Virginia Peninsula Regional Jail	x		1
Warren County	x		1
Washington County	x		1
Washington County Service Authority	x		1
Waynesboro City	x		1
Waynesboro Redevelopment & Housing Authority	x		1
Western Tidewater Community Services	x		1
Western Tidewater Regional Jail	x		1
Westmoreland County	x		2
Williamsburg City	x		1
Winchester City	x		1
Wise County	x		1
Wise County Red/Housing Authority	x		2
Wythe County	x		1
Wythe-Grayson Regional Library	x		3
Wytheville Redevelopment & Housing Authority	x		1
York County	x		1
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.			
Source: Virginia Retirement System, January 1999.			

Note: A revised table reflecting any changes due to the implementation of the 50/30 retirement benefit effective July 1, 1999, will be included in the version of the *Legislator's Guide to the Virginia Retirement System* maintained on the JLARC internet site (<http://jlarc.state.va.us>)

**Key VRS Benefit Provisions for Local School Systems' Professional Employees**

Political Subdivision	Age 55 and 30 Years Service	Payment of VRS Member Contributions
Accomack County Schools	x	1
Albemarle County Schools	x	1
Alexandria City Schools	x	1
Alleghany Highlands County Schools	x	1
Amelia County Schools	x	1
Amelia-Nottoway Vocational Center	x	1
Amherst County Schools	x	1
Appomattox County Schools	x	1
Arlington County Schools	x	2
Augusta County Schools	x	1
Bath County Schools	x	1
Bedford County Schools	x	1
Bland County Schools	x	1
Botetourt County Schools	x	1
Bristol City Schools	x	1
Brunswick County Schools	x	1
Buchanan County Schools	x	1
Buckingham County Schools	x	1
Buena Vista City Schools	x	1
Campbell County Schools	x	1
Caroline County Schools	x	1
Carroll County Schools	x	1
Charles City County Schools	x	1
Charlotte County Schools	x	1
Charlottesville City Schools	x	1
Charlottesville-Albemarle Vocational Tech Center	x	1
Chesapeake City Schools	x	1
Chesterfield County Schools	x	1
Clarke County Schools	x	1
Colonial Heights City Schools	x	1
Colonial Beach Schools	x	1
Covington City Schools	x	1
Craig County Schools	x	1
Culpeper County Schools	x	1
Cumberland County Schools	x	1
Danville City Schools	x	1
Dickenson County Schools	x	1
Dinwiddie County Schools	x	1
Essex County Schools	x	1
Fairfax City Schools	x	1
Fairfax County Schools	x	2

KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.

(continues)

## Key VRS Benefit Provisions for Local School Systems' Professional Employees (continued)

Political Subdivision	Age 55 and 30 Years Service	Payment of VRS Member Contributions
Falls Church City Schools	x	1
Fauquier County Schools	x	1
Floyd County Schools	x	1
Fluvanna County Schools	x	1
Franklin City Schools	x	1
Franklin County Schools	x	1
Frederick County Schools	x	1
Fredericksburg City Schools	x	1
Galax City Schools	x	1
George Washington Carver-Piedmont Tech. Ed. Ctr.	x	1
Giles County Schools	x	1
Gloucester County Schools	x	1
Goochland County Schools	x	1
Governor's School for Global Economics & Technology	x	1
Governor's School for Gov & International Studies	x	1
Grayson County Schools	x	2
Greene County Schools	x	1
Greensville County Schools	x	1
Halifax/South Boston Schools	x	1
Hampton City Schools	x	1
Hanover County Schools	x	1
Harrisonburg City Schools	x	1
Henrico County Schools	x	1
Henry County Schools	x	1
Highland County Schools	x	1
Hopewell City Schools	x	1
Isle of Wight County Schools	x	1
Jackson River Technical Center	x	1
King & Queen County Schools	x	1
King George County Schools	x	1
King William County Schools	x	1
Lancaster County Schools	x	1
Lee County Schools	x	1
Lexington City Schools	x	1
Loudoun County Schools	x	1
Louisa County Schools	x	1
Lunenburg County Schools	x	1
Lynchburg City Schools	x	1
Madison County Schools	x	1
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.		

(continues)

## Key VRS Benefit Provisions for Local School Systems' Professional Employees (continued)

Political Subdivision	Age 55 and 30 Years Service	Payment of VRS Member Contributions
Manassas City Schools	x	1
Manassas Park City Schools	x	1
Martinsville City Schools	x	1
Massanutten Vocational Technical Center	x	1
Mathews County Schools	x	1
Mecklenburg County Schools	x	1
Middlesex County Schools	x	1
Montgomery County Schools	x	1
Nelson County Schools	x	1
New Horizons Technical Center	x	1
New Kent County Schools	x	1
Newport News Public Schools	x	1
Norfolk City Schools	x	1
Northampton County Schools	x	1
Northern Neck Regional Special Education Prgm	x	1
Northern Neck Regional Vocational Center	x	1
Northumberland County Schools	x	1
Northwestern Regional Education Program	x	1
Norton City Schools	x	1
Nottoway County Schools	x	1
Orange County Schools	x	1
Page County Schools	x	1
Patrick County Schools	x	1
Petersburg City Schools	x	1
Pittsylvania County Schools	x	1
Poquoson City Schools	x	1
Portsmouth City Schools	x	1
Powhatan County Schools	x	1
Prince Edward County Schools	x	1
Prince George County Schools	x	1
Prince William County Schools	x	1
Pulaski County Schools	x	1
Radford City Schools	x	1
Rappahannock County Schools	x	1
Richmond City Schools	x	1
Richmond County Schools	x	1
Roanoke City Schools	x	1
Roanoke County Schools	x	1
Rockbridge County Schools	x	1
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.		

(continues)

## Key VRS Benefit Provisions for Local School Systems' Professional Employees (continued)

Political Subdivision	Age 55 and 30 Years Service	Payment of VRS Member Contributions
Rockingham County Schools	x	1
Rowanty Vo-Tech Center	x	1
Russell County Schools	x	1
Salem City Schools	x	1
Scott County Schools	x	1
Shenandoah County Schools	x	1
Smyth County Schools	x	1
Southampton County Schools	x	1
Spotsylvania County Schools	x	1
Stafford County Schools	x	1
Staunton City Schools	x	1
Suffolk City Schools	x	1
Surry County Schools	x	1
Sussex County Schools	x	1
Tazewell County Schools	x	1
The Pruden Center for Industry and Technology	x	1
Valley Vo-Tech Center	x	1
Virginia Beach City Schools	x	1
Warren County Schools	x	1
Washington County Schools	x	1
Waynesboro City Schools	x	1
West Point Schools	x	1
Westmoreland County Schools	x	1
Williamsburg City-James City County Schools	x	1
Winchester City Schools	x	1
Wise County Schools	x	1
Wythe County Schools	x	1
York County Schools	x	1
KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after tax basis.		
Source: Virginia Retirement System, January 1999.		

Note: A revised table reflecting any changes due to the implementation of the 50/30 retirement benefit effective July 1, 1999, will be included in the version of the *Legislator's Guide to the Virginia Retirement System* maintained on the JLARC internet site (<http://jlarc.state.va.us>)

## LEOS Coverage Among Political Subdivisions

Employer	Covered Employee Groups and Date (MM-YY) Coverage Began (x = no coverage)			Age/Service for Unreduced Benefit		Member Contribution Method*
	Police	Fire	Sheriff	50/25	55/30	
Accomack County	x	x	07-90	✓		1
Albemarle County	10-76	x	07-90	✓		1
Alleghany County	x	x	07-90	✓		1
Amelia County	x	x	07-90	✓		1
Amherst County	07-97	x	07-90	✓		1
Appomattox County	10-85	x	07-90	✓		1
Augusta County	07-79	07-79	07-90	✓		1
Bath County	x	x	07-90	✓		1
Bedford County	07-87	x	07-90	✓		1
Bland County	x	x	07-90	✓		3
Botetourt County	x	x	07-90	✓		1
Brunswick County	x	x	07-90	✓		1
Buchanan County	x	x	07-90	✓		3
Buckingham County	x	x	07-90	✓		1
Campbell County	03-71	x	07-90	✓		1
Caroline County	x	x	07-90	✓		1
Carroll County	07-97	x	07-90	✓		2
Charles City County	x	x	07-90	✓		3
Charlotte County	x	x	07-90	✓		1
Chesterfield County	09-74	09-75	07-90	✓		1
City of Alexandria	x	x	07-90	✓		1
City of Bedford	01-79	x		✓		1
City of Bristol	01-82	07-87	07-90	✓		1
City of Buena Vista	07-90	x	07-90	✓		1
City of Chesapeake	10-74	10-74	07-90	✓		1
City of Clifton Forge	07-90	x	7-90	✓		3
City of Colonial Heights	11-74	x	07-90	✓		1
City of Covington	x	x			✓	1
City of Danville	07-81	x	07-90**		✓	1
City of Emporia	07-90	x	07-90	✓		1
City of Fairfax	x	x			✓	1
City of Falls Church	x	x	07-90	✓		2
City of Franklin	01-72	07-83			✓	1
City of Fredericksburg	07-74	07-74	07-90	✓		1
City of Galax	07-90	x		✓		3
City of Hampton	04-75	04-75	07-90	✓		1
City of Harrisonburg	12-90	12-90		✓		1
City of Hopewell	04-78	04-78	07-90	✓		1
City of Lexington	07-92	x		✓		1
City of Lynchburg	01-75	01-75	07-90	✓		1

\* KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after-tax basis.

\*\* Sheriff age/service requirement is 50/25

(continues)

### LEOS Coverage Among Political Subdivisions (continued)

Employer	Covered Employee Groups and Date (MM-YY) Coverage Began (x = no coverage)			Age/Service for Unreduced Benefit		Member Contribution Method*
	Police	Fire	Sheriff	50/25	55/30	
City of Manassas	07-76	01-76		✓		1
City of Manassas Park	7-96	7-96		✓		1
City of Martinsville	04-72	07-87	07-90	✓		1
City of Norfolk	x	x	07-90	✓		1
City of Norton	x	x	07-90	✓		1
City of Petersburg	01-76	01-76	07-90	✓		1
City of Poquoson	07-75	07-75		✓		1
City of Portsmouth	07-95	07-95	07-90	✓		1
City of Radford	02-71	02-71	07-90**		✓	1
City of Richmond	x	x	07-90	✓		1
City of Roanoke	07-84	x	07-90	✓		1
City of Salem	09-71	07-74	07-90	✓		1
City of Staunton	07-81	07-81	07-90	✓		1
City of Suffolk	01-77	01-77	07-90	✓		1
City of Virginia Beach	01-71	10-74	07-90	✓		1
City of Waynesboro	01-78	01-78	07-90	✓		1
City of Williamsburg	01-79	01-79	07-90	✓		1
City of Winchester	07-75	07-75	07-90	✓		1
Clarke County	x	x	07-90	✓		1
Craig County	x	x	07-90	✓		3
Culpeper County	07-90	x	07-90	✓		1
Cumberland County	x	x	07-90	✓		1
Dickenson County	x	x	07-90	✓		3
Dinwiddie County	x	x	07-90	✓		1
Essex County	10-70	x	07-90	✓		1
Fauquier County	08-90	x	07-90	✓		1
Floyd County	x	x	07-90	✓		1
Fluvanna County	x	x	07-90	✓		1
Franklin County	07-88	x	07-90**		✓	3
Frederick County	07-98	07-98	07-90	✓		1
Giles County	07-90	x	07-90	✓		1
Gloucester County	x	x	07-90	✓		1
Goochland County	06-84	x	07-90	✓		1
Grayson County	x	x	07-90	✓		3
Greene County	x	x	07-90	✓		1
Greensville County	07-90	x	07-90	✓		1
Halifax County	x	x	07-90	✓		3
Hanover County	07-85	07-90	07-90	✓		1
Henrico County	07-75	07-75	07-90	✓		1

\* KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after-tax basis.

\*\* Sheriff age/service requirement is 50/25

(continues)

## LEOS Coverage Among Political Subdivisions (continued)

Employer	Covered Employee Groups and Date (MM-YY) Coverage Began (x = no coverage)			Age/Service for Unreduced Benefit		Member Contribution Method*
	Police	Fire	Sheriff	50/25	55/30	
Henry County	01-77	x	07-90	✓		1
Highland County	x	x	07-90	✓		3
Isle of Wight County	x	x	07-90	✓		1
James City County	x	x	07-90	✓		1
King & Queen County	x	x	07-90	✓		1
King George County	x	x	07-90	✓		1
King William County	x	x	07-90	✓		1
Lancaster County	x	x	07-90	✓		1
Lee County	x	x	07-90	✓		3
Loudoun County	07-76	x	07-90	✓		1
Louisa County	07-93	x	07-90	✓		1
Lunenburg County	x	x	07-90	✓		3
Madison County	07-97	x	07-90	✓		1
Mathews County	x	x	07-90	✓		1
Mecklenburg County	07-83	x	07-90	✓		1
Middlesex County	x	x	07-90	✓		1
Montgomery County	07-98	x	07-90	✓		1
Nelson County	x	x	07-90	✓		1
New Kent County	x	x	07-90	✓		1
Norfolk Airport Authority	x	07-92		✓		1
Northampton County	x	x	07-90	✓		1
Northumberland County	x	x	07-90	✓		1
Nottoway County	x	x	07-90	✓		1
Orange County	01-98	x	07-90	✓		1
Page County	x	x	07-90	✓		1
Patrick County	03-98	x	07-90	✓		3
Pittsylvania County	07-87	x	07-90	✓		1
Prince Edward County	x	x	07-90	✓		1
Prince George County	07-95	x	07-90	✓		1
Prince William County	01-71	07-84	07-90	✓		1
Pulaski County	07-82	x	07-90	✓		1
Rappahannock County	x	x	07-90	✓		1
Richmond County	x	x	07-90	✓		1
Roanoke County	03-79	03-79	07-90	✓		1
Rockbridge County	x	x	07-90	✓		1
Rockingham County	07-92	07-92	07-90	✓		1
Russell County	x	x	07-90	✓		2
Scott County	x	x	07-90	✓		1
Shenandoah County	x	x	07-90	✓		1
Smyth County	x	x	07-90	✓		1
Southampton County	x	x	07-90	✓		1

\* KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after-tax basis.

\*\* Sheriff age/service requirement is 50/25

(continues)

### LEOS Coverage Among Political Subdivisions (continued)

Employer	Covered Employee Groups and Date (MM-YY) Coverage Began (x = no coverage)			Age/Service for Unreduced Benefit		Member Contribution Method*
	Police	Fire	Sheriff	50/25	55/30	
Spotsylvania County	x	x	07-90	✓		1
Stafford County	x	x	07-90	✓		1
Surry County	x	x	07-90	✓		1
Sussex County	x	x	07-90	✓		1
Tazewell County	x	x	07-90	✓		1
Town of Altavista	04-74	x		✓		1
Town of Amherst	04-91	x		✓		1
Town of Ashland	01-97	x		✓		1
Town of Big Stone Gap	01-85	x			✓	1
Town of Blacksburg	07-79	x		✓		1
Town of Bridgewater	01-92	x		✓		1
Town of Chatham	09-84	x		✓		1
Town of Christiansburg	09-96	09-96		✓		1
Town of Colonial Beach	07-90	x		✓		1
Town of Culpeper	10-71	x		✓		1
Town of Elkton	07-93	x		✓		1
Town of Exmore	10-96	x		✓		3
Town of Front Royal	07-90	07-90		✓		1
Town of Herndon	07-91	x		✓		1
Town of Hillsville	07-98	x		✓		1
Town of Hurt	07-76	x		✓		1
Town of Luray	09-79	x			✓	3
Town of Narrows	04-72	x		✓		1
Town of Pearisburg	02-73	x			✓	1
Town of Rocky Mount	07-91	x		✓		1
Town of Smithfield	07-97	x		✓		1
Town of Vienna	05-75	x		✓		1
Town of Vinton	10-71	x		✓		1
Town of Warrenton	04-78	x		✓		1
Warren County	x	x	07-90	✓		1
Washington County	x	x	07-90	✓		1
Westmoreland County	x	x	07-90	✓		2
Wise County	x	x	07-90	✓		1
Wythe County	x	x	07-90	✓		1
York County	01-76	01-76	07-90	✓		1

\*KEY: 1 = Employer pays five percent contribution for member; 2 = Member pays five percent contribution on before-tax basis; 3 = Member pays five percent contribution on after-tax basis.

\*\* Sheriff age/service requirement is 50/25

Source: Virginia Retirement System.

### Comparative Data on Selected State Employee Retirement Systems

State	Multiplier	Employee Contribution Rate (Percent of Payroll)	Final Average Compensation (FAC) Period (Months)	FAC Period Conditions	Vesting Period (Years)	Retirement Age with 5 Years Service	Retirement Age with 30 Years Service
Arizona	2	3.2	36	Non-Consecutive	Immediate	n/a	50
Delaware	1.67	3	60	Non-Consecutive	5	62	any
Georgia	1.64	1.25	24	Consecutive	10	n/a	any
Indiana	1.1	3	60	Non-Consecutive	10	n/a	55
Kansas	1.75	4	36	Non-Consecutive	10	n/a	55
Montana	1.79	6.8	36	Consecutive	5	60	55
North Dakota	1.77	4	36	Non-Consecutive	5	65	55
New Mexico	3	6.18	36	Consecutive	5	65	any
Oklahoma	2	2.5	36	Highest out of last 120 months, non-consecutive	8	n/a	60
Oregon	1.67	6	36	Consecutive	5	58	55
Pennsylvania	2	5	36	Consecutive	10	n/a	n/a
Texas	2.25	6	36	Non-Consecutive	5	60	50
Utah	2	n/a	60	Non-Consecutive	4	65	any
Vermont	1.67	2.75	36	Consecutive	5	62	any
<b>Virginia</b>	<b>1.7</b>	<b>5</b>	<b>36</b>	<b>Consecutive</b>	<b>5</b>	<b>65</b>	<b>50</b>
Wisconsin	1.6	6.2	36	Non-Consecutive	5	65	57
<b>Average</b>	<b>1.85</b>	<b>4.33 - n/a</b>	<b>39.75</b>	<b>n/a</b>	<b>6.8 – Immediate</b>	<b>63 – n/a</b>	<b>54 – any</b>

Source: JLARC staff analysis of data contained in FY 1997 state retirement system annual reports, the 1996 Comparative Study of Major Public Pension Plans prepared by the Wisconsin Retirement Research Committee, and the State & Local Pension Exchange.

### Comparison of Employee Contribution Rates of State Employee Retirement Systems

Social Security/ Multiplier	Number of States	Average Rate (Percent of Payroll)	Rate Range (Percent of Payroll)
Social Security Coverage, Multiplier Greater than or Equal to 1.7	21	5.32	2.5 – 7.42
Social Security Coverage, Multiplier Less than 1.7	13	4.02	1.25 - 6
No Social Security Coverage	6	7.76	6.75 - 8

**Notes:**

Nine states which do not require employee contributions are not included in this analysis.

Data for Nebraska's defined contribution plan is not included in this analysis.

Source: JLARC staff analysis of data contained in FY 1997 state retirement system annual reports, and the 1996 Comparative Study of Major Public Pension Plans prepared by the Wisconsin Retirement Research Committee.

## Major Milestones in Development of the VRS Benefit Structure

Year	Event
1908	Retired Teachers Fund created
1942	Virginia Retirement System (VRS) and Judicial Retirement System (JRS) created
1944	Political subdivisions allowed to join VRS
1950	State Police Officers Retirement System (SPORS) created
1952	VRS repealed, and re-enacted as Virginia Supplemental Retirement System (VSRS), in order to obtain social security coverage for public employees
1955	SPORS covered under social security
1956	JRS covered under social security
1960	Group life insurance program created
1962	Group life insurance program made compulsory for all full-time salaried State employees
1970	Cost of Living Adjustment (COLA) established, in amount equal to full increase in consumer price index
1970	Political subdivisions authorized to provide SPORS-equivalent benefits to law enforcement personnel
1974	Statutory five percent member contribution rate established
1974	Deferred compensation program authorized
1978	COLA capped at a five percent maximum
1980	Deferred compensation program implemented
1983	State begins to pay member pension contribution
1984	State begins to pay member group life contribution
1987	Minimum age and service requirements for full retirement benefits reduced from 60/30 to 55/30 for State employees, teachers and judges (optional for political subdivisions)
1987	Mandatory retirement age repealed for State employees, teachers, political subdivisions, and judges
1989	State retiree health care credit established
1990	VSRS repealed and reenacted as VRS, in response to federal legislation prohibiting integration of social security and retirement benefits  Benefit formulas for service and disability retirement assumed current form  Minimum age and service requirements for full retirement benefits reduced from 55/30 to 50/25 for State Police (optional for political subdivisions providing LEOS)
1990 - 99	Expansion of opportunities to purchase or receive prior service credit
1991	Early Retirement Incentive program
1991	State contribution rates established for optional retirement program for higher education.

(continues)

### Major Milestones in Development of the VRS Benefit Structure (continued)

Year	Event
1992	<p>State retiree health care credit increased</p> <p>Political subdivisions and local school boards authorized to provide retiree health care credit</p> <p>Mandatory retirement at age 70 reinstated for judges</p>
1994	VRS benefits increased by three percent for State employees (optional for political subdivisions)
1995	<p>Early retirement with reduced benefits authorized at 50/10</p> <p>Optional life insurance program established</p> <p>Workforce Transition Act</p>
1996	Retiree health care credit for teachers made mandatory, with cost to be paid by State (effective 7/1/98)
1998	<p>Virginia Sickness and Disability Program (VSDP) for State employees authorized (effective 1/1/99)</p> <p>A defined contribution retirement plan authorized for gubernatorial appointees and certain employees of the Office of Attorney General</p>
1999	<p>Single benefit formula with a multiplier of 1.7 of average final compensation established. The three percent benefit adjustment eliminated and a two percent benefit adjustment provided to all members who retired prior to January 1, 1999</p> <p>Minimum age and service requirements for full retirement benefits reduced from 55/30 to 50/30 for State employees and teachers (optional for political subdivisions)</p> <p>Virginia Law Officers' Retirement System established (effective 10/1/99)</p> <p>Volunteer Firefighters' and Rescue Squad Workers' Pension Fund authorized (effective 7/1/00)</p> <p>State employee and teacher retiree health insurance credit increased</p> <p>Employer-match for the State employee deferred compensation program authorized (effective 1/1/00)</p>
Source: JLARC staff analysis of VRS documents, <i>Code of Virginia</i> , and Acts of Assembly.	

### Major Studies of VRS Benefit Issues, 1985 to Present

Benefit Issue/(Study)	Key Findings/Recommendations
<p>A review of the investment options provided to participants of the deferred compensation program.</p> <p><i>(Virginia Retirement System - in progress)</i></p>	<p>In progress</p>
<p>A study of the benefits and funding requirements of the Virginia Retirement System.</p> <p><i>(Joint Commission on Management of the Commonwealth's Workforce - in progress)</i></p>	<p>In progress</p>
<p>A study of the feasibility of offering long-term care insurance for State and local employees and VRS retirees.</p> <p><i>(Virginia Retirement System - 1999)</i></p>	<p>The study concluded that while it is feasible to provide long-term care insurance, there is no significant demand for that particular coverage.</p> <p>However, the report noted that should the General Assembly require that long-term care insurance coverage be an option, then the Department of Personnel and Training should be offered the opportunity for implementing and administering the program.</p>
<p>Staffing Needs and Levels Within the Department of Corrections and a Reevaluation of Retirement Benefits of Probation &amp; Parole Officers and Correctional Officers</p> <p><i>(State Crime Commission – 1998)</i></p>	<p>One finding identified by the study was that correctional officers work within specialized circumstances and are subjected to high stress and personal danger. However, recognizing that including these staff in the SPORS system is expensive, an alternative and enhanced retirement system that recognizes the unique nature of the correctional officers' duties should be developed.</p>
<p>An audit of the Virginia Retirement System's 1996 actuarial valuation.</p> <p><i>(William M. Mercer, Incorporated - 1997)</i></p>	<p>This review focused on VRS' actuarial process and specifically the: actuarial cost method, asset smoothing method, VRS funding policy, actuarial computations, actual retirement benefits, and economic and non-economic assumptions.</p> <p>The review determined that VRS' actuarial valuation was well done and in accordance with generally accepted actuarial principles. However, issues related to valuation calculations and service purchases were identified. In addition, the study noted that while the economic and non-economic assumptions were appropriate, they were somewhat conservative.</p>
<p>Establishing a Health Care Plan for Political Subdivision Beneficiaries of the Virginia Retirement System</p> <p><i>(Department of Personnel and Training – 1997)</i></p>	<p>The report determined that, absent a subsidy, it was not feasible to offer a health insurance program to early retirees because a large number of retirees cannot afford the cost of the insurance. In addition, many early retirees can access health insurance through a former employer.</p>

(continues)

**Major Studies of VRS Benefit Issues, 1985 to Present (continued)**

Benefit Issue/(Study)	Key Findings/Recommendations
<p>Feasibility and Cost of Extending SPORS Benefits to Other State Law Enforcement Officers <i>(State Crime Commission - 1995)</i></p>	<p>Other classes of law enforcement officers are largely deserving of retirement benefits equivalent to SPORS. However, distinctions can be made between the duties, hazards, and risks faced by officers employed by State agencies. Implementation of SPORS-equivalent benefits may have to be incremental due to funding concerns.</p>
<p>Structure of State Disability Program <i>(State Employee Benefits Assessment - Joint Commission Studying the Management of the Commonwealth's Workforce - 1994)</i></p>	<p>Restructure long term disability insurance coverage so that the program is separate from VRS retirement and integrated with a short term disability plan</p>
<p>Administration of VRS Disability Retirement Program <i>(JLARC - 1994)</i></p>	<p>Differing statutory interpretations and a frequent lack of objective medical evidence creates potential for inconsistency or error in initial disability determination and subsequent appeals</p> <p>In 1992, 9.4 percent of disability retirees had earned income</p> <p>VRS Board should consider development of regulations for program administration</p>
<p>Use of Defined Contribution Retirement Plan <i>(State Employee Benefits Assessment - Joint Commission Studying the Management of the Commonwealth's Workforce - 1994)</i></p>	<p>A defined contribution plan presents an opportunity for enhancing existing VRS benefits.</p> <p>Defined contribution plans are simple to administer and are portable for employees. However, such plans may also result in low investment earnings and insufficient retirement assets due to an individual's aversion to long-term investment risk</p>
<p>Optional, Employee-Paid Life Insurance <i>(State Employee Benefits Assessment - Joint Commission Studying the Management of the Commonwealth's Workforce - 1994)</i></p>	<p>Opportunities to purchase additional life insurance coverage should be increased</p>
<p>Portability of VRS Pension Benefits Between the State and its Political Subdivisions <i>(VRS/Association of Municipal Retirement Systems - 1994)</i></p>	<p>There is complete portability of retirement benefits and 100 percent income preservation for VRS members employed by the 853 State agencies and political subdivisions participating in VRS.</p> <p>Legislation needed to permit portability of benefits between VRS employers and 11 political subdivisions that have their own retirement systems.</p> <p>Issues to be resolved include (1) to what degree will retirement income be preserved; (2) who will pay the cost of that preservation; and (3) is the cost justified?</p>

(continues)

### Major Studies of VRS Benefit Issues, 1985 to Present (continued)

Benefit Issue/(Study)	Key Findings/Recommendations
Structure of VRS Survivor Benefits <i>(VRS - 1993)</i>	<p>Survivor benefits for retirees and members dying in active service are consistent with those provided by other public and private pension plans.</p> <p>There are differences in benefits paid to survivors of active employees and those paid to survivors of retirees. These differences are the result of public policy decisions made by the General Assembly.</p>
Benefit Multiplier and Retirement Age Requirement for SPORS <i>(Feasibility and Effects of Raising the Retirement Allowance and Implications of Removing the Age Requirements for SPORS - Division of Legislative Services/House Appropriations Committee staff/VRS - 1993)</i>	<p>SPORS provides above-average benefits relative to other states.</p> <p>Additional \$3.3 million needed over 1994-96 to increase the benefit multiplier from 1.65 to 2 percent. Additional \$13.7 million for political subdivisions providing LEOS benefits needed to raise the multiplier to 2 percent.</p> <p>If the 50 year age requirement were removed for State Police, it would cost the State an additional \$755,000 during 1994-96. It would cost localities with LEOS benefits an additional \$3.4 million.</p>
Funding and Structure of Group Life Insurance Program <i>(JLARC - 1993)</i>	<p>Benefit is generous, well funded, and inexpensive to provide.</p> <p>Uniform premium rate structure is appropriate.</p> <p>Suspension of premiums during FY 1994 decreased amount of prefunding, and reduced actuarial soundness of the program.</p> <p>VRS should conduct an actuarial valuation and adopt a formal funding policy for the program.</p>
Retirement Age Requirement for State Police <i>(Retirement Benefits for State Police Officers and Other Law Enforcement Officers - Division of Legislative Services/House Appropriations Committee staff/VRS - 1988)</i>	<p>Retirement eligibility requirements for SPORS should be reduced from 55 years of age and 30 years service to 50 years of age and 25 years service.</p>
SPORS-Equivalent Benefits for Sheriffs and Deputy Sheriffs <i>(Retirement Benefits for State Police Officers and Other Law Enforcement Officers - Division of Legislative Services/House Appropriations Committee staff/VRS - 1988)</i>	<p>All localities participating in VRS should be required to provide sheriffs with SPORS-equivalent benefits, with retirement eligibility at 50 years of age and 25 years service. All other local law enforcement officers, including deputy sheriffs, would be eligible to retire at 50/25 if the locality opted to provide such an early retirement provision.</p>

(continues)

### Major Studies of VRS Benefit Issues, 1985 to Present (continued)

Benefit Issue/(Study)	Key Findings/Recommendations
<p>Eligibility for SPORS Benefits</p> <p><i>(An Assessment of Eligibility for State Police Officer Retirement Benefits - JLARC - 1987)</i></p>	<p>State Police face a far greater degree of hazards and risks than other law enforcement groups.</p> <p>Other law enforcement groups should not be added to SPORS at this time.</p>
<p>Service Credit Multiplier for Judicial Retirement System</p> <p><i>(Report of the Joint Subcommittee Established to Review the Judicial Retirement System - House Appropriations Committee Staff - 1985)</i></p>	<p>The JRS benefit is reasonable, and must be adequate to compensate for a relatively short period of service. A proposed reduction in the service credit multiplier to 2.5 will erode the State's ability to attract older candidates to judicial service, while saving relatively little money.</p>

Source: JLARC staff analysis of prior VRS benefit studies.

## Chronology of VRS Benefit Changes

### PART ONE: SERVICE RETIREMENT

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
<b>Benefit Formula</b>			
VRS State/Teacher SPORS JRS	Multiplier x Average Final Compensation x Years of Service	Additional three percent of total benefit (SB2008 of 1994 Special Session I)  Additional three percent of the total benefit eliminated. An additional two percent increase for retirees prior to 1/1/99 (HB36 of 1998)	<i>State:</i> \$4,841,905 (GF) \$5,532,864 (NGF) <i>Teacher:</i> \$9,207,100 (State) \$7,282,034 (Local) <i>SPORS:</i> \$281,219 <i>JRS:</i> -\$31,446
VRS Political Subdivision LEOS	Same as above	Additional three percent of total benefit (SB2008 of 1994 Special Session I) (Optional)  Additional three percent of the total benefit eliminated. An additional two percent increase for retirees prior to 1/1/99. Applies only to the political subdivisions that selected this optional benefit. (HB36 of 1998)	\$6,881,315
<b>Benefit Multiplier</b>			
VRS State/Teacher VRS Political Subdivision SPORS LEOS	Higher of 1.5 percent of AFC or 1.65 percent of AFC in excess of \$1,200 (\$1,200 indexed for members hired after 1/1/80)	1.5 percent of first \$13,200 AFC plus 1.65 percent of additional AFC; 1.65 percent with 35 years service (HB821 of 1990)  Two-tiered benefit multiplier eliminated for members with fewer than 35 years of service. Single multiplier of 1.7 percent implemented for all members regardless of years of service (HB36 of 1998)	None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole  Included with HB 36 estimates for benefit formula
JRS	Same as above	1.65 percent (HB821 of 1990)  Single multiplier of 1.7 percent implemented for all members. (HB36 of 1998)	None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole  Included with HB 36 estimates for benefit formula
<b>Service Multiplier</b>			
VRS State/Teacher VRS Political Subdivision SPORS LEOS	N/A	N/A	
JRS	3.5	2.5 for judges appointed or elected to original terms commencing on or after 1/1/95 (HB510, SB2 of 1994)	Expenditure reduction of \$141,680 for FY94-96; Constant decrease in employer contribution rates of 0.22 percent over a 30-year period

(continues)



Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
		55/20 for agency heads who are involuntarily terminated (HB615 of 1994)  50/30 (SB810, SB818, SB876, HB1542, HB1613, HB1762, HB1805 of 1999)	Not determined  <i>State:</i> \$2,303,000 annually (GF), \$2,597,000 annually (NGF) <i>Teacher:</i> \$5,420,000 annually (State) \$4,434,000 annually (Local)
VRS Political Subdivision	65/5 Rule of 90	Option of either 55/30 or Rule of 90 (HB1073, SB434 of 1987)  55/20 for county administrators, county executives, city managers and school superintendents who are involuntarily terminated (HB1545 of 1995)  55/20 for urban county executives, county managers, and town managers who are involuntarily terminated (optional) (SB296, HB1407 of 1996)  Option of 50/30 (SB810, SB818, SB876, HB1542, HB1613, HB1762, HB1805 of 1999)	Not determined  None  Negligible  \$4,079,000 annually
SPORS	60/5 55/30	50/25 (HB821 of 1990)	None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole
LEOS	60/5 55/30	50/25 optional (HB821 of 1990)	None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole
JRS	65/5 60/30	N/A	
<b>Early Retirement with Reduced Benefit (Age/Years of Service)</b>			
VRS State/Teacher	55/5	50/10 (SB776, SB959, HB2543 of 1995)	None
VRS Political Subdivision	55/5	50/10 (SB776, SB959, HB2543 of 1995)	
SPORS	50/5	50/10 (SB776, SB959, HB2543 of 1995)	None
LEOS	55/5 or 50/5 (option)	50/10 (SB776, SB959, HB2543 of 1995)	
JRS	55/5	N/A	
<b>Early Retirement Incentive Programs</b>			
	N/A	1991 Early Retirement Incentive Program (HB1499 of 1991): Eligibility - VRS members, age 50 with 25 years service Key Provisions - Five years additional service credit, unreduced benefit, COLA beginning in second year of retirement, \$100 monthly supplement to age 62	\$12.8 million net reduction (estimate later increased to \$37.1 million) in salary and benefits during FY 1992. Actuarial loss to VRS of \$238 million for State employees and \$119 million for teachers  (continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
		1995 Workforce Transition Act: Eligibility - Full-time State employees except for members of the Judicial Retirement System. Key Provisions - Employees who are approved for a severance benefit, and who are vested and at least age 50, may use that benefit to purchase additional years, to be applied to either service or age, at a cost of 15 percent of salary for each year. Participating employees must leave State service by 5/1/95, unless an alternative date is agreed to by the employing agency, but no later than 7/1/96 (HB2543, SB959 of 1995)	No fiscal impact for retirement purposes because legislation requires agencies to transfer necessary funds for purchase of additional years to VRS within one year of employee's termination.
<b>Mandatory Retirement Age</b>			
VRS State/Teacher	70	None (SB478 of 1987)	None
VRS Political Subdivision	70	None (SB478 of 1987)	None
SPORS	70	N/A	
LEOS	70	None, but employer may impose a mandatory age based on a bona fide occupational qualification (HB488 of 1984)	No additional expenditures. Some undetermined savings might occur.
JRS	70	None (HB821 of 1990)  70 (SB170 of 1992)	None, if entire recodification of Title 51 of the <i>Code</i> is considered as a whole
<b>Refunds</b>			
VRS State/Teacher VRS Political Subdivision SPORS LEOS JRS	Member contributions, plus employer-paid member contributions for individuals with all service rendered after 4/1/80, plus four percent interest	Member contributions, plus employer-paid member contributions, for all individuals plus four percent interest (HB821 of 1990)  Refunds to include all employer-paid member contributions made on or after July 1, 1980 which had been credited to the employer's account (HB133 of 1994)	None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole  None

**PART TWO: DISABILITY RETIREMENT**

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
<b>Vesting Period for Receipt of Benefits</b>			
VRS State/Teacher VRS Political Subdivision SPORS LEOS JRS	5 years	Immediate vesting (HB735 of 1986)  Members who attain normal retirement age of 65 may still apply for disability retirement (HB465 of 1992)	None

(continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
<b>Benefit Multiplier</b>			
VRS State/Teacher VRS Political Subdivision SPORS LEOS JRS	Higher of 1.5 percent of AFC or 1.65 percent of AFC in excess of \$1,200 (Regular disability, vested and non-vested)  Minimum disability retirement allowance + one-half of social security disability benefit = one-quarter AFC or \$1,000, whichever is greater  Special guaranteed disability benefit + one-half social security disability benefit = two-thirds AFC  Direct offset of social security disability benefit and workers compensation award	Member with 5 years service receives higher of minimum guarantee or 1.65 percent AFC X years of service (offset for workers compensation award) (HB821 of 1990)  Work-related minimum guarantee benefit - 66.6 percent AFC if member does not qualify for primary social security benefit; 50 percent AFC if member does qualify for social security, plus refund of accumulated contributions and interest (offset for workers compensation award) (HB821 of 1990)  Non-work related minimum guarantee - 50 percent AFC if member does not qualify for primary social security benefits and 33.3 percent AFC if member does qualify. (HB821 of 1990)  Members with 20 years of service in a hazardous duty position may elect the higher of the disability or service retirement allowance, minus any workers' compensation payments. (HB2587 of 1997)	None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole  None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole  None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole  \$244,770 annually
<b>Heart/Lung Presumption</b>			
VRS State/Teacher VRS Political Subdivision JRS	None	N/A	N/A
SPORS LEOS	Presumption of Work-Related Disability from respiratory disease, heart disease and hypertension	N/A	N/A
<b>Virginia Sickness and Disability Program (VSDP)</b>			
VRS State SPORS	None	A sickness and disability program for State employees beginning employment on or after January 1, 1999. Program provides sick leave and family and personal leave as well as short- and long-term disability benefits. State employees hired prior to this date have the option of participating in this program or remaining in the sickness and disability program in place prior to January 1, 1999 (SB126 of 1998)	\$400,000 FY1999 \$300,000 FY2000
VRS Teacher JRS VRS Political Subdivisions LEOS	None	N/A	N/A

**PART THREE: OTHER BENEFITS, OPTIONS, AND PROVISIONS**

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
<b>Situations in Which Prior Service Credit May Be Purchased (Cost of Purchase)</b>			
VRS State/Teacher VRS Political Subdivision SPORS LEOS JRS	Refund received after 7/1/42 (Five percent of salary)	Purchase of prior service credit, at five percent of salary, if employee originally hired after age 60 but excluded from VRS due to age, and employee paid the member contribution during the time period in question (SB 513 of 1987)	Negligible
	Personal sick leave after 1/1/64 (Five percent of salary)	Purchase of prior service credit, at fifteen percent of salary, for period of federal civil service (HB821 of 1990)	None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole
	Maternity leave after 1/1/64 (Five percent of salary)	Prior service credit granted at no cost if employee returns to service from military leave of absence within 12 months of receiving honorable discharge (HB821 of 1990)	None, if entire recodification of Title 51 of the <i>Code of Virginia</i> is considered as a whole
	Educational leave or leave for temporary employment with General Assembly (Five percent of salary)	Cost of service based on current contribution rate and creditable compensation or AFC, whichever is higher; Military service rendered through reenlistment beyond cessation of hostilities not creditable; Member need not be in service to receive free credit for military service; Purchase of certain service credit after termination is prohibited (HB465 of 1992)	None
	Service in another public employee retirement system (Fifteen percent of salary)	Maximum of four years may be purchased for leave without pay for education or for temporary service with the General Assembly (HB1987 of 1993)	VRS unable to estimate fiscal impact since the number of affected individuals is unknown
	Active military service (Fifteen percent of salary)	Maximum of two years at no cost may be granted for any involuntary, unpaid maternity leave prior to July 1, 1974, provided member returned to covered position within one year of expiration of leave (HB615 of 1994)	Fiscal impact can not be ascertained since the number of teachers who will take advantage of this provision is unknown
	Originally hired after age 60 but excluded from VRS due to age, and employer paid the member contribution during the time period in question (Service credit granted at no cost to member)	Deletes requirement that member return to covered position within one year of expiration of leave in order to receive no-cost service credit for involuntary, unpaid maternity leave prior to July 1, 1974 (HB1760 of 1995)	Insignificant due to limited applicability

(continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
		<p>Maximum of five years of prior service credit granted, at no cost to members, to full-time employees of the General Assembly who were previously employed by General Assembly on a temporary basis for at least one Session. Cost of additional service credit to be paid by employer at 15 percent of salary rate (HB1760 of 1995)</p>	<p>Insignificant due to limited applicability</p>
		<p>Maximum of three years can be purchased, at five percent rate, for prior active military service, service in the retirement system of another state, or both. Individual must be vested with at least 25 years of service to make this purchase (HB901 of 1996)</p>	<p><i>State:</i> \$814,420 annually <i>Local:</i> \$439,120 annually</p>
		<p>Enables teachers who were notified, prior to July 1, 1974, that they would be placed on involuntary maternity leave and submitted a letter of resignation at the request of the school board to receive service credit for the leave up to a maximum of two years (HB1958 of 1997)</p>	<p>Negligible</p>
		<p>Vested State employee can receive up to two years service credit and no cost for an involuntary leave of absence without pay between January 1, 1964 and January 1, 1973 because of childbirth or pregnancy (HB142 of 1998)</p>	<p>None</p>
		<p>Eligible members may purchase service credits on pre-tax basis. The amount of the pretax purchase will be taxable when a refund or retirement benefit is received. However, VRS must receive a favorable ruling from the IRS in order to implement this bill (HB133 of 1998)</p>	<p>None</p>
		<p>Members with 25 or more years of service may purchase an expanded type and amount of service at five percent of creditable compensation instead of the 15 percent of creditable compensation. The amount of service that can be purchased is increased from three to four years. Types of service to purchased includes civilian service with the United States and service in the retirement system of a political subdivision or public school system in Virginia or another State. Service that is or will be used to receive a benefit from another retirement system cannot be used (HB260, HB261, HB262 of 1998)</p>	<p>None</p>

(continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
		<p>Up to one year of service credit can be purchased at a five percent rate for leave without pay taken for the birth or adoption of a child (SB888 of 1999)</p> <p>Service credit can be purchased at either the actuarial value or 20 percent of salary for accumulated sick leave for which a payment is made (HB189 of 1999)</p>	<p>Not significant</p> <p>Not determined</p>
<b>Maximum Benefit Amounts</b>			
<p>VRS State/Teacher VRS Political Subdivision SPORS LEOS JRS</p>	<p>Retirement benefit plus one-half of social security benefit can not exceed average final compensation (Pre-April 1, 1980 members)</p> <p>Retirement benefit plus one-half of social security benefit can not exceed 62.5 percent of average final compensation (Post-April 1, 1980 members)</p>	<p>Compensation used in computing benefits shall not exceed the higher of \$200,000 or the amount determined by the Commissioner of the Internal Revenue Service as the limitation for calendar years after 1989. Benefits shall be adjusted accordingly, provided that no member's benefit shall be reduced below the amount determined as of 12/31/88 (HB 821 of 1990)</p> <p>Compensation used in computing benefit shall not exceed \$235,840 (for pre-January 1996 members) or \$150,000 (for post-January 1996 members). Benefit amounts shall be adjusted accordingly (HB 1899 of 1995)</p> <p>Compensation used in computing benefit shall not exceed \$265,000 (for pre-January 1996) members or \$160,000 (for post-April 1996 members). Benefit amounts shall be adjusted accordingly (SB39 of 1998)</p>	<p>None</p> <p>None</p> <p>None</p>
<b>Benefit Payment Options</b>			
<p>VRS State/Teacher VRS Political Subdivision SPORS LEOS JRS</p>	<p>Basic benefit, 100 percent survivor, 50 percent survivor, and social security options</p>	<p>Leveling option replaced social security option (SB817 of 1993)</p>	<p>None</p>
<b>Cost of Living Adjustment</b>			
<p>VRS State/Teacher VRS Political Subdivision JRS</p>	<p>First 3 percent of consumer price index increase; Plus half of each percentage consumer price index increase from 3 percent to 7 percent; Maximum cost of living adjustment of 5 percent; Start to receive at age 60</p>	<p>Start to receive on July 1 of second calendar year after retirement (HB1499 of 1991)</p>	
<p>SPORS</p>	<p>Start to receive at age 55</p>	<p>Same as above</p>	
<p>LEOS</p>	<p>Start to receive at age 55</p>	<p>Same as above</p>	

(continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
<b>Death in Service</b>			
VRS State/Teacher VRS Political Subdivision SPORS LEOS JRS	Amount equal to 100 percent survivor option, or refund of contributions and four percent interest (Non-work related death after age 65)  Amount equal to one-half of 50 percent survivor option, or refund of contributions and four percent interest (Non-work related death prior to age 65)  33.3 percent AFC if beneficiary qualifies for social security survivor benefits, plus refund of member contributions and interest. 50 percent AFC if not qualified for social security (Work related death)	Specified precedence of recipients of benefits, accumulated contributions, and interest in the event member dies in service without a beneficiary designation (HB735 of 1986)  Survivor may receive excess accumulated member contributions plus interest even if retiree selected leveling option (HB1899 of 1995)  Death in service benefits for the survivors of active members who die prior to age 65 would be increased to the equivalent of a 100% joint and survivor option (HB1017 of 1999)	None   Limited and not actuarially significant
<b>Group Life Insurance</b>			
VRS State/Teacher VRS Political Sub-division SPORS LEOS JRS	Natural death benefit equal to annual salary rounded to next highest thousand and then doubled  Accidental death benefit equal to annual salary rounded to next highest thousand and then quadrupled  Dismemberment benefit equal to annual salary rounded to next highest thousand and then quadrupled for accidental loss of one or more limbs or sight in both eyes  Dismemberment benefit equal to annual salary for accidental loss of one limb or sight in one eye	Increased coverage for employees who remain in service past age 70 by basing coverage on current salary rather than salary at age 70 (HB150 of 1982)  Group life insurance coverage for members on military leave without pay increased from two to 24 months (HB1694 of 1991)  Two percent post-retirement monthly reduction in amount of insurance coverage made applicable to all retirees (HB1694 of 1991)  Members who are age 70 when first employed or reemployed may participate (HB341 of 1992)  Increases life insurance benefit for pre-7/1/70 retirees to annual salary rounded to next highest thousand and then doubled, with reduction taken from that amount (HB1421, SB612 of 1995)	Maximum of \$40,000 in additional VRS contributions over the long term  None  None  Little or none  Undetermined

(continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
	<p>For individuals who retire on or after June 30, 1980, insurance amount decreases two percent each month until it reaches 25 percent of original amount</p> <p>Individual may convert group coverage to individual policy within 31 days of termination from VRS</p>	<p>Allows State employees who are involuntarily terminated and retire under 55/20 to participate (HB1407, SB 296 of 1996)</p> <p>Allows members of VRS and SPORS who are eligible for 50/10 to defer retirement -- making them able to continue participating in the program (HB895 of 1996)</p>	<p>Negligible</p> <p>None</p>
<b>Optional Life Insurance</b>			
<p>VRS State/Teacher VRS Political Subdivision SPORS LEOS JRS</p>	<p>VRS Board authorized to develop optional insurance program</p>	<p>Optional insurance program mandated to provide additional coverage for employees, their spouses and children (SB1064 of 1995)</p>	<p>\$388,000 in start-up costs for Life of Virginia.</p> <p>Undetermined costs for VRS administrative and systems development.</p> <p>Total premium to be paid by employee</p>
<b>Health Care Credit</b>			
<p>VRS State employees VRS Teachers SPORS LEOS (optional) JRS</p>	<p>N/A</p>	<p>Health care credit of \$1.50 per month, with an annual maximum of \$45.00 or the cost of the health insurance premium, to State retirees with 15 years service (HB1553 of 1989)</p> <p>State retiree health care credit increased to \$2.50 per month, with annual maximum of \$75.00 or the amount of the premium; Provided school boards and political subdivisions with option of providing health care credit of \$1.50 per month, with an annual maximum of \$45.00 (HB688 of 1992)</p> <p>Allows State retirees who do not participate in the State health care program to receive the health care credit, subject to DPT regulations (HB1852, SB780 of 1993)</p> <p>Allows individuals who have deferred receipt of retirement benefits to receive the health care credit. VRS responsible for determining eligibility for health care credit. (HB1700, SB897 of 1995)</p>	<p>Employer contribution rate will increase by an amount ranging from 0.42 percent to 0.70 percent. Expenditures in the first year will increase by an amount ranging from \$5.3 million to \$8.9 million.</p> <p>Additional expenditure of \$10.8 million in FY 1993. Additional State cost of 0.4 percent of payroll during following fiscal years. Cost to State for teachers based on participation and composite index.</p> <p>None</p> <p>None</p>

(continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
		<p>Makes teacher retiree health credit mandatory, cost to be borne by State, effective 7/1/98. Local school boards have option of providing additional credit of \$1.00 per month for each year of service -- \$30 maximum. (HB862 of 1996)</p>	\$11,972,200 annually
		<p>Local government employees whose employer does not provide the health insurance credit and who have at least 15 years of service as a State employee or teacher and can receive the credit (HB1704 of 1999)</p>	None
		<p>Retired local social services employees, sheriff's deputies, and constitutional officers with 15 years of VRS service are eligible to receive a State-funded health insurance credit. The amount of the credit funded by the State each month will be \$1.50 for each year of service, not to exceed \$45 per month. In addition, retired members are also eligible to receive an additional local health insurance credit of \$1 per month for each year of service, not to exceed \$30 per month. However, the retiree's employer must participate in the health insurance credit program (HB1843 of 1999)</p>	\$1,400,000
		<p>The amount of the credit for State employees and teachers is increased effective July 1, 1999. The health care credit will increase to \$4 per year of creditable service not to exceed \$120 monthly. The State portion of the health care credit for teachers will increase to \$2.50 per year of service not to exceed \$75 monthly (HB1844 of 1999)</p>	<p>\$6,139,900 annually (GF)                  \$6,860,100 annually (NGF)   <i>Teachers:</i>                  \$11,000,000 annually</p>
		<p>Allows retiring State employees to have the amount of their accrued annual and sick leave that would otherwise be paid to them at retirement be credited to a supplemental health insurance credit account. Funds in this account would be withdrawn as needed to supplement the health insurance credit and cover the premium for the retiree-only or family health insurance coverage. In order to implement this program, the Department of Personnel and Training must receive a ruling from the IRS that affirmatively states that this plan can be treated as a qualified plan for federal income tax purposes (HB2397 of 1999)</p>	<p>Not determined -- there will likely be some increased administrative costs</p>

(continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
<b>Deferred Compensation</b>			
<p>VRS State employees                      VRS Teachers (optional)                      SPORS                      JRS                      VRS Political Subdivisions (optional)                      LEOS (optional)</p>	<p>Program administered by Deferred Compensation Commission</p>	<p>VRS administers deferred compensation program under direction of Deferred Compensation Commission (HB844 of 1984)</p>	<p>None</p>
		<p>Deferred Compensation Commission reconstituted as Deferred Compensation Board (HB1322 of 1985)</p>	<p>None</p>
		<p>Program administered by VRS Investment Department under the direction of the Deferred Compensation Board. Specified legal list of investment products (HB1401 of 1987)</p>	<p>None</p>
		<p>Program administered by VRS Board of Trustees. Legal list of investment products repealed. (HB304 of 1992)</p>	<p>None</p>
		<p>Political subdivisions are able, subject to approval by VRS, to participate in the State's deferred compensation program. In addition, the deferred compensation program is to be established as a trust with the plan assets to be held for the exclusive benefit of plan participants and their beneficiaries (HB1683 of 1997)</p>	<p>None</p>
		<p>Effective January 1, 2000, employers participating in the deferred compensation program are authorized to match up to 50 percent of the employee's deferred compensation or tax sheltered annuity contribution up to \$50 per pay period, whichever is less. However, the amount of the State's contribution could be less depending upon the level of participation by State employees (HB1756 of 1999)</p>	<p>House Bill 1450 of 1999 appropriated \$2,500,000 for implementation</p>
<b>Optional Retirement Program</b>			
	<p>Institutions of higher education may establish their own retirement plans for employees engaged in the performance of teaching, administrative or research duties.</p>	<p>State contribution shall be 10.4 percent of creditable compensation for employees of institutions of higher education. Contribution rates shall be examined by Secretary of Administration prior to 7/1/96 and every six years thereafter. VRS shall develop policies and procedures, as approved by Secretary of Administration and Secretary of Education, for administration of all optional retirement programs (HB1935 of 1991)</p>	<p>Introduced budget bill includes \$1.4 million to implement this provision</p>

(continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
	<p>Eligible employees may irrevocably elect participation in either the institution's retirement plan or VRS.</p> <p>Contribution rate shall not exceed VRS employer contribution rate.</p>	<p>Teaching hospitals affiliated with institutions of higher education may establish their own retirement plans for health care providers. Contribution rates shall be lesser of total required VRS employer contribution rate or 8 percent of creditable compensation (SB368 of 1991)</p> <p>Employees may transfer accumulated VRS contributions into optional retirement plan. (HB465 of 1992)</p> <p>Medical College of Virginia Hospitals Authority may establish one or more retirement plans for its employees, and may make contributions to the plan. Employees currently in the optional retirement program may stay or join any new plan. Employees currently in VRS may remain, or join any new plan. New employees can elect to join either VRS or any new plan. The contribution made by the Authority shall be the lesser of eight percent, or the contribution required by the State if the employee were a member of VRS. New plan shall offer same investment opportunities as current optional retirement program for teaching, administrative, and research personnel. Employees who transfer from VRS to new plan shall have assets equal to actuarial present value of accrued benefit transferred to new plan (SB 607, HB 1524 of 1996)</p> <p>University of Virginia Medical Center may establish one or more retirement plans for its employees, and may make contributions to the plan. Employees currently in the optional retirement program may stay or join any new plan. Employees currently in VRS may remain, or join any new plan. New employees can elect to join either VRS or any new plan. The contribution made by the Medical Center shall be eight percent, but employees who transfer from the optional retirement program to any new plan shall continue to receive their current contribution rate. (SB 389, HB 884 of 1996)</p> <p>Virginia Port Authority may establish one or more retirement systems for its employees and make contributions to the plan. Employees currently in VRS may remain or join the new plan. The contribution required by the Authority is 8 percent, or the contribution required by the State if the employee were a member of VRS, whichever is less. (HB2155 of 1997)</p>	<p>Potential savings of \$8.7 million estimated by MCV and UVAH. Approximately 15-20% of this would result in general fund savings for the Commonwealth.</p> <p>None</p> <p>None specified</p> <p>None specified</p> <p>Any administrative costs will be borne by the Authority</p>

(continues)

Benefit Provision	Status in 1980	Benefit Change/(Bill Number)	Estimated Fiscal Impact
		<p>Persons appointed to positions designated in the <i>Code of Virginia</i>, §2.1-116, subdivision 3, 4, or 21, and certain persons appointed by the Attorney General are eligible to participate in a defined contribution plan. Individuals choosing to participate in the defined contribution plan may make a one time, irrevocable election to transfer to VRS using contributions and earnings to purchase service credits. After ten years or within 90 days of leaving an eligible position, participants in the deferred contribution plan will elect to either maintain participation in the optional retirement plan, purchase VRS service credit, or withdraw contributions and earnings. The contribution required is 10.4 percent plus .68 percent for the post-retirement health insurance credit. (SB125 of 1998)</p>	None
		<p>Allows local school boards to create and administer a defined contribution plan for employees of public school divisions as designated in §22.1-60 of the <i>Code of Virginia</i>. The contribution to this plan is determined by the local school board. (HB300 of 1998)</p>	None
		<p>Enables certain persons appointed by the Lieutenant Governor to participate in the defined contribution plan for gubernatorial appointees and selected staff in the Office of the Attorney General (HB1612 of 1999)</p>	None
		<p>Establishes a defined contribution retirement program for volunteer firefighters and rescue squad workers. A seven-member board will be established with the VRS Director serving as chairman. The VRS Board of Trustees will oversee the fund's investments. This legislation becomes effective on July 1, 2000. Members of the retirement program will make contributions and the State will make contributions as appropriated (HB1735 and HB2023 of 1999)</p>	\$150,000 for FY2000 and one FTE

Source: JLARC staff analysis of VRS documents, legislative impact statements, and Acts of Assembly.



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**Contents of Part III: Funding of Benefits**

*Page*

**Overview ..... III-1**

**Pension Funding Policy**

Overview of the VRS Funding Elements ..... III-4  
 VRS Contribution Rate Setting Process ..... III-5  
 VRS Employer Contribution Rate Setting Process for 2000-2002 Biennium ..... III-6  
 Actuarially-Determined VRS Employer Contribution Rates ..... III-7  
 Actual VRS Employer Contribution Rates ..... III-8  
 Differences Between Initial Actuarially-Determined Employer Contribution Rates  
 and Actual Employer Contribution Rates ..... III-9

**Adequacy of Pension Funding**

Comparison of VRS Financial And Demographic Characteristics with  
 Other State Retirement Systems ..... III-11  
 Pension-Related Financial Reporting Standards Issued by Governmental  
 Accounting Standards Board ..... III-12  
 Percent of Accrued Liabilities for Active Members (Employer Financed  
 Contribution) Covered by VRS Assets ..... III-13  
 Valuation Assets as Percentage of Actuarial Accrued Liabilities ..... III-14  
 Unfunded Liability as a Percentage of Payroll ..... III-15  
 Trend in Active vs. Retired Members ..... III-16  
 Trend in Active Members vs. Retirees, Beneficiaries, and Terminated  
 Vested Members ..... III-17  
 Comparison and Ratio of Pension Revenues to Expenses ..... III-18  
 Comparison of Pension Contributions and Expenses ..... III-19  
 Comparison of Total Pension Contributions and Investment Earnings ..... III-20

**Group Life Insurance Funding**

Contribution Rates ..... III-21  
 Program Revenues and Claims Expenses ..... III-22



## Part III: Funding of Benefits

In a defined benefit pension plan the employer agrees to provide the employee with a specified benefit at retirement. Within VRS, the State and its political subdivisions must arrange to fund these promised benefits. This is done in accordance with the funding policy, based on actuarial principles, under which the defined benefit plan is managed.

Actuaries have developed a general theory of pension funding. According to the theory, the present value of future contributions to the system plus plan assets currently held in reserve must equal the present value of future plan benefits and expenses. Actuarial theory further states that if contributions are made in advance in the exact amount and according to the schedule recommended by the actuary, a pension fund will accumulate sufficient assets over time to pay for the expected post-retirement benefits of all plan members.

VRS pension benefits are paid for through a combination of member contributions, employer contributions, and investment income. The member contribution rate is fixed by the *Code of Virginia* at five percent of salary. The State, as well as most of its political subdivisions, pays the member contribution for its employees. The employer contribution rate is calculated by the VRS actuary every two years, and typically varies over time in response to a number of factors. Separate employer contribution rates are calculated for State employees, teachers, State police, and judges. Each political subdivision has its own unique employer contribution rate.

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### Pension Funding Policy

Ideally, pension plan sponsors and trustees, such as the State, its political subdivisions and the VRS Board, should adopt a funding policy that is independent of any actuarial methodology that is later chosen to implement the policy. However, in practice, the funding policy is often implicit within the actuarial method. In that case, the retirement system and its actuary need to clearly articulate the elements of the funding policy that are implicitly determined by the actuarial methods. There are four primary elements to pension funding policy:

- calculation of future pension costs,
- development of an asset accumulation target,
- establishment of a contribution schedule, and
- recognition of unanticipated plan experience.

The first element of pension funding policy is calculation of the present value, or cost, of pension benefits that have been promised to VRS members. The actual future cost of an active member's projected pension benefit is unknown at the time that the member and the employer make contributions to VRS. Therefore, the State and its political subdivisions must rely on present value estimates of future costs. In order to calculate an estimate of pension costs, assumptions must be made about variables such as the life expectancy of active members and retirees, the rate of turnover among active employees, and the amount of future salary increases.

The second element of funding policy is determination of the level of assets that need to be accumulated by the retirement system

in order to adequately provide for the future cost of pension benefits. A benchmark measure, tied to the desired asset level, should be selected for use in monitoring the retirement system's funding progress. The asset accumulation target for VRS is the amount of its total actuarial accrued liability. Since the exact cost of future pension benefits is unknown, the amount of required pension plan funding over the long term also has a degree of uncertainty.

A third funding policy element is establishment of a schedule of contributions to reach the desired asset accumulation level. In order to do this, the plan's trustees must allocate the present value of promised future pension benefits over a period of years in such a manner that the necessary amount of assets will eventually accumulate. This is done using a technique called an actuarial cost method. The *Code of Virginia* requires that VRS employer contribution rates be calculated in such a manner as to remain a relatively stable percent of payroll over time. In an attempt to satisfy this requirement, VRS uses the entry age normal cost method, which is one of several generally-accepted actuarial methods.

The final element of pension funding policy is a set of decisions concerning the manner and speed in which unanticipated experience, such as lower than expected investment returns or salary increases or a higher than expected number of retirements, will be recognized. VRS can apply any actuarial gains or losses to its unfunded accrued liability. This could result in the unfunded accrued liability either increasing or decreasing.

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## Adequacy of VRS Pension Funding

The VRS defined pension benefit may be the only source of retirement income - besides social security benefits - for those VRS members who have little personal savings, no individual retirement accounts or deferred compensation plans, and no dividend or interest income. For that reason, the degree of security attached to the promised VRS benefit is of the utmost concern. Proper and adequate funding of VRS benefits enhances that level of security.

VRS funding levels, as measured using a number of different indicators, have generally improved over the past 15 years. This improvement is due in large part to the positive influence of investment income. As a result, the overall VRS funding level is reasonably sound. However, the funding level of the Judicial Retirement System (JRS) has historically been low by comparison and is not adequately funded at the present time.

Pension funding is not always performed in strict accordance with actuarial theory. Actions taken by the plan sponsor which are counter to the amount and schedule of contributions recommended by the actuary create actuarial losses and erode the system's ability to pay for the expected post-retirement benefits of all plan members. Furthermore, failure to pay in advance for the cost of certain types of benefits, such as cost-of-living-adjustments, also damage a system's future financial viability.

One of the key features of the VRS pension benefit is the cost-of-living-allowance (COLA). The COLA provides a degree of protection from the effects of inflation. For that reason, it is very valuable to VRS retirees. Historically, the COLA has been funded on a pay-as-

you-go basis, rather than in advance as in the case of the pension benefit itself.

However, financial reporting standards recently issued by the Governmental Accounting Standards Board (GASB) will likely serve as an incentive for further improvements in VRS pension funding. Under the new standards, any difference between the amount of employer contributions determined by the actuary and the amount actually contributed must be recorded as long-term debt on the State's annual financial statement. As a result, the VRS actuary is required to include the cost-of-living adjustment (COLA) in the calculation of the employer contribution. Under the new standard, the cost of the COLA can no longer be accounted for on a pay-as-you-go basis.

To address this issue, the VRS actuary calculates a rate known as the annual required contribution rate that reflects full prefunding of the automatic COLA. However, to moderate the impact on the State budget and consistent with the *Code of Virginia*, phase-in employer rates for fully funding the COLA were also calculated by the actuary and presented by the Board of Trustees as a funding option. As a result, over the five-year period beginning July 1998, employer contribution rates are scheduled to increase by about 20 percent each year through FY 2002. Beginning in July 2002, the COLA should be 100 percent funded.

The most useful issue to focus on concerning pension plan funding is not whether a plan is currently fully funded, but whether the plan is on a schedule that is reasonably intended to reach that goal. The June 30, 1996 VRS actuarial valuation recommends employer contribution rates based on full prefunding of the COLA. As a result, the unfunded accrued liability increased significantly, from less than \$200 million on June 30, 1992 to \$4.6 billion, exclusive of the political subdivisions.

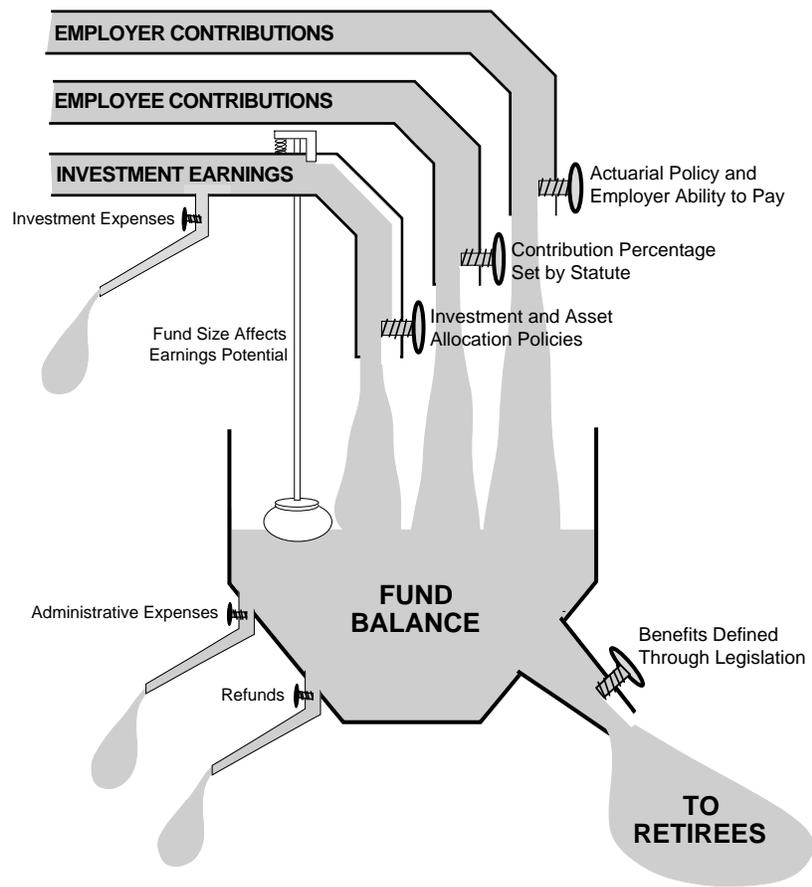
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## **Group Life Insurance Funding**

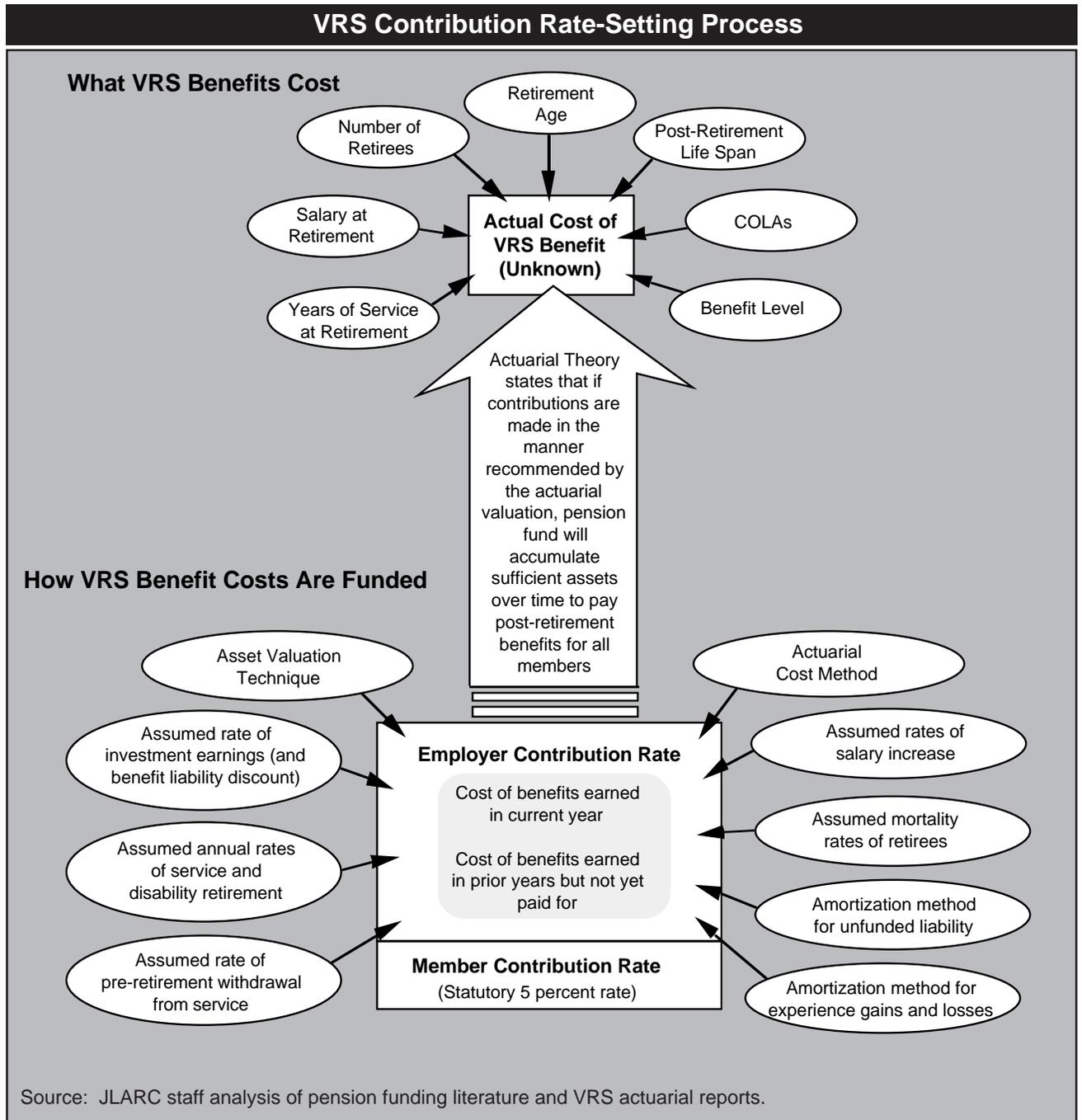
The VRS group life insurance benefit is funded through a mechanism consisting of required contributions from participating employers, plus investment returns on those contributions. The annual premium for insuring the lives of active employees is determined by Minnesota Life and is based on the program's claims experience of the prior year. The annual premium for insuring the lives of retirees is determined based on a periodic actuarial valuation by VRS. Therefore, the retiree life insurance benefit is intended to be funded in advance, using a level percentage of payroll, over an employee's years of service.

During the early 1990's, the actuarially-determined contribution rate for the group life insurance program decreased several times. These decreases were due to the program's favorable mortality and investment experience. However, the contribution rate recommended by the actuary has recently increased. This increase is largely attributable to a suspension of premiums required by the 1993 Appropriations Act. In addition, the suspension of premiums for FY 1999 and FY 2000 could increase future group life insurance rates.

### Overview of the VRS Funding Elements



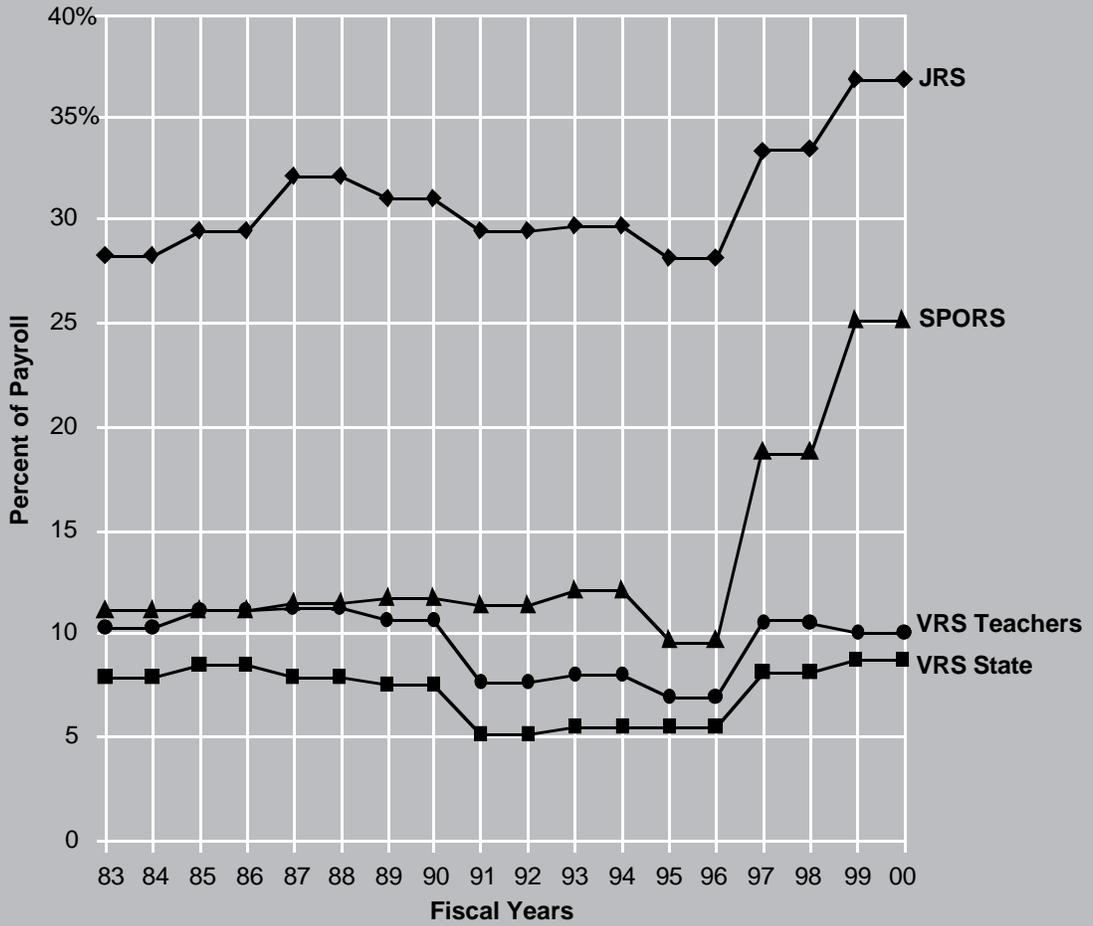
Source: JLARC staff graphic based on graphics from *The Theory and Practice of Pension Funding* (by C.L. Trowbridge and C.E. Farr, 1976) and *Harvard Business Review*.



## VRS Employer Contribution Rate-Setting Process for July 1, 2000 - June 30, 2002 Biennium

Process Element	Factors Impacting the Process	Key Player(s) Involved in Process	Time Frame
Determine Current Cost of Promised Benefits	Current Benefit Level Actuarial assumptions: <ul style="list-style-type: none"> <li>• Future salary increases resulting from both wage inflation and individual merit</li> <li>• Interest rate used to discount future value of benefits</li> <li>• Separation from service, or death, of individuals prior to retirement</li> <li>• Percentage of individuals retiring each year</li> <li>• Life expectancy of individuals after retirement</li> </ul>	VRS Actuary - Performs calculations VRS Staff - Provides necessary data to actuary VRS Board - Approves all calculations and assumptions	Summer 1998 – Spring 1999
Allocate Current Cost Over a Period of Years so that Sufficient Assets are Accumulated	Choice of Actuarial Cost Method Choice of Asset Valuation Technique Actuarial Assumptions (see above)	VRS Actuary - Performs calculations General Assembly - May require use of specific methods or assumptions	Summer 1998 – Spring 1999
Recognize effect of differences between actuarial assumptions and actual plan experience	Choice of amortization technique	VRS Actuary	Summer 1998 – Spring 1999
Provide Actuarial Valuation Report with Recommended Employer Contribution Rates	Significant potential change in funding policy (i.e. prefunding cost-of-living-adjustment)	VRS Actuary	Spring 1999
Consider Actuary's Recommendations, Approve Employer Contribution Rates, and Submit Rates to Governor and Governing Bodies of Political Subdivisions	Significant potential change in funding policy (i.e. prefunding cost-of-living-adjustment) GASB Statement Nos. 25 and 27	VRS Board of Trustees VRS Staff	Ongoing
Incorporate Employer Contribution Rates into State and Local Budgets	Employer's financial outlook GASB Statement No. 27	Governor Secretary of Finance Department of Planning and Budget Political Subdivisions	Fall 1999
Appropriate Funds Necessary to Make Approved Contributions	Employer's financial outlook GASB Statement No. 27	General Assembly Legislative Money Committees Local Governing Bodies	2000 Session
Source: JLARC staff analysis of VRS documents, and JLARC staff interviews with staff from VRS, Department of Planning and Budget, and legislative money committees.			

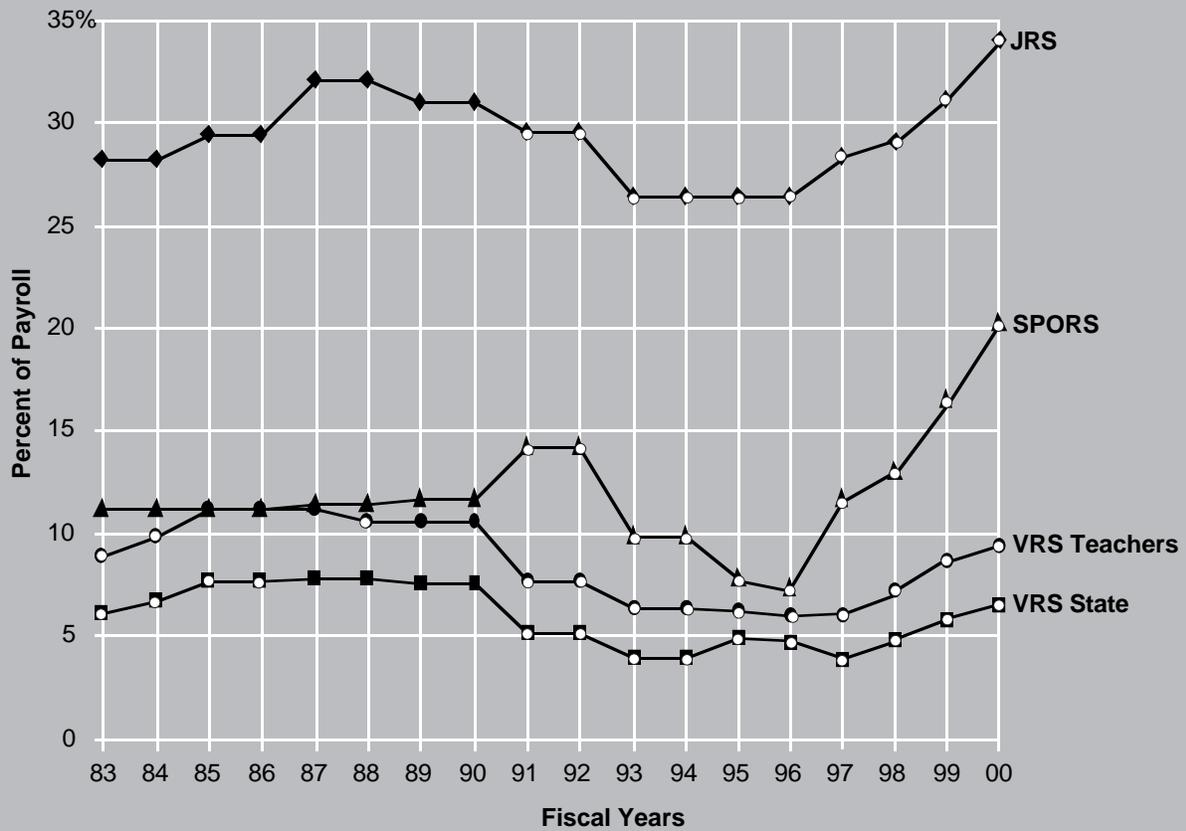
### Actuarially-Determined VRS Employer Contribution Rates



Note: Does not include rates for group life or retiree health insurance credit.

Source: VRS staff, JLARC staff analysis of VRS annual report and actuarial valuation data.

### Actual VRS Employer Contribution Rates



Notes: Hollow symbols indicate years when initial actuarially-determined rates and actual rates differ.  
 Rates for FY 1998 through FY 2000 were the same as the Board-certified rates for the COLA phase-in.

Source: VRS staff, and JLARC staff analysis of VRS annual report and actuarial valuation data.

### Differences Between Initial Actuarially-Determined Contribution Rates and Actual Employer Contribution Rates

Fiscal Year	Employee Group(s)	Initial Actuarially-Determined Rate	Actual Rate	Reason for Difference
1983 and 1984	State Employees	7.89	6.15 (FY 1983) 6.77 (FY 1984)	VRS Board approved a three-year phase in of the rates computed in the 1980 valuation, after House Appropriations Committee inquired about the possibility of a phase-in.
	Teachers	10.25	8.86 (FY 1983) 9.90 (FY 1984)	
1985 and 1986	State Employees	8.43	7.68	Undetermined
1988	Teachers	11.2	10.53	The VRS Actuary recalculated the supplementary portion of the contribution rate in December 1986. Due to the lower-than-expected increases in the CPI, and higher-than-anticipated payroll increases, the revised rate was lower than the originally calculated rate. It is not clear whether the request to recalculate the rate came directly from the VRS Board.
1991 and 1992	State employees	8.72	5.12	VRS Board approved employer contribution rates in April 1989 which were based on full prefunding of the COLA.  VRS Board approved revised rates in August 1990 which used pay-as-you go approach for funding the COLA.  Actual biennial contributions were reduced by \$31.5 million due to 8.3 percent investment earnings assumption required by Appropriations Act.
	Teachers	11.76	7.68	
	SPORS	14.22	11.37	
	JRS	29.49	29.49	
1993 and 1994	State Employees	5.45	3.98	VRS Board approved employer contribution rates which used a pay-as-you-go approach for funding the COLA.  Actual rates were reduced in response to a change, required by the Appropriations Act, from book asset valuation to modified market asset valuation.  The resulting \$1 billion in additional asset value was amortized over a 15-year period.
	Teachers	7.96	6.36	
	SPORS	12.04	9.83	
	JRS	29.66	26.41	
1995 and 1996	State Employees	5.42	4.92	VRS Board approved actuarial determined rates, using pay-as-you-go approach for COLA, in April 1993.  1994 Appropriations Act required a reduction in those rates.
	Teachers	6.86	6.19	
	SPORS	9.69	7.79	
	JRS	28.09	26.41	

(continues)

### Differences Between Initial Actuarially-Determined Contribution Rates and Actual Employer Contribution Rates (continued)

Fiscal Year	Employee Group(s)	Initial Actuarially-Determined Rate	Actual Rate	Reason for Difference
1997	State Employees	7.33	4.18	<p>Initial actuarially-determined rates based on full prefunding of COLA, with increased rates taking effect immediately in FY 97.</p> <p>VRS Board provided Governor and legislative money committees with three different rate options -- reflecting full prefunding, partial prefunding, and continued pay as you go.</p> <p>Governor's budget proposal, approved by the General Assembly, was based on partial prefunding of COLA. Required rate increases would be phased in over five years beginning in FY 98. Actual rates for FY 97 reflect continued pay-as-you-go approach.</p> <p>The partial prefunding approach contained in the budget differs from the partial prefunding option proposed by VRS. Subsequent calculations by the VRS actuary, under the same partial prefunding approach as used in the budget, resulted in slightly higher rates.</p>
	Teachers	10.79	6.41	
	SPORS	18.66	12.07	
	JRS	33.55	27.99	
1998	State Employees	7.33	4.81	See above
	Teachers	10.79	7.28	
	SPORS	18.66	13.38	
	JRS	33.55	29.10	
1999	State Employees	8.36	5.84	<p>Phase-in rates that would fully fund the COLA by FY 2002 were also presented by the Board. Because the phase-in rates would ensure full funding of the COLA by FY 2002 and lower than the full prefunding rates, the phase-in rates were incorporated into the State budget.</p>
	Teachers	10.10	8.49	
	SPORS	25.25	16.84	
	JRS	36.73	31.68	
2000	State Employees	8.36	6.86	See above
	Teachers	10.10	9.52	
	SPORS	25.25	20.30	
	JRS	36.73	34.25	

Note: A separate employer contribution rate for the Virginia Law Officers' Retirement System (VaLors) that takes effect 10/1/99 will be determined for FY 2001 and FY 2002.

Source: VRS staff, and JLARC staff analysis of VRS documentation and Appropriations Act provisions.

### Comparison of VRS Financial and Demographic Characteristics with Other State Retirement Systems, FY 1997

Characteristic	Virginia	Average of State Retirement Systems	Highest	Lowest
Active Members	272,011	144,122	644,652 California	7,227 Vermont
Total Active and Retired Members	356,251	196,469	967,555 California	10,535 Vermont
Ratio of Active Members to Retired Members	3.23	2.79	3.77 Nevada	1.78 Pennsylvania
Total Reserve Funds	\$26.1 Billion	\$16.2 Billion	\$121.2 Billion California	\$0.76 Billion North Dakota
Actuarial Funding Ratio	80 percent	94.1 percent	114 percent Arizona	69.9 percent North Carolina
Revenue to Expense Ratio	5.50	4.0	9.2 Florida	1.20 Idaho/North Carolina
Administrative Expenses Per Active Member	\$56.99	\$84.16	\$740.15 Vermont	\$15.43 North Carolina
Administrative Expenses Per Active and Retired Members	\$43.52	\$58.05	\$507.74 Vermont	\$11.91 North Carolina

Notes: All data are for states with fiscal years ending 6/30/97. Does not include separate teacher retirement systems.

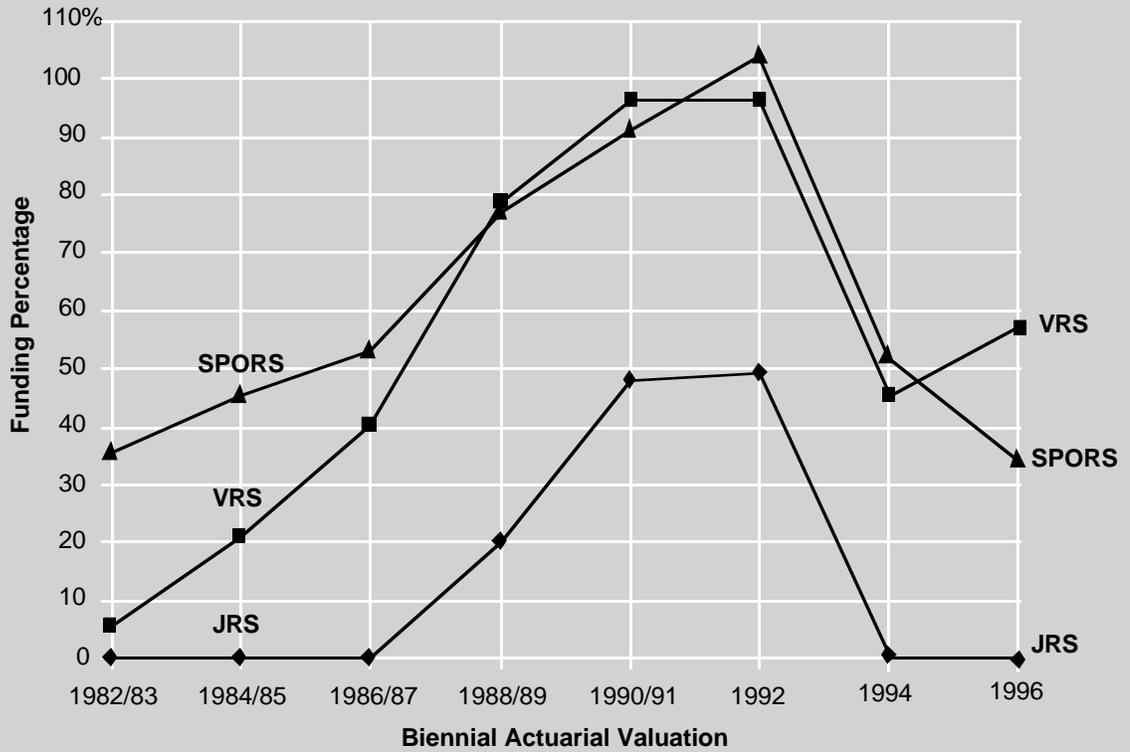
Source: JLARC staff analysis of state retirement system annual reports.

**Pension-Related Financial Reporting Standards  
Issued by the Governmental Accounting Standards Board**

GASB Statement	Key Provisions Related to Pension Funding
<p>Financial Reporting for Defined Benefit Pension Plans Statement No. 25</p> <p>Effective Date: July 1, 1996 (FY 1997)</p>	<p>Annual required employer contribution (ARC) must be actuarially-determined in accordance with the following parameters:</p> <ul style="list-style-type: none"> <li>• Actuarial value of plan assets should be related to market value</li> <li>• Actuarial present value of total projected benefits should include all benefits to be provided, including cost-of-living-adjustments</li> <li>• Any generally-accepted actuarial cost method, including entry age normal, may be used</li> <li>• 40 year maximum amortization period for unfunded liability for the ten year period July 1, 1996 to July 1, 2006</li> <li>• 30 year maximum amortization period for unfunded liability effective July 1, 2006</li> <li>• Any significant decrease in unfunded liability resulting from a change in actuarial methods may be amortized over no less than ten years</li> <li>• Assumed rate of overall payroll growth must be based on an assumption of no growth in the number of system members</li> </ul> <p>Required schedule of ARC, and actual employer contributions, for six prior fiscal years</p>
<p>Accounting for Pensions by State and Local Government Employers Statement No. 27</p> <p>Effective Date: July 1, 1997 (FY 1998)</p>	<p>Net Pension Obligation (NPO) equals cumulative difference between ARC and actual employer contributions for fiscal years 1988 to 1998</p> <p>NPO must be recalculated annually based on difference between ARC and actual employer contributions</p> <p>NPO must be reported as a liability in State's general long term debt account group</p>

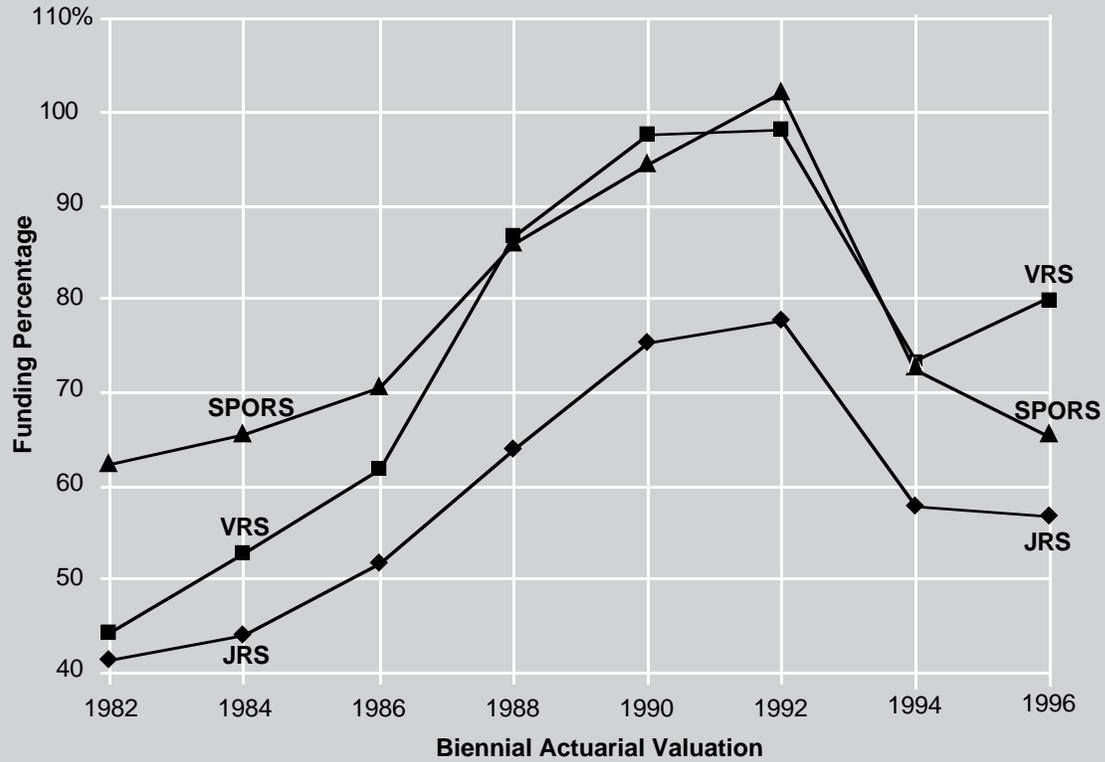
Source: JLARC staff review of Governmental Accounting Standards Board documents, and JLARC interviews with VRS staff.

### Percent of Accrued Liabilities for Active Members (Employer Financed Contribution) Covered by Assets

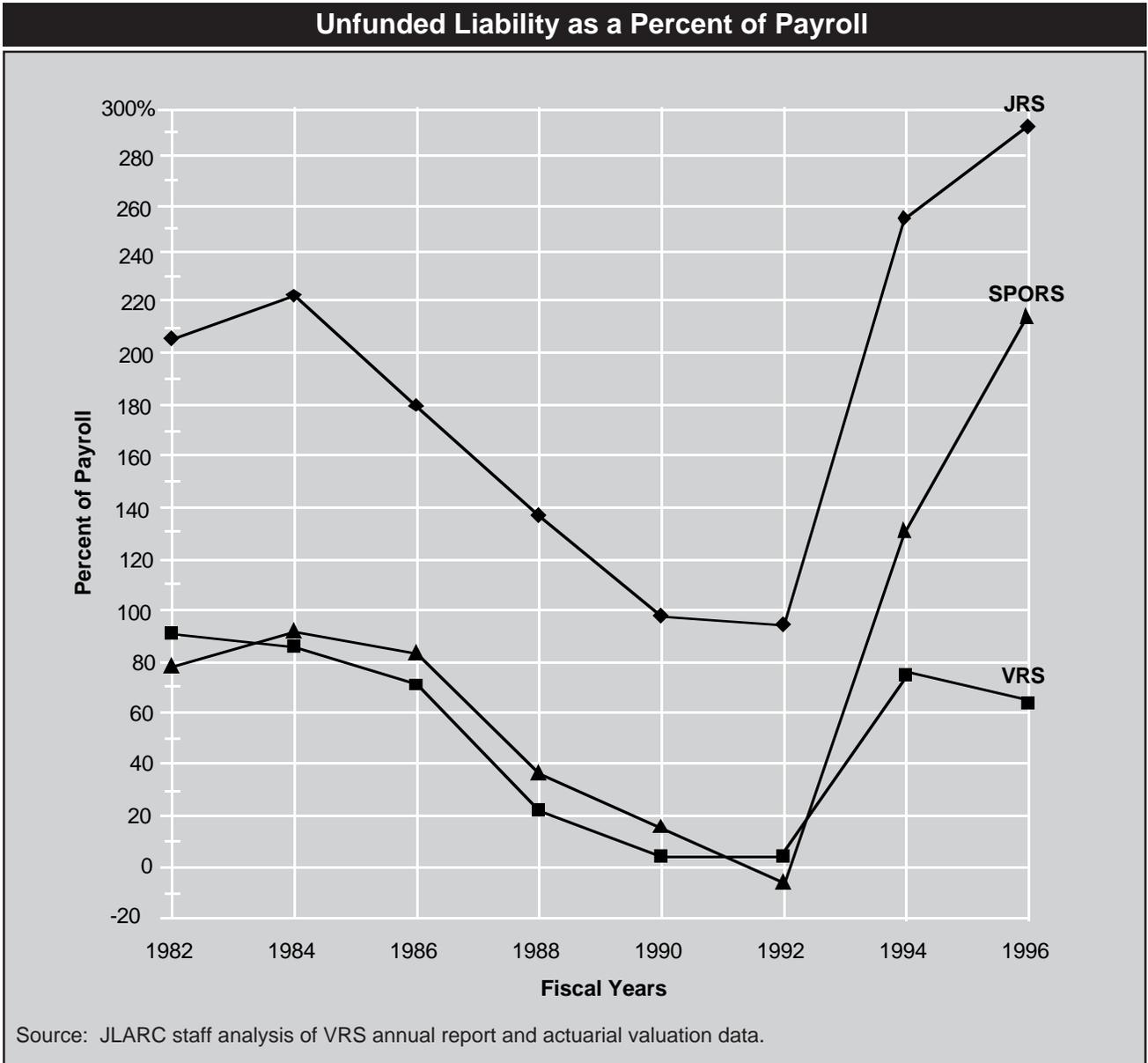


Source: VRS staff, and JLARC staff analysis of VRS annual report and actuarial valuation data.

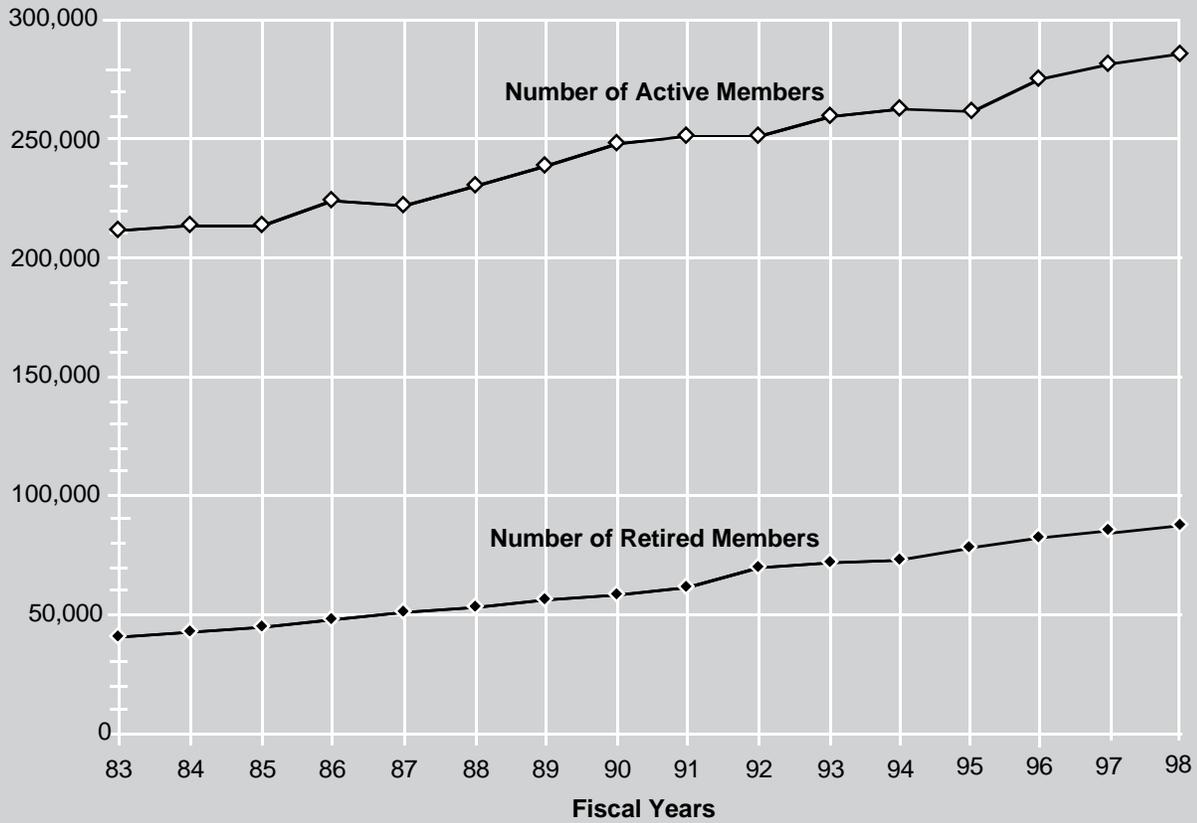
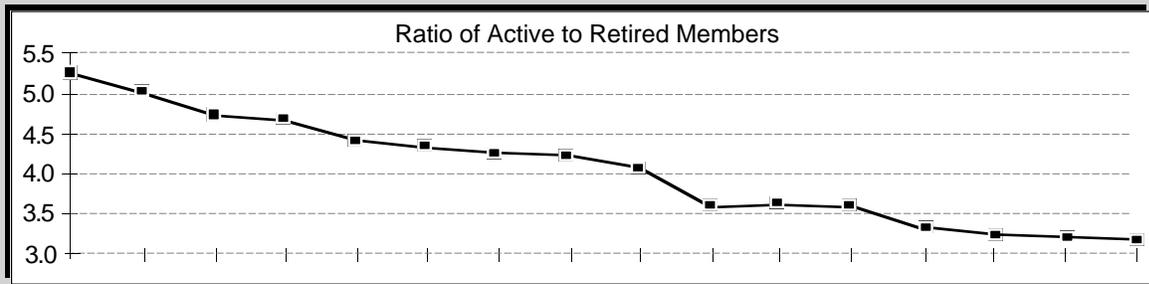
### Valuation Assets as a Percentage of Actuarial Accrued Liabilities



Source: VRS staff, and JLARC staff analysis of VRS actuarial valuation data.

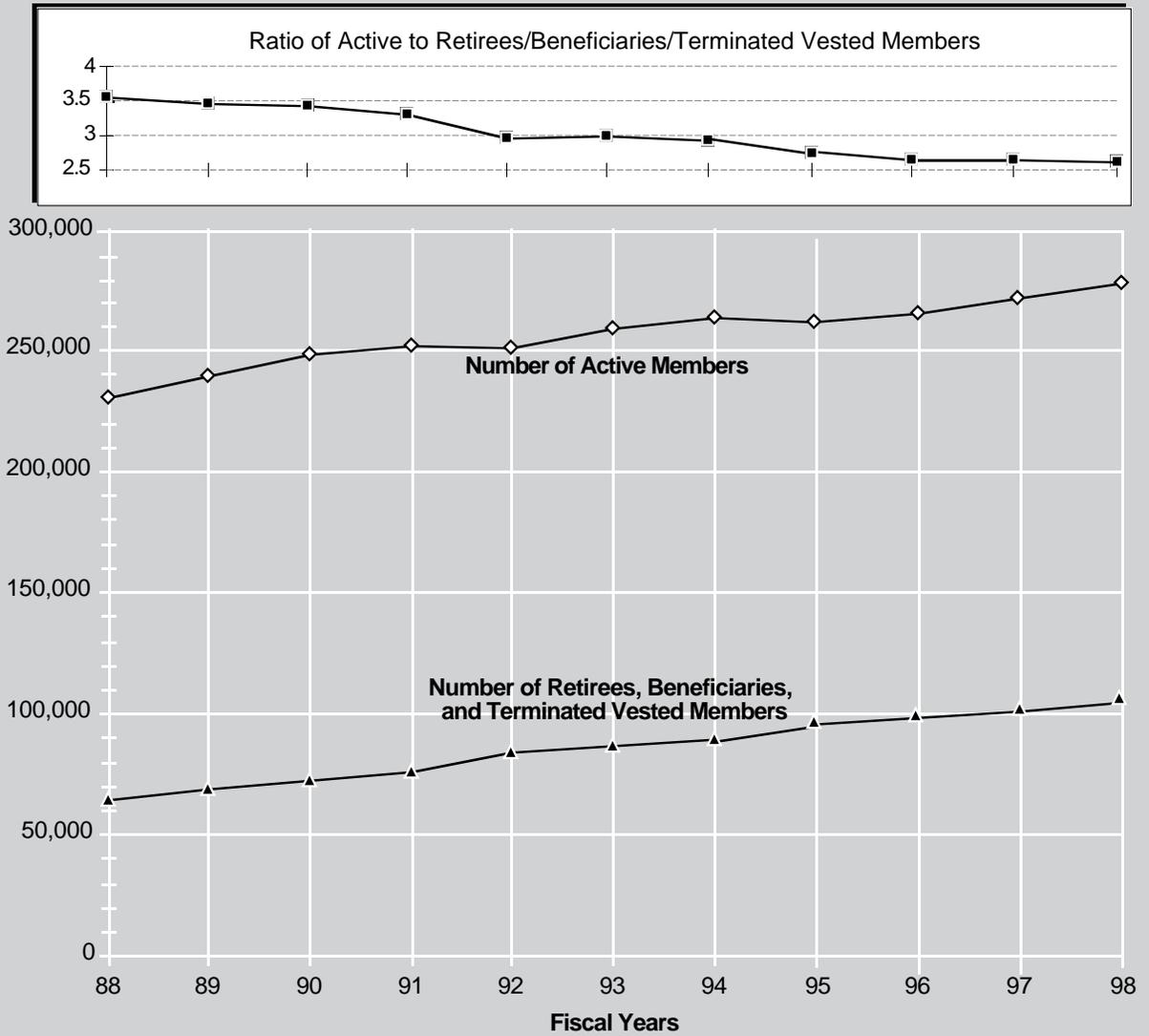


### Trend in Active vs. Retired Members



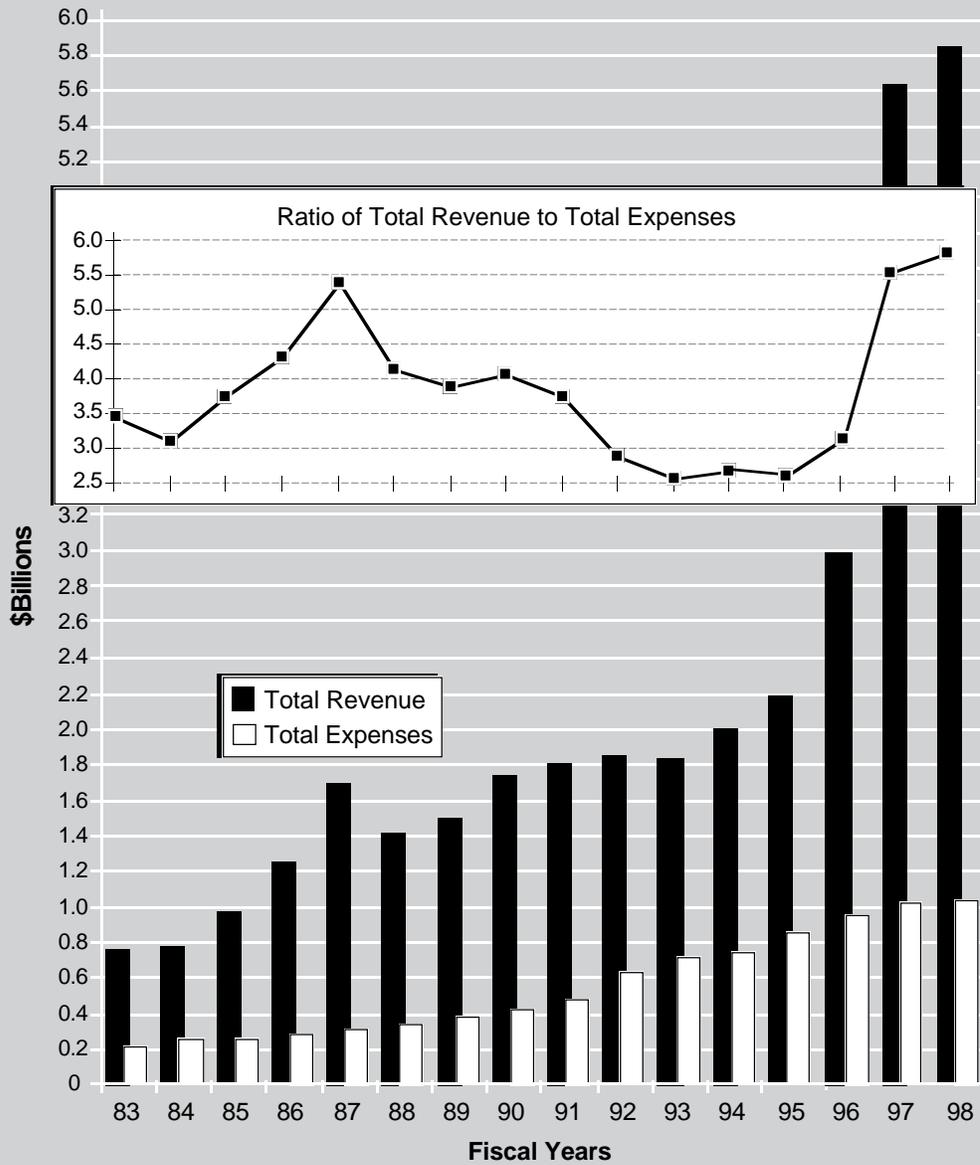
Source: VRS staff, and JLARC staff analysis of VRS annual report data.

### Trend in Active Members vs. Retirees, Beneficiaries and Terminated Vested Members



Source: VRS staff, and JLARC staff analysis of VRS annual report data.

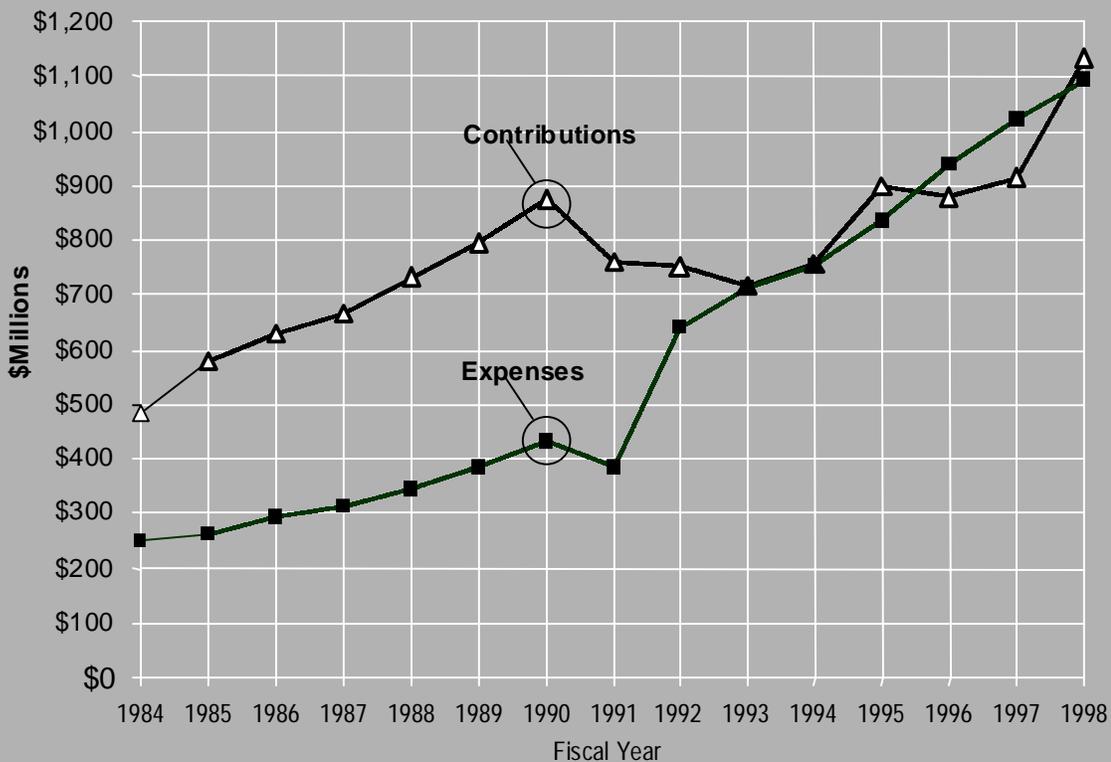
### Comparison and Ratio of Pension Revenues to Expenses



Note: Revenue includes investment income.

Source: VRS staff, and JLARC staff analysis of VRS annual report data.

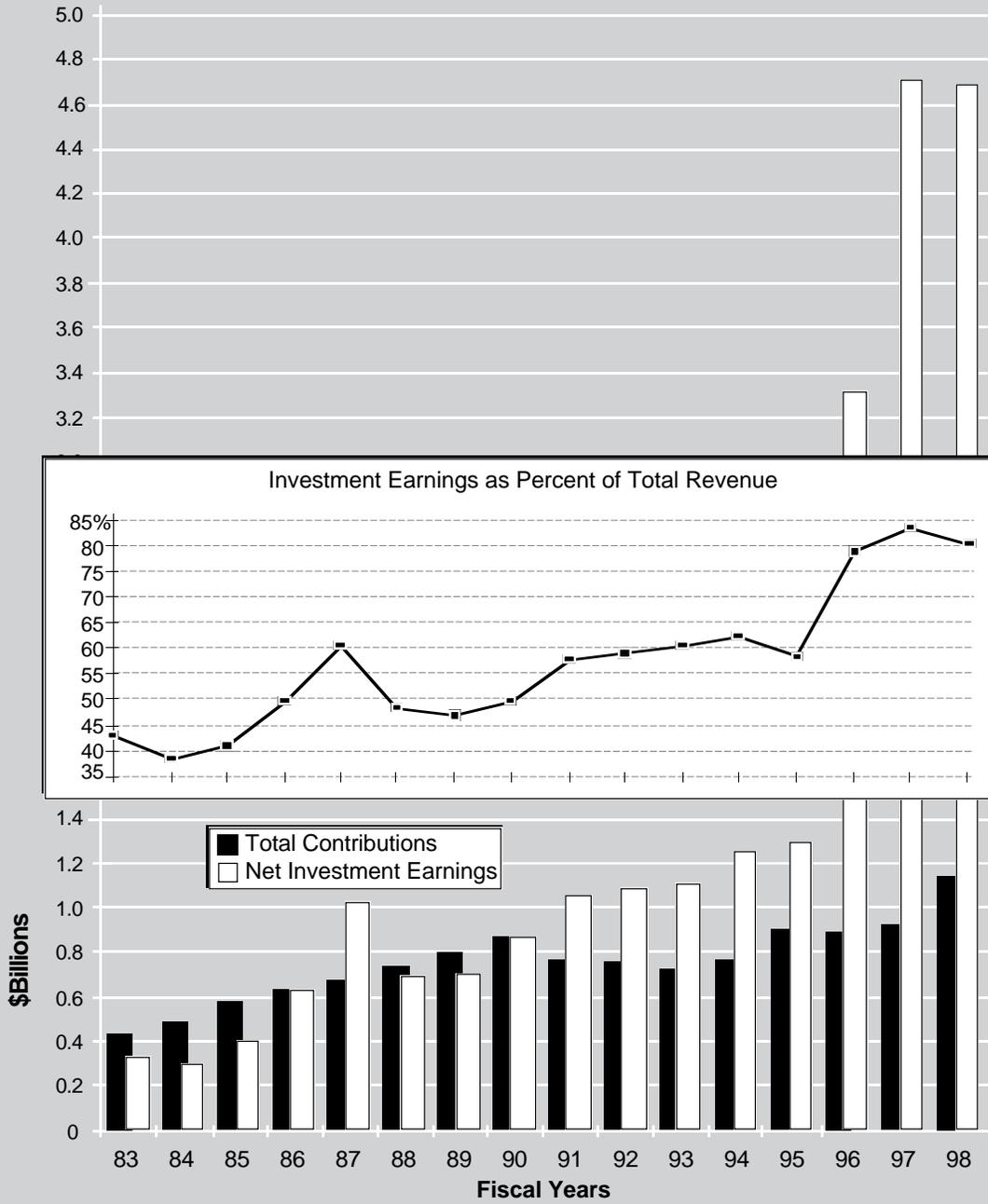
### Comparison of Pension Contributions and Expenses



Note: Contributions include employer and employee contributions, and employee contributions paid by employers. Expenses include benefit payments, refunds of contributions to members, and VRS administrative expenses.

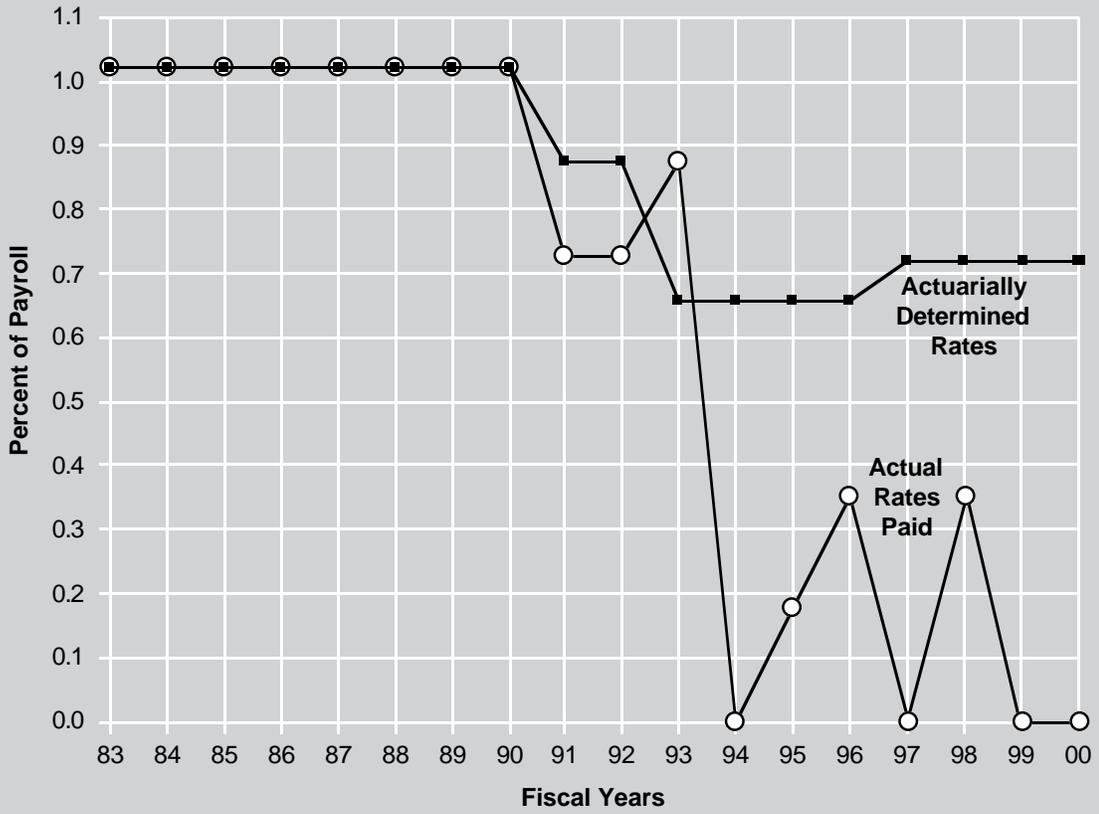
Source: Virginia Retirement System.

### Comparison of Total Pension Contributions and Investment Earnings



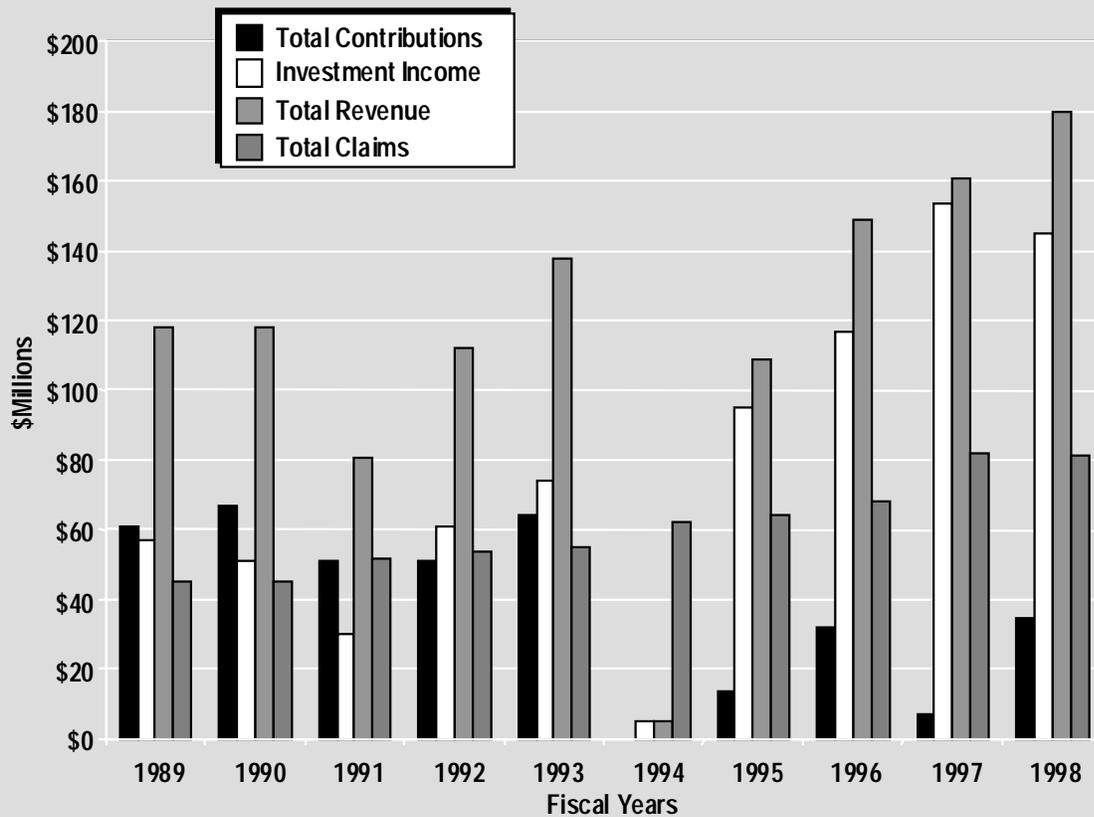
Source: VRS staff, and JLARC staff analysis of VRS annual report data.

### Group Life Insurance Contribution Rates

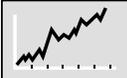


Source: VRS staff, and JLARC staff analysis of VRS financial data.

### Group Life Insurance Program Revenues and Claims Expenses



Source: Virginia Retirement System



## Contents of Part IV: Investments

Page

<b>Overview .....</b>	<b>IV-1</b>
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### **VRS Investment Fund Portfolio**

Allocation of Costs of VRS Annuities: Retirement Years Funded, by Source, for State Employees and Teachers .....	IV-3
VRS Investment Fund Portfolio .....	IV-4
Domestic Equity Program .....	IV-5
Non-U.S. Equity Program .....	IV-6
Fixed Income Program .....	IV-7
Private Equity Program .....	IV-8
Real Estate Program .....	IV-9
VRS Investment Performance Summary (June 30, 1998) .....	IV-10
Total Fund Performance, FY 1989 - FY 1998 .....	IV-11
Net Investment Income, FY 1989 - FY 1998 .....	IV-11
Deferred Compensation Program Investment Options .....	IV-12
Deferred Compensation program Investment Performance Summary .....	IV-13

### **Recent Issues of JLARC's VRS Oversight Report**

Following Page IV-13, the following issues of JLARC's semi-annual VRS investment report are provided:

- #8: May 1997
- #9: December 1997
- #10: July 1998
- #11: December 1998



## Part IV: Investments

Contributions by employers and employees are invested by VRS in order to generate additional revenue to fund the cost of current and future retirement benefits. Moreover, the majority of a retiree's lifetime benefit will be funded through earnings generated by the VRS investment program. Finally, strong investment earnings enable the Board to keep employer contribution rates stable as well as improve VRS' overall funding status. Therefore, the investment program is a vital component of VRS' ongoing operations.

As discussed in Part I, the VRS Board of Trustees (the Board) is required by the *Code of Virginia* to invest the assets of the retirement system in accordance with the prudent expert standard. In order to assist the Board in fulfilling this responsibility, the *Code* requires that an Investment Advisory Committee (IAC) be established. The chief investment officer (CIO) directs and manages the investment department at VRS. The CIO and professional investment staff operate and monitor the investment program on a day-to-day basis in conformance with Board established policies and guidelines. The CIO and staff also receive advice and feedback from the IAC.

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### Structure of the VRS Investment Program

The allocation of the assets in the VRS investment portfolio reflects the long-term nature of the system's obligations to pay benefits to retirees. Reflecting the long-term nature of the system's investment horizon, the VRS asset allocation policy states that the pension fund's investments are to generally be allocated across two broad asset classes - equities and fixed income. The combination of these two asset classes defines the appropriate risk profile for the fund.

However, the current asset allocation policy approved by the Board provides permissible guidelines for a number of asset classes that are designed to produce the highest available returns while controlling risks to acceptable or prudent levels. These guidelines are: public equity (55 percent minimum), domestic equity (45 percent minimum), international equity (35 percent maximum), fixed income (20 percent minimum), and alternative investments in private equity and real estate (15 percent maximum). The CIO has been delegated authority by the Board to allocate the system's investments within the approved asset allocation policy.

Investment of the system's assets is performed by both external investment management firms as well as VRS investment department staff. Moreover, both active and passive management is utilized for the public equity and fixed income programs. Finally, for some asset classes like fixed income, the VRS investment department has established as a goal to have all passive fixed income investments managed by VRS staff.

Finally, the VRS investment department is also responsible for administering the State's deferred compensation plan. This plan provides employees a number of investment options (including public equity and fixed income) that can be contributed to on a pre-tax basis. Although the day-to-day operations of the plan are administered by a

private plan manager, a VRS investment officer ensures the plan is in compliance with all regulations, recommends and implements approved changes to the plan's structure, and monitors the third party manager and investment providers.

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## **Performance of the VRS Investment Program**

The VRS investment portfolio has benefited from the very strong public equity markets. For the FY 1989 through FY 1998 period, the average annual return was about 13 percent. However, for the FY 1996 through FY 1998 period, the average annual return was almost 20 percent. Strong returns were evident across almost all of the fund's asset classes for the five year period ending June 30, 1998.

The ability of the total fund's investment returns to significantly exceed the actuarial assumed investment return over the past five years is very important. The returns experienced over the recent past will better enable the system to sustain long-term investment results during periods when public equity and fixed income markets have relatively lower returns, and allow for stability in employer contribution rates.

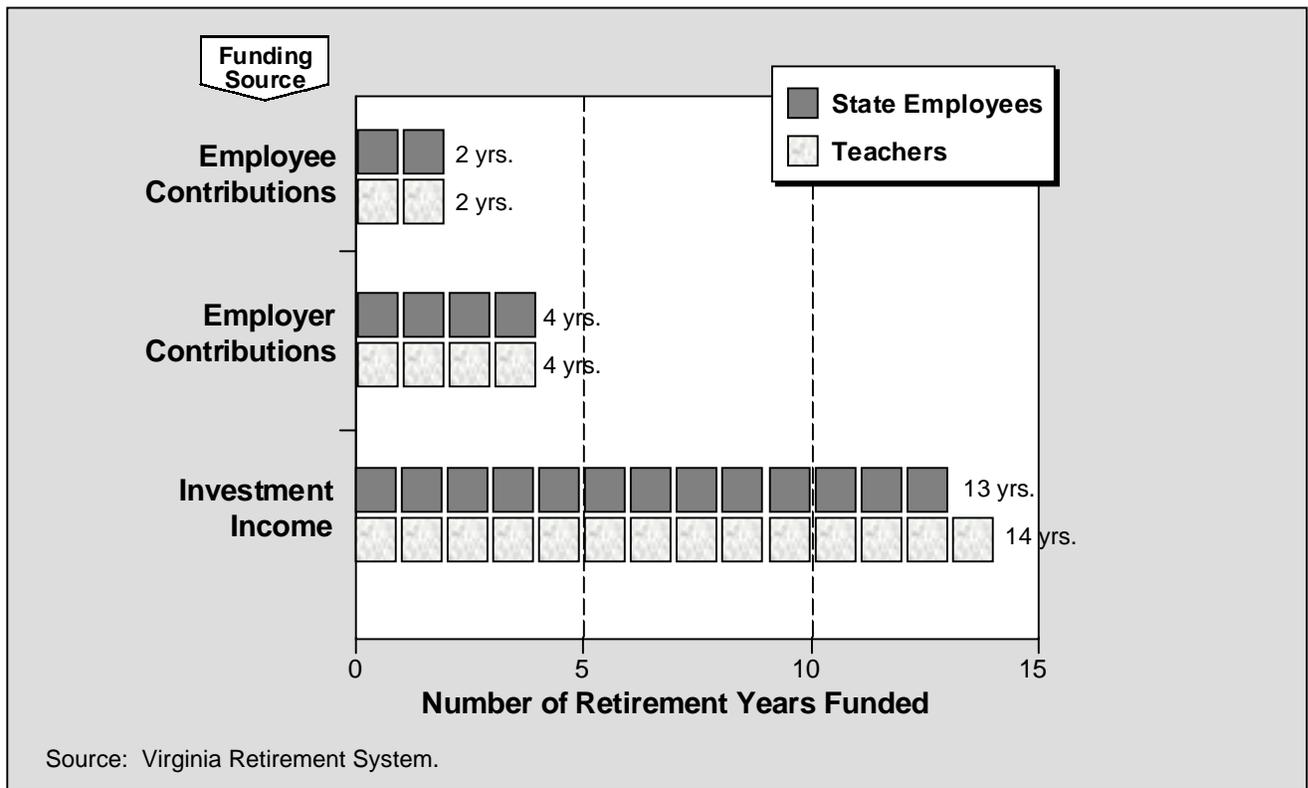
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## **VRS Semi-Annual Investment Reports**

Section 30-78 of the *Code* requires VRS to submit semi-annual investment reports to JLARC. The statute requires that the report include information concerning (i) planned or actual material changes in asset allocation, (ii) investment performance of all asset classes and sub-classes, and (iii) investment policies and programs. In practice, the investment reports are prepared by JLARC staff based on information obtained from the VRS investment department.

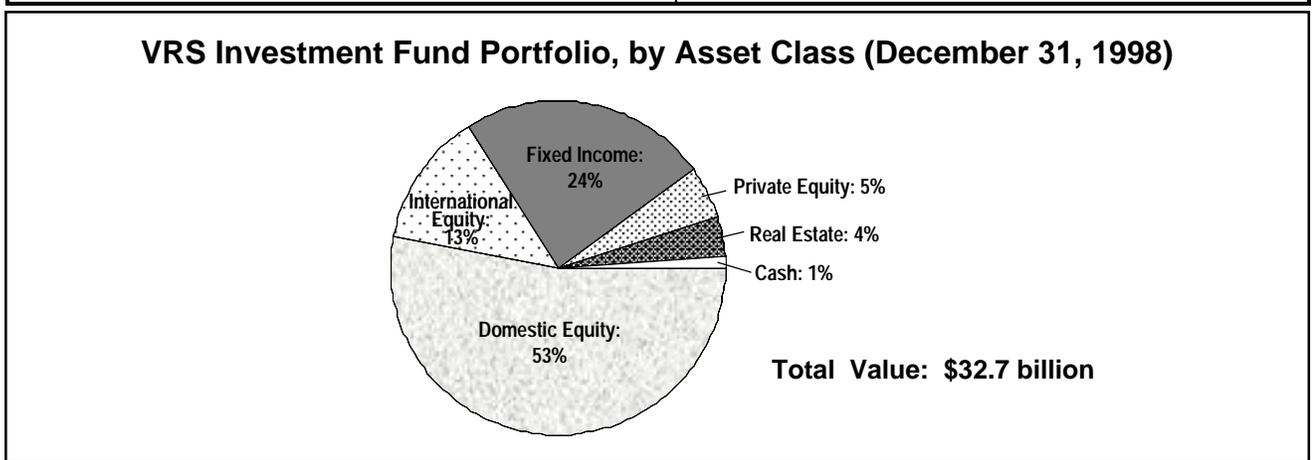
Additional information for the report is developed by JLARC staff through attendance at the monthly meetings of the Board and IAC. The CIO does appear before JLARC to provide an annual briefing on the status of the investment program. This section includes the four most recent VRS investment reports prepared by JLARC staff.

### Allocation of Costs of VRS Annuities: Retirement Years Funded, by Source, for State Employees and Teachers



## VRS Investment Fund

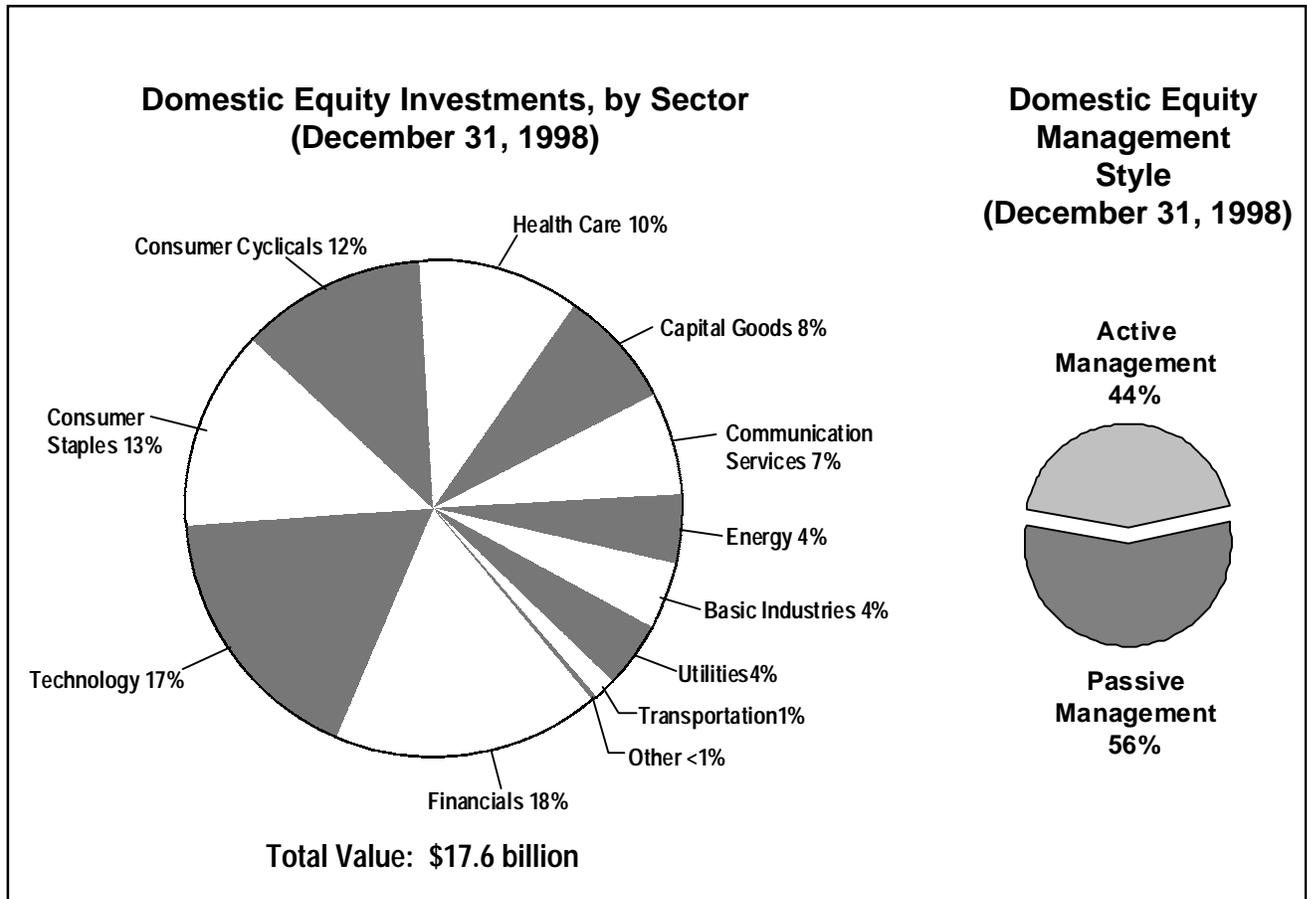
Program Overview	Program Objectives
<p>The <i>Code of Virginia</i> requires that VRS diversify the system's investments to minimize the risk of large losses.</p> <p>As a result, assets are allocated among different types of investments or asset classes in order to maximize the investment return while controlling risk to a reasonable level.</p> <p>The VRS Board of Trustees has approved an asset allocation policy that provides for a mix of asset classes that are intended to maximize the investment return while controlling risk to an acceptable level. These asset classes are:</p> <ul style="list-style-type: none"> <li>• domestic and international public equity (stock),</li> <li>• fixed income (bonds) and</li> <li>• alternative investments (private equity and real estate).</li> </ul>	<p>Three tiers of performance objectives or benchmarks have been established for the VRS investment portfolio.</p> <p>First, two specific benchmarks have been established for the fund's entire investment portfolio:</p> <ul style="list-style-type: none"> <li>• <i>Intermediate-Term Benchmark:</i> Covers periods of less than five years and represents the fund's asset allocation plan.</li> <li>• <i>Long-Term Investment Benchmark:</i> Defines the risk profile of the fund and was developed during the asset allocation process. Consists of a blend of domestic stocks and bonds and covers periods of greater than five years.</li> </ul> <p>Finally, individual performance benchmarks have also been established for each of the fund's individual investment programs.</p>



Source: JLARC staff analysis of VRS data, and VRS' *Investment Reference Manual*.

## VRS Domestic Equity Program

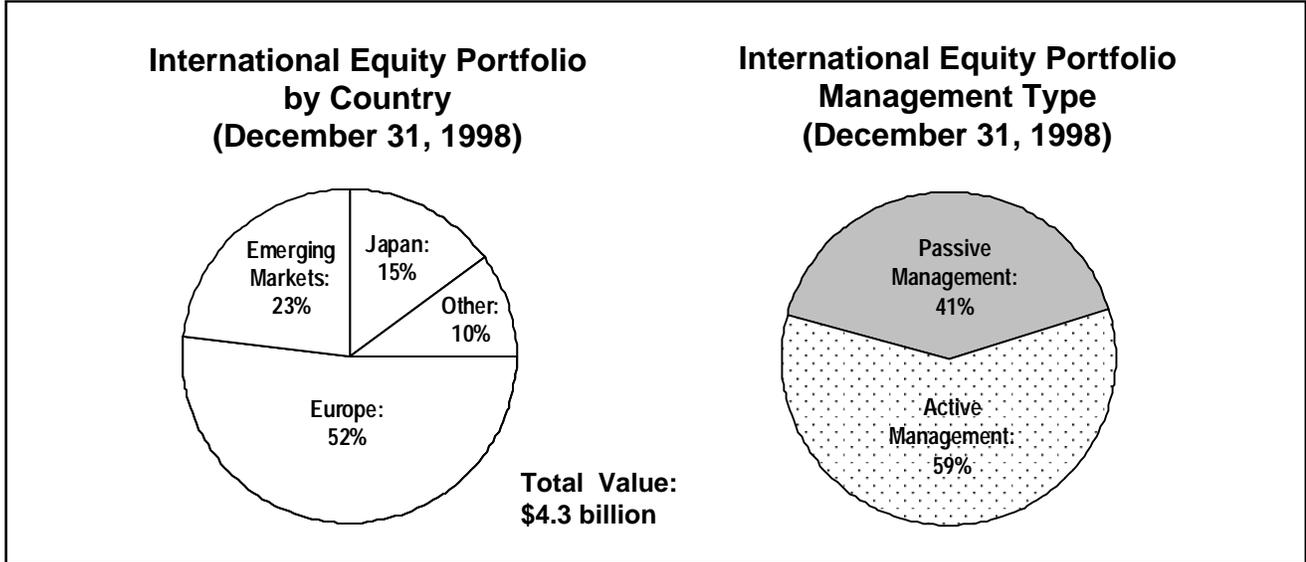
Program Overview	Program Objectives
<p>Stock holdings composed of corporations traded on U.S. stock exchanges.</p> <p>The VRS domestic equity program can utilize both active and passive management:</p> <ul style="list-style-type: none"> <li>• <i>Active Management:</i> Structured to account for style (growth and value) and capitalization (large, medium, and small) differences within the domestic equity market.</li> <li>• <i>Passive Management:</i> Structured to provide low cost index return and risk characteristics.</li> </ul> <p>At least 50 percent of the domestic equity program must be managed passively.</p> <p>Program can use both internal and external managers.</p>	<p>Performance objectives have been established for both actively and passively managed accounts.</p> <ul style="list-style-type: none"> <li>• <i>Active Management:</i> To exceed the total return of the Russell 3000 by 100 basis points over rolling three year periods net of all costs.</li> <li>• <i>Passive Management:</i> Approximate the total return of the broad market annually net of all costs.</li> </ul>



Source: JLARC staff analysis of VRS data, and VRS' *Investment Reference Manual*.

## VRS Non-U.S. Equity Program

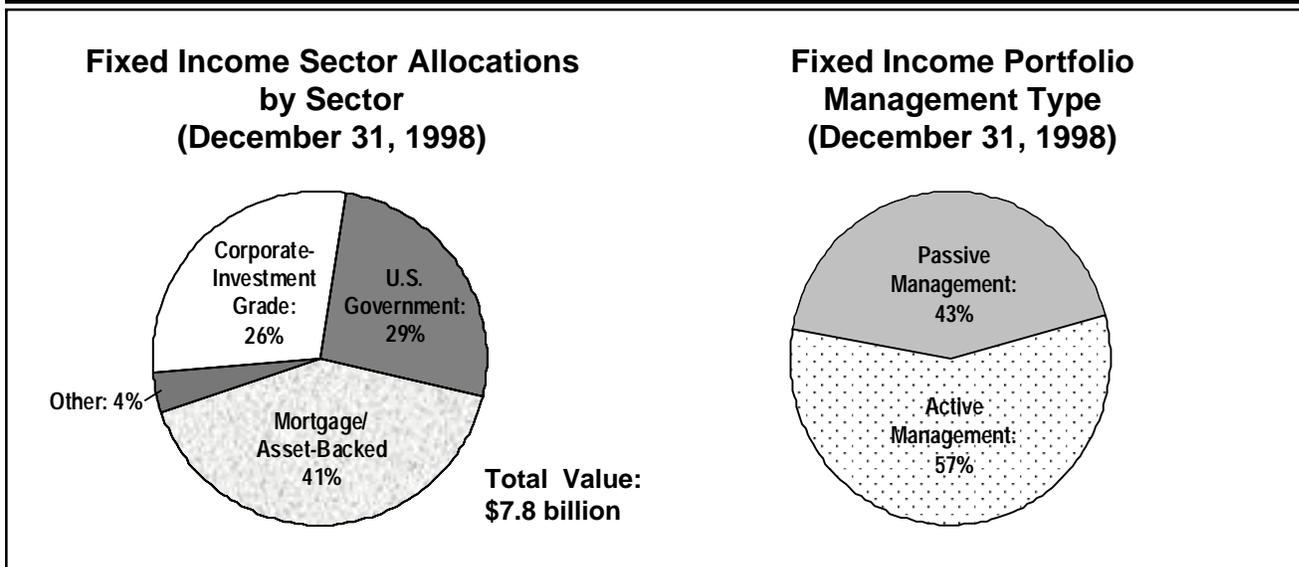
Program Overview	Program Objectives
<p>The VRS international equity program is composed of stock holdings in corporations traded on stock exchanges of foreign countries.</p> <p>Program can utilized both active and passive management:</p> <ul style="list-style-type: none"> <li>• <i>Active Management:</i> Preferred management style due to inefficiency of international markets. Structured to ensure regional diversification and recognize capitalization (large, medium, and small) differences within the international equity market.</li> <li>• <i>Passive Management:</i> Can be utilized to achieve targeted market exposure at lower costs.</li> </ul> <p>This program can also include investments in emerging equity markets.</p> <p>Unless approved by VRS, international equity managers are not permitted to engage in currency hedging activities.</p> <p>The VRS international equity program can use both internal and external managers.</p>	<p>Performance objectives have been established for both the actively and passively managed VRS international equity funds:</p> <ul style="list-style-type: none"> <li>• <i>Active Management:</i> To exceed the total return of the non-U.S. benchmark by 200 basis points over rolling three year periods net of all costs.</li> <li>• <i>Passive Management:</i> Approximate the total return of the non-U.S. benchmark annually net of all costs.</li> </ul>



Source: JLARC staff analysis of VRS data, and VRS' *Investment Reference Manual*.

## VRS Fixed Income Program

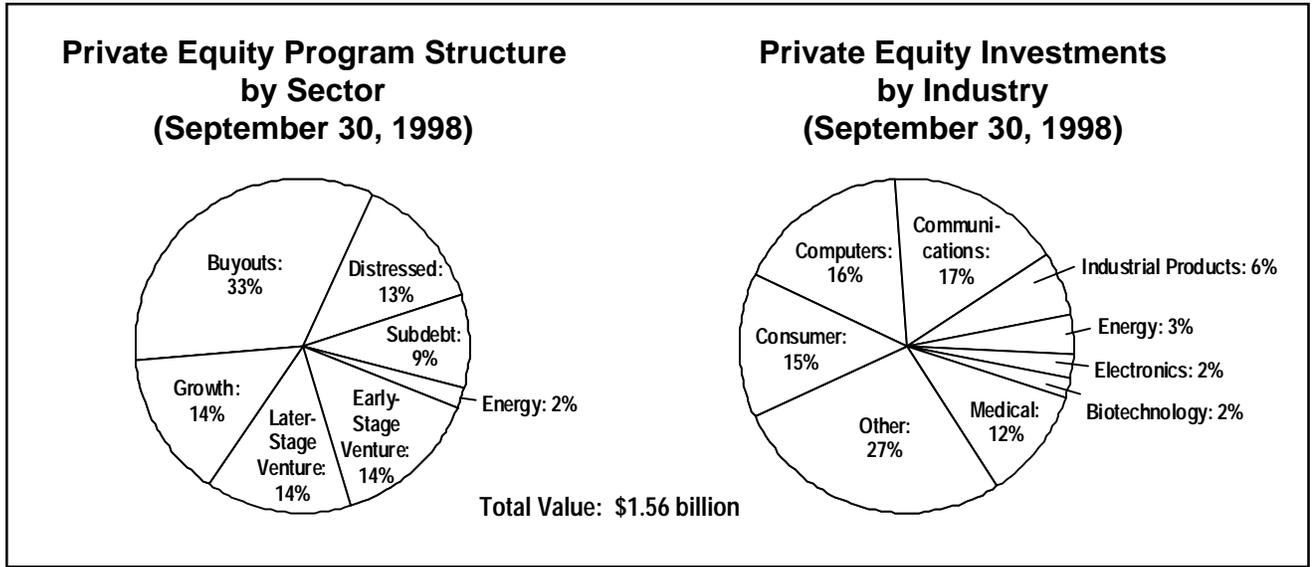
Program Overview	Program Objectives
<p>VRS fixed income bond holdings are diversified by maturity, sector, and issuer.</p> <p>The fixed income program can include both active and passive management.</p> <p>The fixed income program currently utilizes both external and internal management.</p> <p>VRS goal is to have the fixed income program's passive allocation managed internally by VRS staff.</p>	<p>Program objectives have been established for both the actively and passively managed accounts of the fixed income program.</p> <ul style="list-style-type: none"> <li>• <i>Active Management:</i> To exceed the total return of the Lehman Brothers Aggregate Index by 50 basis points net of fees over three year rolling periods.</li> <li>• <i>Passive Management:</i> Approximate the risk and total return of the relevant index annually.</li> </ul>



Source: JLARC staff analysis of VRS data, and VRS' *Investment Reference Manual*.

## VRS Private Equity Program

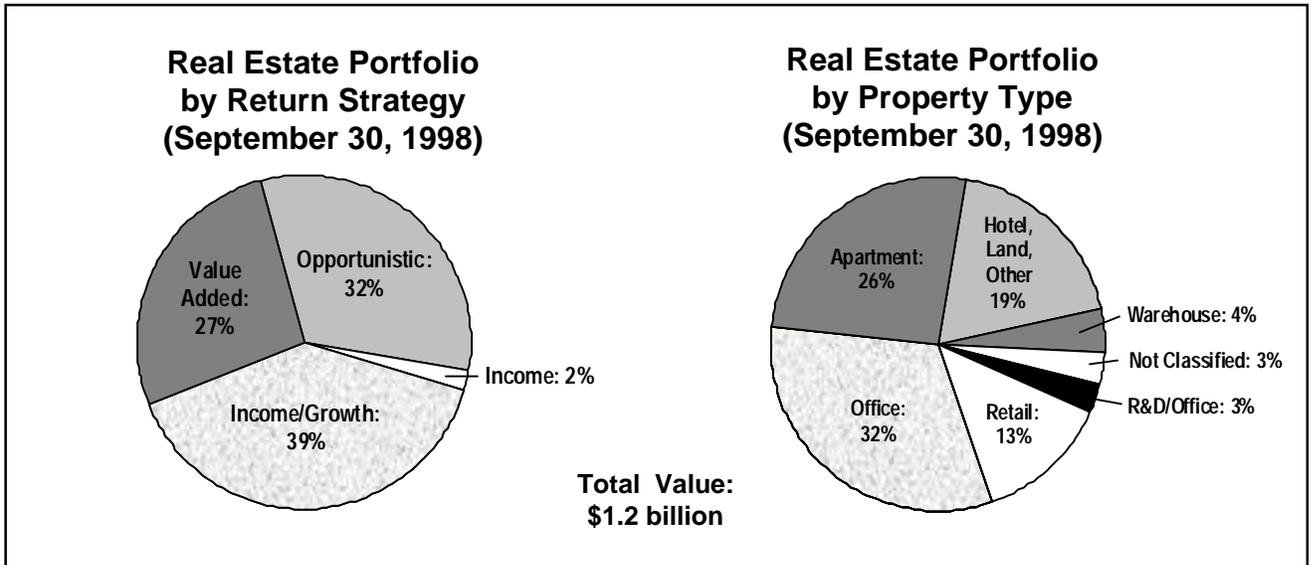
Program Overview	Program Objectives
<p>Professionally managed equity investments, typically through a limited partnership administered by a General Partner, in the unregistered securities of private and public companies.</p> <p>The current VRS private equity program is comprised of two portfolios. Brinson Partners, Inc. manages a portfolio of smaller domestic funds (most have committed capital of \$200 million or less). VRS staff manage a portfolio that includes all international funds and larger domestic funds (committed capital over \$200 million).</p> <p>The program currently utilizes external, active management.</p> <p>A limited amount of VRS funds can also be invested directly alongside the General Partner.</p>	<p>Exceed the Russell 3000 (dollar-weighted) by 250 basis points annually over ten-year rolling periods.</p>



Source: JLARC staff analysis of VRS data, and VRS' *Investment Reference Manual*.

## VRS Real Estate Program

Program Overview	Program Objectives
<p>VRS real estate program investments are differentiated among four broad return strategies – opportunistic, value added, income and growth, and income.</p> <p>Investments can typically be made through a direct basis, commingled funds, limited partnerships, joint ventures, separate accounts, real estate investment trusts, and real estate operating companies.</p> <p>VRS real estate investments will typically be made through investment advisors/managers or principals.</p>	<p>Return objective for the VRS real estate program is five percent real return net of all fees and expenses.</p> <p>The program's custom benchmark is the dollar-weighted NCREIF/NAREIT indices.</p>

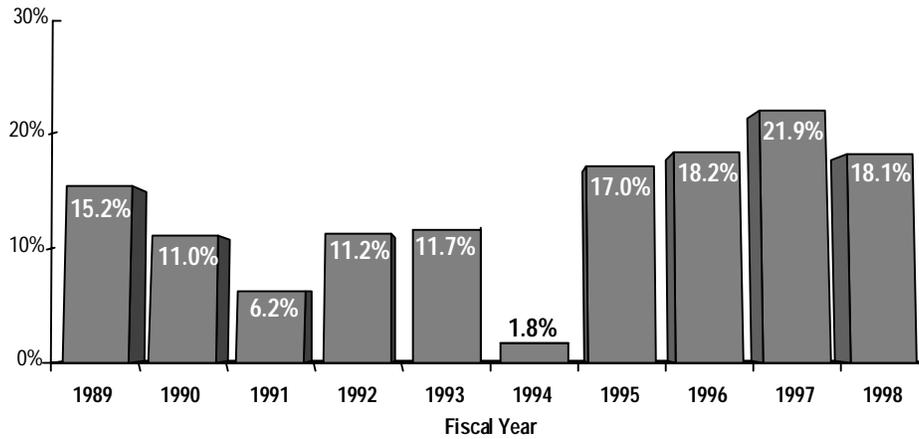


Source: JLARC staff analysis of VRS data, and VRS' *Investment Reference Manual*.

### VRS Investment Performance Summary (June 30, 1998)

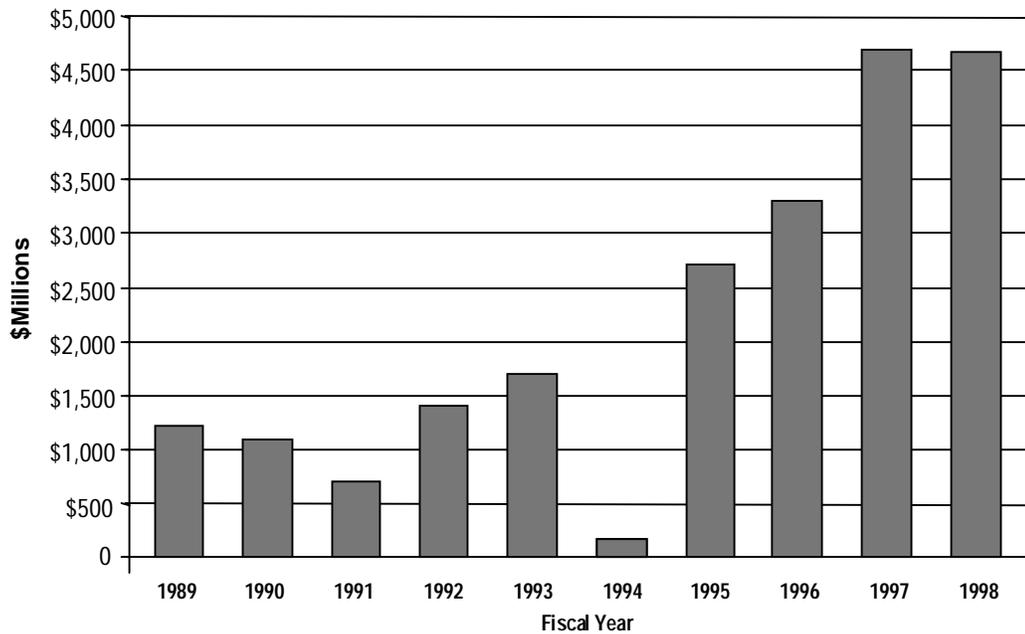
VRS Asset Class <i>Benchmark</i>	One Year	Three Years	Five Years
<b>Total VRS Fund</b>	<b>18.1%</b>	<b>19.4%</b>	<b>15.2%</b>
<i>Inflation (CPI)</i>	1.7	2.3	2.5
<i>Actuarial Assumed Return</i>	8.0	8.0	8.0
<b>Domestic Equity</b>	<b>28.7%</b>	<b>28.2%</b>	<b>21.6%</b>
<i>Russell 3000</i>	28.8	28.5	21.7
<b>International Equity</b>	<b>-7.6%</b>	<b>6.4%</b>	<b>8.1%</b>
<i>Non-U.S. Benchmark</i>	-11.5	4.0	6.4
<b>Fixed Income</b>	<b>10.7%</b>	<b>8.0%</b>	<b>7.2%</b>
<i>Lehman VRS Custom</i>	10.5	7.2	6.5
<b>Real Estate</b>	<b>13.7%</b>	<b>11.6%</b>	<b>8.2%</b>
<i>Custom Benchmark</i>	14.2	12.1	8.3
<b>Private Equity</b>	<b>38.2%</b>	<b>35.8%</b>	<b>25.7%</b>
<i>Custom Benchmark</i>	31.3	31.0	24.2
Source: JLARC staff analysis of data from the <i>VRS Comprehensive Annual Financial Report</i> , June 30, 1998.			

### Total Fund Performance, FY 1989 – FY 1998



Source: Virginia Retirement System.

### Net Investment Income, FY 1989 – FY 1998

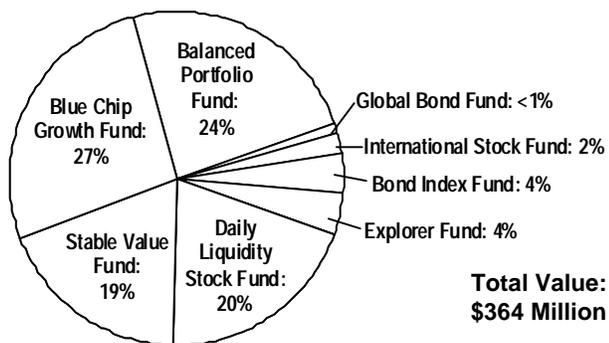


Source: Virginia Retirement System.

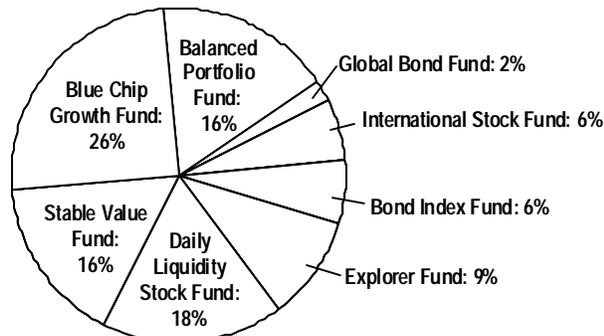
## Deferred Compensation Program Investment Options

Fund/Manager	Asset Class	Investment Objective/Benchmark
Stable Value Fund/ Metropolitan Life	Stable Value	Protect principle and offer competitive market returns on deposited funds relative to the Lehman Intermediate Government/Corporate Index. Rates are reset every six months.
Bond Index Fund/ Vanguard	Bonds (Domestic)	Seeks to maximize performance and income by tracking the Lehman Brothers Aggregate Bond Index.
Balanced Portfolio Fund/Mellon	Domestic Equity & Bonds	The fund's goal is to track the total return of a benchmark of 60% of the S&P 500 Index and 40% of the Lehman Brothers Aggregate Bond Index.
Daily Liquidity Stock Index Fund/Mellon	Domestic Stock	The fund's goal is to track the total return of the S&P 500 Index.
Blue Chip Growth Fund/Fidelity	Domestic Stock (Large Cap)	Companies whose stock is included in the fund will typically have a market capitalization of \$200 million, are included in the S&P 500 Index, the Dow Jones Industrial Average, or have \$1 billion market capitalization if not in these indexes. Returns of the fund should exceed the S&P/BARRA Large Growth Index.
Explorer Fund/ Vanguard	Domestic Stock (Small Cap)	Invests primarily in stocks of small and emerging growth companies with total market values of \$100 million to \$1 billion. Returns of the fund should exceed the Russell 2000 Small Stock Index.
Global Bond Fund/ Merrill Lynch	Bonds (Global)	Invests in a global portfolio of bonds of various currencies. The fund invests primarily in government obligation and investment grade corporate bonds. Returns should exceed the Salomon World Bond Index.
International Stock Fund/T. Rowe Price	International Stock	Invests primarily in the common stock of established, non-U.S. companies with returns that exceed the Morgan Stanley EAFE Index.

**Allocation of Deferred Compensation Plan Assets (March 31, 1999)**



**Allocations of Total Participants in Each Fund Option (April 29, 1999)**



Source: VRS staff, and VRS FY 1998 *Deferred Compensation Plan Annual Report*, October 1998.

### Deferred Compensation Program Investment Performance Summary (February 28, 1999)

Investment Fund <i>Benchmark</i>	One Year	Three Years	Five Years
<b>Fidelity Blue Chip Growth Fund</b> <i>S&amp;P 500/Barra Growth Index</i>	<b>24.62%</b> 31.40	<b>25.62%</b> 32.86	<b>21.99%</b> 28.45
<b>Mellon Balanced Portfolio Fund</b> <i>Custom Benchmark (60% S&amp;P 500 and 40% Lehman Aggregate)</i>	<b>14.62%</b> 14.85	<b>18.82%</b> 19.01	<b>N/A</b> N/A
<b>Mellon Daily Liquidity Stock Index Fund</b> <i>S&amp;P 500</i>	<b>19.81%</b> 19.74	<b>26.81%</b> 26.81	<b>N/A</b> N/A
<b>Merrill Lynch Global Bond Fund</b> <i>Salomon World Bond Index</i>	<b>5.96%</b> 8.63	<b>5.75%</b> 5.34	<b>4.99%</b> 6.92
<b>T. Rowe Price International Stock Fund</b> <i>MSCI EAFE Index</i>	<b>2.70%</b> 5.25	<b>8.93%</b> 8.06	<b>7.55%</b> 7.22
<b>Vanguard Bond Index Fund</b> <i>Lehman Aggregate Bond Index</i>	<b>6.32%</b> 6.27	<b>7.33%</b> 7.31	<b>N/A</b> N/A
<b>Vanguard Explorer Fund</b> <i>Russell 2000 Index</i>	<b>-10.25%</b> -14.14	<b>6.09%</b> 7.89	<b>9.23%</b> 9.68

Note: The Stable Value Fund's annualized rate of return net of expenses from January 1, 1998 through June 30, 1998 was 6.69 percent. For the period from July 1, 1998 through December 31, 1998, the rate of return was set at 6.65 percent. For the January 1, 1999 through June 30, 1999 period, the rate is set at 6.20 percent. This rate is reset every six months.

Source: Virginia Retirement System.



**JOINT LEGISLATIVE AUDIT  
& REVIEW COMMISSION**  
OF THE VIRGINIA GENERAL ASSEMBLY

## Semi-Annual VRS Investment Report: May 1997

During 1997 the Virginia Retirement System (VRS) is continuing to address numerous issues concerning how and where pension fund assets are invested. For example, VRS is revising the methodology by which it makes its asset allocation policy decisions. For the first time, the process will systematically consider factors pertaining to the fund's benefit liabilities, in order to more completely address the risks faced by the pension fund. In the short run under this approach, risk is defined as volatility in asset values, funded status, and contribution rates. Over the long term, risk is defined as the failure to achieve returns greater than the U.S. inflation rate, a factor which has a strong impact on the future value of plan liabilities. The VRS Board will vote on a recommended asset allocation derived from this new process, which could differ from the current allocation, at its May 15, 1997 meeting.

Several investment programs have undergone structural changes over the past year. An international component has been added to the private equity program, with initial investments to be made in Western Europe. The performance benchmark for the international public equity program has been revised, and an active management component is being added to emerging market investments. The real estate investment program is shifting its emphasis towards more specialized, opportunistic investments in which VRS assumes a higher level of property development and leasing risk in return for anticipated higher returns. VRS also expects to better align its interests with those of its real estate investment managers through the use of performance-based fees, and to invest more efficiently. Under this new approach, VRS has committed to invest \$448 million using eight managers, with VRS planning to grant each manager substantial, if not total, discretion.

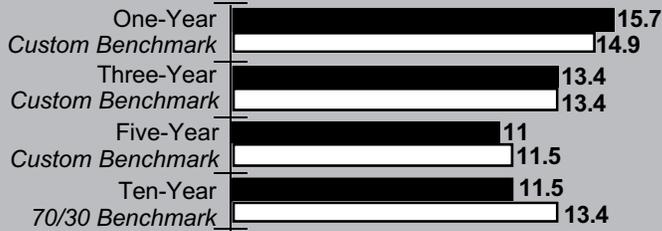
A continuing challenge for VRS is its ability to actually invest funds in the manner envisioned by its asset allocation policy, such that each asset class can make a meaningful contribution to the fund's overall performance. A consultant to the pension fund recently advised that, unless VRS can invest at least five percent of its assets in an asset class, the expense of investing in that asset class may not be warranted. This report presents information concerning the VRS investment program as of December 31, 1996, including asset allocation, investment performance, and program structure.

<b>Profile: Virginia Retirement System Investments</b>																						
<b>Market Value of Assets: \$23.94 billion</b>				<table border="1"> <thead> <tr> <th colspan="4"><b>Total Return on Investments</b></th> </tr> <tr> <th colspan="4"><i>(Time Periods Ending 12/31/96)</i></th> </tr> <tr> <th><i>10 years</i></th> <th><i>5 years</i></th> <th><i>3 years</i></th> <th><i>1 year</i></th> </tr> </thead> <tr> <td><b>11.5%</b></td> <td><b>11.0%</b></td> <td><b>13.4%</b></td> <td><b>15.7%</b></td> </tr> </table>			<b>Total Return on Investments</b>				<i>(Time Periods Ending 12/31/96)</i>				<i>10 years</i>	<i>5 years</i>	<i>3 years</i>	<i>1 year</i>	<b>11.5%</b>	<b>11.0%</b>	<b>13.4%</b>	<b>15.7%</b>
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<b>11.5%</b>	<b>11.0%</b>	<b>13.4%</b>	<b>15.7%</b>																			
<b>Number of External Managers: 73</b>																						
<b>Number of External Investment Accounts, Direct Investments, and Partnerships: 101</b>																						
<b>FY 1997 Investment Expenses: \$69.2 Million*</b>																						
<b>Number of VRS Investment Staff: 24 positions (5 vacancies)</b>																						
<b>Investment Policy Indicators (as of December 31, 1996)</b>																						
<b>Asset Class</b>	<b>Asset Allocation (% of Total Assets)</b>		<b>Where Invested (% of Asset Class)</b>		<b>Type of Management (% of Asset Class)</b>																	
	<b>Target</b>	<b>Actual</b>	<b>Domestic</b>	<b>International</b>	<b>Active</b>	<b>Passive</b>																
<b>Equity</b>	<b>70%</b>	<b>71.7%</b>	<b>82%</b>	<b>18%</b>	<b>50%</b>	<b>50%</b>																
<b>Fixed Income</b>	<b>21%</b>	<b>23.6%</b>	<b>97%</b>	<b>3%</b>	<b>60%</b>	<b>40%</b>																
<b>Real Estate</b>	<b>9%</b>	<b>4.5%</b>	<b>100%</b>	<b>0%</b>	<b>53%</b>	<b>47%</b>																

\*Estimated

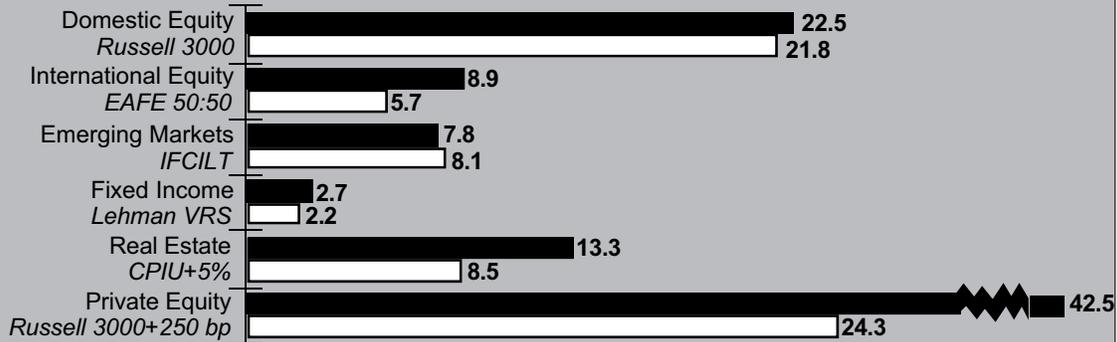
## VRS Investment Performance (Percent Return) Compared to Benchmarks for Periods Ending 12/31/96

### Total Fund Performance

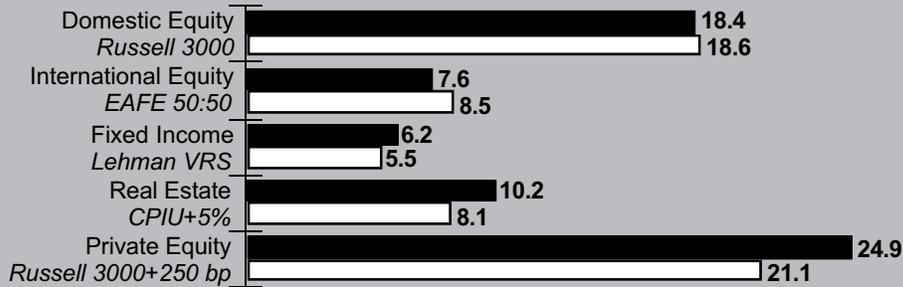


**Key:**  
 Actual Performance   
 Benchmark

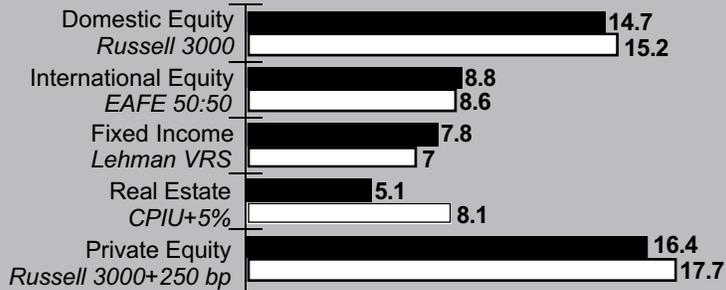
### Prior Year's Program Performance



### Prior Three Years' Program Performance



### Prior Five Years' Program Performance

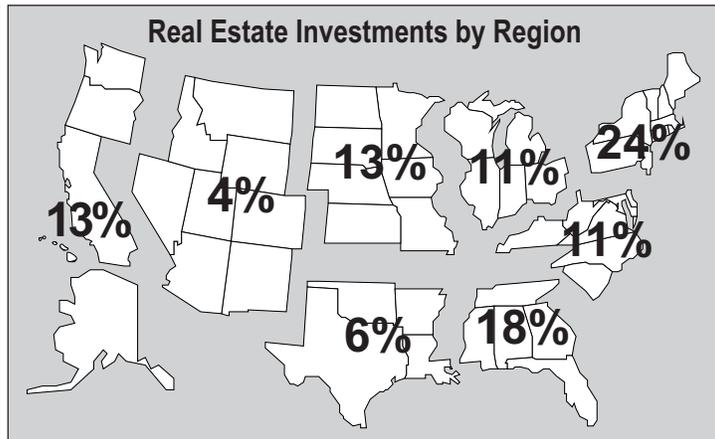
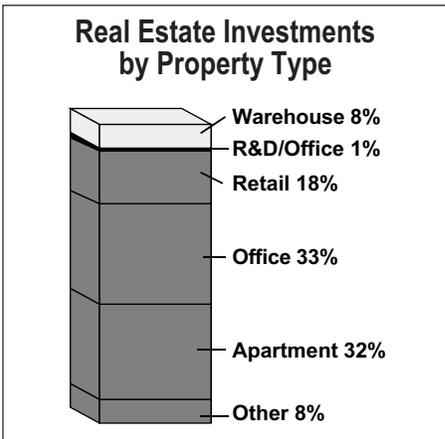
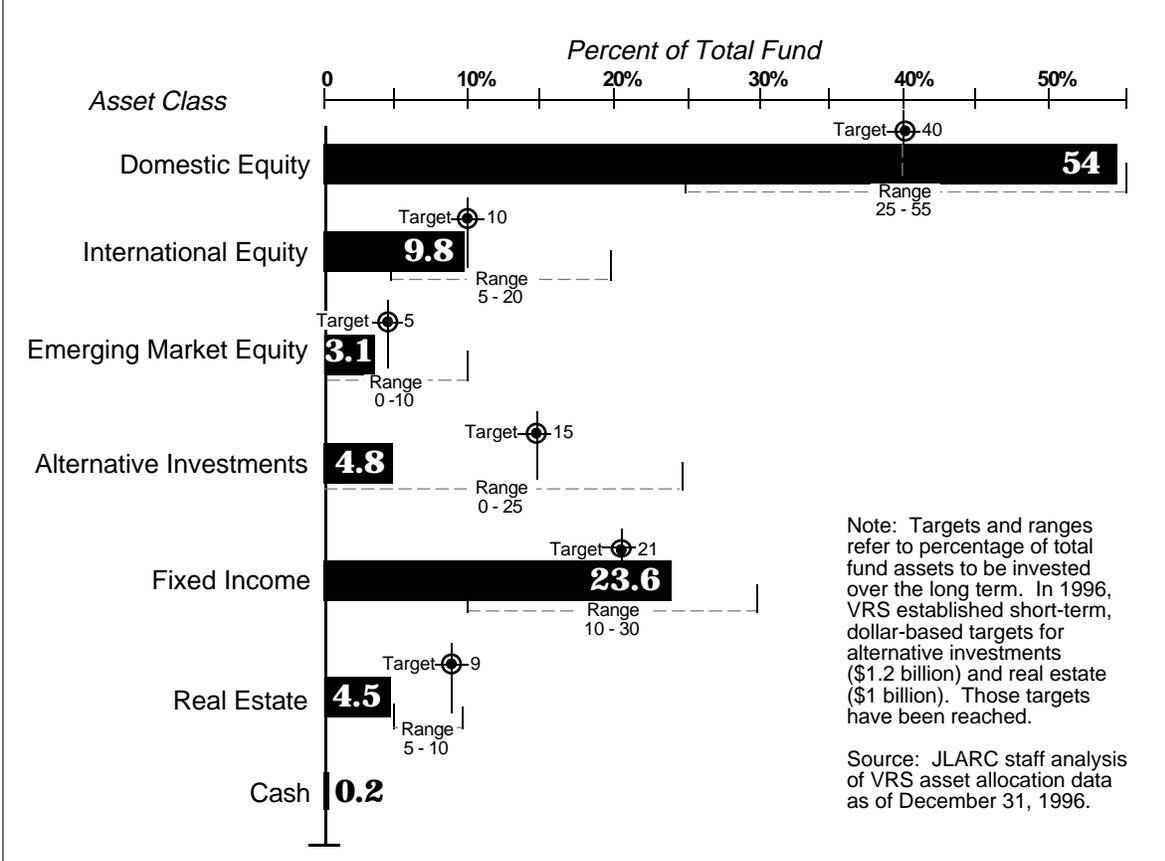


Note: Private equity benchmark of Russell 3000 +250 basis points applies to rolling ten-year periods.

Sources: VRS Performance Summary, Rolling Periods Ending December 31, 1996, and Callan Associates.

0      5%      10%      15%      20%      25%

## VRS Asset Allocation -- Actual Compared to Policy Targets



# OVERSIGHT

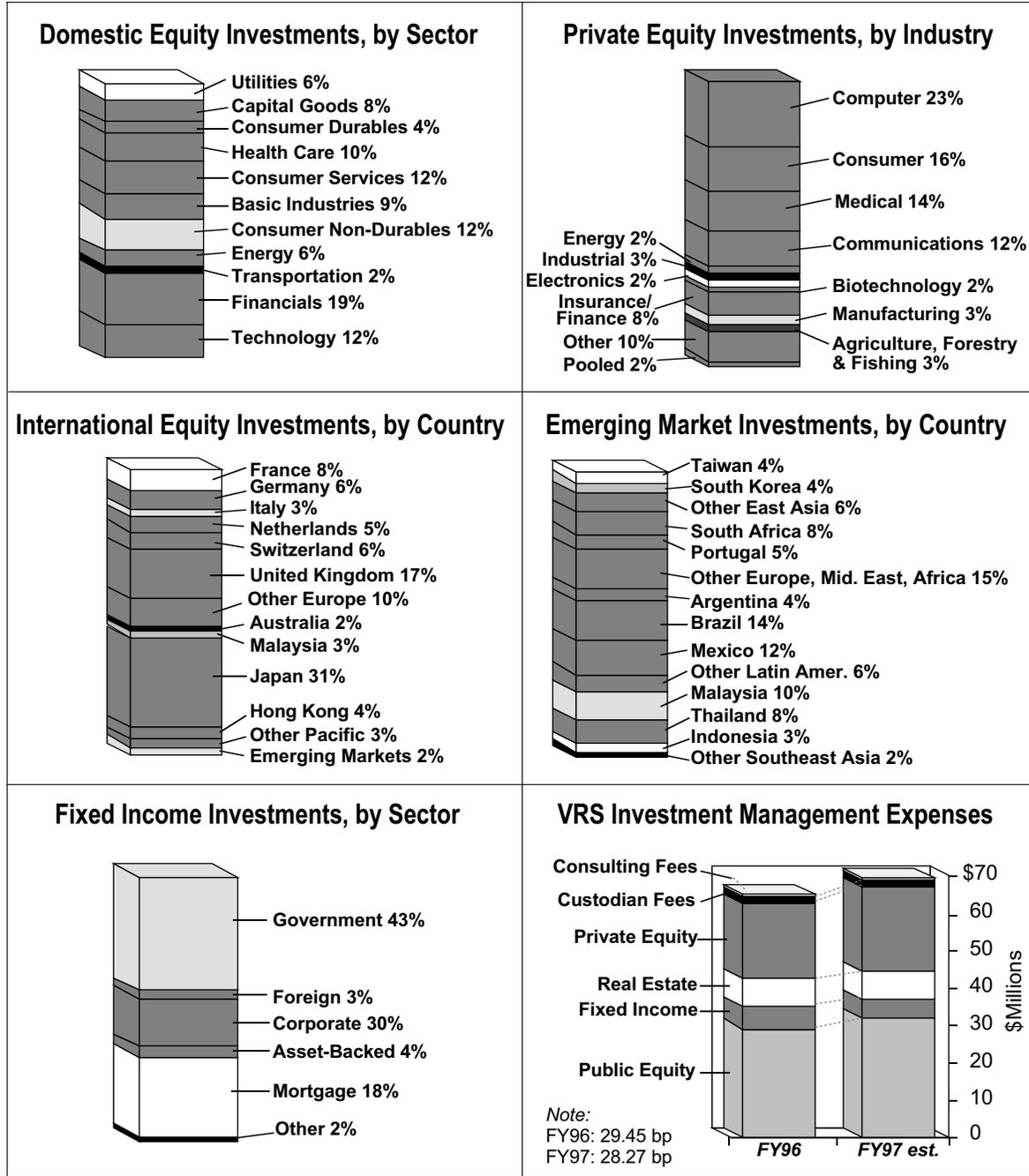
Report

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The Joint Legislative Audit & Review Commission  
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VRS Oversight Report is published periodically by the Joint Legislative Audit and Review Commission (JLARC) in fulfillment of Section 30-78 *et seq.* of the Code of Virginia. This statute requires JLARC to provide the General Assembly with oversight capability concerning the Virginia Retirement System (VRS), and to regularly update the Legislature on oversight findings.

*JLARC Staff Assigned to VRS Oversight:*  
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**Joseph J. Hilbert, Principal Legislative Analyst**  
**John W. Long, VRS Oversight Report Editor**



Notes: All investment data are as of 12/31/96, except private equity (9/30/96). Some graphics do not total to 100% due to rounding. Sources: VRS and Callan Associates.

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*VRS Oversight Subcommittee Members		

# OVERSIGHT

## VRS

Report

## JOINT LEGISLATIVE AUDIT & REVIEW COMMISSION

OF THE VIRGINIA GENERAL ASSEMBLY

### Semi-Annual VRS Investment Report: December 1997

During 1997, the Virginia Retirement System (VRS) implemented a revised asset allocation structure based on minimum and maximum percentages of fund assets. These are: public equity (55 percent minimum), domestic equity (45 percent minimum), international equity (35 percent maximum), fixed income (20 percent minimum), and alternative investments in private equity and real estate (15 percent maximum). Strategic targets have also been adopted.

In an effort to invest pension fund assets in the most cost-effective manner, VRS is increasing its reliance on passive management strategies, and on internal management of assets by its own professional investment staff:

- 59 percent of domestic equity and 48 percent of international equity investments are managed passively.
- 40 percent of fixed income and 20 percent of domestic equity investments are managed internally.

Total VRS investment management expenses as a percentage of total assets under management have decreased over the past three years, from 0.34 percent during FY 1995 to 0.29 percent during FY 1997. Passively-managed domestic equity assets are the least expensive for VRS to manage, with fees equal to 0.01 percent of assets. Private equity investments are the most expensive, with fees equal to 2.03 percent of assets during FY 1997.

#### Profile: Virginia Retirement System Investments

Market Value of Assets: \$28.6 billion  
 Number of External Managers: 77  
 Number of External Investment Accounts,  
 Direct Investments, and Partnerships: 158  
 FY 1997 Investment Expenses: \$75.8 Million  
 Number of VRS Investment Staff: 24 positions (2 vacancies)

#### Total Return on Investments

(Time Periods Ending 9/30/97)

10 years	5 years	3 years	1 year
11.8%	14.8%	20.6%	26.8%

#### Investment Policy Indicators (as of September 30, 1997)

Asset Class	Asset Allocation (% of Total Assets or \$ Amount)		Where Invested (% of Asset Class)		Type of Management (% of Asset Class)	
	Target	Actual	Domestic	International	Active	Passive
Public Equity	66%	65.5%	79%	21%	43%	57%
Fixed Income	25%	24.6%	97%	3%	60%	40%
Private Equity	\$1.2 Billion	\$1.22 Billion	92%	8%	100%	0%
Real Estate	\$1.2 Billion	\$1.17 Billion	100%	0%	45%	55%

# OVERSIGHT VRS Report

## JOINT LEGISLATIVE AUDIT & REVIEW COMMISSION OF THE VIRGINIA GENERAL ASSEMBLY

### Semi-Annual VRS Investment Report: July 1998

The investment return of the Virginia Retirement System (VRS) has exceeded the benchmark established to evaluate the performance of the total fund over short to intermediate time periods. VRS investment performance has yet to match the returns of its long-term benchmark. However, unlike the intermediate-term benchmark, the long-term benchmark is not reflective of the actual VRS asset allocation. Furthermore, the current VRS asset allocation has been in effect only since 1995, and therefore strict comparisons of VRS investment return with the long-term benchmark may be premature at this time.

VRS is continuing its efforts to manage its investment operations in the most cost-effective manner possible. In June 1998, a VRS consultant reported that while VRS investment returns were in the top quartile of U.S. pension funds, its investment costs were also higher than those of similarly-sized funds. Specifically, VRS calendar year 1997 investment costs of 35 basis points were higher than a computed average benchmark cost of 26 basis points for U.S. funds of similar size and asset allocation. The consultant stated that the reason for this is that VRS external management fees were generally higher than those of its peers.

VRS has made greater use of internal asset management a priority in order to enhance the cost effectiveness of its investment program. For example, VRS investment staff are developing a proposal to internally manage a portion of the \$4.5 billion international equity portfolio. In addition, VRS would like to manage a greater percentage of its fixed income program internally. Currently, only 17 percent of the \$7.7 billion fixed income portfolio is managed internally.

On the other hand, VRS is also working to identify alternative types of investments within all of its asset classes -- including those which are potentially more expensive to administer than internally managed, passive investment accounts. For example, VRS is continuing to research the desirability of adding high-yield bonds, emerging market debt, and arbitrage strategies to its fixed income program. In addition, VRS continues to explore the feasibility of making private equity investments in foreign countries, such as those in Asia and Latin America. While possibly more expensive to manage, these types of alternative investments also provide potential investment performance benefits to VRS.

#### Profile: Virginia Retirement System Investments

**Market Value of Assets: \$31.5 billion**  
**Number of External Managers: 74**  
**Number of External Investment Accounts,  
 Direct Investments, and Partnerships: 160**  
**Estimated FY 1998 Investment  
 Expenses: \$91 million (28.9 basis points)**  
**Number of VRS Investment Staff:  
 24 positions (1 vacancy)**

#### Total Return on Investments<sup>1</sup>

10 years	5 years	3 years	1 year
13.5%	15.7%	21.4%	27.8%
(Intermediate Benchmarks:)			
na <sup>2</sup>	15.6%	20.8%	27.6%
(Long-Term Benchmarks:)			
na <sup>2</sup>	17.4%	23.8%	32.3%

<sup>1</sup> Time periods ending 4/30/98

<sup>2</sup> Not computed by VRS.

#### Investment Policy Indicators (as of April 30, 1998)

Asset Class	Asset Allocation (% of Total Assets or \$ Amount)		Where Invested (% of Asset Class)		Type of Management (% of Asset Class)	
	Target	Actual	Domestic	International	Active	Passive
Public Equity	66%	65.6%	79%	21%	46%	54%
Fixed Income	25%	25.6%	97%	3%	57%	43%
Private Equity	\$1.5 billion	\$1.35 billion	91%	9%	100%	0%
Real Estate	\$1.4 billion	\$1.08 billion	98%	2%	0%	100%

# OVERSIGHT VRS Report

## JOINT LEGISLATIVE AUDIT & REVIEW COMMISSION OF THE VIRGINIA GENERAL ASSEMBLY

### Semi-Annual VRS Investment Report: December 1998

The economic and public equity market volatility during the third quarter of calendar year 1998 clearly impacted the fund's investment performance. For example, although the fund's three- and five-year investment returns through October 1998 – 16.1 and 13.5 percent, respectively – exceeded established performance benchmarks, the fund's one-year return did not. The lag in the fund's one-year performance relative to the established benchmark in part reflects the fact that a relatively small group of securities were responsible for much of the gains in both the public equity and fixed income markets. As a result, some of VRS' external managers holding more diversified portfolios underperformed the fund's one-year benchmark.

It is important to note that due primarily to the economic and market conditions present during the third quarter of 1998, the fixed income portion of the portfolio, as anticipated, outperformed public equities. However, the fixed income portfolio exceeded its strategic asset allocation target, and rebalancing back to the strategic target was necessary. At that time, the Investment Advisory Committee (IAC) requested that staff develop a proposed framework for its review, discussion, and subsequent approval that could be used in the future to guide the fund's rebalancing.

Finally, VRS recently initiated a process to thoroughly review the status of the fund's international equity program. VRS has had an international equity program for some time. However, the recent performance of that asset class resulted in the decision to systematically reassess how best to structure and administer the international equity program in the future. VRS staff, with input from the IAC and international equity experts, have identified a number of issues that warrant further review regarding the program. Over the next few months, VRS staff will develop these issues for discussion with the IAC, leading to a policy for approval by the Board of Trustees.

#### Profile: Virginia Retirement System Investments

**Market Value of Assets: \$30.6 billion**  
**Number of External Managers: 83**  
**Number of External Investment Accounts, Direct Investments, and Partnerships: 197**  
**FY 1998 Investment Expenses: \$93 million (29.4 basis points)**  
**FY 1998 Investment Department Operating Budget: \$4.8 million (1.5 basis points)**  
**Number of VRS Investment Staff: 29 positions (4 vacancies)**

#### Total Return on Investments<sup>1</sup>

10 years	5 years	3 years	1 year
12.4%	13.5%	16.1%	10.5%
(Performance/Intermediate Benchmarks:)			
na <sup>2</sup>	13.3%	15.8%	11.7%

<sup>1</sup> Time periods ending 10/31/98

<sup>2</sup> Not computed by VRS.

#### Investment Policy Indicators (as of October 31, 1998)

Asset Class	Asset Allocation (% of Total Assets or \$ Amount)		Where Invested (% of Asset Class)		How Managed (% of Asset Class)	
	Target	Actual	Domestic	International	External	VRS
Public Equity	65.2%	64.8%	79%	21%	79%	21%
Fixed Income	25%	25.2%	94%	6%	83%	17%
Private Equity	\$1.5 billion	\$1.64 billion	90%	10%	100%	0%
Real Estate	\$1.5 billion	\$1.21 billion	96%	4%	100%	0%



## Contents of Part V: State Retirement Legislation

Page

<b>Overview .....</b>	<b>V-1</b>
Selected Retirement Legislation Passed by the 1997 General Assembly and Signed by the Governor .....	V-2
Selected Retirement Legislation Passed by the 1998 General Assembly and Signed by the Governor .....	V-3
Selected Retirement Legislation Passed by the 1999 General Assembly and Signed by the Governor .....	V-5
Sections of the <i>Code of Virginia</i> Applicable to VRS .....	V-9



## Part V: State Retirement Legislation

### Recent VRS Retirement Legislation

VRS is affected by legislation enacted by the Virginia General Assembly. Most legislation that is introduced concerning VRS typically modifies either benefit levels or eligibility requirements for specific programs. For example, the 1997 General Assembly authorized political subdivisions to enter into agreements with VRS to participate in the State's deferred compensation program.

In 1998, the General Assembly authorized several significant changes to the retirement system's structure. These changes included, but were not limited to the: (1) creation of a defined contribution retirement plan for certain gubernatorial appointees and certain employees in the office of the Attorney General, (2) establishment of a new sickness and disability program for State employees, and (3) establishment of a single multiplier for calculating the annual retirement benefit. In addition, the ability for eligible members to purchase service credits was expanded.

The 1999 General Assembly passed, and the Governor signed, several pieces of legislation that will substantially enhance VRS benefits as well as impact VRS operations. For example, some of this legislation: (1) creates the Virginia Law Officers' Retirement System (VaLORS), (2) reduces the age requirement for retirement with unreduced benefits at 30 years of service from 55 years of age to 50, (3) creates a defined contribution retirement plan for volunteer firemen and rescue squad workers, and (4) creates a program for a limited employer-match of employee contributions to the State's deferred compensation program. In addition, the monthly reimbursement for the retiree health insurance credit for State employees and teachers was increased.

### Selected Retirement Legislation Passed by the 1997 General Assembly and Signed by the Governor

Bill Number Sponsor	Key Provisions of Legislation	Estimated Fiscal Impact
SB 830 Lambert	Authorizes VRS to recover overpayment of retirement benefits from the retiree's life insurance proceeds and impose a penalty on employers for late remittance of insurance premiums.	None
HB 1683 Murphy	Authorizes political subdivision to enter into agreements with VRS to participate in the State's deferred compensation plan.	None
HB 1958 Clement	Provides that teachers who were notified that they would be placed on involuntary maternity leave prior to July 1, 1974 and submitted a letter of resignation to receive credit for the period of the leave.  A maximum of two years of service credit will be granted.	Negligible
HB 2155 Heilig	Authorizes the Virginia Port Authority to establish one or more retirement systems for its employees and make contributions to the plan.  Employees currently in VRS may remain or join the new plan.  The contribution required by the Authority is 8 percent, or the contribution required by the State if the employee were a member of VRS, whichever is less.	Any administrative costs will be borne by the Authority
HB 2587 Dickenson	Provides that a disability retiree of the SPORS/LEORS system who meets age and service requirements can elect the higher of the disability or service retirement allowance, minus any worker's compensation payments.	\$244,750 annually
Source: JLARC staff analysis of 1997 legislation and VRS legislative impact statements.		

## Selected Retirement Legislation Passed by the 1998 General Assembly and Signed by the Governor

Bill Number Sponsor	Key Provisions of Legislation	Estimated Fiscal Impact
SB 125 Holland	<p>Authorizes a defined contribution plan instead of VRS coverage for gubernatorial appointees, selected officers of the Attorney General's Office, and other individuals serving at the pleasure of the governor or his appointees.</p> <p>After 10 years of service or within 90 days of termination, members can maintain their account in the plan, use the plan's funds to purchase service in VRS, or, in the case of termination only, receive a refund of the account.</p> <p>VRS is responsible for administering the plan.</p>	None
SB 126 Holland	<p>Establishes a sickness and disability program for State employees beginning employment on or after January 1, 1999. The program effective January 1, 1999 will provide sick, family, and personal leave.</p> <p>Features of the new benefit program include sick, family, and personal leave each year. In addition, both short-term and long-term disability coverage will be provided.</p> <p>VRS will establish the policies and procedures to administer the program. State employees employed prior to January 1, 1999 will have a one-time opportunity from January 1, 1999 to March 31, 1999 to join the program. Enrollment in the plan is irrevocable.</p> <p>Sick leave balances as of December 31, 1998 for State employees employed prior to January 1, 1999 will be converted to either VRS service credit or disability credit to extend the time that benefits at the 100 percent level are paid.</p>	\$400,000 FY 1999 \$300,000 FY 2000
HB 36 Callahan	<p>Changes the formula for calculating the annual retirement allowances for individuals who retire from VRS, SPORS, and JRS after January 1, 1999.</p> <p>Eliminates the two-tiered formula for VRS members with fewer than 35 years of service and the single-tiered formula for members with more than 35 years and replaces them with a formula with a single multiplier of 1.70.</p> <p>Eliminates the three percent benefit adjustment applied to retirement benefits effective October 1994.</p> <p>Provides a two percent benefit adjustment for all beneficiaries who retire prior to January 1, 1999.</p>	<p><i>State:</i> \$4,841,905 (GF) \$5,532,864 (NGF)</p> <p><i>Teacher:</i> \$9,207,100 (State) \$7,282,034 (Local)</p> <p><i>Political Subdivisions:</i> \$6,881,315</p> <p><i>SPORS:</i> \$281,219</p> <p><i>JRS:</i> -\$31,446</p>
HB 133 Putney	<p>Allows eligible members to purchase service credits on a pre-tax basis. However, the creditable compensation used to compute the retirement allowance is not reduced by the pre-tax purchase. The pre-tax purchase will be subject to taxation when the individual receives a refund of contributions or a retirement benefit.</p> <p>Implementation of the provisions of this bill are contingent upon VRS receiving a favorable ruling from the Internal Revenue Service.</p>	None

(continues)

### Selected Retirement Legislation Passed by the 1998 General Assembly and Signed by the Governor (continued)

Bill Number Sponsor	Key Provisions of Legislation	Estimated Fiscal Impact
HB 142 Woodrum	Provides vested State employees with up to two years of no cost service credit for an involuntary leave of absence without pay between January 1, 1964 and January 1, 1973 due to childbirth or pregnancy.	None
HB 250 Ruff	Streamlines the administration and payment by VRS of the health insurance credit.  Enables VRS to make direct payment of the credit to beneficiaries who obtain health insurance through non-employer sponsored plans.  Provides reimbursement to VRS from the Health Insurance Credit Fund to cover costs associated with administering the insurance credit program.	None
HB 260 & 262 Diamonstein  HB 669 Reid	Expands the type and amount of service that can be purchased at the five percent of creditable compensation versus 15 percent of creditable compensation.  The maximum amount of service that can be purchased increased to four years.  Expands the type of service eligible for purchase including civilian service with the federal government or service in the retirement system of a public school system or political subdivision of another state.  Service that is or will be used to determine the benefit from another retirement plan cannot be purchased.	None
HB 271 Murphy	Eliminates the requirement for the VRS Board of Trustees to maintain a Real Estate Advisory Committee.  In addition, the composition of the Investment Advisory Committee was altered to include individuals with real estate investment expertise.	None
HB 300 Croshaw	Provides localities with the ability to create and administer a defined contribution plan for school superintendents instead of participating in VRS. Individuals electing the defined contribution plan participate in VRS' group life insurance program.  The local government will administer the plan and determine the employer contribution rates.	None
HB 347 Croshaw	Implements changes to the administration of benefits. Enables VRS to pay death benefits to family members, when no beneficiary is named, in the order of precedence in the <i>Code of Virginia</i> .	None
SJR105 Martin	VRS is to examine the feasibility of offering long-term care insurance to State and local employees by October 1, 1998 to the Joint Commission on Health Care.	Not determined
Appropriation Act Language	Authorizes a group life insurance "premium holiday" for State employees. Authorizes the Director of the Department of Planning and Budget to withhold State agency group life insurance contributions for FY 1999 and FY 2000.	(\$14,782,435) FY 1999 (\$15,053,894) FY 2000

Source: JLARC staff analysis of 1998 legislation, VRS March 13, 1998, summary of legislation affecting VRS, and VRS 1998 legislative impact statements.

### Selected Retirement Legislation Passed by the 1999 General Assembly and Signed by the Governor

Bill Number Sponsor	Key Provisions of Legislation	Estimated Fiscal Impact
SB 810 Schrock  SB 818 Stosch  SB 876 Ticer  HB 1542 Shuler  HB 1613 Crittendon  HB 1762 Hall  HB 1805 Cantor	<p>Authorizes State employees, teachers, and political subdivision employees to retire with unreduced benefits at 50 years of age with 30 years of service instead of age 55 with 30 years of service.</p> <p>Political subdivisions can elect not to provide this coverage by notifying VRS prior to July 1, 1999.</p>	<p><i>State:</i> \$2,303,000 annually (GF) \$2,597,000 annually (NGF)</p> <p><i>Teacher:</i> \$5,420,000 annually (State) \$4,434,000 annually (Local)</p> <p><i>Political Subdivisions:</i> \$4,079,000 annually</p>
SB 831 Miller, K.	<p>Provides statutory guidance to VRS regarding the disposition of assets and benefits for local employers that have become a private employer or no longer exist.</p>	<p>None</p>
SB 888 Mims	<p>Authorizes the purchase of up to one year of service credit at five percent of salary for leave without pay taken for the birth or adoption of a child.</p>	<p>Not significant</p>
HB 189 Hamilton	<p>Enables members at retirement to purchase service credit for accumulated sick leave for a which a payment is made.</p> <p>Service will be purchased at its actuarial value or 20 percent of salary, whichever is less.</p>	<p>In situations where the actuarial value is less than 20 percent, there will be no impact</p> <p>Where the value is greater than 20 percent, the impact will be determined by the age and service of the employee at the time of retirement</p>
HB 715 Cranwell	<p>Creates the Virginia Law Officers' Retirement System (VaLORS) which offers the same benefits as the State Police (SPORS) retirement system.</p> <p>Members of VaLORS can retire at age 50 with 25 years of service and, if eligible, can receive the law enforcement supplement up to age 65.</p> <p>The new system will include: campus police officers, parole officers, Capital Police, ABC special agents, corrections officers, VMRC law enforcement officers, State Police commercial vehicle enforcement officers, and DGIF game wardens.</p> <p>This legislation takes effect October 1, 1999.</p>	<p>\$25,876,000 to \$29,421,000 annually (all funds)</p>

(continues)

### Selected Retirement Legislation Passed by the 1999 General Assembly and Signed by the Governor (continued)

Bill Number Sponsor	Key Provisions of Legislation	Estimated Fiscal Impact
HB 1017 Grayson	Authorizes a death in service benefit equivalent to the 100 percent joint and survivor benefit.	Limited and not actuarially significant
HB 1437 Jones, S.C.	Excludes office expenses of General Assembly members as creditable compensation for retirement purposes.	Not determined
HB 1704 Dickenson  HB 1756 Putney	<p>Enables local government employees working for political subdivisions that have elected to not provide the retiree health credit to receive a retiree health credit if they have at least 15 years of service as a teacher or State employee.</p> <p>Authorizes employers to match employee contributions to the State's deferred compensation program. The employer match will not exceed the lesser of 50 percent of the employee's contribution, or \$50 per semi-monthly pay period.</p> <p>However, the amount to be contributed by the State is subject to approval by the General Assembly.</p> <p>The legislation authorizing the employer match for deferred compensation program takes effect on January 1, 2000.</p>	<p><i>Retiree Health Credit Eligibility:</i> None</p> <p><i>Employer Match of Deferred Compensation Program:</i> Depends upon participation rate and appropriation. The FY 2000 Appropriation Act provides \$2,500,000 to implement the State-match program</p>
HB 1706 Bryant	Authorizes, at the option of participating localities, regional jail superintendents and officers to receive LEOS benefits.	Not determined
HB 1735 Day  HB 2023 Wilkins	<p>Establishes a defined contribution retirement pension fund for volunteer firefighters and rescue squad workers. Members of the retirement program will make contributions and the Commonwealth will make contributions as funding is appropriated.</p> <p>A seven member board will be established with the VRS director serving as chairman. The VRS Board of Trustees will oversee the fund's investments.</p> <p>This legislation takes effect July 1, 2000.</p>	\$150,000 FY2000 and one FTE
HB 1755 Putney	<p>Authorizes local political subdivisions the option of participating in the Virginia Sickness and Disability Program (VSDP).</p> <p>If the employer elects to participate, employees can either stay in the existing disability program or elect to participate in VSDP.</p> <p>This legislation must be reenacted by the 2000 General Assembly Session in order to take effect.</p>	Additional costs for system modifications and communications – estimated at \$200,000 for FY 2000

(continues)

### Selected Retirement Legislation Passed by the 1999 General Assembly and Signed by the Governor (continued)

Bill Number Sponsor	Key Provisions of Legislation	Estimated Fiscal Impact
HB 1843 Putney	<p>Allows retired local social services employees, sheriff's deputies, and constitutional officers with 15 years of service to receive a State-funded health insurance credit to reduce their health insurance premium costs. The amount of the credit funded by the State each month will be \$1.50 for each year of service, not to exceed \$45 per month.</p> <p>Retired members could also receive an additional local health insurance credit of \$1 per month for each year of service, not to exceed \$30 per month. However, the retiree's employer must participate in the health insurance credit program.</p>	\$1,400,000 annually (all funds)
HB 1844 Putney	<p>Increases the health insurance credit provided to State and teacher retirees.</p> <p>The monthly credit for State employees will increase from \$2.50 per year of service to \$4, not to exceed \$120.</p> <p>The monthly credit for teachers will increase from \$1.50 per year of service to \$2.50, not to exceed \$75.</p>	<p><i>State:</i> \$6,139,900 annually (GF) \$6,860,100 annually (NGF)</p> <p><i>Teacher:</i> \$11,000,000 annually (GF)</p>
HB 2397 Tate	<p>Allows retiring State employees to have the amount of their accrued annual and sick leave that would otherwise be paid to them at retirement be credited to a supplemental health insurance credit account.</p> <p>Funds in this account would be withdrawn as needed to supplement the health insurance credit and cover the premium for the retiree-only or family health insurance coverage.</p> <p>In order to implement this program, the Department of Personnel and Training must receive a ruling from the IRS that affirmatively states that this plan can be treated as a qualified plan for federal income tax purposes.</p>	Not determined – However, there will likely be some increased administrative costs
SJ 270 Holland	Directs the Joint Commission on Management of the Commonwealth's Workforce to study the benefits and funding requirements of the Virginia Retirement System.	Not determined
Appropriation Act Language (HB 1450)	Provides funding to implement the provisions of HB 1756 and requires the VRS Board of Trustees to conduct a feasibility review and estimate participation levels by October 1, 1999.	\$2,500,000 FY 2000 (GF)

(continues)

### Selected Retirement Legislation Passed by the 1999 General Assembly and Signed by the Governor (continued)

Bill Number Sponsor	Key Provisions of Legislation	Estimated Fiscal Impact
Appropriation Act Language (HB 1450)	<p>Provides that any employee with 15 years of full- or part-time service, and employed prior to 1975, in the legislative branch of government can have all full-time and part-time service counted towards creditable service in VRS.</p> <p>Part-time service is defined as a minimum of five months of service per calendar year.</p>	Not determined
Appropriation Act Language (HB 1450)	<p>Provides that any State employee who is compensated on a salary basis and works at least 20 hours per week will be considered a full-time employee for purposes of participating in VRS' retirement and life insurance program.</p>	Not determined
Appropriation Act Language (HB 1450)	<p>Provides that VRS will conduct a review of the investment options provided through the deferred compensation program.</p> <p>The findings from this review will be provided to the Secretary of Finance, the Chairmen of the Senate Finance and the House Appropriation Committees by July 1, 1999.</p>	Not determined
Appropriation Act Language (HB 1450)	<p>Authorizes a "premium holiday" of the employer contribution for the State employee retiree health care credit for the last two months of FY 1999 and for FY 2000. Employers will not be required to make premium payments for State employees during these periods of time.</p>	(\$1.5 million) FY 1999 (\$8.8 million) FY 2000
<p>Source: JLARC staff analysis of 1999 General Assembly legislation, VRS legislative impact statements, and the VRS 1999 Legislative Overview.</p>		

## Sections of the *Code of Virginia* Applicable to the VRS

Virginia Retirement System Feature	Title 51.1 Code of Virginia Section
Governance - Board of Trustees appointment and responsibilities	124.20 - 124.22
Governance - Advisory committees' appointment and responsibilities	124.25 - 124.26
Investment authority	124.30 - 124.36
Director	124.22
Chief Investment Officer - qualifications and responsibilities	124.24
Exemption of assets from taxation; execution and assignment of benefits and assets	124.4
Membership in retirement system	125, 128 - 129, 202, 302
Membership – Eligibility for optional retirement system of certain higher education, teaching hospital, and Virginia Port Authority employees, as well as certain gubernatorial appointees and certain employees of the offices of the Attorney General and the Lieutenant Governor, and local school superintendents.	126 - 126.6
Membership - Participation of political subdivisions in retirement system	130 - 136
Membership - Authority of political subdivisions to provide SPORS-equivalent benefits to their law enforcement employees	138
Creditable service	140 - 141, 203, 303
Purchase or granting of prior service credit	142 - 143
Member contributions, refunds from member contribution accounts	144, 147, 161
Board of Trustees responsibility to certify employer contribution rate, employer contributions	145, 148, 204
Service retirement benefits	152 - 155.1, 205 - 206, 305 - 306
Disability retirement benefits	156 - 160, 209, 210, 307-308
Supplemental benefits for SPORS	208
Disability retirement - Medical Board	124.23
Cost of living adjustment	166
Pension benefit payment options	165
Maximum benefit limits	168
Survivor benefits	162 - 164, 207
Group life insurance program - eligibility	502 - 504, 507
Group life insurance program - amount of coverage	505
Group life insurance program - employee and employer contributions	506, 508, 514
Group life insurance program - beneficiary designations	511
Group life insurance program - optional insurance coverage	512
Authority to administer a disability insurance program	514
Deferred compensation program	600
Social security for State and local employees	700 - 706
Local (non-VRS) retirement systems	800 - 823
Virginia Sickness and Disability Program	1100 - 1140
Source: JLARC staff review of the <i>Code of Virginia</i> .	







## **Joint Legislative Audit and Review Commission**

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