

Virginia Retirement System 2012 Fiscal Impact Statement

1. Bill Number: HB511

House of Origin	X	Introduced	<input type="checkbox"/>	Substitute	<input type="checkbox"/>	Engrossed
Second House	<input type="checkbox"/>	In Committee	<input type="checkbox"/>	Substitute	<input type="checkbox"/>	Enrolled

2. Patron: Purkey

3. Committee: Appropriations

4. Title: Virginia Retirement System.

5. Summary: Virginia Retirement System. Requires that the Virginia Retirement System (i) adjust annually its calculation of pension fund liabilities and obligations by the rate of interest on 10-year U.S. Treasury notes and (ii) assume a rate of return on its investments no greater than the rate of interest on such notes. The bill shall expire whenever the funding level for the Virginia Retirement System is at least 90 percent of actuarial attested premium obligations and liabilities for three consecutive years.

6. Budget Amendment Necessary: Yes. Contribution rates for all participating employers would dramatically increase and would be reflected in the employer contribution rates.

7. Fiscal Impact Estimates: The VRS estimated the impact of the proposed bill by estimating the contribution rates and the funded status of the pension plans based on the 10-year U.S. Treasury notes rate. For purposes of the analysis, VRS assumed the rate of interest on 10-year U.S. Treasury notes as of June 30, 2011 was 3.16%. Except for the interest rate assumption, the calculations are based on the data and actuarial assumptions and methods used in the June 30, 2011 actuarial valuation of the retirement systems with no payroll growth assumed.

8. Fiscal Implications: The table below provides the resulting contribution rates and funded status for the retirement systems based on the 3.16% 10-year U.S. Treasury notes rate and the 7% per year interest rate assumed in the regular valuations of VRS. The employer contribution rates do not include the 5% member contribution. Due to time limitations and since each of the political subdivision plans receives its own actuarial valuation and has separate assets and liabilities, the impact on these plans has not been presented here. However, VRS expects that the outcomes for the individual political subdivision plans to be relatively similar to those for the state and teacher plans.

Note: Contribution rates do not include the 5% member contribution.	Valuation as of June 30, 2011	
	at 3.16% interest rate	at 7.0% interest rate
State:		
Employer contribution rate	36.40%	13.07%
Funded status actuarial asset value	42.5%	70.6%
Teachers:		
Employer contribution rate	48.02%	16.77%
Funded status actuarial asset value	38.1%	66.6%
VaLORS:		
Employer contribution rate	51.09%	19.52%
Funded status actuarial asset value	29.9%	55.0%
SPORS:		
Employer contribution rate	78.98%	32.62%
Funded status actuarial asset value	37.0%	62.6%
JRS:		
Employer contribution rate	100.10%	54.11%
Funded status actuarial asset value	44.4%	65.2%

The table below shows the difference between contributions needed based on the contribution rates calculated by the VRS actuary as of the June 30, 2011 valuation for the state and teacher plans at a 7.00% return assumption and the rates provided above based on a 3.16 % return assumption.

	<u>FY13 Cost</u>	<u>FY14 Cost</u>	<u>FY15 Cost</u>	<u>FY16 Cost</u>	<u>FY17 Cost</u>	<u>FY18 Cost</u>
Payroll Growth Assumption (includes promotion, COLA, etc.):		0.00%	0.00%	0.00%	0.00%	0.00%
State - General Fund	\$ 359,920,000	\$ 359,920,000	\$ 359,920,000	\$ 359,920,000	\$ 359,920,000	\$ 359,920,000
SPORS - General Fund	39,379,000	39,379,000	39,379,000	39,379,000	39,379,000	39,379,000
VALORS - General Fund	98,646,000	98,646,000	98,646,000	98,646,000	98,646,000	98,646,000
JRS - General Fund	28,560,000	28,560,000	28,560,000	28,560,000	28,560,000	28,560,000
Teacher - General Fund	811,593,000	811,593,000	811,593,000	811,593,000	811,593,000	811,593,000
TOTAL General Fund	\$ 1,338,098,000	\$ 1,338,098,000	\$ 1,338,098,000	\$ 1,338,098,000	\$ 1,338,098,000	\$ 1,338,098,000
State - Non-General Funds	\$ 434,956,000	\$ 434,956,000	\$ 434,956,000	\$ 434,956,000	\$ 434,956,000	\$ 434,956,000
SPORS - Non-General Funds	6,517,000	6,517,000	6,517,000	6,517,000	6,517,000	6,517,000
VALORS - Non-General Funds	8,976,000	8,976,000	8,976,000	8,976,000	8,976,000	8,976,000
TOTAL - Non-General Funds	\$ 450,449,000	\$ 450,449,000	\$ 450,449,000	\$ 450,449,000	\$ 450,449,000	\$ 450,449,000
Teacher - Local Funds	\$ 1,345,751,000	\$ 1,345,751,000	\$ 1,345,751,000	\$ 1,345,751,000	\$ 1,345,751,000	\$ 1,345,751,000
Political Subs - Schools	-	-	-	-	-	-
Political Subs - Non School	-	-	-	-	-	-
TOTAL Local Funds	\$ 1,345,751,000	\$ 1,345,751,000	\$ 1,345,751,000	\$ 1,345,751,000	\$ 1,345,751,000	\$ 1,345,751,000
Grand Totals	\$ 3,134,298,000	\$ 3,134,298,000	\$ 3,134,298,000	\$ 3,134,298,000	\$ 3,134,298,000	\$ 3,134,298,000

9. Specific Agency or Political Subdivisions Affected: VRS, state agencies and participating political subdivisions.

10. Technical Amendment Necessary: No

11. Other Comments: This bill requires VRS to calculate its pension fund liabilities and obligations assuming an interest rate of return no greater than the rate of interest on 10-year U.S. Treasury notes. Using these alternate assumptions produces dramatically higher employer contribution rates and lowers the funded status of each plan. Further, the annual required contributions (ARC) noted above will need to be reflected in the Commonwealth's CAFR.

While this bill would be binding upon the VRS, it would not necessarily be binding upon the General Assembly. Contribution rates to the state-funded retirement plans administered by VRS are typically set in the Appropriation Act. If this practice is continued, then the contribution rates dictated by the proposed statute could be overridden by alternate rates approved each year in the Appropriation Act, thereby nullifying the fiscal impact of the bill. Localities, however, would be required to pay the full amount of the Board certified rates.

The actual rate of return for the VRS for FY 11 was 19.1%, which was more than twice the current Board certified assumed rate of return for the plans (7%). Below you will find the fund's returns for the five-, ten-, fifteen- and twenty-year periods ending June 30, 2011 as well as the CPI-U for the same periods.

As of 6/30/2011:

	Total Fund	CPI-U
5-year	4.29%	2.22%
10-year	5.69%	2.40%
15-year	7.60%	2.46%
20-year	8.64%	2.57%

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