

## Virginia Retirement System 2011 Fiscal Impact Statement

**1. Bill Number:** HB1657

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, the VRS actuary assumed the rate of interest on 10-year U.S. Treasury notes as of June 30, 2010 was 3.2% per year. Except for the interest rate assumption, the calculations are based on the data and actuarial assumptions and methods used in the June 30, 2010 actuarial valuation of the retirement systems.

**8. Fiscal Implications:** The table below provides the resulting contribution rates and funded status for the retirement systems based on the 3.2% 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, 2010	
	at 3.2% interest rate	at 7.0% interest rate
<b>State:</b>		
Employer contribution rate	43.03%	13.29%
Funded status actuarial asset value	45.50%	75.24%
<b>Teachers:</b>		
Employer contribution rate	54.33%	17.41%
Funded status actuarial asset value	39.36%	68.61%
<b>VaLORS:</b>		
Employer contribution rate	57.51%	20.31%
Funded status actuarial asset value	32.07%	58.60%
<b>SPORS:</b>		
Employer contribution rate	90.38%	33.31%
Funded status actuarial asset value	39.74%	66.75%
<b>JRS:</b>		
Employer contribution rate	107.09%	55.13%
Funded status actuarial asset value	45.33%	66.46%

The table below shows the difference between contributions needed based on the contribution rates calculated by the VRS actuary as of the June 30, 2010 valuation for the state and teacher plans at a 7% return assumption and the rates provided above based on a 3.2% return assumption.

	<u>FY12 Cost</u>	<u>FY13 Cost</u>	<u>FY14 Cost</u>	<u>FY15 Cost</u>	<u>FY16 Cost</u>	<u>FY17 Cost</u>
<b>State - General Fund</b>	\$ 461,011,000	\$ 474,842,000	\$ 489,087,000	\$ 503,759,000	\$ 518,872,000	\$ 534,438,000
<b>SPORS - General Fund</b>	45,394,000	46,756,000	48,158,000	49,603,000	51,091,000	52,623,000
<b>VALORS - General Fund</b>	113,871,000	117,287,000	120,806,000	124,430,000	128,163,000	132,008,000
<b>JRS - General Fund</b>	32,084,000	33,047,000	34,038,000	35,060,000	36,112,000	37,196,000
<b>Teacher - General Fund</b>	969,684,000	998,774,000	1,028,738,000	1,059,601,000	1,091,389,000	1,124,130,000
<b>TOTAL General Fund</b>	<b>\$ 1,622,044,000</b>	<b>\$ 1,670,706,000</b>	<b>\$ 1,720,827,000</b>	<b>\$ 1,772,453,000</b>	<b>\$ 1,825,627,000</b>	<b>\$ 1,880,395,000</b>
<b>State - Non-General Funds</b>	535,339,000	551,399,000	567,941,000	584,979,000	602,529,000	620,604,000
<b>SPORS - Non-General Funds</b>	10,291,000	10,600,000	10,918,000	11,246,000	11,583,000	11,930,000
<b>VALORS - Non-General Funds</b>	10,564,000	10,881,000	11,208,000	11,544,000	11,890,000	12,246,000
<b>TOTAL - Non-General Funds</b>	<b>\$ 556,194,000</b>	<b>\$ 572,880,000</b>	<b>\$ 590,067,000</b>	<b>\$ 607,769,000</b>	<b>\$ 626,002,000</b>	<b>\$ 644,780,000</b>
<b>Teacher - Local Funds</b>	1,937,044,000	1,995,155,000	2,055,010,000	2,116,660,000	2,180,160,000	2,245,565,000
<b>TOTAL Local Funds</b>	<b>\$ 1,937,044,000</b>	<b>\$ 1,995,155,000</b>	<b>\$ 2,055,010,000</b>	<b>\$ 2,116,660,000</b>	<b>\$ 2,180,160,000</b>	<b>\$ 2,245,565,000</b>
<b>Grand Totals</b>	<b>\$ 4,115,282,000</b>	<b>\$ 4,238,741,000</b>	<b>\$ 4,365,904,000</b>	<b>\$ 4,496,882,000</b>	<b>\$ 4,631,789,000</b>	<b>\$ 4,770,740,000</b>

**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 liability 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 Appropriations 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 Appropriations Act, thereby nullifying the fiscal impact of the bill.

The actual rate of return for the VRS for FY 10 was 14.1% which was 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, 2010 as well as the CPI-U for the same periods.

As of 6/30/2010:

	<b>Total Fund</b>	<b>CPI-U</b>
5-year	3.10%	2.25%
10-year	3.07%	2.33%
15-year	7.55%	2.38%
20-year	8.02%	2.59%

**Date:** 01.25.2011

**Document:** HB1657.DOC