

A HISTORY OF UNDERFUNDING THE ARC LED TO THE CURRENT UNDERFUNDING OF TEACHERS PLAN, FURTHER NEGATIVELY IMPACTED BY GREAT RECESSION

Year	Total VSTRS Payroll	Recommended Contribution For Budget Based on Actuarial Projection	Actual Contribution	\$ Difference: Act vs. Rec. (Uses Budget Beginning 1996)	Percentage of Request
1979	96,725,620	7,806,825	4,825,155	2,981,670	61.8%
1980	104,521,888	8,944,090	8,471,960	472,130	94.7%
1981	112,811,389	9,862,861	8,830,900	1,031,961	89.5%
1982	128,748,398	10,200,209	7,822,760	2,377,449	76.7%
1983	139,085,342	10,721,814	10,929,355	(207,541)	101.9%
1984	153,329,729	12,341,069	11,592,100	748,969	93.9%
1985	169,219,652	13,475,181	12,567,868	907,315	93.3%
1986	187,834,677	14,668,095	14,461,148	206,947	98.6%
1987	206,728,650	15,925,452	16,239,416	(313,964)	102.0%
1988	230,430,153	16,294,346	17,186,259	(891,913)	105.5%
1989	261,596,990	18,072,172	19,000,000	(927,828)	105.1%
1990	273,951,188	21,320,155	19,561,000	1,759,155	91.7%
1991	298,104,184	25,013,437	15,000,000	10,013,437	60.0%
1992	312,346,750	28,595,220	14,618,992	13,976,228	51.1%
1993	324,536,824	28,819,875	19,890,048	8,929,827	69.0%
1994	335,155,405	25,805,408	20,580,000	5,225,408	79.8%
1995	346,975,007	27,451,926	18,080,000	9,371,926	65.9%
1996	355,894,809	29,884,559	11,480,000	18,404,559	38.4%
1997	364,695,370	30,954,237	18,080,000	12,874,237	58.4%
1998	357,899,112	33,519,949	18,106,581	15,413,368	54.0%
1999	372,298,852	27,232,542	18,080,000	9,152,542	66.4%
2000	387,998,959	23,573,184	18,586,240	4,986,944	78.8%
2001	403,258,305	20,882,521	19,143,827	1,738,694	91.7%
2002	418,904,021	21,965,322	20,446,282	1,519,040	93.1%
2003	437,238,543	23,197,088	20,446,282	2,750,806	88.1%
2004	453,517,153	29,608,892	24,446,282	5,162,610	82.6%
2005	486,857,658	43,592,332	24,446,282	19,146,050	56.1%
2006	499,044,327	49,923,599	24,985,506	24,938,093	50.0%
2007	515,572,694	38,200,000	38,496,410	(296,410)	100.8%
2008	535,807,012	40,749,097	40,955,566	(206,469)	100.5%
2009	561,588,013	37,077,050	37,349,818	(272,768)	100.7%
2010	562,149,918	41,503,002	41,920,603	(417,601)	101.0%
2011	547,748,405	48,233,006	50,268,131	(2,035,125)	104.2%
2012	561,179,272	51,241,932	56,152,011	(4,910,079)	109.6%
2013	563,623,421	60,182,755	65,086,320	(4,903,565)	108.1%
2014	567,073,601	68,352,825	72,668,412	(4,315,587)	106.3%
2015	576,393,699	72,857,863	72,908,805	(50,942)	100.1%

EMPLOYEE CONTRIBUTIONS HAVE INCREASED

■ **Teachers (VSTRS):**

In 2009, a teacher paid 3.54% of salary for their pension. Employees agreed to an increase to 5% effective 7/1/10. Employees also agreed to work longer to receive a full benefit – the result was a reduction for taxpayers of \$15 million per year in the ARC, increasing over time.

For new employees after 7/1/15, that increased to 6%, generating \$1 million initial annual savings, increasing each year

■ **State Employees (VSERS):**

In 2010, Group A, D and F employees were paying 5.1% of pay for their retirement, scheduled to go to 4.85% in FY16

Employees agreed to increase this to 6.4% effective 7/1/10. In 2016, employees agreed to increase to 6.65%. Group C employees agreed to similar increases and are paying 8.53% of payroll today. For FY17, this is estimated to result in at least \$8.4 million in additional contributions from state employees.

HISTORY OF DISCIPLINED INCREMENTAL STEPS TO REDUCE PENSION AND RETIREE HEALTH CARE LIABILITIES

2005: Teacher Study made changes to the State's actuarial methods and put full funding of the ARC on track. The Legislature has consistently adopted a budget with full funding of the ARC since 2007

2008: Committee restructured state system (VSERS) Group F benefits, lengthening age of retirement, effective in FY2009, in concert with health care changes

2009: Pension and Health Care Study completed providing basis for negotiated savings over the next few years for both VSERS and the teachers' (VSTRS) system

2010 VSTRS: Lengthened age for normal retirement, contribution increases, and other changes, effective in FY2011, resulting in **\$15 million in annual pension savings. In addition to pension costs, additional health care savings accrued**

2011 VSERS: Employee contribution rate increases beginning FY2012, initially generating **\$5 million in savings per year, increasing each year**

2011-2012 VSTRS: Secured **one-time revenues in excess of \$5 million for VSERS and VSTRS** under the Federal Early Retirement Reinsurance Program

2012 - 2015: Incremental increases in employee and employer contributions to municipal system (VMERS), demonstrating shared responsibility by all parties. These changes put VMERS on a stronger financial track

2014 VSTRS: additional contribution increases for new and non-vested members, effective FY2015, generating **\$1 million initial annual savings, increasing each year**

2014 VSTRS: Statute change permitting that teacher pension costs be charged to federal grants, effective FY2016, creating an estimated **\$3 to \$4 million of savings per year**

HISTORY OF DISCIPLINED INCREMENTAL STEPS TO REDUCE PENSION AND RETIREE HEALTH CARE LIABILITIES (ctd.)

- 2015: Created Retired Teachers Health and Medical Benefits Fund starting FY2015
 - Since the 1980s, health care premiums for teachers were paid out of a sub-trust of teachers pension fund. By 2014 this arrangement was costing over \$20 million per year in interest costs.
 - Collaborative solution: Successfully convened over a dozen stakeholders, including employee group, to address the problem with combined pension/health care changes. In addition to pension and health care changes previously stated, a new health care assessment for LEAs was implemented, linking local employment decisions to the benefit costs.
 - Projected to save taxpayers \$480 million in unfunded liability interest costs through FY2038.
- 2016: Changes to the amortization financing schedule for VSERS and VSTRS. Will result in saving \$165 million in interest from present to 2038.
- 2016: Increased employee contributions will result in \$1.2 million in annual savings, with savings growing larger in future years.
- 2018: Paid additional \$26.2 million above ADEC for VSTRS and \$12.5 million for VSERS
- 2018: Risk Assessment per ASOP 51 Early Implementation by State
- 2019-2020: Amortization Plan enacted in 2016 takes effect

At the same time creating additional Transparency and Accountability

- 2013: Pension forfeiture statute adopted for all three systems (VSERS, VSTRS, VMERS).
- 2015: VSERS Disability retirement reform permitting wage verification of disability pensioners.

Collaborative Approach Key to Success

- All benefit changes made through collaborative efforts involving Administration, Treasurer's Office, Legislature and employee groups.
- No court litigation/disruptions in planned implementations.

Recent Actuarial Assumption Changes:

- Lowered investment rate of return assumption to 7.5% based on independent analysis by actuary and pension consultant.
- Updated mortality table assumptions.