Trends in Public Pensions

Virginia Association of Municipal Retirement Systems
Annual Conference
April 18-19, 2011
Benefit Illustration for General Employee Age 65 with 30 Years of Service and Final Average Earnings of $45,000

Source: VRS 2004 Comparability Study
Benefit Illustration for Public Safety Employee Age 65 with 30 Years of Service and Final Average Earnings of $45,000

Local system retirement allowance at age 65 compared to 100% of VRS retirement allowance

Source: VRS 2004 Comparability Study
Benefit Illustration for Public Safety Employee Age 50 with 25 Years of Service and Final Average Earnings of $45,000

Annual Benefit ($)

Alexandria $35,000
Arlington $25,000
Charlottesville $0
Danville $0
Fairfax County Fire/EMS $5,000
Fairfax County Police $10,000
Falls Church $15,000
Farmville $20,000
Newport News $25,000
Norfolk $30,000
Powhatan $35,000
Richmond $0
Roanoke $0
VRS $0

Supplement payable to age 65
100% of VRS retirement allowance with supplement
100% of VRS benefit

Source: VRS 2004 Comparability Study
RRS versus VRS Today
$50,000 Final Salary

RRS benefits higher primarily due to higher multiplier.
VRS has an automatic COLA; RRS does not.
VRS benefits higher primarily due to higher multiplier and supplement. (VRS supplement is lower for salary above $70,000). VRS has an automatic COLA; RRS does not.
## Employee Contributions

<table>
<thead>
<tr>
<th>Locality</th>
<th>Employee Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Alexandria (General)</td>
<td>5% VRS + 2% (supplemental plan)</td>
</tr>
<tr>
<td>City of Alexandria (Fire/Police)</td>
<td>7.50%</td>
</tr>
<tr>
<td>Arlington County</td>
<td>4% - 5%</td>
</tr>
<tr>
<td>City of Charlottesville</td>
<td>0.00%</td>
</tr>
<tr>
<td>City of Danville</td>
<td>0.00%</td>
</tr>
<tr>
<td>Fairfax County (General)</td>
<td>4.00% - 5.33%</td>
</tr>
<tr>
<td>Fairfax County (Fire/EMS)</td>
<td>7.08%</td>
</tr>
<tr>
<td>Fairfax County (Police)</td>
<td>12.00%</td>
</tr>
<tr>
<td>City of Falls Church</td>
<td>0.00%</td>
</tr>
<tr>
<td>City of Falls Church (Police)</td>
<td>0.00%</td>
</tr>
<tr>
<td>Town of Farmville (DC Plan)</td>
<td>4.00% - 10.00%</td>
</tr>
<tr>
<td>City of Newport News</td>
<td>0.00%</td>
</tr>
<tr>
<td>City of Norfolk</td>
<td>0.00%</td>
</tr>
<tr>
<td>County of Powhatan (DC Plan)</td>
<td>0.00%</td>
</tr>
<tr>
<td>City of Richmond (Basic/Enhanced)</td>
<td>Gen-1.00%/4.57%;PS-1.50%/5.45%</td>
</tr>
<tr>
<td>City of Roanoke</td>
<td>0.00%</td>
</tr>
<tr>
<td>VRS</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

Source: VRS 2004 Comparability Study
Strategies in Play Locally and Nationally

• Contributions
  – Move toward employers actually funding the Annual Required Contribution?
  – Increasing contributions for employees

• Benefit Changes
  – Typically applicable to new hires only
  – The tide may change
A very small percentage of total plan cost is borne by employees. Recently enacted legislation changes the mix for State employees. The private sector is closer to 50/50.
Benefit Changes

- Later Retirement Ages
  - Normal
  - Early Service
- Longer Average Compensation period
- Lower Multiplier
- Longer Vesting
- Reduce or eliminate COLA
- Increase employee contributions
- Adopt a DC Plan
- Other?
Recent Initiatives
Source: NCSL May 2010 Report

• Contribution Rates and Funding Issues
  – Colorado, Iowa, Mississippi, Vermont and Wyoming have required employee contribution increases from some or all current members of public retirement systems.
  – Virginia has converted a noncontributory retirement system to a contributory system for future state and local government employees, although local governments have the option of paying the contribution for their employees, an option not available to state government employers.
  – Wyoming effectively shifted a noncontributory system to a contributory system for current state and local government employees.
Recent Initiatives
Source: NCSL May 2010 Report

• Defined Benefit Plan Changes
  – Arizona, Colorado, Illinois, Iowa, Mississippi, New Jersey, Vermont and Virginia have substantially changed the retirement benefits available to future members of various state-sponsored retirement plans (and in some instances to current members of those plans). The specific provisions vary from state to state but include, among the eight states, greater contribution requirements, increased age and service requirements for normal and early retirement, greater service requirements for vesting, longer periods for the calculation of final average salary, caps on final average salary or on benefits as a percentage of final average salary and reductions in the multipliers used for calculating benefits as a percentage of final average salary.
Recent Initiatives
Source: NCSL May 2010 Report

- Defined Contribution & Hybrid Plans
  - In addition to the defined benefit plan changes listed above, Utah closed its defined benefit plans (which include all state and local employees in the state) to future enrollment as of July 1, 2011, and will replace it with plans between which future employees may choose: a defined contribution plan and an option that includes both a defined benefit plan and a defined contribution plan.
Case Study

• Changes reviewed included
  
  A. Multiplier
    • Change multiplier from 2.0% to 1.5%
  
  B. Average Pay
    • Change from 3 year average to 5 year average
  
  C. Retirement Age
    • Change from age 60 and 10 years or any age with 25 years to 65 and 5 years or any age with 30 years, with reduction for earlier retirement at age 55 with 5 years (4% per year)
  
  D. DROP
    • Eliminate

• Although it is not contemplated that wholesale design changes would apply to current employees, we looked at the impact of such changes as if they were applicable to all employees to get a feel for the potential long term impact of possible changes

• We also looked at costs using the market value of assets to show the potential future impact of asset smoothing
Case Study: Relative Impact of Design Changes

Looked at impact of market losses, if fully recognized

Long term outlook promising, but years away if only applied to new hires!

<table>
<thead>
<tr>
<th></th>
<th>Multiplier</th>
<th></th>
<th>65 and 5</th>
<th>No Drop</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Baseline</td>
<td>1.5% of Pay</td>
<td>5 Year Average</td>
<td>or 30 Years</td>
<td>No Drop</td>
</tr>
<tr>
<td><strong>Annual Required Contribution (Using Actuarial Value)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employer Contribution</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normal Cost</td>
<td>6.39%</td>
<td>4.82%</td>
<td>5.91%</td>
<td>4.96%</td>
<td>6.39%</td>
</tr>
<tr>
<td>Amortization of Unfunded Actuarial Liability</td>
<td>5.45%</td>
<td>4.65%</td>
<td>5.29%</td>
<td>4.92%</td>
<td>5.45%</td>
</tr>
<tr>
<td>Other (Admin, Death benefits, etc.)</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12.22%</strong></td>
<td><strong>9.85%</strong></td>
<td><strong>11.58%</strong></td>
<td><strong>10.26%</strong></td>
<td><strong>12.22%</strong></td>
</tr>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>5.00%</td>
<td>3.75%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td><strong>Total Contribution</strong></td>
<td>17.22%</td>
<td>13.60%</td>
<td>16.58%</td>
<td>15.26%</td>
<td>17.22%</td>
</tr>
<tr>
<td><strong>Annual Required Contribution (Using Market Value)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employer Contribution</strong></td>
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<td>5.91%</td>
<td>4.96%</td>
<td>6.39%</td>
</tr>
<tr>
<td>Amortization of Unfunded Actuarial Liability</td>
<td>8.05%</td>
<td>6.67%</td>
<td>7.78%</td>
<td>7.14%</td>
<td>8.05%</td>
</tr>
<tr>
<td>Other (Admin, Death benefits, etc.)</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
<td>0.38%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14.82%</strong></td>
<td><strong>11.87%</strong></td>
<td><strong>14.07%</strong></td>
<td><strong>12.48%</strong></td>
<td><strong>14.82%</strong></td>
</tr>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>5.00%</td>
<td>3.75%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td><strong>Total Contribution</strong></td>
<td>19.82%</td>
<td>15.62%</td>
<td>19.07%</td>
<td>17.48%</td>
<td>19.82%</td>
</tr>
</tbody>
</table>
Case Study: Relative Impact of Design Changes

- **High impact**
  - Multiplier
  - Retirement age
- Medium impact
  - Averaging period
- Low impact
  - DROP
Addressing the Pension Challenge

• Educate all parties in interest
• Maintain prudent fiduciary oversight
• Insist on legislative restraint
• Secure additional funding, when available
• Practice “Good Corporate Governance”
  – Realistic assumptions
  – Realistic methods
  – Realistic benefits