FEB 28 2011

COMMONWEALTH OF VIRGINIA

FINANCE COMMITTEE
10th FLOOR, GENERAL ASSEMBLY BUILDING
910 CAPITOL STREET
RICHMOND, VIRGINIA 23219
(804) 698-7460

SENATE

CHARLES J. COLGAN, CHAIRMAN

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3/24/2011

February 28, 2011

Glen S. Tittermary, Director
Joint Legislative Audit and Review Commission
General Assembly Building, Suite 1100
Richmond Virginia 23219

Dear Mr. Tittermary:

As you know, several bills have been proposed for consideration during the 2011 session of the General Assembly that would make significant structural changes in the retirement program for Virginia's public employees. Chief among these are SB 1008, SB 1115, and HB 2410. These bills would have provided for an optional defined contribution retirement system.

We are aware of the 2008 JLARC report that took a comprehensive view of employee salaries and benefits, including retirement benefits. Given the dramatic changes in Virginia's economic and budgetary outlook since that time, it is the view of the Senate that additional study should be undertaken before further, significant changes in the Commonwealth's public employee retirement programs are adopted.

With this I mind, I ask that you conduct a follow-up review of Virginia's employee retirement programs (including any related employee sickness and disability coverage). I ask that the review be completed in 2011, and that JLARC staff examine and make recommendations where appropriate on the following issues:

1. At the most basic level, and without regard to current constitutional and statutory provisions, should the Commonwealth provide an employer-sponsored retirement program for public employees? If so, why? If not, why not?
2. What are the objectives, historical intent, and distinguishing characteristics of defined contribution plans, defined benefit plans, and other retirement plan designs?
3. What goals should Virginia's state and local governments try to achieve through offering a retirement plan, and how should they balance the employer and employee perspectives?
4. What is an appropriate percentage of an employee's salary that should be contributed towards retirement, and what portion of that should be funded by the employee and the employer?
5. What is an appropriate target retirement age range for State and local employees?
6. What is an appropriate percentage of an employee's salary that should be replaced once an employee retires, and what portions of that income replacement should come from the employer retirement plan, Social Security, and other savings?
7. Does the Virginia Retirement System's current defined benefit plan achieve the goals identified for state and local government plans? If not, how should the current retirement plan be changed and/or should an alternative plan be created?
8. If an alternative retirement plan is desirable, what options are available? How would various options affect Virginia's ability to achieve the intended purposes of a retirement plan and its ability to adequately fund the plan over time? Which option would best meet the needs of the Commonwealth, its localities, and school divisions?
9. What are the relative merits of offering a single, mandatory plan versus optional plans for new and existing employees? If any new plan is available for existing employees, what are the optimal asset transfer rules that should be implemented? In addition, for retirement plans that include funds managed by

employees, what are the most suitable investment and management structures?

In conducting this review, input from organized employee groups should be solicited; however, I feel that it is essential for JLARC to utilize tools such as focus groups to obtain direct input from state and local employees. These can then be used to make accurate forecasts of potential employee participation and resultant costs. Given the magnitude of the Commonwealth's retirement program, an accurate estimate of costs associated with any recommendation is essential.

The costs of consulting services, including actuarial analysis, required to complete this review can be paid for by the Virginia Retirement System as part of JLARC's oversight authority.

Sincerely,

Charles J. Colgan
Chairman