THE STATE OF VIRGINIA

The plans:
Virginia has two large state-administered pension systems, four smaller state-administered plans for various state and municipal workers and many locally-administered systems. The state also maintains one retiree health plan. This analysis focuses primarily on the two large state-administered systems – the Virginia State Employees Retirement System (SERS) and the Virginia Teachers Retirement System (TRS) – which make up about 60 percent of active public plan membership in the state.

The impact of the crisis:
As a result of the economic crisis, the payments required to amortize unfunded liabilities increased for both SERS and TRS. For SERS, it jumped from from 4 percent to 9 percent of payroll. For TRS, the jump was similar in magnitude, increasing from 7 percent to 11 percent of payroll. For the state as a whole, the economic crisis increased the share of state and local budgets devoted to pensions from 5.5 percent to 7.0 percent.

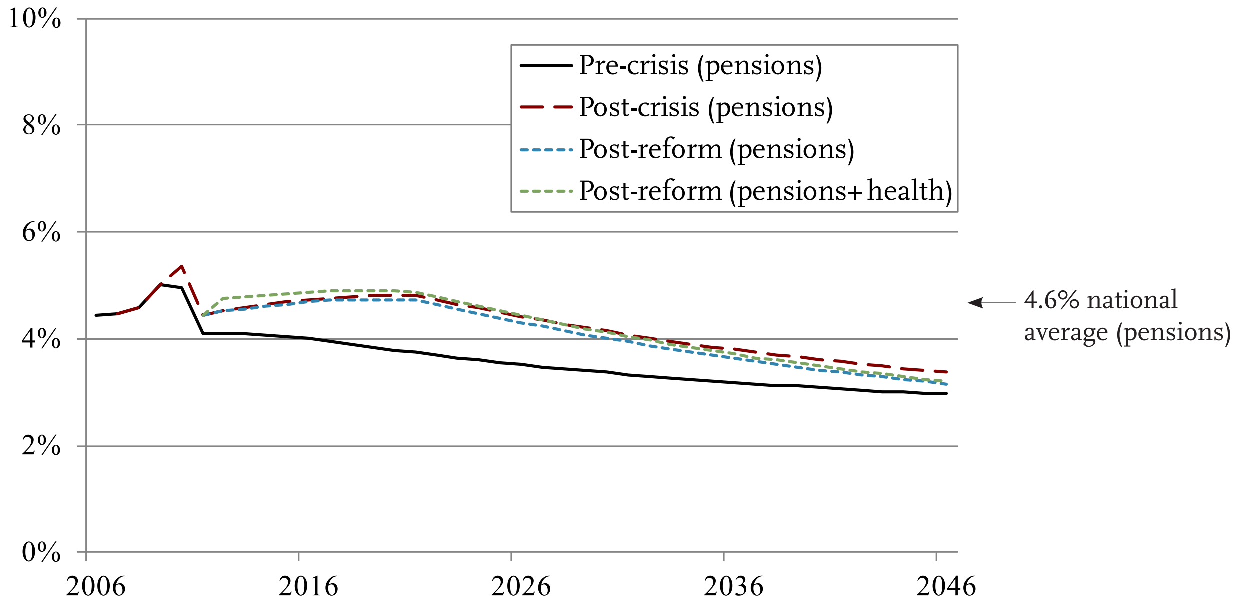
The impact of pension plan reforms:
In reponse to the crisis, Virginia made a multitude of changes. The most important was the introduction of a hybrid system for new hires that combines a traditional defined-benefit (DB) pension with a defined contribution (DC) plan. DB benefits under the new hybrid system provide a lower benefit factor for each year of service than under the old system and a reduced cost-of-living adjustment. The DC portion of the hybrid requires that employees and employers each contribute, at minimum, 1 percent of their gross pay and payroll, respectively. For SERS, the dramatic design change will gradually reduce the projected employer's contribution to the normal cost from 4 percent of payroll today to 1.6 percent in 2046. For TRS, the projected employer's contribution to the normal cost will drop from 6 percent of payroll today to 3.3 percent in 2046. To provide short-term relief from increased costs due the the crisis, the Virginia legislature extended the period for paying down unfunded liabilities to 30 years from 20 years, and allowed for underpayment of the annual required contribution (ARC) until 2019. However, by 2021 the amortization period will return to 20 years. Overall, if the systems pay their ARCs in full from 2019 onward, and assumed returns materialize, the share of state and local budgets devoted to pensions will drop from 4.6 percent today to 2.6 in 2046, at which point all employees will be covered under the new hybrid system.

Total state costs:
The Virginia state government also provides retiree health benefits, which cost about 0.2 percent of state and local budgets and are projected to decline in the future. When retiree health and pension costs are combined, Virginia's total retirement benefit costs as a percent of state and local budgets equaled 4.6 percent prior to the crisis, remained at 4.6 percent during the crisis, and are projected to drop to 2.6 percent in 2046 after pension reforms are in force for all employees.

PENSION AND RETIREE HEALTH COSTS: PRE- AND POST-CRISIS

VIRGINIA: TOTAL PENSION AND RETIREE HEALTH COSTS

Figure 1. Employer Pension and Retiree Health Costs as Percent of Budget: Pre-Crisis, Post-Crisis, and Post-Reform



Notes: Budget = general own source revenues of all Virginia state/local governments. Retiree health costs assumed pay-as-you-go. Pension costs include 1 percent mandatory employer match to defined contribution portion of hybrid plan.

Table 1. Employer Pension and Retiree Health Costs as Percent of Budget, by Plan

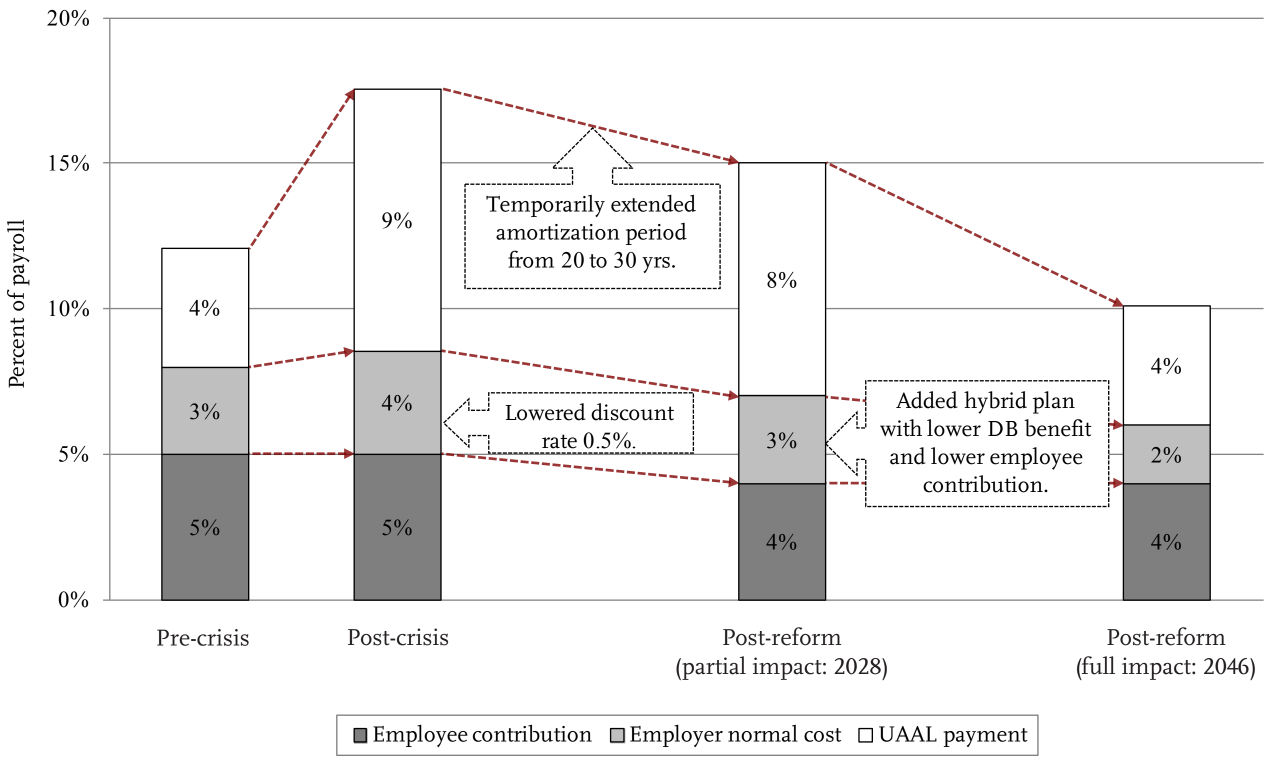
Plan	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Total pensions	4.4 %	4.4 %	4.0 %	2.9 %
Virginia SERS	0.6	0.8	0.7	0.3
Virginia TRS	1.6	2.0	1.7	1.0
Other pension plans[a]	2.2	1.6	1.6	1.6
Total retiree health	0.2	0.2	0.1	0.0
Virginia HICP	0.2	0.2	0.1	0.0
Total	4.6	4.6	4.1	2.9

[a] Includes one large state-administered municipal plan to cover employees of certain political subdivisions, three small state-administered plans to cover the state police, law officers, and judges, and all the locally-administered plans within Virginia.

Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances* and *State and Local Public-Employee Retirement Systems.*

VIRGINIA STATE EMPLOYEES RETIREMENT SYSTEM (SERS)

FIGURE 2. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



KEY FACTS

Structure of retirement system

- ☑ Social Security coverage
- ☑ Defined benefit
- ☑ Defined contribution/hybrid

Funding method and history

- ☐ Set by statute
- ☑ Actuarially determined

Pre-crisis, averaged 75 percent of GASB-required ARC. Post-crisis rate averaged 55 percent.

Plan design changes

- ☑ Cut COLA: employees not yet vested by 1/1/13
- ☐ Increased employee contribution
- ☑ Increased age/tenure eligibility: new hires only
- ☑ Increased average salary period: new hires only
- ☑ Reduced benefit factor: new hires only
- ☐ None

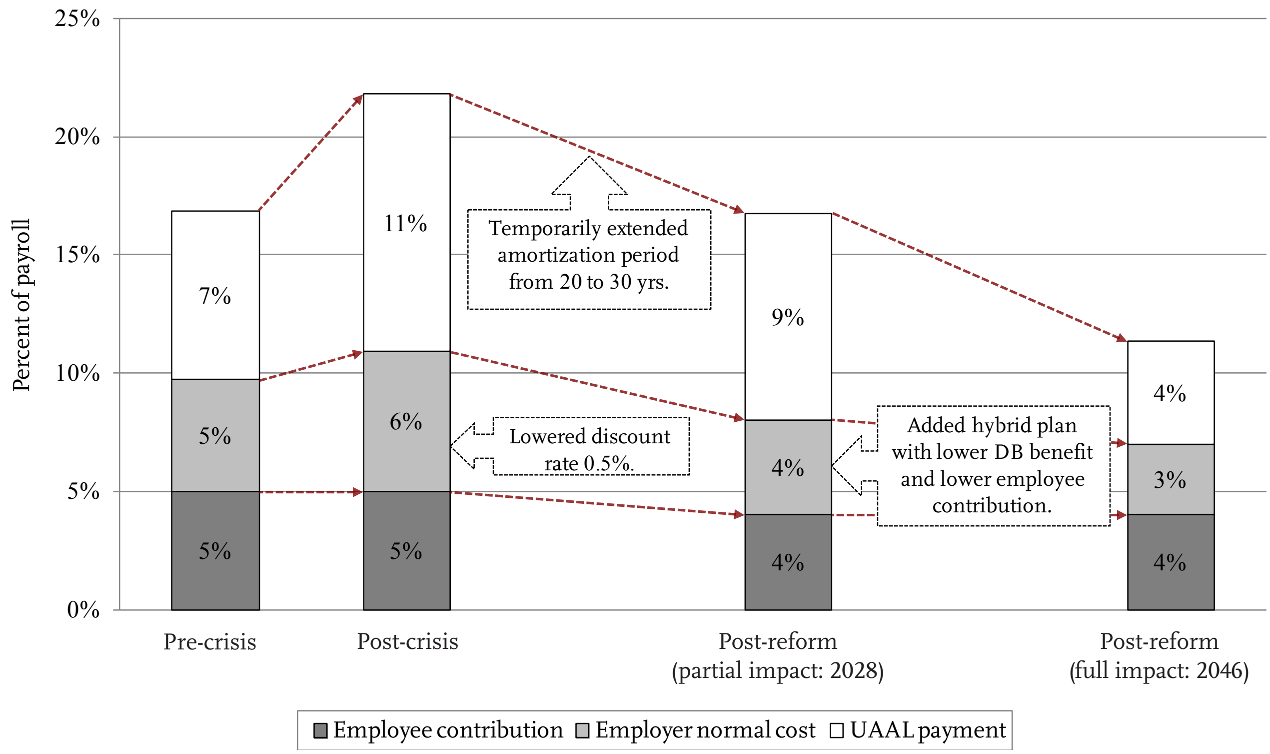
TABLE 2. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform 2028	Post-reform 2046
Plan finances				
Funded ratio	88.0 %	70.6 %	–	–
Employer ARC rate	7.1	13.1	9.3	5.7
Percent of ARC paid	83.9	25.2	100	100
Assumptions				
Discount rate	7.5	7.0	7.0	7.0
Payroll growth	3.0	3.0	3.0	3.0
Amortization period	20 yrs.	30 to 20 yrs.	20 yrs.	20 yrs.

Sources: Actuarial valuations and CRR calculations.

VIRGINIA TEACHERS RETIREMENT SYSTEM (TRS)

FIGURE 3. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



KEY FACTS

Structure of retirement system
- ☑ Social Security coverage
- ☑ Defined benefit
- ☑ Defined contribution/hybrid

Funding method and history
- ☐ Set by statute
- ☑ Actuarially determined

Pre-crisis, averaged 87 percent of GASB-required ARC. Post-crisis rate has averaged 53 percent.

Plan design changes
- ☑ Cut COLA: employees not vested by 1/1/13
- ☐ Increased employee contribution
- ☑ Increased age/tenure eligibility: new hires only
- ☑ Increased average salary period: new hires only
- ☑ Reduced benefit factor: new hires only
- ☐ None

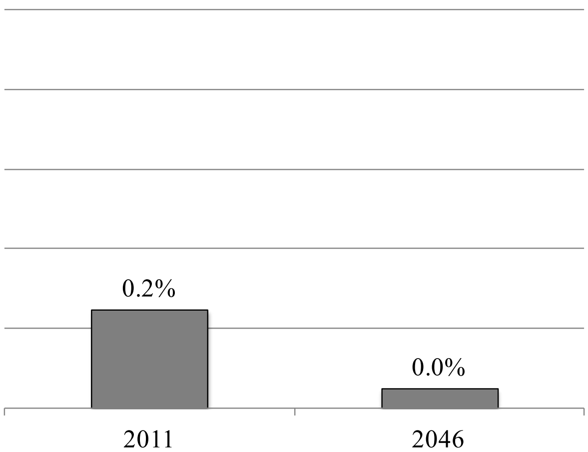
TABLE 3. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Plan finances				
Funded ratio	79.8 %	66.6 %	–	–
Employer ARC rate	12.0	16.8	12.5	6.9
Percent of ARC paid	92.1	30.4	100	100
Assumptions				
Discount rate	7.5	7.0	7.0	7.0
Payroll growth	3.0	3.0	3.0	3.0
Amortization period	20 yrs.	30 to 20 yrs.	20 yrs.	20 yrs.

Sources: Actuarial valuations and CRR calculations.

VIRGINIA RETIREMENT SYSTEM HEALTH INSURANCE CREDIT PROGRAM (HICP)

Retiree Health as Percent of Budget



Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

Average Annual Benefit

Source: CRR calculations from plan actuarial valuations.

Retiree health funding and costs

- Funding method: Pre-funded.
- Medical inflation rate: N/A.
- Employer contribution: 1 percent of payroll.

Benefits and membership

- Benefit eligibility: Must have accrued 15 years of service and be retired under one of four state employee retirement systems or teachers retirement system.
- Benefits for Medicare-eligible retirees: $4 towards monthly health care premium for every year of service.
- Active employees: 251,338
- Beneficiaries: 93,639
- Most recent actuarial valuation: 6/30/11