

Treasurer's Testimony for House Appropriations – March 11th, 2020

Pension Funding Status Overview:

VSERS Pension	2017	2018	2019
Actuarial Accrued Liability	\$ 2,511,372,455	\$ 2,661,608,857	\$ 2,779,965,523
Actuarial Value of Assets	\$ 1,793,794,733	\$ 1,881,804,847	\$ 1,964,500,825
Unfunded Liability	\$ 717,577,722	\$ 779,804,010	\$ 815,464,698
Funding Percentage	71.43%	70.70%	70.67%

VSTRS Pension	2017	2018	2019
Actuarial Accrued Liability	\$ 3,282,045,614	\$ 3,379,553,748	\$ 3,505,319,267
Actuarial Value of Assets	\$ 1,779,592,227	\$ 1,866,120,413	\$ 1,950,859,980
Unfunded Liability	\$ 1,502,453,387	\$ 1,513,433,335	\$ 1,554,459,287
Funding Percentage	54.22%	55.22%	55.65%

1) What are the extra investments that the state has made in the pensions systems and what were the impacts?

	Total State Contributions over and above ADEC from 2012-2019	Impact on Funded Ratio of System
VSTRS	\$55M	+ 1.70%
VSERS	\$81.5M	+ 3.04%

Additionally:

- 2019 statute change to use 50% of year-end surplus to fund VSERS OPEB - **\$25.6M** added to the fund reserves to begin prefunding long-term liabilities.
- 2019 BAA paid off interfund loan for RTHMB (VSTRS OPEB) - **\$26.4M** moved us close to pre-funding status.

2) Request to restore funding to VSTRS Pension (\$3.5M) and RTHMB (\$6M)

<p>VSTRS Pension (\$3.5M)</p> <p>Will this grow in the future? -There is an amortization schedule for the additional amount (alternative #2), with accumulated interest, not reflected until the fiscal year 2038 payment. In this schedule, additional payments are made from FY2020-FY2038.</p> <p>Fixed or flexible? -Amount of these payments subject to change based on experience/annual ADEC calculations.</p>	<p>TRE request to Gov. was:</p> <p>\$132.1M (ADEC) + \$3.5M (defers recognition of gains [\$77M] from 2018 Special Session \$26.2M payment – this is how the VSTRS Board voted to treat the extra payment)</p> <p>TOTAL: \$135.6M</p> <p>Gov Recommend is:</p> <p>\$132.1M</p> <p>Short the \$3.5M that allows maximization of benefit from extra payment.</p>
<p>RTHMB – VSTRS OPEB (\$6M)</p> <p>Will this grow in the future? In order to achieve prefunding status, we need to commit to a funding policy going forward. The Treasurer’s 2/25/20 memo details a plan to do a 10% increase each year through 2025, and then 3% each year. Using a % increase instead of ADEC is more predictable for budgeting.</p> <p>Fixed or flexible? A commitment to a sustained annual appropriation above the pay-go amount is critical to achieving pre-funding status.</p>	<p>TRE request to Gov. was:</p> <p>\$37.7M (reflects last year’s BAA plan of paying off the interfund loan and restoring increase in appropriation in order to achieve pre-funding status, which allows us to take 45-55% of liabilities off our books, estimated to approach \$500 million)</p> <p>Gov. Recommend is:</p> <p>\$31.7M (This is \$2.4M above the pay-go amount. We do not believe this is enough to achieve pre-funding and it does not demonstrate a commitment to the previous year’s policy agreement, which is the second component of achieving pre-funded status.)</p>

3) What changes have been made through negotiations at the State and local level for State Employees and Teachers to decrease State costs?

VSTRS (includes pension and OPEB)	VSERS (includes pension and OPEB)
<p>2009 - Pension and Health Care Study completed providing basis for negotiated savings over the next few years for both VSERS and VSTRS systems.</p> <p>2010 – Lengthened aged for normal retirement, contribution increases, and other changes, effective in FY2011, resulting in \$15M in annual pension savings, growing each year, as well as health care savings.</p> <p>2011 – created tier structure for health care benefits, estimated \$100M change in liability</p> <p>2014 – Additional employee contribution increases for new and non-vested members, effective FY2015, \$1M initial annual savings, at \$2.5M in 2020.</p> <p>2015 – New Teacher Health Assessment, generating increasing dollars each year, \$4M in 2020.</p> <p>2015 – created Retired Teachers’ Health and Medical Benefits Fund (RTHMB) 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. Projected to save taxpayers \$480 million in unfunded liability interest costs through FY2038.</p> <p>2016 – Increased employee contributions resulting in \$1.2M in annual savings, growing larger in future years.</p>	<p>2004 – Changed vesting requirements for State system</p> <p>2008 – committee restructured Group F benefits, lengthening age of requirement, effective in FY2009</p> <p>2008 – tiered health care</p> <p>2009 – Pension and Health Care Study completed providing basis for negotiated savings over the next few years for both VSERS and VSTRS</p> <p>2011 – Employee contribution rate increases beginning FY2012, initially generating \$5M in savings per year, increasing each year.</p> <p>2018 – Human Resources/Administration took steps to renegotiate contracts and health plan changes expected to significantly reduce long-term liabilities; we are currently working to estimate the impact on unmet OPEB. Projected savings of \$211M applied to OPEB liability.</p>