

Treasurer's Office Report Summary

1. The Governor's staff, the Treasurer and legislators developed a proposal related to pensions and other post-employment benefits (OPEB), incorporating key elements proposed and/or reviewed with the respective Retirement Trustee Boards. The Governor's budget request (including portions included in the FY2019 Budget Adjustment Act (BAA)), includes the following:
 - State Employees' Pension (VSERS):
 - The budget request submitted by the Governor fully funds the Actuarially Determined Employer Contribution (ADEC) for FY2020 of \$78,943,914. State contribution is \$78,037,914 with the remaining \$906,000 paid by participating entities outside the state system (Towns and Colleges)
 - In addition to the ADEC, the budget request does include administrative expenses but not investment expenses that a net against investment returns, as per previous policy.
 - Breakdown of the ADEC is as follows:
 - Normal \$17,587,034
 - Amortization \$61,356,880
 - Increase over the prior year of \$16.0 million which includes planned change in amortization schedule adopted in 2016, effective in FY2020.
 - Normal Cost: 3.12% of projected payroll
 - 77.7% of the ARC/ADEC is to pay down a portion of the unfunded liability
 - State Employees OPEB Fund:
 - The budget includes pay-as-you go basis and no additional prefunding beyond the approximately \$21 million from some contributions and interest that were made several years ago pursuant to the federal Retiree Drug Subsidy (RDS) program.
 - The premiums are estimated to be \$37,185,907 for FY2020.
 - The Governor, the Treasurer and House Appropriations proposal did, however, include a provision in the Budget Adjustment Bill (BAA) that 50% of all surplus at year end, after the funding of reserves, be directed to the OPEB Trust so that some additional accumulation of funds may occur. This is related to the re-payment of an interfund loan in the teachers OPEB fund (see below).
 - State Teachers' Pension Fund (VSTRS):
 - The Governor's budget request fully funds the ADEC for the Teacher's pension Fund (VSTRS) of \$126,197,389, which is made up of an employer normal cost of \$7,116,765 and an unfunded liability amortization payment of \$119,080,624.
 - The Governor's budget request also includes an additional \$3,293,817 bringing the contribution to \$129,491,206. This is consistent with the VSTRS Trustee Board request submitted to the Governor on November 1st (see attached). The increment over the ADEC will be paid in FY2019, assuming passage of the Budget Adjustment Act.

- This is an increase, including the \$3.3 million, over the prior year ADEC of \$23.9 million. As in the case of VSTRS this includes the decision adopted by the State in 2016 to increase appropriations and result in more rapid amortization of the State and Teachers unfunded pension liabilities. The net effect is to lower taxpayer interest payments by \$165 million to \$200 million (combined for both systems).
- Normal Cost: 1.08% of projected payroll
- 94.5% of the ARC/ADEC is to pay down a portion of the unfunded liability.

Current Plan - Teacher's OPEB Fund		
1	OPEB Balance FY19 FY19 GF	(\$26.4) million
	Appropriation to pay down	
2	loan	\$ 4.2 million
3	FY19 Loan Balance FY20	(\$22.2) million
	Appropriation request to	
4	paydown loan FY20 Projected	\$6.3 million
5	Loan Balance FY21 - FY25*	(\$16.2) million
6	Estimated Appropriations By FY2025, fund balance grows to	\$ 239 million
7		\$57 million

Alternative Plan - Teacher's OPEB Fund		
1	OPEB Balance FY19 FY19 GF normal	(\$26.4) million
	appropriation to pay down loan	
2	and FY19 One Time Paydown	\$ 4.2 million \$22.2 million
3	FY19 Loan and Fund Balance	\$0
	FY20 Appropriation to	
4	Prefund OPEB FY20 Projected	\$2.4 million *3.8 million savings
5	Balance FY21-FY25*	2.4 million
6	Estimated Appropriations	\$234 million \$5 million est. savings
7	FY 2025 Balance	\$75 million \$18 million more prefunding

* FY21 - FY25 appropriations will be used to pay yearly premiums to VEHI and contribute to the pre-funding balance in the fund.

