

Summary of Teacher’s Pension and OPEB Recommendations:
Education Fund Impacts
Prepared by the Joint Fiscal Office
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Pension Recommendations:

- Make no changes to the pension benefits of current retirees, beneficiaries, or terminated vested members.
- In FY 2022, making a one-time payment of \$75 million in General Fund towards the unfunded liability using 50 percent of the \$150 million reserved in General Fund in the FY 2021 Budget, plus an additional \$50 million in General Fund towards the unfunded liability.
- Beginning July 1, 2022, modifying the COLA structure by:
 - amending the minimum and maximum amounts of any decreases and increases used to determine the net percentage change in the Consumer Price Index from the current one percent minimum and five percent maximum to zero percent minimum and four percent maximum;
 - requiring a member to be receiving a retirement benefit for at least 24 months prior to receiving a COLA, an increase from the current 12-month requirement;
 - increase the 50 percent of CPI COLA formula by 7.5 percent each year once the pension system reaches an 80 percent funded status, provided that the increase does not result in the fund projected to fall below the 80 percent funded status. If the increase would result in a drop below 80 percent, then the formula is paused at the levels in place at the time pending re-evaluation in the subsequent year; and
 - applies any increases to the COLA to members who leave active service on or after June 30, 2023.
- Beginning in FY 2023, increases the contribution rates for all active members over a three-year period according to the following marginal rate schedule:

| Base Salary Level | Year 1 Rate | Year 2 Rate | Year 3 Rate |
|-----------------------|-------------|-------------|-------------|
| \$0-\$40,000 | 6.00% | 6.25% | 6.25% |
| \$40,000.01-\$60,000 | 6.50% | 6.75% | 6.75% |
| \$60,000.01-\$80,000 | 6.75% | 7.00% | 7.50% |
| \$80,000.01-\$100,000 | 7.00% | 7.50% | 8.25% |
| \$100,000.01 + | 7.25% | 8.00% | 9.00% |

Effective contribution rates would be calculated annually based on a member's base salary as of July 1 and assessed on the member's total compensation during the fiscal year.

- Beginning in FY 2024, codifying the State's intent to annually fund an additional payment to the ADEC using monies saved from a reduction on the required annual unfunded liability amortization payment. The "plus" payment will grow to \$15 million in FY 2026 and remain at that level until the fund reaches 90% funded.
- Amend the General Fund year end surplus construct to reallocate 25 percent to VSTRS pension underfunding.

OPEB Recommendations:

- Using \$13.3 million of Education Fund money currently in reserve to begin prefunding other postemployment benefits by making a one-time appropriation into the Retired Teachers' Health and Medical Benefits Fund.
- Enacting a prefunding schedule into statute that charges the OPEB normal cost to the Education Fund.
- Continuing to apply current "pay go" for retired employees into the Retired Teachers' Health and Medical Benefits Fund.

Overall Impact on the Education Fund:

The agreement introduces two new liabilities into the Education Fund, one of which is one-time and the other which is on-going. Both are related to the prefunding of OPEB for retired teachers.

- A one-time prefunding of OPEB using \$13.3 million in reserved FY22 dollars to create a fund that protects against volatility in the system's start up years.
- An on-going payment beginning at \$15.1 million in FY23 for the normal cost of teachers' OPEB benefits and growing approximately 3% per year thereafter.

These new liabilities are offset by savings to the normal cost of teachers' pensions, an item that is already in the Education Fund (est. \$40.8 million in FY2023, line 18 of the Education Fund Outlook).

- The enhanced contributions by teachers are expected to reduce this line item by \$6.2 million in FY2023 and up to \$10.3 million once the brackets are fully phased-in.
- The modifications to the COLA structure are expected to reduce the Education Fund's share of teachers pensions by \$1.6 million in FY2023, growing modestly thereafter.

Taken as a package, the net fiscal impact on these changes on the Education Fund are a one-time liability increase of \$13.3 million in FY22, \$7.3 million in FY23, decreasing to \$3.7 million by FY26.

| Summary of Pension Agreement Fiscal Impacts on Education Fund (in millions) | | | | | |
|--|---------------|--------------|--------------|--------------|--------------|
| | FY22 | FY23 | FY24 | FY25 | FY26 |
| Teacher Retiree Healthcare Fund (New to Ed Fund) | | | | | |
| One-Time Funding For Volatility | \$13.3 | | | | |
| Normal Cost Teachers OPEB | | \$15.1 | \$15.6 | \$16.0 | \$16.5 |
| Teacher Retiree Pension Fund (Normal Cost Already in Ed Fund) | | | | | |
| Higher Teacher Contribution Savings | | -\$6.2 | -\$8.3 | -\$10.3 | -\$11.1 |
| Combined COLA Savings | | -\$1.6 | -\$1.6 | -\$1.7 | -\$1.7 |
| Total Net Ed Fund Impact | \$13.3 | \$7.3 | \$5.6 | \$4.0 | \$3.7 |

Note: Numbers are preliminary, may change with actuarial review