Impact of One-Time Funds on the VSERS and VSTRS Pension Systems

As part of the FY22 budget process, the General Assembly reserved $150 million in the General Fund and $14 million in the Education Fund from FY21 to support pension funding initiatives and prefunding of other post-employment benefits (OPEB). These funds are intended to accompany the reforms to be developed by this Task Force as part of a long-term plan to address pension and OPEB liabilities to make the respective benefit systems more sustainable.

Impact of One-Time Investment

While a significant amount, $150 million represents a comparatively small percentage of the total liabilities across both systems. As of the end of FY20, the VSERS accrued liability totaled $3,095,290,972 and the VSTRS accrued liability totaled $3,969,002,977 for a combined accrued liability of $7,064,293,949.

$150 million represents approximately 4.8% of the combined $3,153,737,426 unfunded liability (based on MVA) at the end of FY20.

The table below summarizes the relative impact that the $150 million would have on the funded ratios of both plans if the funds are split evenly across the two systems

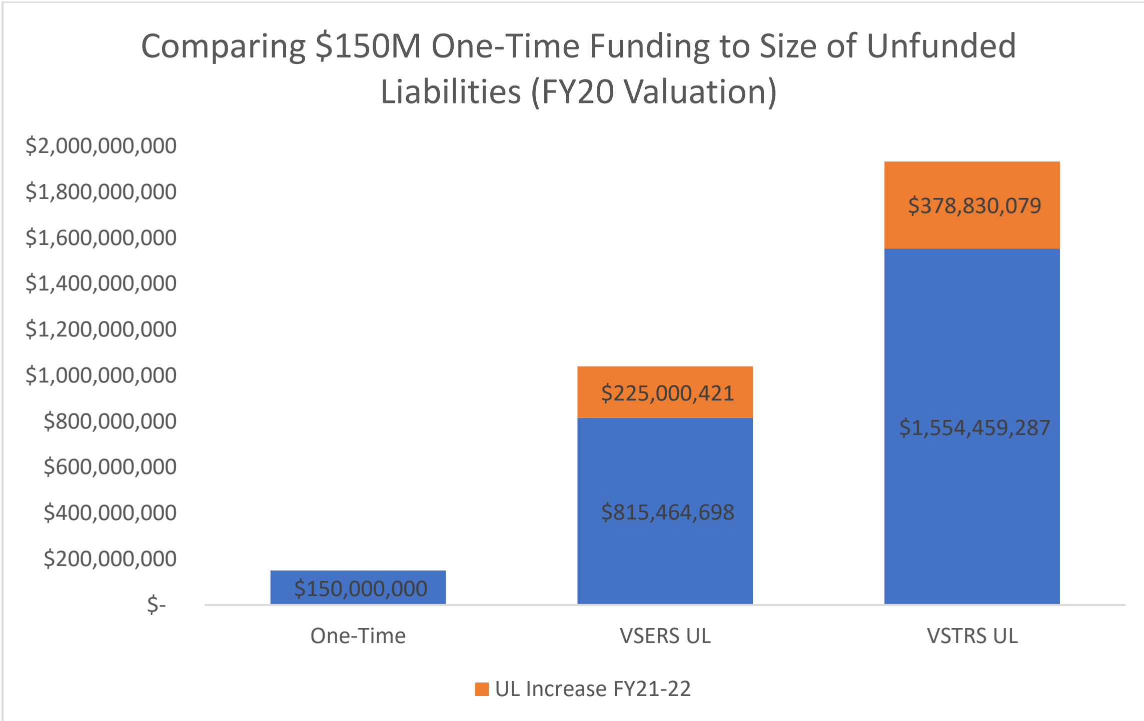
	(a) Market Value of Assets	(b) Accrued Liability	(b-a) Unfunded Liability Based on MVA	(a/b) Funded Ratio Based on MVA
VSERS				
End of FY20	$ 1,959,066,641	$3,095,290,972	$ 1,136,224,331	63.29%
Additional Funds	$ 75,000,000			
Revised MVA	$ 2,034,066,641	$ 3,095,290,972	$ 1,061,224,331	65.71%
VSTRS				
End of FY20	$ 1,951,489,882	$ 3,969,002,977	$ 2,017,513,095	49.17%
Additional Funds	$ 75,000,000			
Revised MVA	$ 2,026,489,882	$ 3,969,002,977	$ 1,942,513,095	51.06%

If the full $150 million were invested in:[1]

VSERS: the funded ratio would improve by approximately 4.8%
VSTRS: the funded ratio would improve by approximately 3.8%

One-time investments will also lower future ADEC payments slightly. Actuarial analysis would be required to solidify projections based on the most recent data about investment performance and deferred investment gains/losses that have not yet been recognized.

[1] Based on the accrued liability and market value of assets reported in the respective valuation reports for FY20. Data for FY21 is pending.



Options and Opportunities

The $150 million could be used in different ways, including but not limited to:

- Invested in the VPIC portfolio with the rest of the pension assets according to the example above. It must be decided how to allocate the funds across the two systems. $150 million invested at 7% at the end of FY22 can grow to approximately $443 million by the end of FY38 when compounded annually.
- Partially invested with VPIC and partially used to give greater flexibility for paying benefits to avoid the need to liquidate investments.
- Prefund OPEB for state employees and/or teachers.
- Transition costs – fund incentives for employees to move to a different pension group/plan if new ones are created at lower projected actuarial cost.
- Buy-outs – Offer members a lump sum payment to withdraw from the pension system and reduce the liability associated with paying that member's future pension benefits.
- Support other recommendations developed by this Task Force

Note that these estimates are based on FY20 data because FY21 data is not yet finalized. All estimates, therefore, are subject to change based on revised data. Actuarial analysis is required to cost out various ideas and fully assess their impacts to the respective pension systems.

C.Rupe/JFO 07.29.21