POSSIBLE OPTIONS

08.31.21 Version with changes from 9/8/2021

Tried to put together where we are on the following topics. Where I think we landed on each issue is in green. Hopefully I got it right.

GENERAL

Amortization:

- Implement layered amortization for future unfunded liability
- In FY28 cap ADEC growth for existing unfunded liability to a % or fixed dollar amount and separately amortize any losses above that amount.

Unanimous support – need more information about how it would actually work. Also think about a separate method for OPEB

Risk sharing (employee and employer share risks of higher costs or lower returns):

- Tie to COLAs
- Tie to employee contribution rates

  Seems to be connected closely with the Reduce Liabilities category – will discuss then.

New Plans for New Hires:

- Offer revised DB plans with different terms than existing plans
- Offer hybrid DB/DC plans
- New hires only, or also provide incentives for current actives to switch plans?

  Limited support – open to more information on advantages/disadvantages, what it actually would do.

Education Fund:

- Should the EF pay for some or all of the teacher OPEB costs?
- Should the EF pay for any growth in the VSTRS unfunded liability above current levels?
- Should pension and OPEB costs be reflected in local school budgets?

  Some support but need more information about what exactly would be transferred to EF and impact that would have.

No changes to current retirees Unanimous support to remove. No longer consider

Minimal changes to current employees within a certain number of years of retirement eligibility.

Mostly supported but need more definition for “minimal”, what the actual “changes” would be, and “certain number of years”. Also general agreement that this means those who are close to being eligible for retirement. Any changes would not affect those who are currently eligible but have chosen to continue to work.

INCREASE ASSETS

One-Time infusion of funds above ADEC amount.

Note: Actuarial modeling is currently underway

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Currently 50% of any surplus will go to OPEB for state employees. Need to define amount above the ADEC – there is currently $150M set aside for this but need to determine where best to put it and if there is an amount beyond that and how to apply.

Ongoing/recurring infusion of funds above ADEC amount.

Note: Actuarial modeling is currently underway

Over the past years the payment has been over the ADEC amount. Beyond that need to determine amount to be committed. With the caveat that any current legislature cannot bind future legislators. Didn't come to agreement on source of revenue.

Employee contributions:

- Fixed amount regardless of health of funds (status quo) *Note: Some scenarios were previously modeled for Treasurer's January 15th report*
  No agreement, concentrated conversation on next point..
- Tiered contribution rates based on income. *Note: Some scenarios were previously modeled for Treasurer's January 15th report.*
  - *NOTE: In all revenue scenarios, recommendations should be made as to how to split the funds among the four buckets.*
    General agreement, need to decide base that is understandable and defensible, and where the tiers are.
- **Risk Sharing**:
  - Tie employee contributions to keep pace with normal costs.
  - Supplemental employee charge triggered by health of fund (funded ratio) or investment performance.
- Different employee contribution rates for more generous benefits.
- Gradual/phased increases in employee contribution rates with increase in salary.
  Not much agreement at this point.

Redirect some portion of school surplus funds to pensions or OPEB. EF is designed to not have surplus – would need more info on what this would mean. Local surpluses, EF at state lever? Could combine the conversation with the above suggestion to put all teacher related expenses in the Ed Fund.

Redirect some portion of future state budget surpluses (GF and/or Ed Fund) to pension unfunded liability. Explore more. Currently done. Suggestion about the health savings periodically realized. Rather than give premium holiday, put savings toward unfunded liability.

Property/asset sales – deposit proceeds into pension funds Think there was agreement to not go here but that may have just been my wishful thinking. Not sure that I have detailed notes on this one.

Solicit ideas from employees on how to save money and redirect any resulting savings to pension funds. Good idea but possibly hard to implement – how determine the exact amount of the savings, how to separate from other savings that might be implemented. Perhaps better way is to create an awareness among employees (teachers as well) that unnecessary expenditures or wasted amounts will not contribute to money needed for this purpose but that savings in general could.

Charge more for service credit purchases. This is where we start next time.

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REDUCE LIABILITIES

COLA:

- Remove all automatic COLAs. *Note: Some scenarios were previously modeled.*
- COLA thresholds – COLA only on first $x of base retirement benefits. *Note: Some scenarios were previously modeled.*
- COLAs are progressive – full COLA on first $x of base retirement benefit, then reduced COLA on benefits above that level.
- Cap COLAs at 2% annual maximum.
- **Risk Sharing:**
  - No COLA if funds are below x% funded.
  - No COLA if investment performance falls below assumptions.
  - Limits on COLA are relaxed when funds reach a benchmark of pension health (shared gain).
  - Restricted COLA if the CPI exceeds actuarial assumptions.
- COLA only once retired for a minimum number of years.
- COLA only once retired at a minimum age. Note: Some scenarios were previously modeled.
- COLA only until reaching age 67 (Social Security)
- Offer COLA as an elective option – member accepts reduced base benefit in exchange for a guaranteed minimum/maximum COLA.
- COLAs are simple rather than compounded.

Restrict early retirement incentives:

- End the practice
- Account for their costs and ensure that schools make VSTRS whole.
- Impose financial penalty for offering retirement before member is Medicare eligible (OPEB).

Create incentives for employees to work longer:

- Could be carrot, stick, or combination – increase age, years of service, tiered multiplier.
- 1% Max Benefit increase for each year worked beyond current “maximums.” *Note: Some analysis was already performed for the Treasurer’s January 15th report. Additional analysis would be required to assess impact in conjunction with any other proposed changes.*
- Suspend or reduce employee contributions for years worked beyond current maximums.
- Form a subcommittee to further explore incentive ideas that result in actuarial gains.

Modify normal retirement eligibility:

- Change or eliminate Rule of 87/90 ability to retire prior to reaching a minimum age.
- Change minimum normal retirement age.
- No normal retirement benefits until reaching Social Security retirement age.
  Note: Some analysis was already performed on all three of these options.
- Increase normal retirement age when life expectancy increases.

Modify early retirement eligibility:

- Increase minimum eligibility age.
- Impose actuarial reductions for all groups.

Average Final Compensation:

- Increase the number of years and apply the number of additional years to all groups (e.g add 2 years to all groups). *Note: Preliminary actuarial analysis already performed.*
- Increase number of years and apply the same range to all groups (e.g. highest 5 years for all groups). *Note: Preliminary actuarial analysis already performed.*
- Tighten guardrails around number of hours worked in the final years that are considered for AFC calculation purposes.
- Cap AFC at a certain income level and offer a DC with match to employees earning above that level (stacked DB/DC hybrid).

Modify service credit multiplier formula.

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