

Pension Task Force

Overview of Final Recommendations

House Appropriations Committee

Chris Rupe, Joint Fiscal Office

January 11, 2022



Overview

- Pension Task Force charged with developing recommendations to reduce ADEC and unfunded liabilities by 25%-100% of the YOY growth from FY2021-2022.
- Recommendations unanimously agreed to on 1/10/22. [Link to Report](#)
- Recommendations contain a combination of:
 - Employee contribution increases
 - Benefit changes
 - Commitments of additional state funding to pay down liabilities
 - Prefund OPEB
- Much of the savings from pension changes/higher employee contributions is redirected to shoring up long-term retirement liabilities.
- Combined, the recommendations would be expected to reduce the state’s long term unfunded retirement liabilities by **\$2 billion**.
- *Note: All fiscal estimates are preliminary and may fluctuate due to additional actuarial analysis, timing, or gains/losses from other factors.*

Fiscal Targets per Act 75		
	25% of YOY FY21-FY22 Increase	100% of YOY FY21-FY22 Increase
VSERS - UAAL	\$56.3 million	\$225.0 million
VSERS - ADEC	\$9.0 million	\$36.1 million
VSTRS - UAAL	\$94.7 million	\$378.8 million
VSTRS - ADEC	\$16.1 million	\$64.1 million

VSERS Recommendations

- No changes to currently retired or terminated vested members.
- Higher employee contribution rates phased in over 5 years
- Changes to COLA and other benefits
- State makes \$75 million one-time payment from \$150 million in reserve.
- State commits to an ADEC “plus” payment beginning in FY2024, growing to \$15 million in FY2026 and remaining at that level until fund reaches 90% funded.
- Prefund OPEB
- Future recommendations on DOC benefits and longevity incentives

VSERS Proposed Contribution Rates

- Beginning in FY2023, increase the contribution rates for all active members:
- Group C: 0.5%/year over 3 years (from 8.53% to 10.03%)
- Groups D and F (currently 6.65%):
 - No change for members with base salaries below the 25th percentile.
 - 0.5 percent per year for 3 fiscal years, for members with base salaries between the 25th and up to the 50th percentile.
 - 0.5 percent per year for 4 fiscal years for members with base salaries above the 50th percentile and up to the 75th percentile.
 - 0.5 percent per year for 5 fiscal years for members with base salaries above the 75th percentile.

Group F:
 25th percentile: \$50,000
 50th percentile: \$62,000
 75th percentile: \$75,000

VSERS Preliminary Estimates of Additional Revenue from Contribution Changes (\$ millions)				
	FY2023	FY2024	FY2025	Comments
Group C Employee Contribution Increases	0.2	0.4	0.6	Additional revenue offsets employer normal cost expenses (a component of the ADEC).
Group D Employee Contribution Increases	0.1	0.1	0.1	Not yet actuarially estimated. Impact likely to be de minimis due to small size of group.
Group F Employee Contribution Increases	2.5	5.3	8.4	Contributions expected to yield \$13.3 million of revenue by full phase-in (FY2027).

Higher employee contributions offset normal cost otherwise paid through the ADEC.



VSERS Proposed COLA and Benefit Changes

For Groups C and F:

- Beginning July 1, 2022, modify the COLA structure by:
 - Amending the minimum and maximum amounts of any increases/decreases used to determine the net percentage change in the CPI from the current 1% minimum/5% maximum to 0% minimum/4% maximum.
 - Requiring a member to receive a retirement benefit for at least 24 months of prior to receiving a COLA, an increase from the current 12-month requirement.
 - **Actives who are eligible for normal (unreduced) retirement as of July 1, 2022 are exempt from the changes above.**

For Group C:

- Increase mandatory retirement age from 55 to 57.
- Increase max benefit cap by 1.5% for each year worked beyond reaching the later of age 50 or 20 years of service, applied prospectively to service actually worked after July 1, 2022.

For Group D:

- **For all active members except those with 5+ years of service and are either within 5 years of age 62 or have 15+ years of service:**
 - Amend AFC from final salary to average of 2 final years.
 - Beginning in FY2023, reduce max benefit from 100% of final salary to 80% of AFC.
- **For any judge appointed/elected on or after 7/1/22:**
 - Raise retirement age from 62 to 65
 - COLA (at 100% of CPI) on first \$75,000 of retirement benefit, COLA at 50% of CPI above \$75,000.
 - Must receive a retirement benefit for at least 24 months to receive COLA.

VSERS Proposed COLA and Benefit Changes

The proposed VSERS pension changes listed to the right could save approximately \$8.8 million in ADEC costs (across all funds), and reduce unfunded liabilities by approx. \$58.4 million.

VSERS Preliminary Estimates of Fiscal Impacts of Plan Changes (\$ millions)				
Plan Change	ADEC	Normal Cost	Unfunded Liability	Comments
Group C COLA after 24+ months of retirement, plus 1.5% Max Benefit Increase	-3.3	-1.2	-22.0	JFO estimate based on actuarial estimates from Segal. Numbers reflect combined impact without exemptions and may change in combination with other changes.
Group C COLA CPI formula 0% min, 4% max				Fiscal impact not yet estimated but will result in modest actuarial savings.
Group D All proposed changes	-0.1*	-0.1*	-1.0*	*Preliminary JFO estimate pending future actuarial analysis. Impact likely de minimis due to small size of group.
Group F COLA CPI formula 0% min, 4% max, plus COLA after 24+ months of retirement	-5.4	-2.1	-35.4	Actuarial estimates did not exclude actives who are eligible for normal retirement, and therefore may be slightly overstated.

VSERS Proposed Additional Employer Contributions

- Make a one-time payment in FY2022 of \$75 million (50% of the \$150 million currently in reserve in the General Fund).
- Will result in ADEC savings 2 years after the payment (approx. \$7.3 million in FY2024 that grows in future years).
- Beginning in FY2024, make an ADEC “plus” payment toward the unfunded liability that ramps up to \$15 million by FY2026 and remains at that level until the fund is 90% funded.
 - Effectively redirecting future ADEC savings from the one-time funding in FY2022 toward additional pay down of unfunded liability.
- Reconfigure the year-end General Fund surplus construct to dedicate 25% to the VSERS pension.

VSERS Preliminary Estimates of Fiscal Impacts of Plan Changes (\$ millions)				
Plan Change	ADEC	Normal Cost	Unfunded Liability	Comments
\$75 million one-time payment	-7.3 (FY24)	n/a	-75.0	Impact of funds will reduce ADEC beginning 2 years following payment. Actual savings likely to vary slightly from actuarial estimate provided due to timing.
ADEC “Plus” payments and 25% of General Fund surplus	varies			Fiscal impact not yet actuarially estimated but will result in future ADEC and UAL savings. Impact of General Fund surplus will vary based on timing and magnitude of contributions.

VSERS OPEB Proposal

- Build upon the \$52.4 million one-time appropriation from the FY2021 year-end General Fund surplus to begin prefunding.
- Enact a prefunding schedule into statute (ADEC).
- Continue to apply the current “paygo” amount to OPEB
- Prefunding adds costs of \$22.2 million - \$24.3 million from FY23 to FY26.

		Onetime \$s				
		FY22	FY23	FY24	FY25	FY26
State Employee Retiree Healthcare Fund		52.4				
baseline	GF - current base paygo amount of funding		17.8	18.3	18.9	19.4
baseline	TF/SFs/FF current base paygo amount of funding		24.6	25.3	26.1	26.8
New State \$	Retirement HC for Active State Employees -Normal Cost -All Fds		22.2	22.9	23.6	24.3
Total Retiree Healthcare Fund - with Prefunding			64.6	66.5	68.5	70.6
			1,664.2			
			772.9			
			(891.3)			

VSERS Additional Recommendations

- By April 15th, the Treasurer and VSERS Board of Trustees shall develop recommendations to the Legislature:
 - Creating a new pension benefit group (Group “G”) for Department of Corrections employees that is actuarially neutral to the pension system and results in no additional employer pension costs.
 - A longevity incentive that encourages Group F members who are eligible for a normal (unreduced) retirement to continue working past their retirement date, provided that the incentive is designed to result in actuarial savings to the pension system and reduce employer pension expenses.

VSERS Cost Estimates (\$ millions)

		Onetime \$s				
		FY22	FY23	FY24	FY25	FY26
State Employee Retiree Healthcare Fund		52.4				
baseline	GF - current base paygo amount of funding		17.8	18.3	18.9	19.4
baseline	TF/SFs/FF current base paygo amount of funding		24.6	25.3	26.1	26.8
New State\$	Retirement HC for Active State Employees -Normal Cost -All Fds		22.2	22.9	23.6	24.3
Total Retiree Healthcare Fund - with Prefunding			64.6	66.5	68.5	70.6
Unfunded Healthcare Liability current paygo			1,664.2			
Unfunded Healthcare Liability with prefunding			772.9			
Reduction in Unfunded Liability on the state balance sheets			(891.3)			
State Employee Pension System Funding						
baseline	GF - current base for normal and unfunded liability		52.2	53.7	55.3	57.0
baseline	TF/SFs/FF current base for normal and unfunded liability		72.0	74.2	76.4	78.7
savings	Increased Employee Contribution Rates - Savings to all funds		(2.9)	(6.3)	(9.6)	(9.9)
savings	COLA changes proposed - Savings to all funds		(8.7)	(9.0)	(9.2)	(9.5)
50% \$150	Onetime GF reserve savings - 50% of \$150	75.0	0.0	(7.4)	(8.3)	(8.7)
	ADEC+ from all funding sources Flat w/\$15m max		0.0	9.0	12.0	15.0
Total Pension Funding			112.6	112.7	112.9	116.3
Total SEs' Retirement - Pension and Healthcare Under Proposal			177.2	179.2	181.4	186.9

Category	Est. Impact to Unfunded Liabilities
Pension Benefit Recommendations	\$58.4 million
One-Time Pension Contributions	\$75.0 million
Prefunding OPEB	\$891.3 million
Total Estimated Unfunded Liability Reduction	\$1,024.7 million

VSTRS Recommendations

- No changes to currently retired or terminated vested members.
- Higher employee contribution rates phased in over 3 years in a progressive/marginal structure.
- Changes to COLA
- State makes \$125 million one-time payment.
- State commits to an ADEC “plus” payment beginning in FY2024, growing to \$15 million in FY2026 and remaining at that level until fund reaches 90% funded.
- Prefund OPEB
 - Normal cost = Education Fund
 - UAL amortization and paygo costs = General Fund

VSTRS Proposed Contribution Rates

- Beginning in FY2023, increase the contribution rates for all active members over a 3-year period according to the following marginal rate structure:
- 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.
- Employee contribution revenue offsets employer normal cost (ADEC) which is charged to Education Fund.

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%

VSTRS Preliminary Estimates of Additional Revenue from Contribution Changes (\$ millions)				
	FY2023	FY2024	FY2025	Comments
Employee contribution increases – phased, marginal rates with 3/year phase-in	6.2	8.7	10.3	Additional revenue offsets employer normal cost expenses to Education Fund (a component of the ADEC). JFO estimate based on active salary data and 3% annual growth assumptions.



VSTRS Proposed COLA Changes

- Beginning July 1, 2022, modify the COLA structure by:
 - Amending the minimum and maximum amounts of any increases/decreases used to determine the net percentage change in the CPI from the current 1% minimum/5% maximum to 0% minimum/4% maximum.
 - Requiring a member to receive a retirement benefit for at least 24 months of prior to receiving a COLA, an increase from the current 12-month requirement.
 - Actives who are eligible for normal (unreduced) retirement as of July 1, 2022 are exempt from the changes above.
- For members who leave active service on or after June 30, 2023:
 - Increase the 50% of CPI COLA formula by 7.5%/year once the pension system reaches 80% funded, provided that the increase does not result in the fund projected to fall below 80%. If the increase would result in the fund dropping below 80% funded, then the formula is paused at the levels in place at the time pending re-evaluation next year.

VSTRS Preliminary Estimates of Fiscal Impacts of Plan Changes (\$ millions)				
Plan Change	ADEC	Normal Cost	Unfunded Liability	Comments
COLA CPI formula 0% min, 4% max	-2.8	-1.0	-20.1	Per actuarial estimates from Segal. Numbers reflect individual impact of the two options without exemptions and may change in combination with other changes.
COLA 24+ months of retirement	-2.0	-0.6	-14.8	
COLA When VSTRS 80%+ funded, CPI formula increases 7.5%.				Fiscal impact not yet actuarially estimated. However, 7.5% increase does not apply if doing so is projected to cause the fund to drop below 80% funded.

The proposed VSTRS pension COLA changes could save approximately \$4.8 million in ADEC costs (across all funds), and reduce unfunded liabilities by approx. \$34.9 million.

VSTRS Proposed Additional Employer Contributions

- Make a one-time payment in FY2022 of \$75 million (50% of the \$150 million currently in reserve), plus an additional \$50 million (\$125 million total) toward the unfunded pension liability.
- Will result in ADEC savings 2 years after the payment (approx. \$12.2 million in FY2024 that grows in future years).
- Beginning in FY2024, make an ADEC “plus” payment toward the unfunded liability that ramps up to \$15 million by FY2026 and remains at that level until the fund is 90% funded.
 - Effectively redirecting future ADEC savings from the one-time funding in FY2022 toward additional pay down of unfunded liability.
- Reconfigure the year-end General Fund surplus construct to dedicate 25% to the VSTRS pension.

VSTRS Preliminary Estimates of Fiscal Impacts of Plan Changes (\$ millions)				
Plan Change	ADEC	Normal Cost	Unfunded Liability	Comments
\$125 million one-time payment	-12.2 (FY24)		-125.0	Impact of funds will reduce ADEC beginning 2 years following payment. Actual savings likely to vary slightly from actuarial estimate provided due to timing.
ADEC “Plus” payments (\$15M by FY2026) and 25% of General Fund surplus				Fiscal impact not yet actuarially estimated but will result in future ADEC and UAL savings. Impact of General Fund surplus will vary based on timing and magnitude of contributions.

VSTRS OPEB Proposal

- Enact a prefunding schedule into statute (ADEC).
- Use \$13.3 million of Education Fund money currently in reserve to begin prefunding.
- Charge the normal cost to the Education Fund, similar to how pensions are funded.
 - Normal cost = What should be paid into the system over the course of an active member’s career to fund their future benefit.
- Continue to apply the current “paygo” amount out of the General Fund to OPEB.

	Onetime \$s				
	FY22	FY23	FY24	FY25	FY26
Teachers' -Retiree Healthcare Fund					
EF Onetime \$s anchor prefund volatility -Beth memo	13.3				
EF Retirement Healthcare for Active Teachers -Normal Cost		15.1	15.6	16.0	16.5
GF - healthcare costs for already retired teachers		35.1	36.1	37.2	38.3
Total Retiree Healthcare Fund - with Prefunding		50.2	51.7	53.3	54.9
<i>Unfunded Healthcare Liability current paygo</i>		1,504.5			
<i>Unfunded Healthcare Liability with prefunding</i>		667.8			
<i>Reduction in Unfunded Liability on the state balance sheets</i>		(836.8)			

VSTRS Cost Estimates (\$ million)

		Onetime \$s				
		FY22	FY23	FY24	FY25	FY26
Teachers' -Retiree Healthcare Fund						
	EF Onetime \$s anchor prefund volatility -Beth memo	13.3				
	EF Retirement Healthcare for Active Teachers -Normal Cost		15.1	15.6	16.0	16.5
	GF - healthcare costs for already retired teachers		35.1	36.1	37.2	38.3
	Total Retiree Healthcare Fund - with Prefunding		50.2	51.7	53.3	54.9
	Unfunded Healthcare Liability current paygo		1,504.5			
	Unfunded Healthcare Liability with prefunding		667.8			
	Reduction in Unfunded Liability on the state balance sheets		(836.8)			
Teachers' Pension System Funding						
baseline	EF Pension for Active Teachers Normal Cost portion of ADEC		40.7	41.9	43.2	44.5
savings	EF higher teacher contribution savings		(6.2)	(8.3)	(10.3)	(11.1)
savings	EF portion - combined COLA savings proposal		(1.6)	(1.6)	(1.7)	(1.7)
savings	GF portion - combined COLA savings proposal		(3.2)	(3.3)	(3.4)	(3.5)
baseline	GF Teacher Pension - unfunded liability portion of ADEC		157.5	162.2	167.1	172.1
50%	\$150 Onetime GF reserve savings 50% of \$150 plus \$50m	125.0	0.0	(12.3)	(13.8)	(14.5)
	GF ADEC+ funding enhancement Flat\$ amt - \$15m max		0.0	11.0	13.0	15.0
	Total Pension Funding		187.2	189.7	194.1	200.7
	Total Teachers' Retirement - Pension and Healthcare Under Proposa		237.4	241.4	247.4	255.6
	EF -Net new combined impact (excludes baseline iter	13.3	7.3	5.6	4.0	3.7
		onetime	new ongoing	new ongoing	new ongoing	new ongoing
			numbers likely to change w/ actuary review of actual/negot. res			

Category	Est. Impact to Unfunded Liabilities
Pension Benefit Recommendations	\$34.9 million
One-Time Pension Contributions	\$125.0 million
Prefunding OPEB	\$836.8 million
Total Estimated Unfunded Liability Reduction	\$996.7 million



Net Impact of Pension Proposals By System		Yr1	Yr2	Yr3	Yr4
	Onetime	FY23	FY24	FY25	FY26
Teachers System HC and Pension Combined					
EF - Onetime	13.3				
EF New base prefund normal costs HC		15.1	15.6	16.0	16.5
EF impact from Employee Contribution and COLA		(7.8)	(9.9)	(12.0)	(12.8)
GF Maintain FY22 Paygo		5.5	5.7	5.8	6.0
GF impact from Employee net COLA		(3.2)	(3.3)	(3.4)	(3.5)
GF OT ADEC and outyear ADEC savings	125.0	0.0	(12.3)	(13.8)	(14.5)
GF ADEC+ Flat at \$15m max		0.0	11.0	13.0	15.0
	138.3	9.6	6.7	5.7	6.7
State Employees System HC and Pension Combined					
GF Surplus Onetime	52.4				
All Funds New base prefund normal costs HC		22.2	22.9	23.6	24.3
All Funds Impact - Employee Contrib and COLA		(11.6)	(15.2)	(18.8)	(19.4)
GF Onetime to ADEC	75.0				
All Funds outyear ADEC Savings from investment		0.0	(7.4)	(8.3)	(8.7)
All Funds ADEC+ Flat at \$15m max		0.0	9.0	12.0	15.0
	127.4	10.6	9.3	8.5	11.2
Total All Funds Net Impact	265.7	20.2	16.1	14.2	17.9
<i>Normal growth on existing baseline items in funds will continue this currently is estimated at 3% on average...</i>					
		YR 1	YR 2	YR 3	YR 4
	Onetime	FY23	FY24	FY25	FY26
SUMMARY BY FUND ALL COMBINED					
Total Teacher and State Savings		(22.6)	(28.5)	(34.2)	(35.7)
Total State Onetime Effort GF and EF	265.7				
Total Net New Base Funding Effort - ALL Funds		20.2	16.1	14.2	17.9
Net New Base Impact By Fund	EF share	7.3	5.6	4.0	3.7
<i>assumes 100% GF in SE in FY23 - back to 42% after</i>	GF	12.9	5.0	5.3	7.7
	FF	0.0	2.2	2.0	2.6
	TF & SF	0.0	3.3	3.0	3.9
	ALL	20.2	16.1	14.2	17.9

Estimates are preliminary and may fluctuate due to additional actuarial analysis, timing, or gains/losses from other factors.