



# Pension & Benefits Funding Task Force Proposal

Presentation to the House  
Government Operations Committee  
January 29, 2026



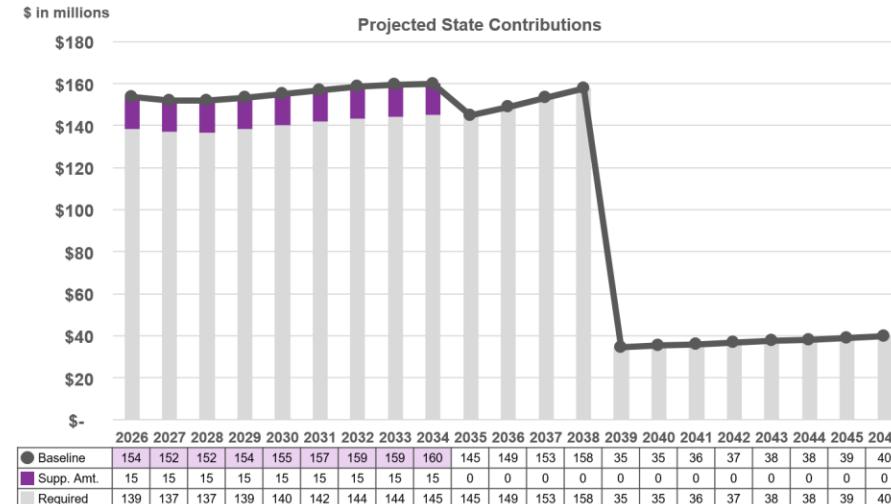


# Funding Task Force Proposal

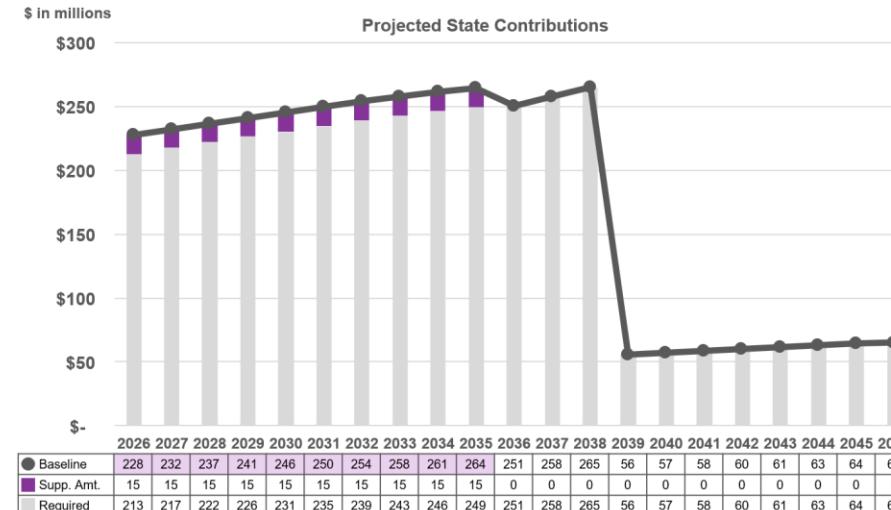
- **What is it?**
  - A proposed Stakeholder Group to review funding policies for the Retirement Systems, primarily for pensions but also for retiree health benefits
- **What are our current policies?**
  - Closed amortization period to fully fund Pension and Benefits Systems
    - Pension Systems – must be fully funded by 2038
    - Benefits Systems – must be fully funded by 2048
  - State contributions are re-calculated each year based on plan experience to fully pay down unfunded liabilities by the statutory end date
- **Why review our policies now?**
  - Our current Pension System policies were established almost 20 years ago
  - As we approach 2038, annual funding requirements subject to greater volatility
  - Less concerning for Benefits System, but useful to review at the same time

# Annual Pension Contributions - Assumed

- **Annual Contributions**
  - Substantial and subject to change based on experience
- **FY2026 Pension System Costs**
  - VSERS \$136.4 million
  - VSTRS \$212.8 million
- **Annual payments level in nominal dollars if assumptions are perfect**
  - Adjusting for inflation at assumed 2.3%, 2035 contributions are lower than they are today



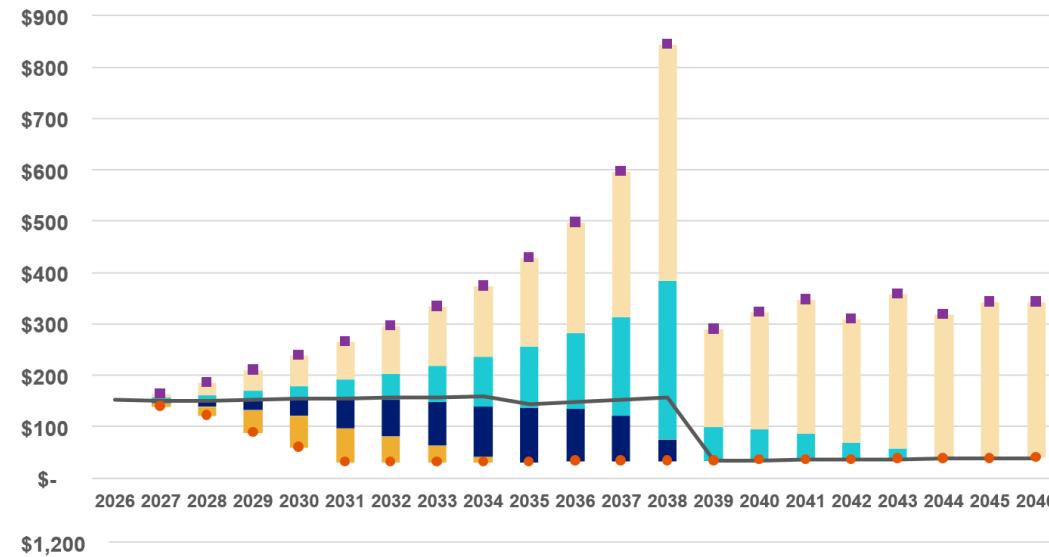
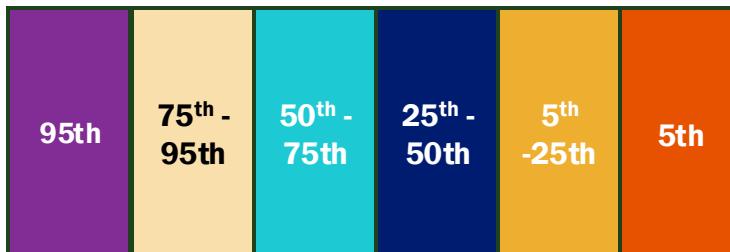
**VSERS**



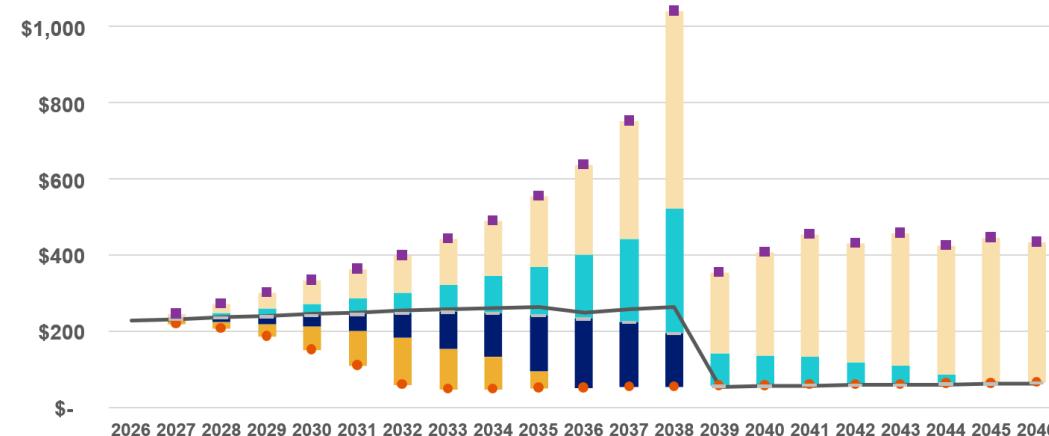
**VSTRS**

# Annual Pension Contributions - Actual

- Assumptions are never perfect
- Annual contribution is recalculated each year based on experience
- Range of uncertainty is substantial



**VSERS**



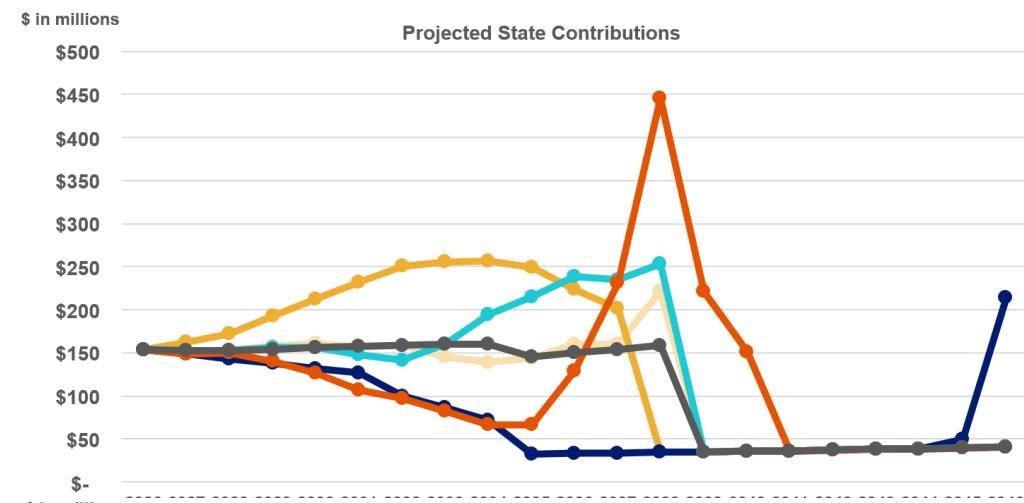
**VSTRS**

# What Does Volatility Look Like?

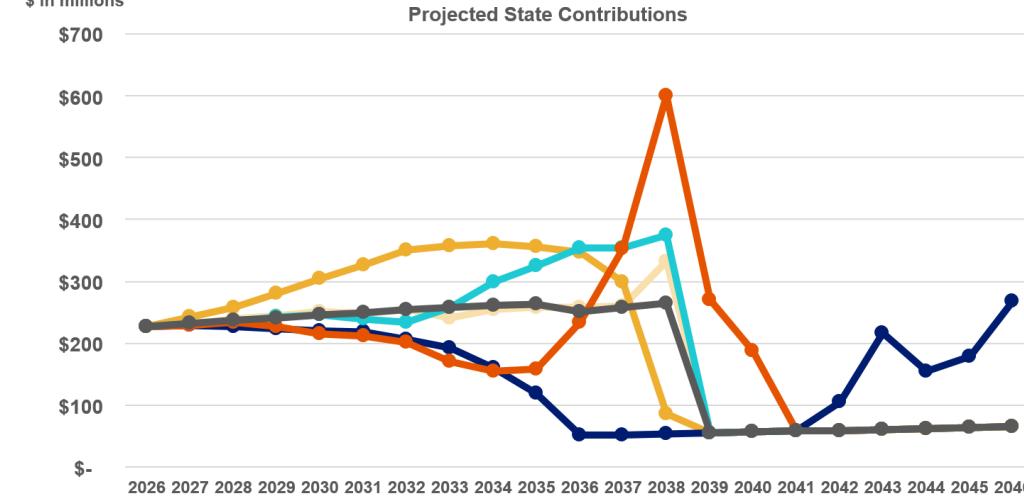
**Five economic scenarios with impact on annual contributions**

Baseline	High Volatility	30-31 Downturn
Good Early, Bad Late	Bad Early, Good Late	32-36 Downturn

- **Expected contributions in 2038**
  - State - \$158 million
  - Teachers - \$265 million
- **Range of payments in scenarios:**
  - State - \$34 - \$445 million
  - Teachers - \$54 - \$600 million



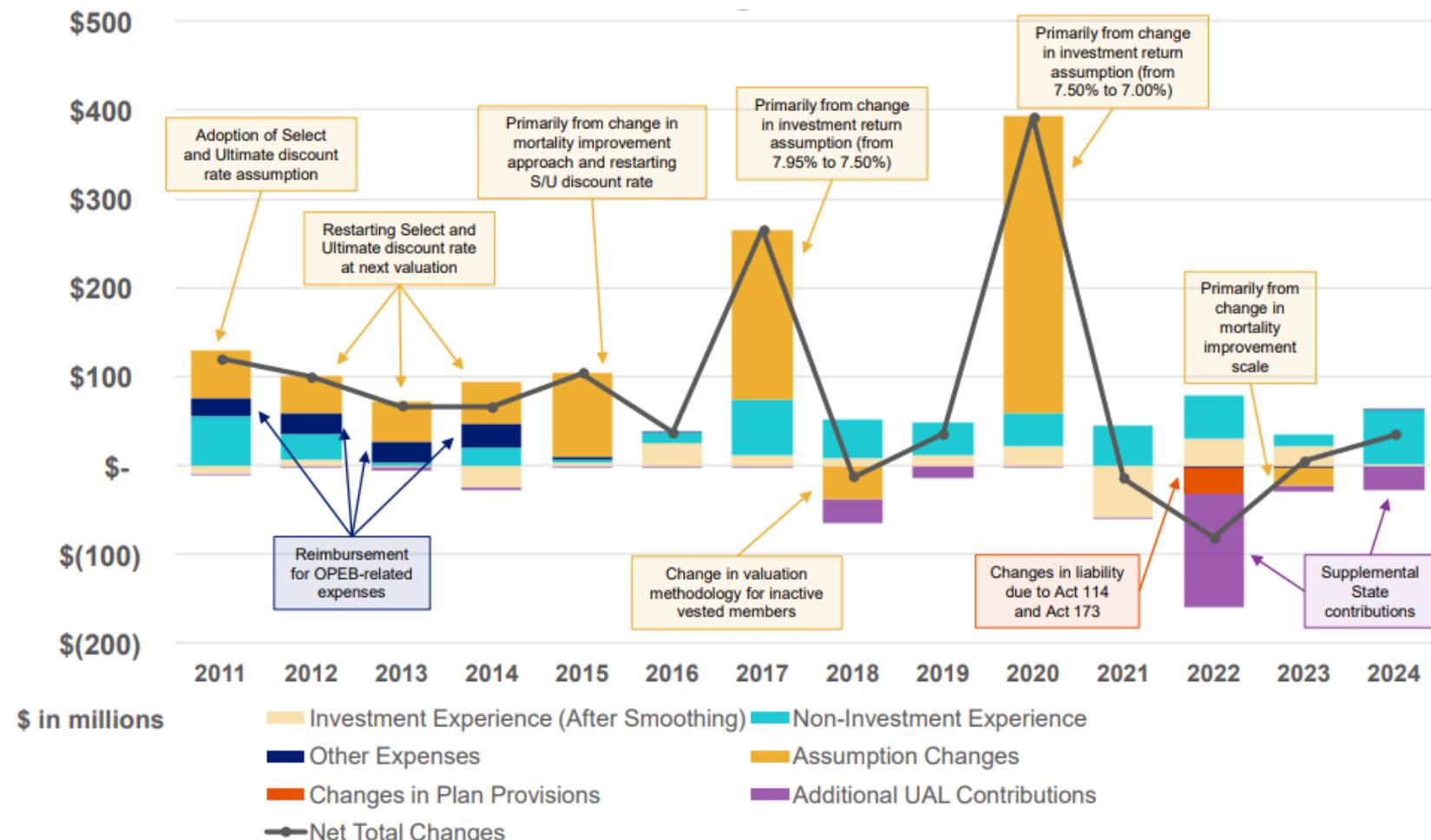
**VSERS**



**VSTRS**

# Volatility Happens

Historical Factors that have Changed VSTRS Unfunded Liabilities Since 2010 (VSERS Factors are similar)





# Volatility approaching 2038

- Last years of a closed amortization period are the most volatile because there is little time to absorb large gains or losses
- Added volatility can threaten:
  - State's ability to make annual required contributions
  - State's credit rating
  - Investment opportunities
- With upcoming budget year (FY27), 12 years to fully pay down unfunded pension liabilities



# Funding Options

- **Closed Amortization**
  - Current policy that fully pays down unfunded liabilities by 2038
- **Open Amortization**
  - Never fully pay off liability and instead re-amortize each year over the same time period
- **Layered Amortization**
  - Pay off legacy unfunded liability by 2038 and layer new gains/losses on top each year after
- **Model industry practice has focused on creating a legacy unfunded liability base and implementing layered amortization thereafter**
  - Many options in designing policy



# Work to Date

- **Work to date has focused on the Pension Systems:**
  - 2019 Risk Assessments
  - 2025 VSERS Risk Assessment / 2025 VSTRS Risk Assessment
    - Reviewed open and layered amortization policies
    - Charts in presentation come from these 2025 risk assessments
- **Benefits Systems at the start of prefunding period**
  - Less urgency but same principles apply
  - Subject to additional volatility due to cost/trend of health care



# Proposal

- **Create a Funding Task Force to review funding policies**
  - Closed amortization period has worked well
  - Strong consensus tool that has broad acceptance among stakeholders
  - Any changes should be thought through by all stakeholders to ensure result has broad consensus.
- **Deliver recommendations to Legislature for potential changes in the 2027 Legislative Session**



# Questions & Comments