

Pension & Benefits Funding Task Force Proposal

Presentation to the Senate
Government Operations Committee
April 9, 2026





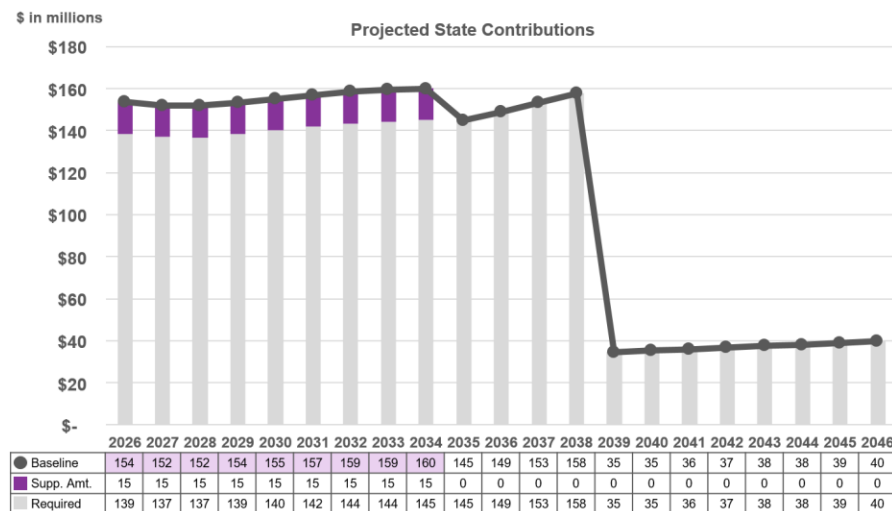
Funding Task Force Proposal

- **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

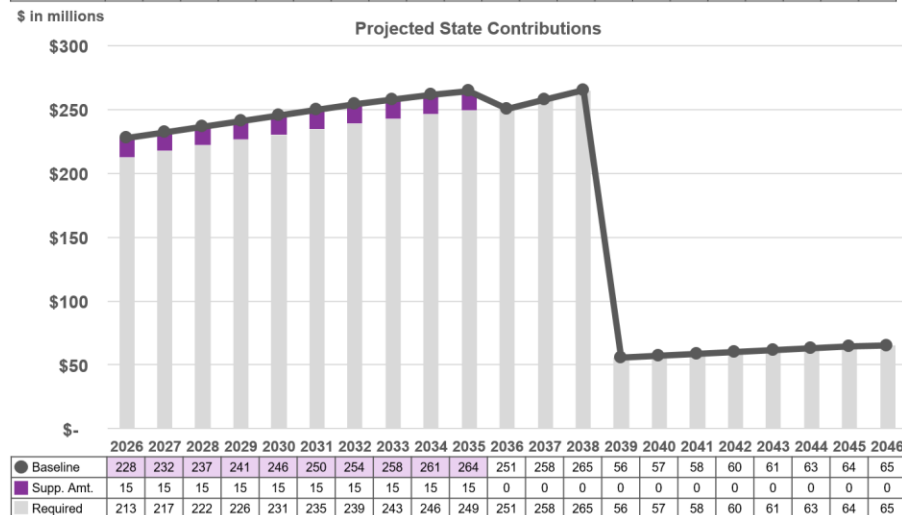


Annual Pension Contributions - Assumed

- **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

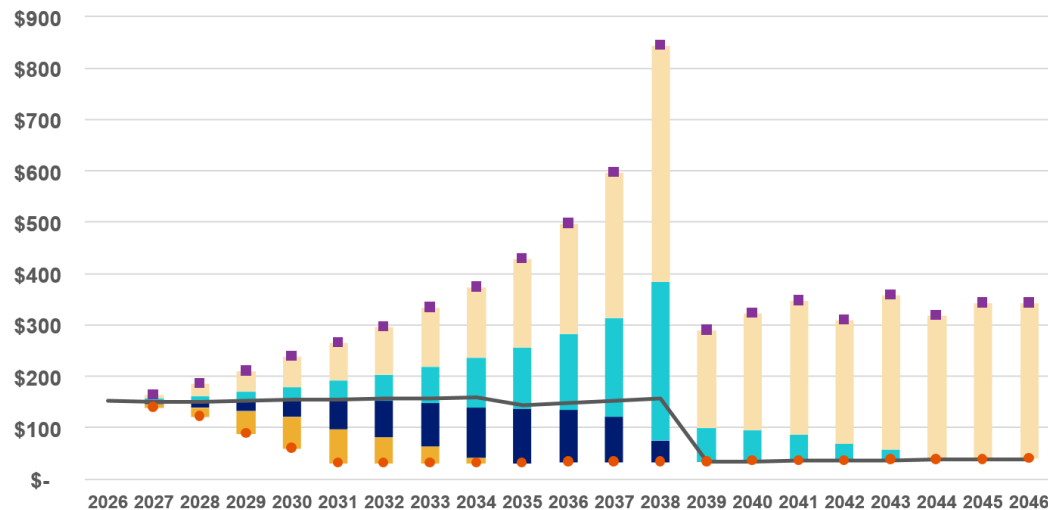


VSTRS

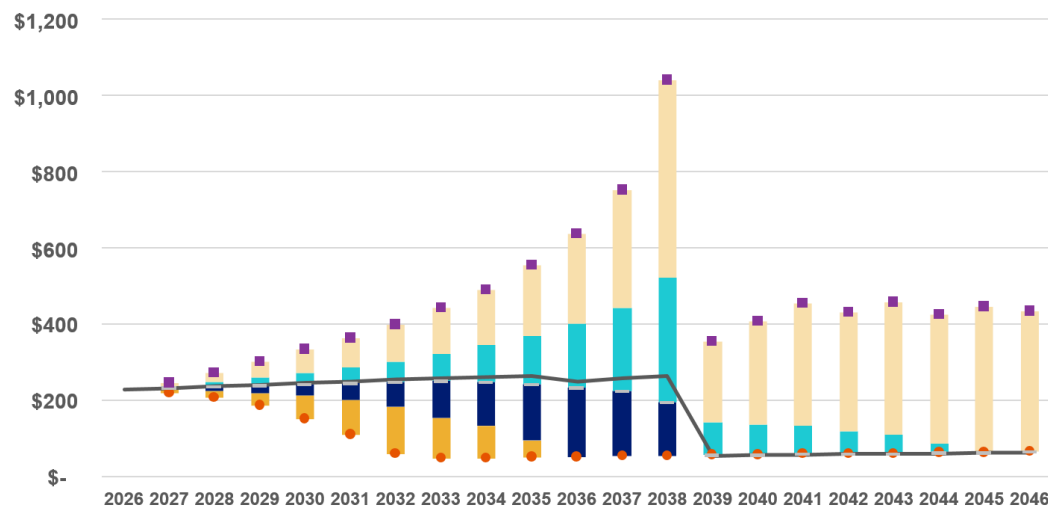


Annual Pension Contributions - Actual

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



VSERS



VSTRS

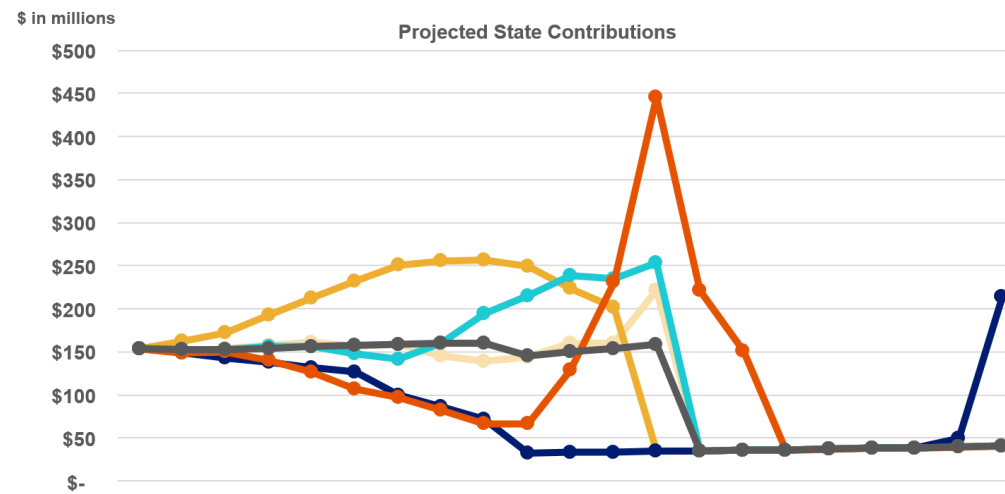


What Does Volatility Look Like?

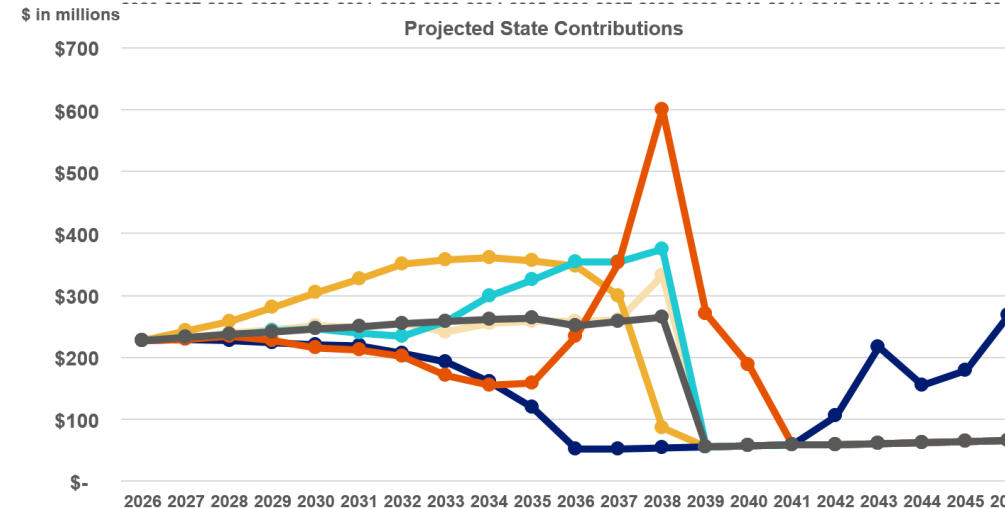
Five economic scenarios with impact on annual contributions

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

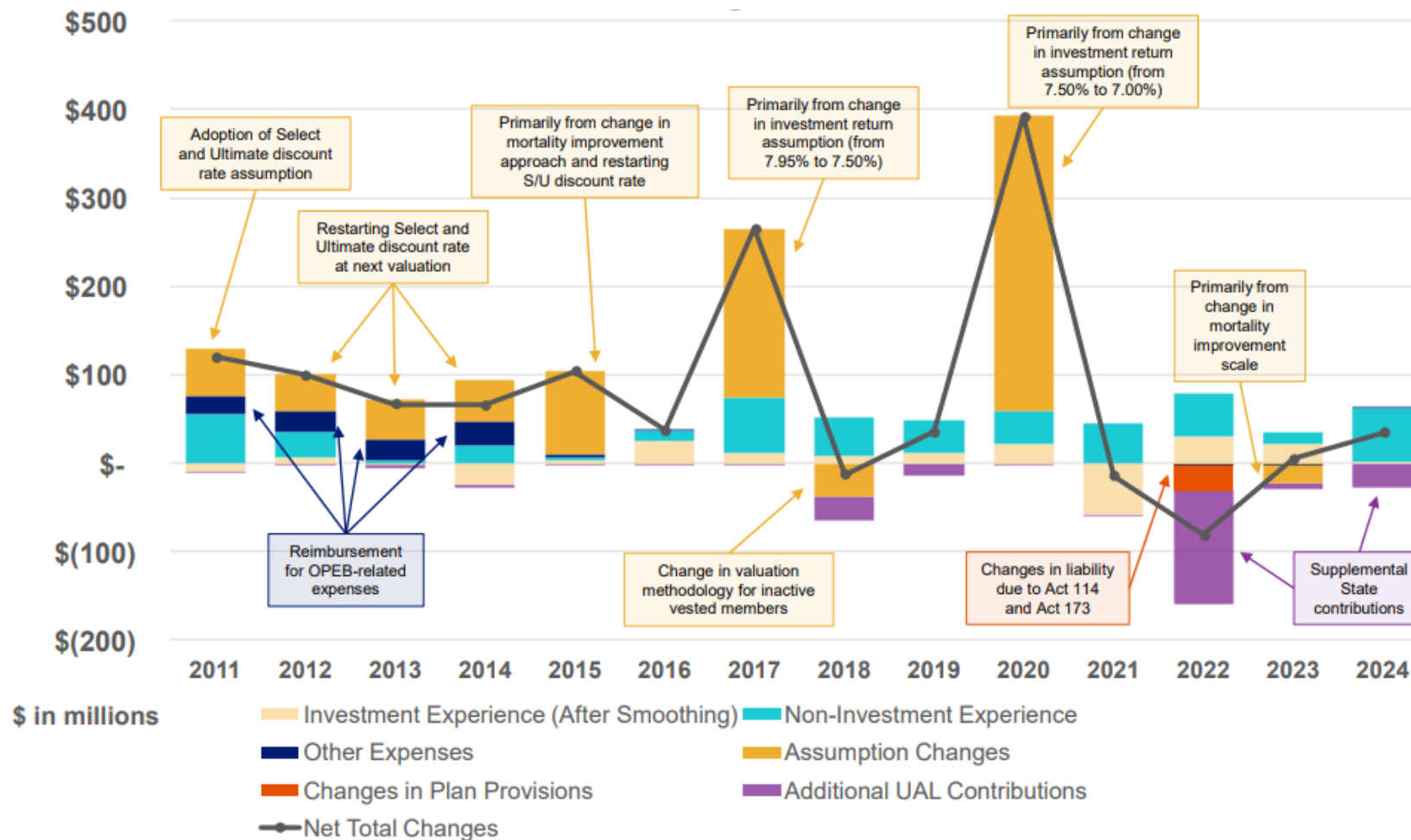


VSTRS



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