



Benefits and Actuarial Committee (B&A) Meeting

GOTOWEBINAR

Wednesday, 6/9/2021

1:00 - 3:30 PM ET

I. Welcome and Introductions

II. Public Comment

III. Approve Minutes

• **April 19, 2021**

BA Minutes 04.19.2021 FINAL - Page 2

IV. Purchase of Prior Service Normal Cost Rates

• **RBA - Approve Updated Rates for Purchase of Prior Service for Plan 1, Plan 2 and Hybrid Plan Members, Effective July 1, 2021.**

RBA_ApproveNormalCostRates - Page 6

PPS Approximate Normal Cost Rate Update 6.8.21 - Page 8

V. Information Items

• **Upcoming B&A Committee Meetings**

- September (TBD) Stress Test and Sensitivity Analysis Report

- October 13, 2021 at 10:00 a.m.

- November 15, 2021 at 1:00 p.m.

VI. Other Business

Minutes

An electronic meeting of the Virginia Retirement System Benefits and Actuarial Committee was held on April 19, 2021 in accordance with § 2.2-3708.2(A)(3) of the *Code of Virginia* and in accordance with guidance provided in Item 4-0.01 of Chapter 552 of the 2021 Special Session I Acts of Assembly, with the following members participating:

Wallace G. Harris, Ph.D., Chair
William A. Garrett, Vice Chair
Michael P. Disharoon

Board members present:

O’Kelly E. McWilliams, III, Board Chair
Joseph W. Montgomery, Board Vice Chair
Hon. J. Brandon Bell, II
Troilen G. Seward

VRS Staff:

Patricia Bishop, Rory Badura, Judy Bolt, Ty Bowers, Jeanne Chenault, Michael Cooper, Sara Denson, Valerie Disanto, Andy Feagans, Brian Goodman, Jillian Sherman, Virginia Sowers, Grace Wheaton and Cindy Wilkinson.

Guests:

Larry Langer, Alisa Bennett, Weston Lord, Wendy Ludbrook, Micki Taylor, Brad Wild and Youveak Yeng, Cavanaugh Macdonald Consulting, LLC; Adam Rosatelli, Senate Finance and Appropriations Committee; Jamie Bitz and Kimberly Sarte, Joint Legislative Audit and Review Commission; Aubrey Lane and Joe Flores, Secretary and Deputy Secretary of Finance; Michael Jay, House Appropriations Committee; Latosha Johnson and Jason Saunders, Department of Planning and Budget; Natosha Palmer, and Bea Snidow, Virginia Education Association.

The meeting convened at 1:00 p.m.

Opening Remarks

Mr. Harris called the meeting to order and welcomed everyone to the April 19, 2021 meeting of the Benefits and Actuarial Committee.

Mr. Harris noted that given the current circumstances related to COVID-19, the Committee is unable to meet in person and, therefore, is using electronic means to hold the meeting. The meeting is being held in accordance with § 2.2-3708(A)(3) of the *Code of Virginia* and Chapter 552 of the 2021 Special Session I Acts of Assembly as they relate to conducting business during the pandemic.

Next, Mr. Harris took attendance with the following roll call:

Mr. Bell: Here
Mr. Disharoon: Here
Mr. Garrett: Here

Mr. McWilliams: Here
Mr. Montgomery: Here
Ms. Seward: Here
Mr. Harris: Here

Public Comment

In accordance with Chapter 552 of the 2021 Special Session I Acts of Assembly, the Committee opened the floor for public comment. Mr. Harris noted that no members of the public registered to comment at the electronic meeting.

Approve Minutes

Upon Mr. Disharoon's motion, with a second by Mr. Montgomery, the Committee approved the minutes of its February 11, 2021 meeting upon the following roll call vote:

Mr. Bell: Aye
Mr. Disharoon: Aye
Mr. Garrett: Aye
Mr. McWilliams: Aye
Mr. Montgomery: Aye
Ms. Seward: Abstain
Mr. Harris: Aye

Experience Study

Mr. Harris provided an overview of the Experience Study. The study is required by statute to be performed at least once every four years to validate assumptions and make necessary adjustments based on a comparison of actual VRS experience to the expected experience based on current assumptions.

Larry Langer and Alisa Bennett from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, presented the results from the Experience Study and provided recommendations and cost impacts associated with the proposed changes.

Ms. Bennett advised that while the impact of COVID-19 was considered in the review, no explicit changes were incorporated at this time due to the level of uncertainty regarding the effect of the pandemic on both health care costs and decremental experience such as mortality, retirement and disability. Staff will continue to monitor the situation as data emerges and advise the Board in the future of any adjustments believed to be appropriate.

Mr. Langer noted that the funded status decreased and, therefore, employer contribution rates will increase as a result of these recommendations. Due to the Board's decision to reduce the discount rate from 7.00% to 6.75% in 2019, there were no recommended changes regarding current economic assumptions, except for increasing the LODA discount rate from 4.75% to 6.75%. New accounting standards, GASB 74 and 75, separated accounting calculations from funding. For funding and for pay as

you go cash flow projections, the Plan Actuary recommends that the LODA Fund use 6.75% as the discount rate since the Fund is invested in the same manner as the pension funds.

Next, Mr. Langer reviewed the recommendations related to the demographic assumptions. Most notably, the updated mortality assumptions were the primary driver of lower funded status and higher contribution rates for the pension plans. The Plan Actuary recommends changing the current mortality assumption from a Margin approach on a headcount-weighted basis, to a Generational Mortality approach on a benefits-weighted basis. This change will reduce the likelihood of large increases in assumed life expectancy with future experience studies. The updated mortality assumptions led to increases in funded status for the Group Life Insurance program (GLI), VSDP and VLDP for Political Subdivisions, and minor decreases in funded status for the other OPEB programs. With the exception of GLI, which saw a reduction in contribution rates due to the proposed assumption changes, the other OPEB programs had little or no change in contribution rates due to the proposed changes.

The next Experience Study is scheduled to be implemented with the June 30, 2025 actuarial valuation.

Mr. Harris thanked Mr. Langer and Ms. Bennett for their presentation.

Following the presentation, the Committee took a short break and resumed at 2:23 p.m.

The Committee then took up the following RBA for consideration:

RBA: Approval of Actuarial Assumptions based on July 1, 2016 to June 30, 2020 Experience Study.

Request for Board Action: *The VRS Board of Trustees approves its plan actuary's recommendations as presented in the Experience Study (7/1/2016 to 6/30/2020) to change various assumptions, including: certain demographic assumptions regarding mortality rates, retirement rates, withdrawal rates, and disability rates; method changes regarding the timing of plan decrements, as well as various Other Post-Employment Benefits (OPEB) specific assumptions related to the Line of Duty Plan, the Health Insurance Credit program, and the VSDP and VLDP disability programs.*

Upon a motion by Mr. Montgomery, with a second by Mr. Garrett, the Committee recommended approval of the action to the full Board of Trustees upon the following roll call vote*:

Mr. Disharoon: Aye
Mr. Garrett: Aye
Mr. McWilliams: Aye
Mr. Montgomery: Aye
Mr. Harris: Aye

**Mr. Bell and Ms. Seward had exited the meeting prior to this vote.*

Information Item

Upcoming B&A Meetings

Mr. Harris reviewed the B&A Committee's upcoming meetings:

-
- June 9, 2021 at 1:00 p.m.
 - October 13, 2021 at 10:00 a.m.
 - November 15, 2021 at 1:00 p.m.

Lastly, Mr. Harris noted the full Board will meet tomorrow, April 20th, at 1:00 p.m.

Adjournment

Upon a motion by Mr. Montgomery, with a second by Mr. Garrett, the Committee agreed to adjourn the meeting upon the following roll call vote:

Mr. Disharoon: Aye
Mr. Garrett: Aye
Mr. McWilliams: Aye
Mr. Montgomery: Aye
Mr. Harris: Aye

There being no further business, the meeting concluded at 2:54 p.m.

Date

William A. Garrett, Vice Chair
Benefits and Actuarial Committee



**Approve updated rates for purchase of prior service
for Plan 1, Plan 2 and Hybrid Plan members,
effective July 1, 2021.**

Requested Action

The Board determines, after considering the recommendations of the Plan Actuary, that effective July 1, 2021, the rates for Plan 1 members to purchase prior service shall be 12.54% for regular VRS members, 21.64% for hazardous duty employees, and 35.03% for judges; that the rates for Plan 2 members to purchase prior service shall be 10.89% for regular VRS members, 19.97% for hazardous duty employees, and 33.13% for judges; that the rates for Hybrid Plan members to purchase prior service shall be 6.68% for regular VRS members and 18.12% for judges, and an alternative rate of 9.20% for certain affected hazardous duty employees whose employers have not adopted all the enhanced benefits for their hazardous duty employees.

Description/Background

Code of Virginia § 51.1-142.2(A) states in pertinent part, “For each year or portion thereof to be credited at the time of purchase under this subsection, the member shall pay the approximate normal cost of the retirement plan under which the member is covered at the time of such purchase, as determined by the Board in its sole discretion.” This approximate normal cost rate is applicable for a period of 24 months following the member’s first date of hire or the final day of any applicable leave of absence for which service credit may be purchased, after which the cost to purchase such service changes to the actuarial equivalent cost.

Rationale for Requested Action

The Plan Actuary developed three rate groups for this purpose, and each group for this purpose is considered the “retirement program under which the [affected] member is covered.” Moreover, the Plan Actuary developed a separate rate for Plan 1, Plan 2, Hybrid Plan, and alternate hazardous duty as applicable.

The groups are:

- Regular VRS (i.e., state employees, local non-hazardous duty employees, and teachers);
- Hazardous duty employees (i.e., SPORS, VaLORS and local hazardous duty); and
- Judges

The Plan Actuary’s calculations reflect assumption and method changes from the most recent experience study for the period from July 1, 2016 to June 30, 2020 and the combined normal cost for each of the groups above. The Board approved the Plan Actuary’s recommended changes to the assumptions and methods from this experience study at its meeting on April 20, 2021.

Following is a table with the recommended rates by group and plan.

Members	Plan 1	Plan 2	Hybrid	Alternate Hazardous Duty
Regular VRS (State, Teachers, and Political Subdivision Non-Hazardous Duty)	12.54%	10.89%	6.68%	
Hazardous Duty Employees (SPORS, VaLORS, and Political Subdivision)	21.64%	19.97%		9.20%
Judges	35.03%	33.13%	18.12%	

Hazardous duty employees are not eligible for the Hybrid Plan, making it unnecessary to calculate a normal cost rate for that category. The alternate hazardous duty rate applies to a very small number of employers who have not adopted all the enhanced benefits for their hazardous duty employees (e.g., age and service eligibility but no hazardous duty supplement).

Authority for Requested Action

Code of Virginia § 51.1-142.2(A) authorizes the Board to determine the rates for purchase of prior service by Plan 1, Plan 2 and Hybrid Plan members, and this determination may be made by the Board in its sole discretion.

The above action is approved.

O’Kelly E. McWilliams, III, Chair
 VRS Board of Trustees

Date

Purchase of Prior Service

Approximate Normal Cost Rates

June 9, 2021



Purchase of Prior Service

By statute, VRS members are allowed to purchase some forms of prior public service as detailed in Va. Code § 51.1-142.2.

Limited Purchase Amounts

- Educational Leave
- Family and Medical Leave
- Federal Service (Salaried FT)
- Birth or Adoption Leave
- Non-Covered Service with VRS Employer
- Non-Ported Service
- Other Public Service (Non-VRS)
- Active-Duty Military Service prior to VRS service

Unlimited Purchase Amounts

- Refunded Service
- No-Cost Military Leave (deployment while in service)
- Ported Service
- Sick Leave Conversion at Retirement
- Disability Credit Conversion at Retirement
- Workers' Compensation

- Members are eligible to purchase prior service at any point while an active VRS member.

- However, there is a two-year window of time to purchase most types of service at approximate normal cost before the cost changes to an actuarial equivalent cost.
 - Normal cost represents the cost of benefits earned in current year, or the required amount to pay each year to cover benefit accruals.
 - Actuarial equivalent cost is generally higher, but not always, depending on the age of member at purchase.

- The two-year window does not apply to refunded service, which can be purchased at any time during active membership by paying back the refund with interest at the plan's long-term rate of return.

Approximate Normal Cost Rates

- Approximate Normal Cost Rates are updated every four years following the Board's acceptance of new assumptions associated with the quadrennial experience study.
- Rates are developed by the Plan Actuary based on new assumptions and using demographic data from the prior year valuations.

Approximate Normal Cost Rates

- To simplify administration, blended normal cost rates are created across plans.
- Each group has different rates for applicable benefit tiers
 - (Plan 1, Plan2, and Hybrid if applicable.)
- The approximate normal cost rates are a blended normal cost rate for current active members in each of the respective groups.

Approximate Normal Cost Groups

- **Group 1** – State, Teachers, Non-Hazardous Duty Political Subdivision Members
- **Group 2** – Hazardous Duty Employees (SPORS, VaLORs, and Enhanced Hazardous Duty Political Subdivision Members)
- **Group 3** – Judges
- **Group 4** – Alternate Hazardous Duty (Enhanced Eligibility Only)

Proposed Approximate Normal Cost Rates



Members		Plan 1	Plan 2	Hybrid	Alternate Hazardous Duty
Regular VRS (State, Teachers, and Political Subdivision Non-Hazardous Duty)	Current Rates	11.90%	10.46%	6.34%	
	Proposed Rates	12.54%	10.89%	6.68%	
Hazardous Duty Employees (SPORS, VaLORS, and Political Subdivision Enhanced Hazardous Duty Employees)	Current Rates	18.49%	16.89%		8.84%
	Proposed Rates	21.64%	19.97%		9.20%
Judges	Current Rates	35.43%	29.51%	16.58%	
	Proposed Rates	35.03%	33.13%	18.12%	

Questions?