The Virginia Retirement System (VRS) provides the actuarial valuation report of pension benefits to employers by mail. Prepared by VRS’ actuary Cavanaugh Macdonald Consulting, the main purpose of the report is to provide individual employers with updated information regarding the funded status of the plan and employer contribution rates.

As a reminder, odd-year valuations are used to set contribution rates for the subsequent two fiscal years, e.g., the June 30, 2019, valuation will be used to set employer contribution rates for fiscal years ending 2021 and 2022. VRS provides even-year valuations for informational purposes to assist you with planning.

The results of the 2019 funding valuation are presented in the following sections:

I. Summary of Principal Results – Contains introductory and summary information related to the most recent valuation for your plan. Table 1 provides a summary of the key results of the current valuation compared to the prior year.

   a. Covered Payroll (Item 2) – Employer contribution rates are provided as a percentage of covered payroll, which is assumed to increase annually by 3.0%. Note that a level or decreasing covered payroll will cause an increase in employer contribution rates, as costs are spread over a smaller than expected payroll.

   b. Funded Ratio (Item 6) – Is the ratio of plan assets to plan liabilities. A funded ratio of less than 100% signifies that plan liabilities exceed current assets. In general, the funded status of the plan should improve year over year if assumptions are met. Plan experience may cause the funded status to decrease, for example due to poor asset returns or an influx of early or disability retirements. As of June 30, 2019, 60% of the VRS-participating political subdivision plans had a funded status of at least 90%, with approximately 33% of plans being greater than 100% funded.

   c. Unfunded Actuarial Accrued Liability (Item 7) – Is the excess of plan liabilities over current plan assets. For those plans with unfunded liabilities, the legacy unfunded liability established in 2013 represents a majority of the unfunded liabilities and has 24 years remaining on the amortization schedule before it will be paid off.

   d. Employer Contribution Rate (Item 9) – Shows the cost components that make up the employer contribution rate. Page 1 of the report describes the various components of the contribution rate. Section II of the report contains additional detail on the development of the contribution rate.

II. Plan Contribution Development – Shows additional detail of the components of the employer contribution rate as a percentage of covered payroll for your members.

   Table 3 – Shows the obligations of the plan as of the valuation date broken out among the various member groups. As plans mature, liabilities associated with retired and terminated members may exceed active member liabilities.
Table 4 – Provides development of the employer contribution rate with added detail of general employees and enhanced hazardous duty members, if applicable. While Item 15 shows the blended employer rate, Item 16 shows the explicit rates for general employees versus those with enhanced hazardous duty coverage, if applicable. The table on the following page provides the estimated long-term impact of the 2012 pension reforms on the normal cost portion of the employer rate. As new employees enter the Hybrid Retirement Plan and replace current members enrolled under Plan 1 and Plan 2 benefits, the plan normal cost is expected to decrease.

Table 5 – Provides an estimated projection of future employer contribution rates—assuming plan experience matches the assumptions used in the valuation, including investment returns of 7.0%. The rates shown relate only to the defined benefit plans and do not include the employer-matching contributions to the defined contribution portion of the hybrid plan.

Amortization Schedule – Provides a detailed breakdown of the various amortization schedules that make up the employers amortization payment included in the employer rate. In 2013, the legacy unfunded liability was amortized over a 30-year closed period. Subsequent actuarial gains/losses that occur each valuation period are amortized over a 20-year closed period.

III. Actuarial Assumptions and Methods – Details the actuarial assumptions and methods used in the valuation.

IV. Actuarial Cost Method – Provides detail on the methodology used to calculate the plan’s liability, funded status and contribution rate.

V. Summary of Benefit Provisions – Contains a summary of the benefit provisions covered in the valuation.

VI. Data Summary – Provides a summary of the census data for covered members as of June 30, 2019, submitted by VRS for the valuation. Page 3 of the report contains the member counts by status for the current year as compared to the prior year. Page 6 of the report shows a breakdown of the covered payroll between general employees and those with enhanced hazardous duty coverage (if applicable).