

Sample Notes to the Financial Statements
Single Plan – Political Subdivision Retirement Plan
For the Fiscal Year Ended June 30, 2018

Instructions – The Sample Notes to the Financial Statements for the Single Employer Plan – Political Subdivision Retirement Plan are based on the data in Illustration 1 of GASB Statement No. 68 and the related information in the Implementation Guide. These are provided by the Virginia Retirement System as a guide for employers in the development of their GASB 68 note disclosures. The GASB 68 schedules referenced in this document can be found in the “GASB Statement No. 68 Report for the Virginia Retirement System Prepared as of June 30, 2017” on the VRS Guidelines and Resources page of the VRS website at:

<https://employers.varetire.org/financial-reporting/vrs-guidlines-and-resources.html>

Within the sample Notes to the Financial Statements, the sample Required Supplementary Information and the sample Journal Entries there are a number of variable items which each employer must fill in using their own unique information. For each of these items, we have identified the source of the information.

The information included in this document reflects the implementation of GASB Statement No. 82 by the plan. This implementation resolved two outstanding issues from GASB Statement No. 68 – the Presentation of Payroll Related Measures in RSI and the Classification of Employer-paid Member Contributions.

The information in this document is provided as an additional resource for employers, but each employer is responsible for their own Notes to the Financial Statements. Employers should review the language and other information provided with their auditors.

If you have any questions concerning this information, please contact me at (804) 344-3128 or send me an email at bfaison@varetire.org.

Political Subdivision Name
Notes to the Financial Statements
For the Year Ended June 30, 2018

Summary of Significant Accounting Policies

Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision’s Retirement Plan and the additions to/deductions from the Political Subdivision’s Retirement Plan’s net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note: If the Political Subdivision has component units whose employees were provided with pensions through this pension plan, the Political Subdivision should apply the requirements of paragraph 39 of GASB Statement No. 68 when presenting financial statements of the reporting entity.

Plan Description

All full-time, salaried permanent employees of the Political Subdivision are automatically covered by a VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN

<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members</p>

<p>The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u></p>

<p>service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>		<p>Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p>

<p>Members are always 100% vested in the contributions that they make.</p>		<p><u>Defined Contributions</u> <u>Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member’s average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution</u> <u>Component:</u> The benefit is based on contributions made by the member and any matching</p>

<p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>		<p>contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p>

		<p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable</p>	<p>Earliest Reduced Retirement Eligibility</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u></p>

<p>service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p>Exceptions to COLA Effective Dates:</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p>Eligibility: Same as Plan 1</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>

<p>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p>

		Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <p>Defined Contribution Component: Not applicable.</p>

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	Political Subdivision's GASB 68 Report - Membership Table, Page 3, Line 1
Inactive members:	
Vested inactive members	Political Subdivision's GASB 68 Report - Membership Table, Page 3, Line 2
Non-vested Inactive members	Political Subdivision's GASB 68 Report - Membership Table, Page 3, Line 3
Inactive members active elsewhere in VRS	Political Subdivision's GASB 68 Report - Membership Table, Page 3, Line 4
Total inactive members	Political Subdivision's GASB 68 Report - Membership Table, Page 3, Line 5
Active members	Political Subdivision's GASB 68 Report - Membership Table, Page 3, Line 6
Total covered employees	Political Subdivision's GASB 68 Report - Membership Table, Page 3, Line 7

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

If the employer used less than the certified rate: The political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was [Insert contributed rate] % of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the political subdivision's plan was [Insert certified rate] %.

If the employer used the certified rate: The political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was [Insert certified rate] % of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the political subdivision were \$ [Insert amount] and \$ [Insert amount] for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivisions net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision’s Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35%
Investment rate of return	7.0 Percent, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
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Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

- Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related
 - Pre-Retirement:
 - RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.
 - Post-Retirement:
 - RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) –Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension

plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 20,817,087,720	\$ 17,418,111,546	\$ 3,398,976,174
Changes for the year:			
Service cost	541,593,844	-	541,593,844
Interest	1,422,754,924	-	1,422,754,924
Benefit Changes	36,652,242	-	36,652,242
Differences between expected and actual experience	(205,649,409)	-	(205,649,409)
Assumption Changes	(64,510,282)	-	(64,510,282)
Contributions - employer	-	477,563,307	(477,563,307)
Contributions - employee	-	238,636,442	(238,636,442)
Net investment income	-	2,113,967,672	(2,113,967,672)
Benefit payments, including refunds	(941,856,449)	(941,856,449)	-
Refunds of employee contributions	(42,068,244)	(42,068,244)	-
Administrative expenses	-	(12,221,134)	12,221,134
Other changes	-	(1,886,358)	1,886,358
Net changes	<u>746,916,626</u>	<u>1,832,135,236</u>	<u>(1,085,218,610)</u>
Balances at June 30, 2017	<u>\$ 21,564,004,346</u>	<u>\$ 19,250,246,782</u>	<u>\$ 2,313,757,564</u>

Totals are from Schedule E Total Pension Liability and Fiduciary Net Position on pages 113-136 of the GASB Statement No. 68 Report. ***(Individual employer data is provided in the Political Subdivision's GASB 68 Report in the Schedule of Changes in the Net Pension Liability on page 4.)***

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's Net Pension Liability	\$ [Political Subdivision's GASB 68 Report Page 3, Net Pension Liability 1% Decrease (6.0%)]	\$ [Political Subdivision's GASB 68 Report Page 3, 6/30/2017 Net Pension Liability]	\$ [Political Subdivision's GASB 68 Report Page 3, Net Pension Liability 1% Increase (8.0%)]

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018 the political subdivision recognized pension expense of \$ [Pension Expense, Page 6 of the Political Subdivision’s GASB 68 report]. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ [Deferred Outflows, Page 5, Column 2]	\$ [Deferred Inflows, Page 5, Column 3]
Change in assumptions	\$ [Deferred Outflows, Page 5, Column 2]	\$ [Deferred Inflows, Page 5, Column 3]
Net difference between projected and actual earnings on pension plan investments	\$ [Deferred Outflows, Page 5, Column 2]	\$ [Deferred Inflows, Page 5, Column 3]
Employer contributions subsequent to the measurement date	[Insert amount]	-
Total	\$ -	\$ -

(Data for this table is taken from the Summary of Deferred Inflows and Outflows of Resources table on page 5 of the Political Subdivision’s GASB 68 Report.)

\$ [Insert amount] reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30

Year 1 (2019)	\$ [Amortization of Deferred Outflows & Inflows, Page 6]
Year 2 (2020)	\$ [Amortization of Deferred Outflows & Inflows, Page 6]
Year 3 (2021)	\$ [Amortization of Deferred Outflows & Inflows, Page 6]
Year 4 (2022)	\$ [Amortization of Deferred Outflows & Inflows, Page 6]
Year 5 (2023)	\$ [Amortization of Deferred Outflows & Inflows, Page 6]
Thereafter	\$ [Amortization of Deferred Outflows & Inflows, Page 6]

(Data for this table is taken from the Schedule of Amortization of Deferred Inflows and Outflows of Resources table on page 5 of the Political Subdivision's GASB 68 Report.)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

[If the political subdivision reported payables to the VRS, it should disclose information required by paragraph 122 of GASB 68. It is the political subdivision's responsibility to calculate this amount and complete the required disclosure.]

**Required Supplementary Information (RSI) Template
VRS Political Subdivision Retirement Plan
For the Fiscal Year Ended June 30, 2018**

Instructions – This template includes two sample schedules and the language for Notes to RSI to be used as a guide in the development of the RSI section of your financial statements:

- *Schedule of Employer’s Net Pension Liability and Related Ratios*
- *Schedule of Employer Contributions*
- *Notes to Required Supplementary Information*

The sample schedules presented in this section will each eventually show a 10-year history of data related to GASB 68. You may create your own tables based on the examples VRS has provided. Each year, VRS will update the data highlighted in accordance with the legend. However, the employer is responsible for providing the remainder of the information and calculation as indicated.

Each employer is responsible for maintaining its own schedules, retaining prior year data, and updating the schedules each year based on the new information.

Note: The definition in GASB 68 for Covered Employee Payroll included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios that are presented use the same measure.

- ***Employer’s Covered Payroll referenced in the GASB 68 schedules in the template represent the total pensionable payroll for employees covered under the pension plan. Both of these schedules will now have multiple years of data. The periods for the additions to the schedules for FY 2018 are as follows:***
 - ***Schedule of Employer’s Net Pension Liability and Related Ratios for the Year Ended June 30, 2017. This schedule will now have four years.***
 - ***Schedule of Employer Contributions – Covered Payroll is for the fiscal year ended June 30, 2018. This schedule should have ten years. Pre-GASB Statement No. 68 information can be taken from the RSI data previously required under GASB Statement No. 27.***

Sample Schedule of Employer's Net Pension Liability and Related Ratios

Schedule of Changes in the Political Subdivision's Net Pension Liability and Related Ratios

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 541,593,844	\$ 535,322,111	\$ 530,944,597	\$ 524,758,455
Interest	1,422,754,924	1,362,868,825	1,309,485,013	1,243,385,827
Changes of benefit terms	36,652,242	2,053,319	1,135,143	-
Differences between expected and actual experience	(205,649,409)	(87,268,237)	(185,394,067)	-
Changes in assumptions	(64,510,282)	-	-	-
Benefit Payments, including refunds of employee contributions	(983,924,693)	(930,965,560)	(856,101,009)	(791,582,482)
Net change in total pension liability	746,916,626	882,010,458	800,069,677	976,561,800
Total pension liability - beginning	20,817,087,720	19,935,077,262	19,135,007,585	18,158,445,785
Total pension liability - ending (a)	\$ 21,564,004,346	\$ 20,817,087,720	\$ 19,935,077,262	\$ 19,135,007,585
Plan fiduciary net position				
Contributions - employer	\$ 477,563,307	\$ 543,946,660	\$ 533,876,864	\$ 539,366,697
Contributions - employee	238,636,442	231,933,521	227,059,805	225,554,797
Net investment income	2,113,967,672	300,998,904	761,165,466	2,272,284,047
Benefit Payments, including refunds of employee contributions	(983,924,693)	(930,965,560)	(856,101,009)	(791,582,482)
Administrative expense	(12,221,134)	(10,696,457)	(10,357,446)	(12,152,639)
Other	(1,886,358)	(127,496)	(161,059)	119,754
Net change in plan fiduciary net position	1,832,135,236	135,089,572	655,482,621	2,233,590,174
Plan fiduciary net position - beginning	17,418,111,546	17,283,021,974	16,627,539,353	14,393,949,179
Plan fiduciary net position - ending (b)	\$ 19,250,246,782	\$ 17,418,111,546	\$ 17,283,021,974	\$ 16,627,539,353
Political subdivision's net pension liability - ending (a) - (b)	\$ 2,313,757,564	\$ 3,398,976,174	\$ 2,652,055,288	\$ 2,507,468,232
Plan fiduciary net position as a percentage of the total Pension liability	89.27%	83.67%	86.70%	86.90%
Covered payroll	\$ 4,765,841,660	\$ 4,628,805,559	\$ 4,513,334,541	\$ 4,434,763,925
Political subdivision's net pension liability as a percentage of covered payroll	48.55%	73.43%	58.76%	56.54%

Totals, with the exception of the covered payroll are from Schedule E – Total Pension Liability and Fiduciary Net Position on pages 113-136 and the Summary of Collective Amounts on page 3 of the GASB Statement No. 68 Report. **(Employer-specific data, with the exception of the covered payroll and ratios, is provided in the Political Subdivision's GASB 68 Report in the Schedule of Changes in the Net Pension Liability on page 4)**

Sample Schedule of Employer Contributions

Schedule of Employer Contributions For the Years Ended June 30, 2009 through 2018					
	Contributions in Relation to				Contributions
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	as a % of Covered Payroll
Date	(1)	(2)	(3)	(4)	(5)
2018	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2017	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2016	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2015	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2014	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2013	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2012	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2011	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2010	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2009	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)

For Reference Only:

Column 1 – Employer contribution rate multiplied by the employer’s covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer’s covered payroll amount for the fiscal year.

Sample Notes to Required Supplementary Information

**Notes to Required Supplemental Information
For the Year Ended June 30, 2018**

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

Largest 10 – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages

Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 70%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%