

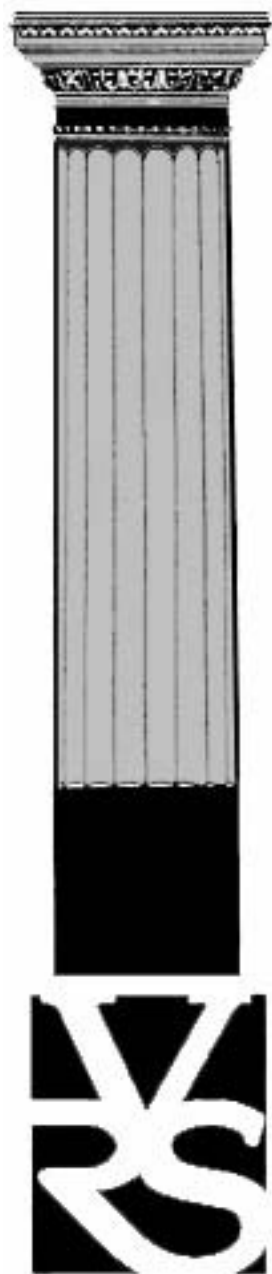
The
Virginia
Retirement
System

*Joint Legislative Audit and Review
Commission*

July 14, 2003

W. Forrest Matthews, Jr.

Director

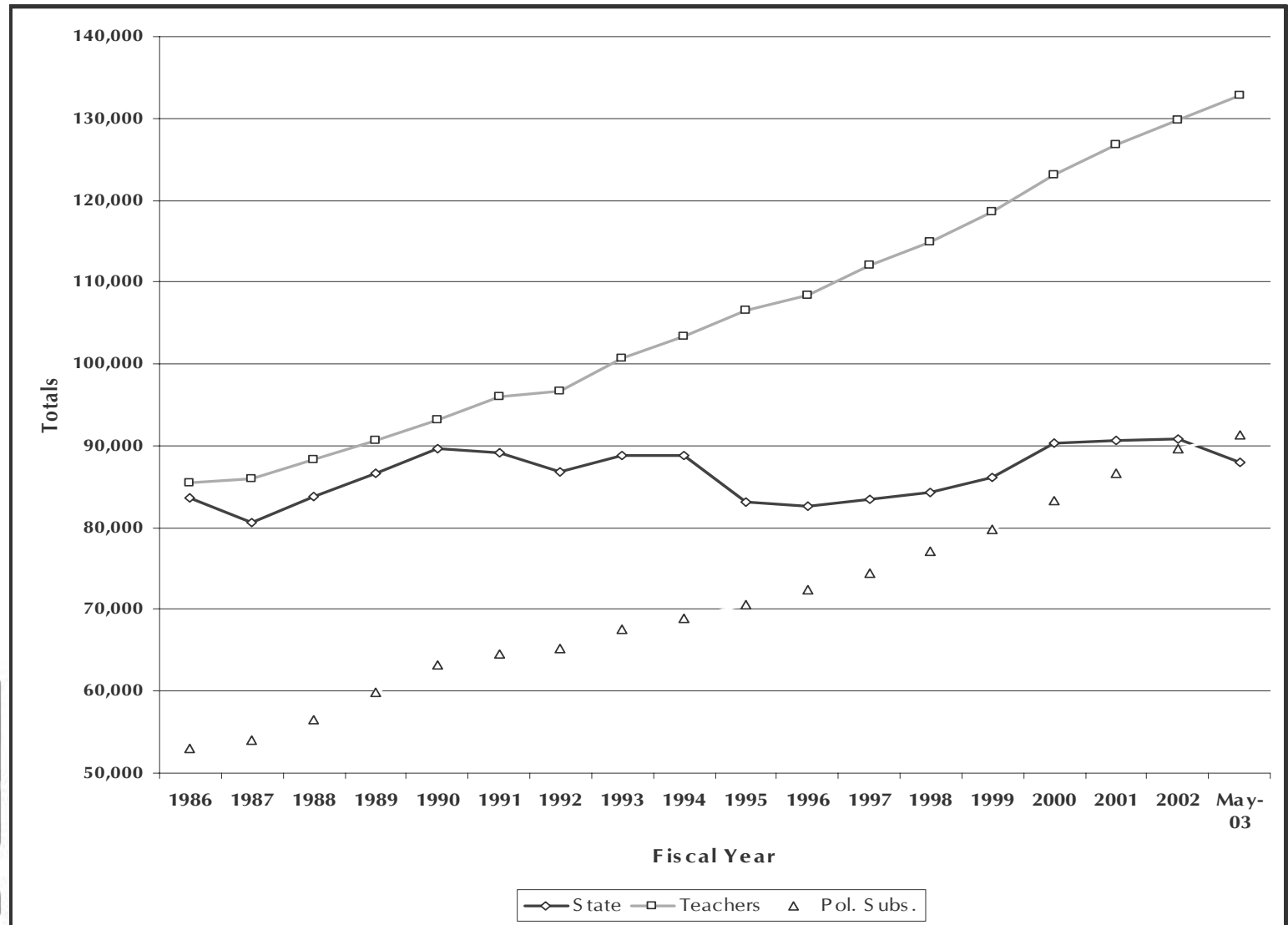
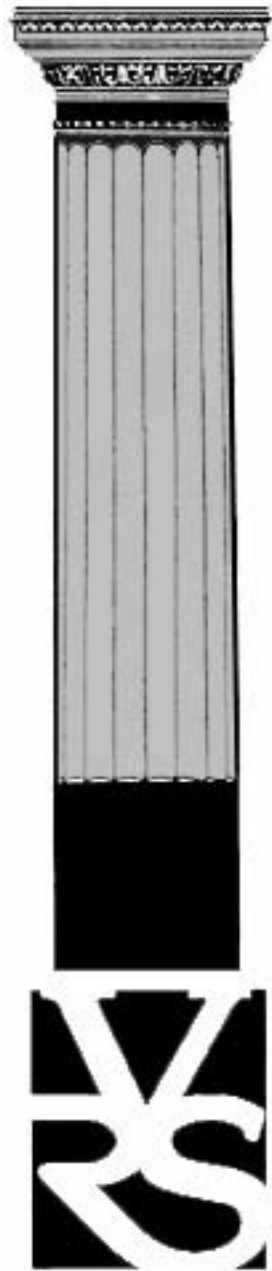


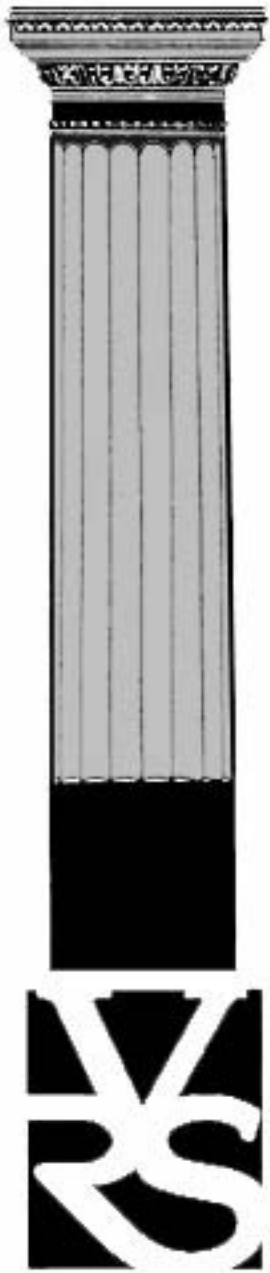
VRS Membership

| | |
|---------------------------|----------------|
| State | 76,249 |
| Teacher | 132,788 |
| Pol. Sub. | 91,247 |
| SPORS | 1,740 |
| JRS | 406 |
| VaLORS | 9,510 |
| Total | 311,940 |
| Retirees/Beneficiaries | 108,616 |
| Inactive – Vested | 26,720 |
| Inactive – Non-vested | 57,203 |
| VRS Overall Impact | 504,479 |

As of May, 2003

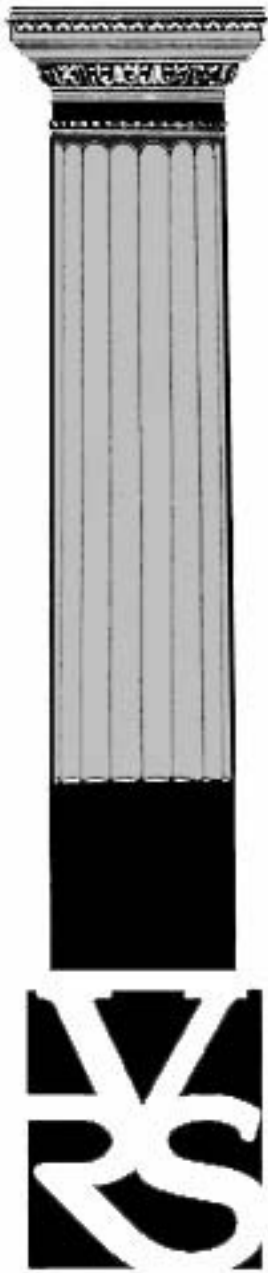
VRS Active Members





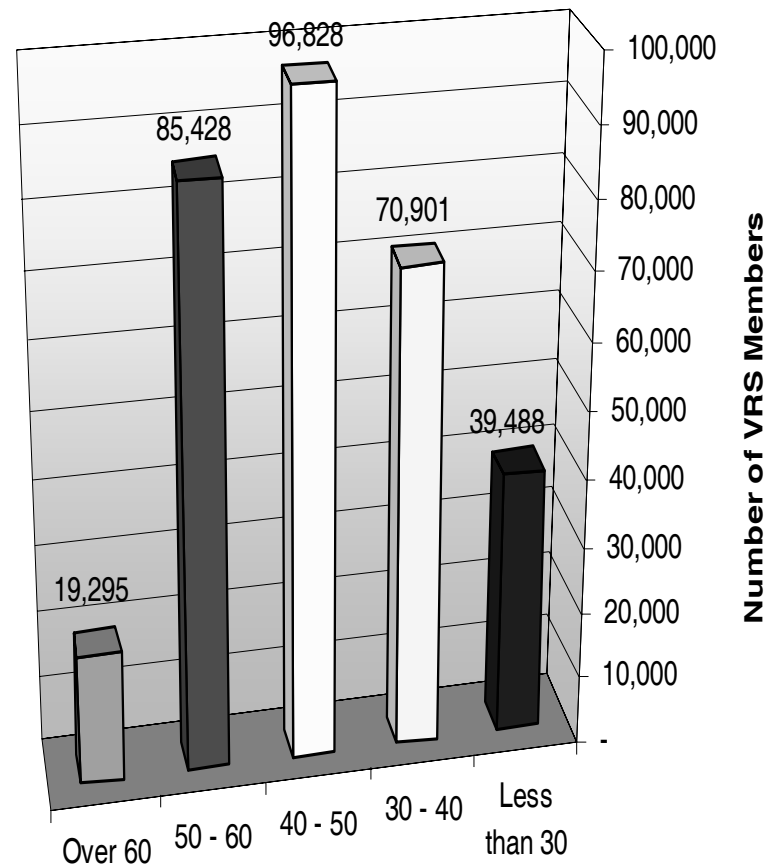
VRS Retirees



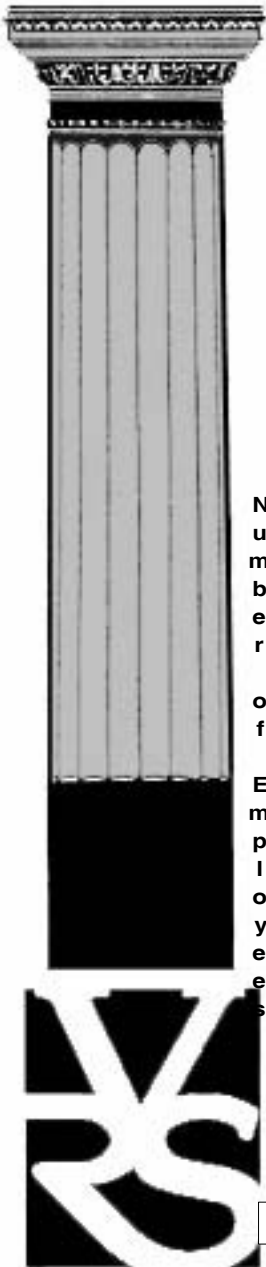


Age Categories of Active Members

The Wave is Coming!!

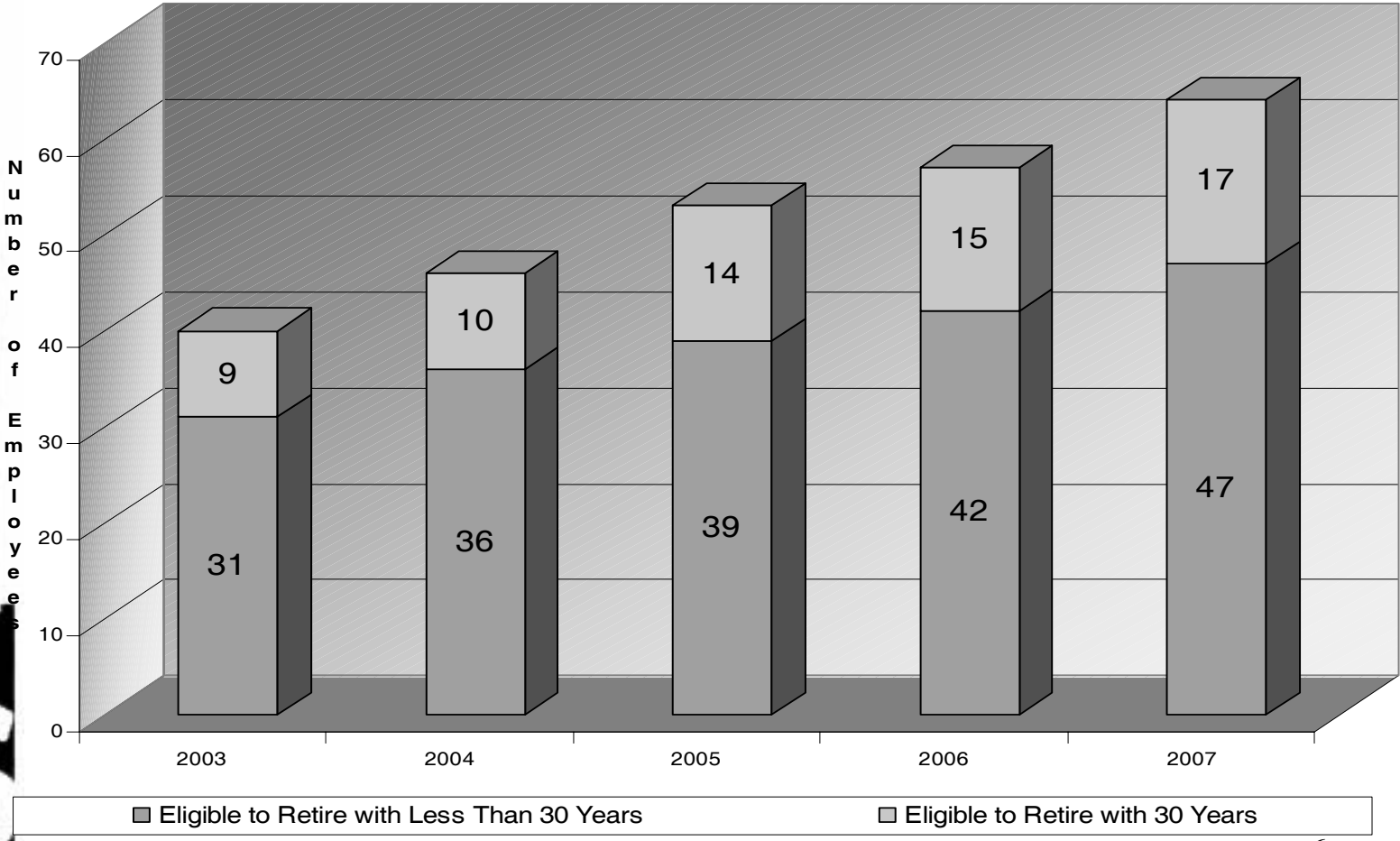


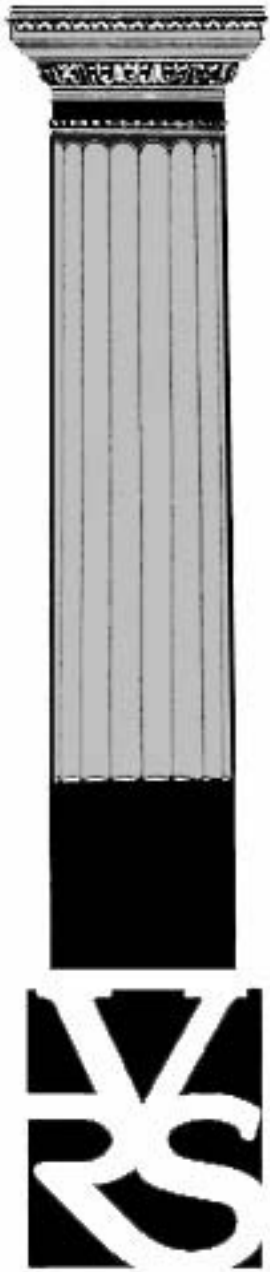
Age Category (as of May 2003)



VRS Internal Wave

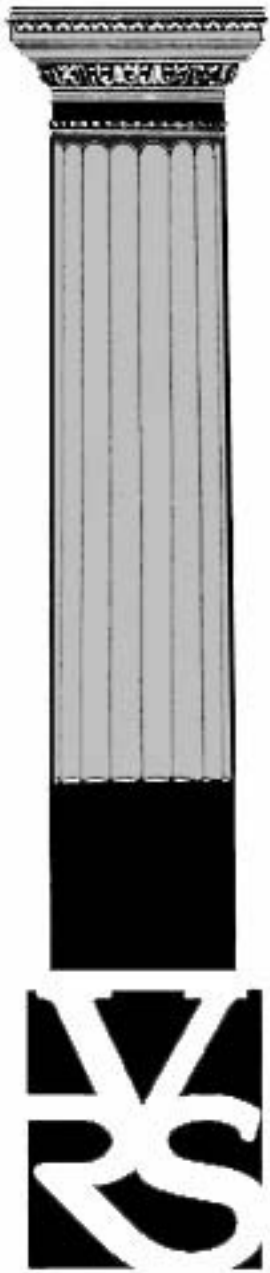
VRS Employees Eligible to Retire





Utilizing Technology

- **Employer Reporting**
- **QuickAccess**
- **Reorganization of Web Site**
- **Member Benefit Calculator**
- **Knowledge Management System (KMS)**

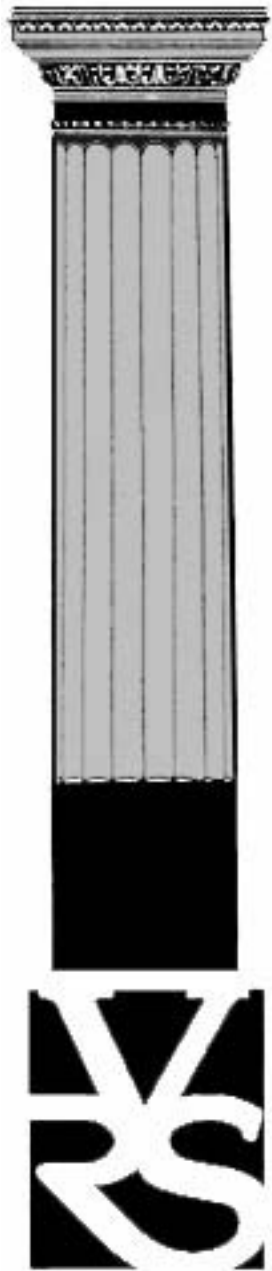
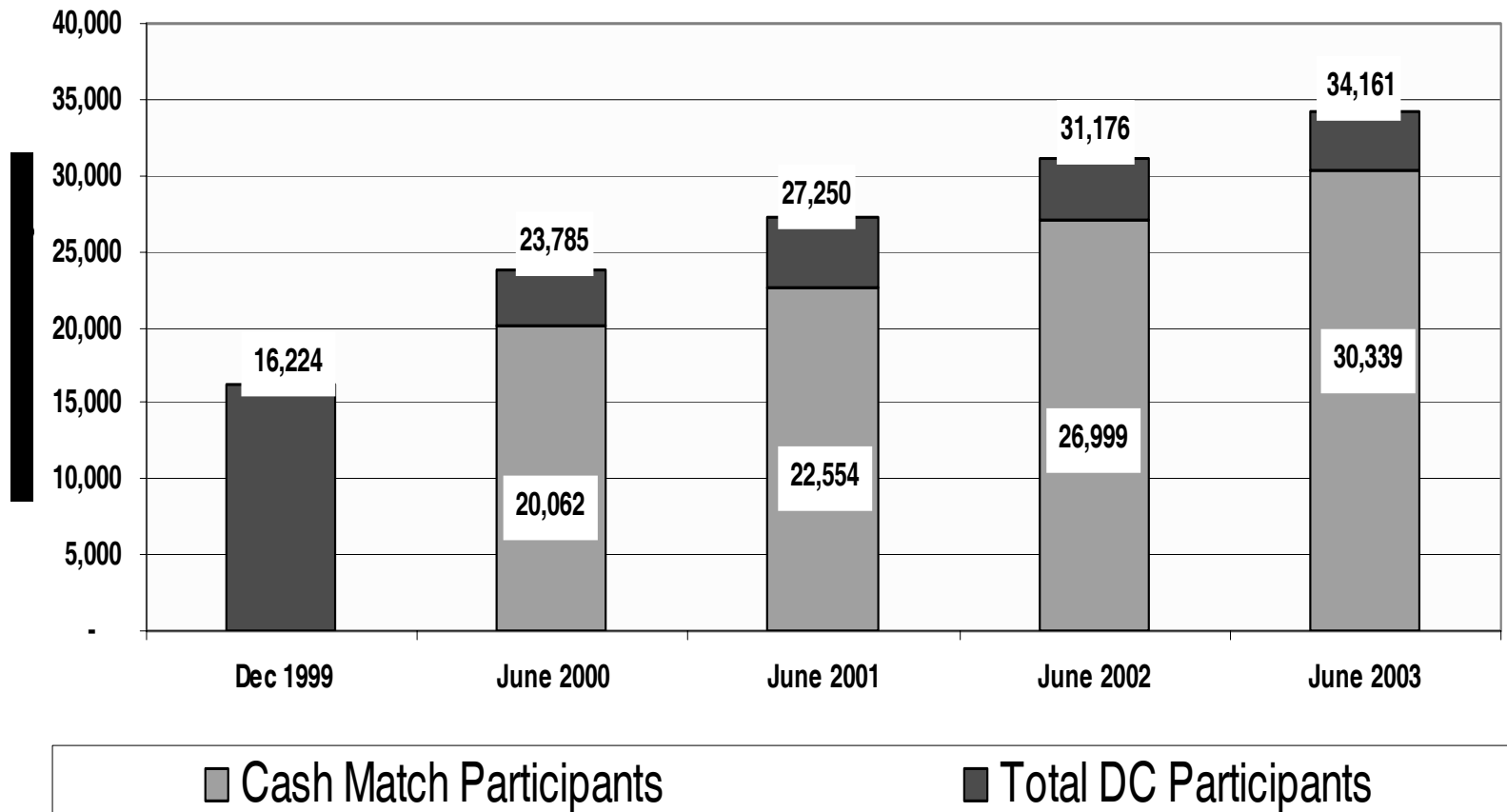


The Legislature

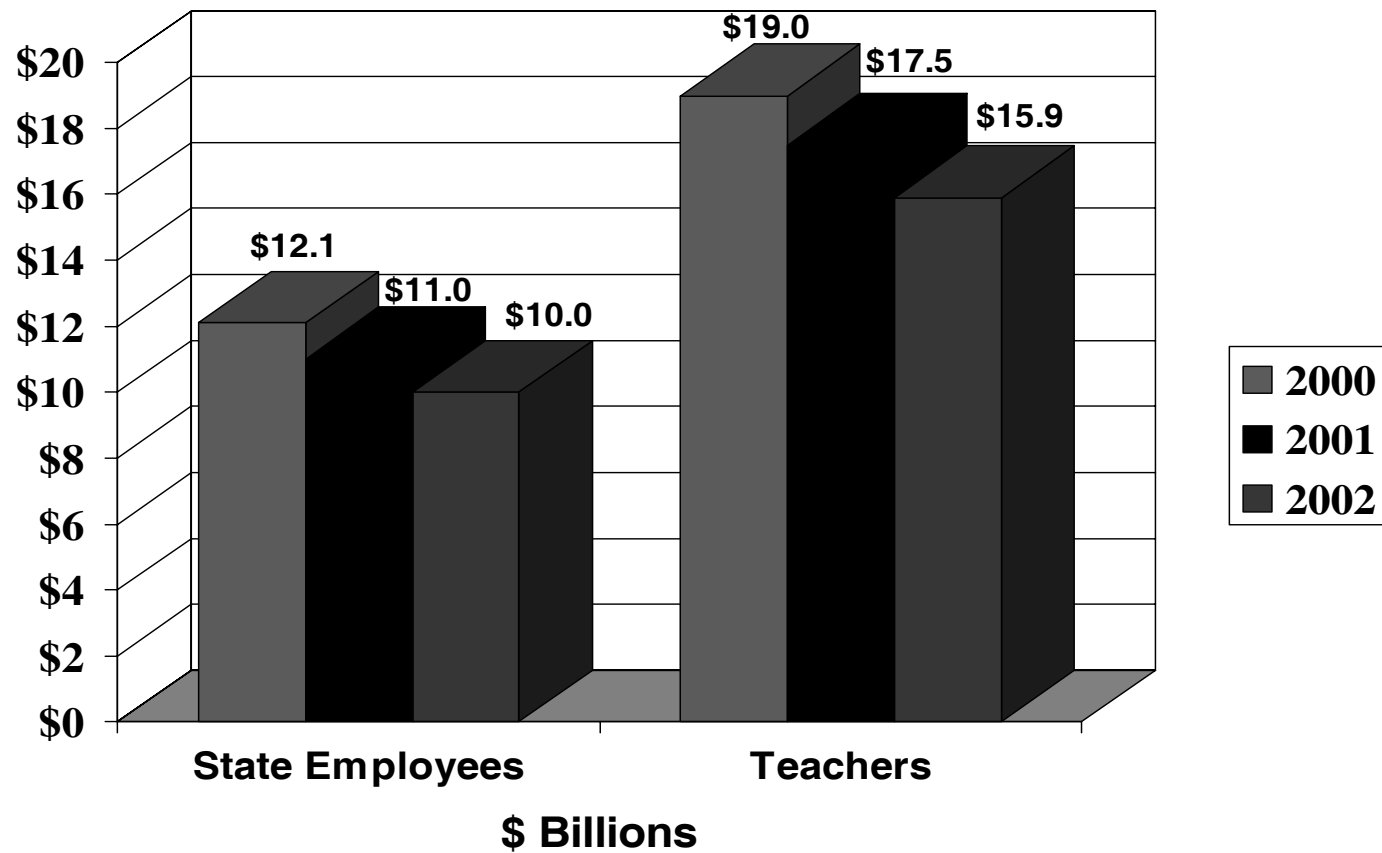
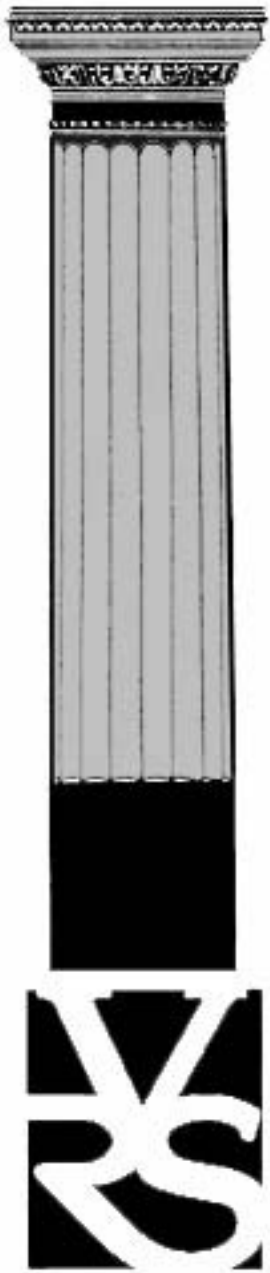
- **Advance Pension Option**
- **VSDP Local Government Workgroup**
- **Contributions**
- **Administrative Fees**
- **Defined Contribution Plan**
- **Purchase of Prior Service**

DCP and Cash Match

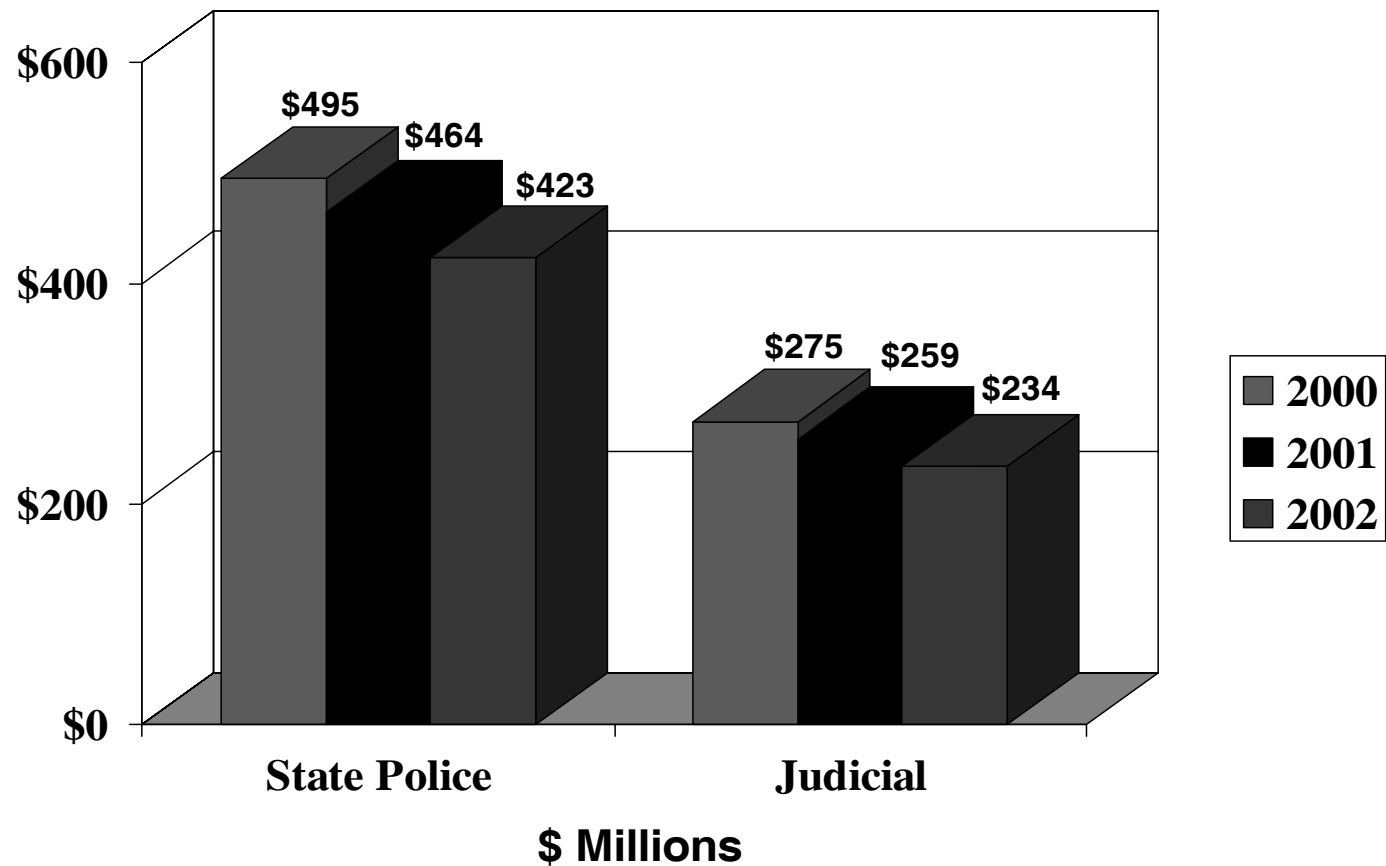
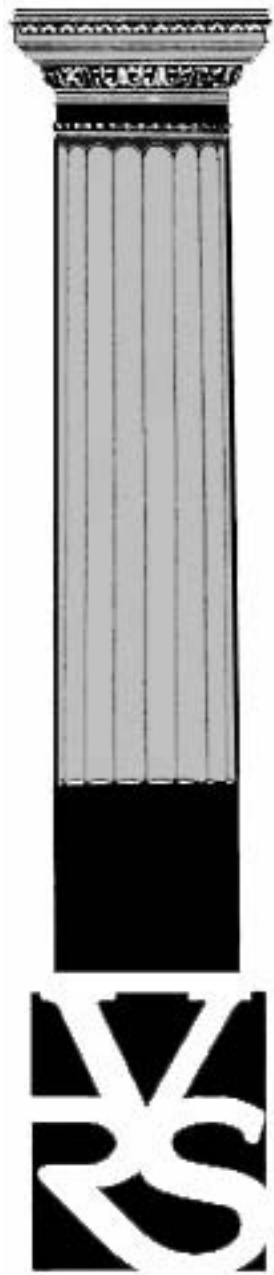
Defined Contribution Participants



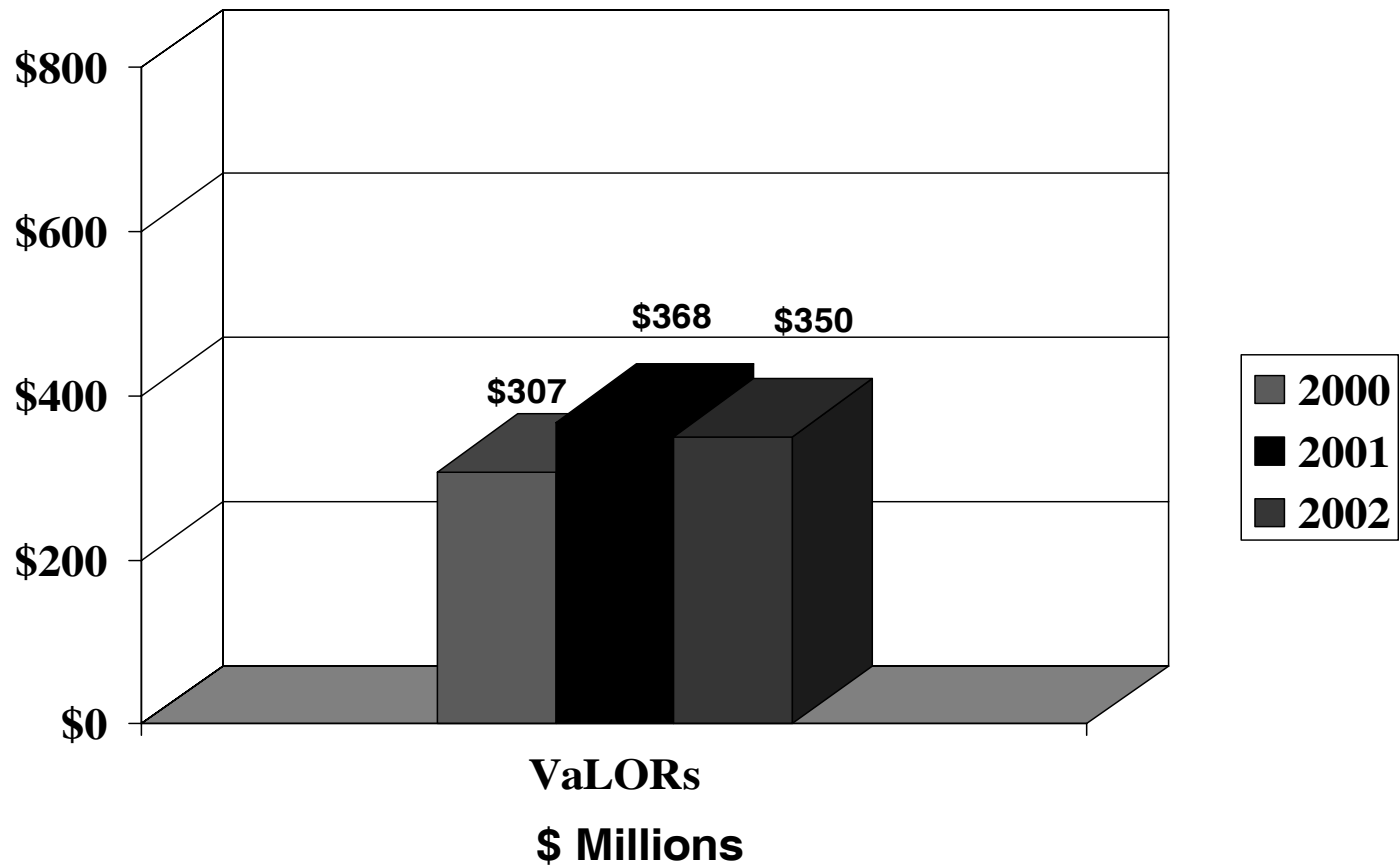
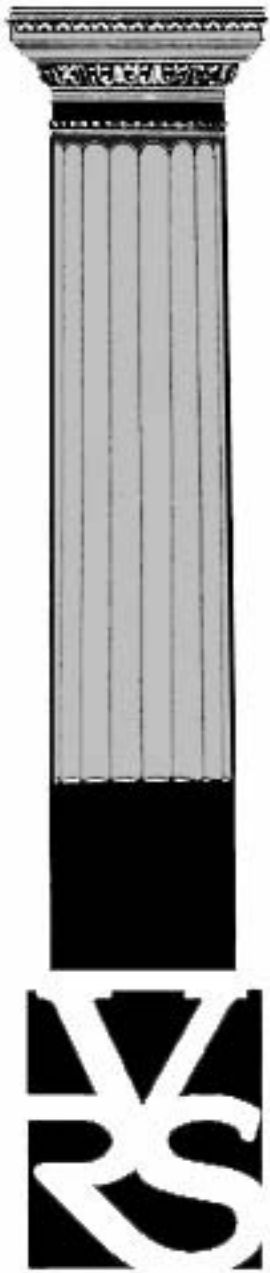
Market Value of Assets State Employees and Teachers



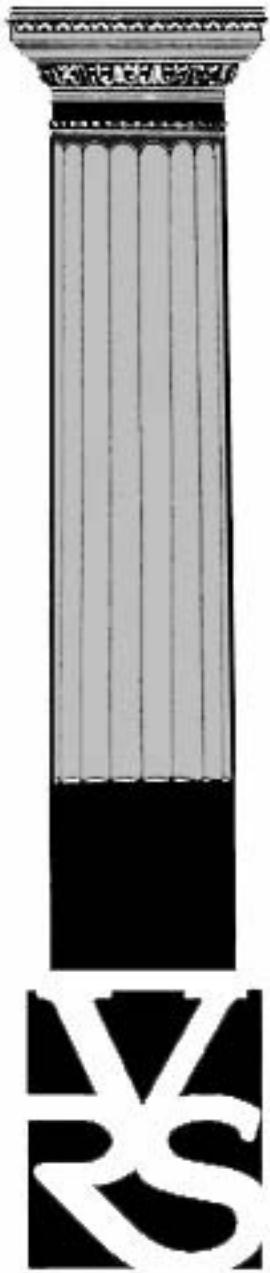
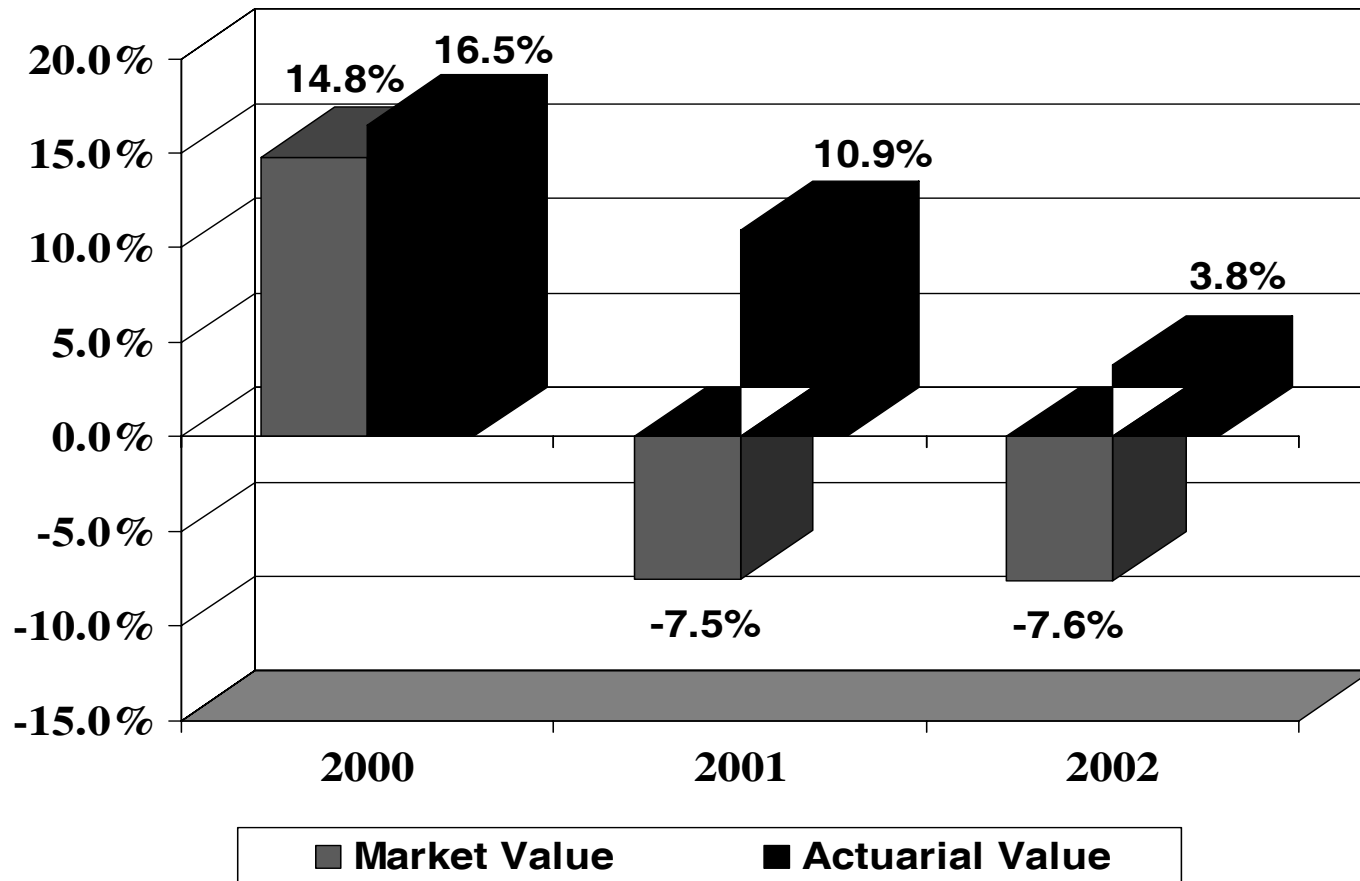
Market Value of Assets State Police and Judicial

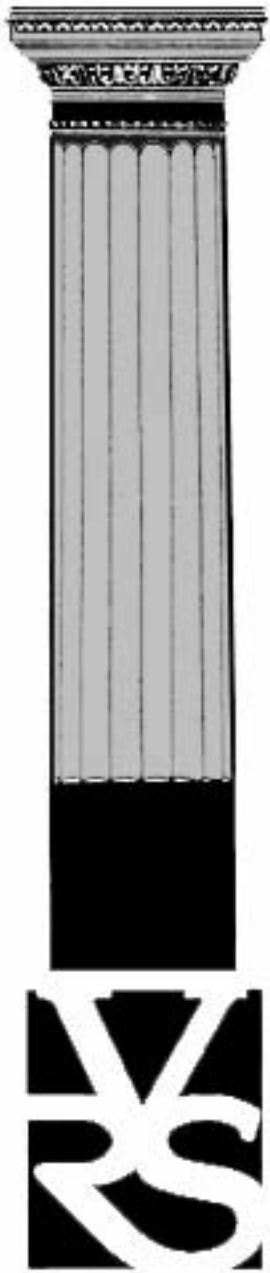


Market Value of Assets Virginia Law Enforcement Officers

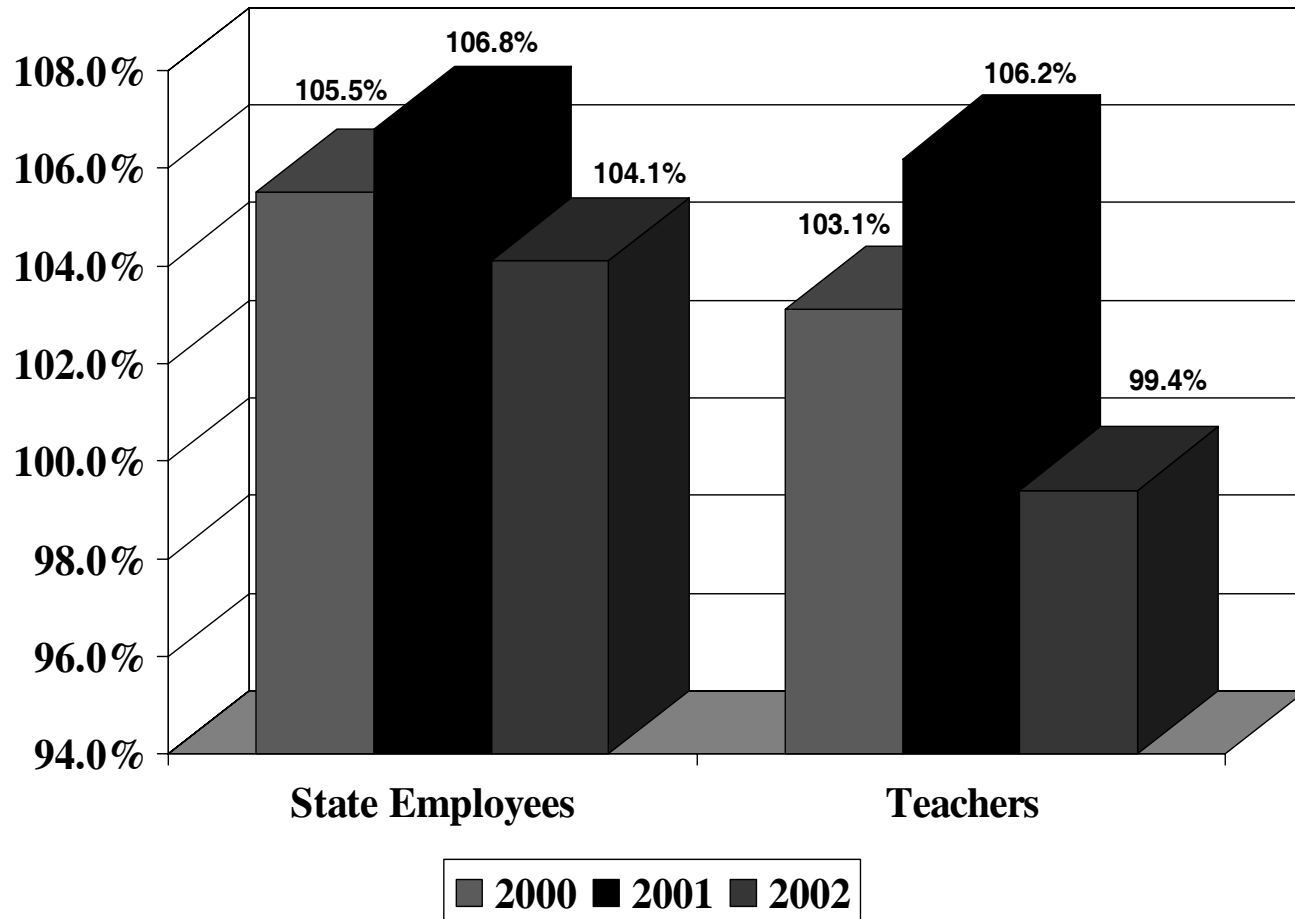


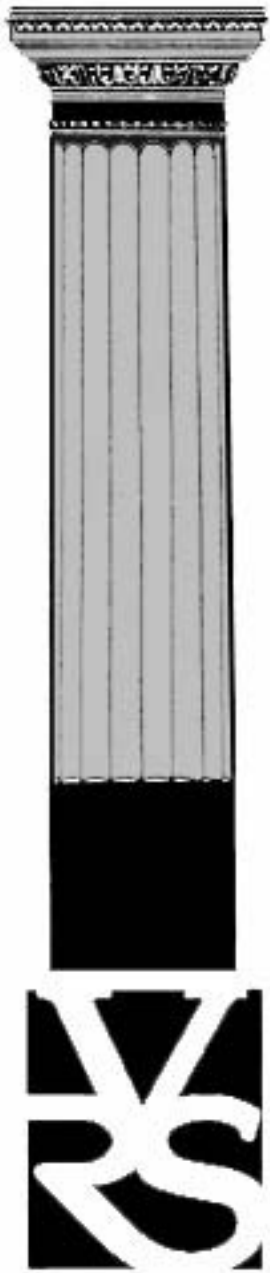
Estimated Rates of Return Since Last Valuation



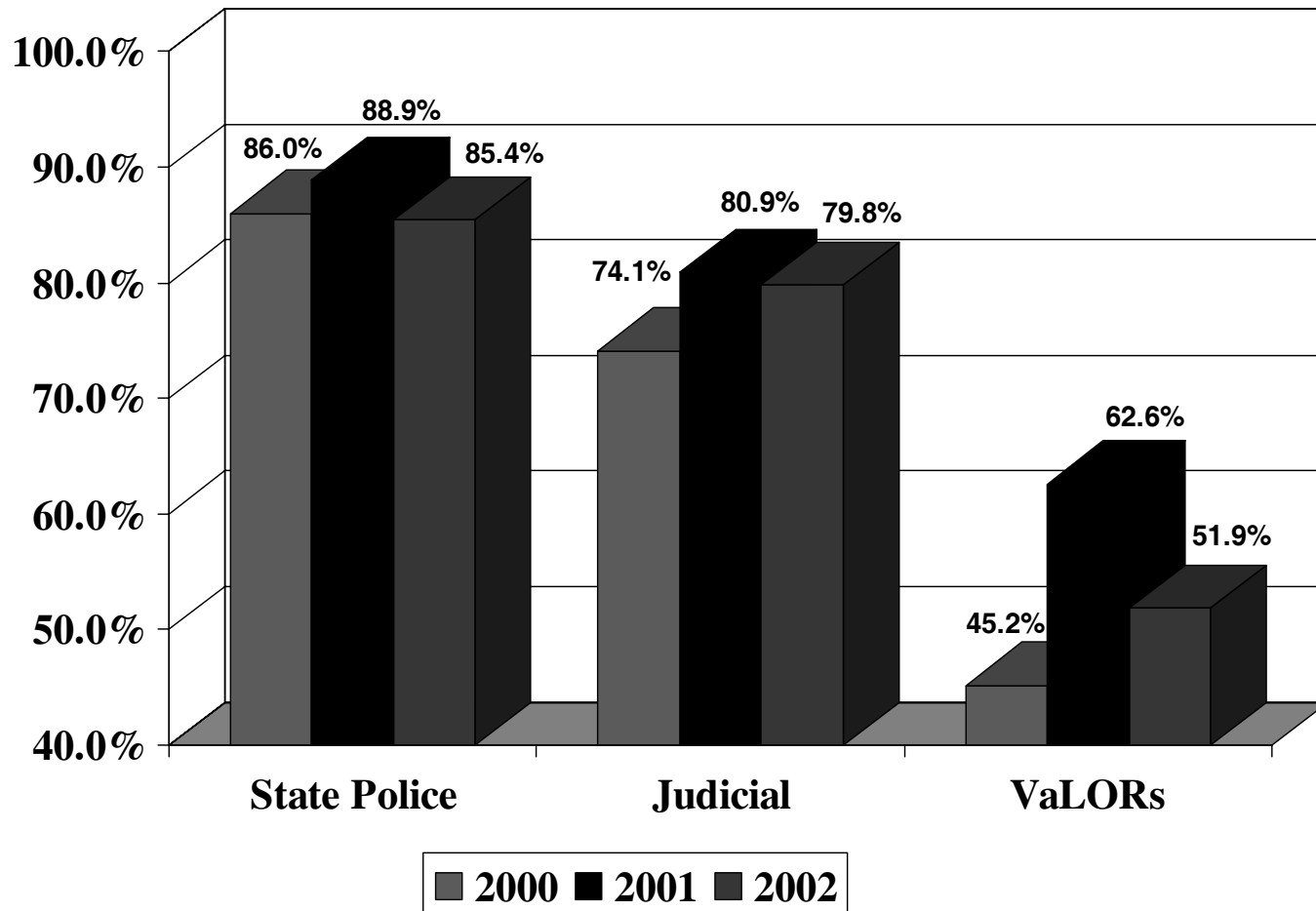


Funded Ratio

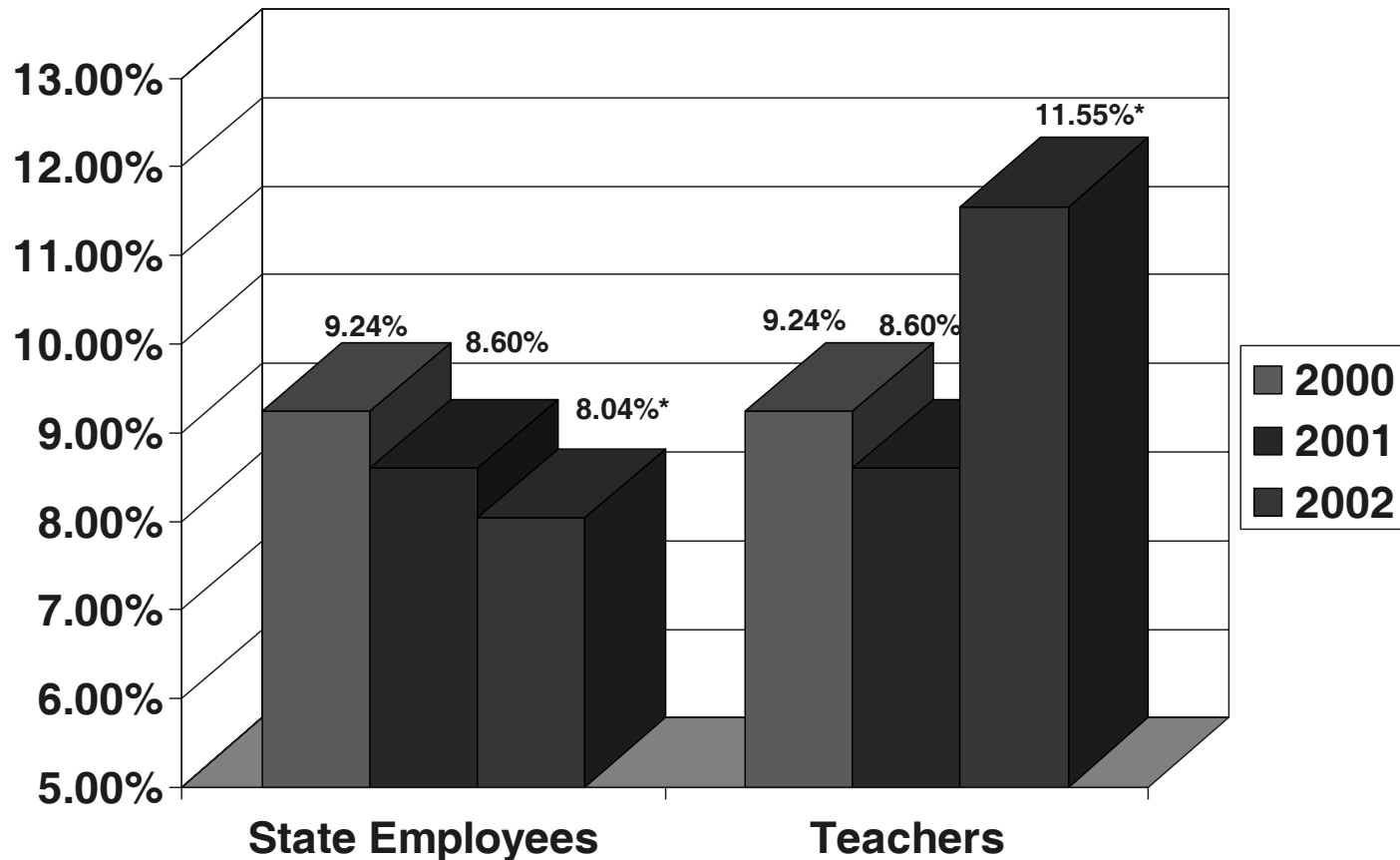
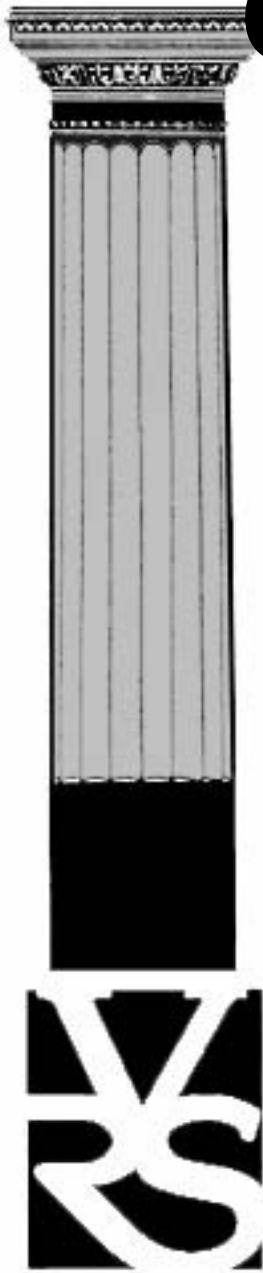




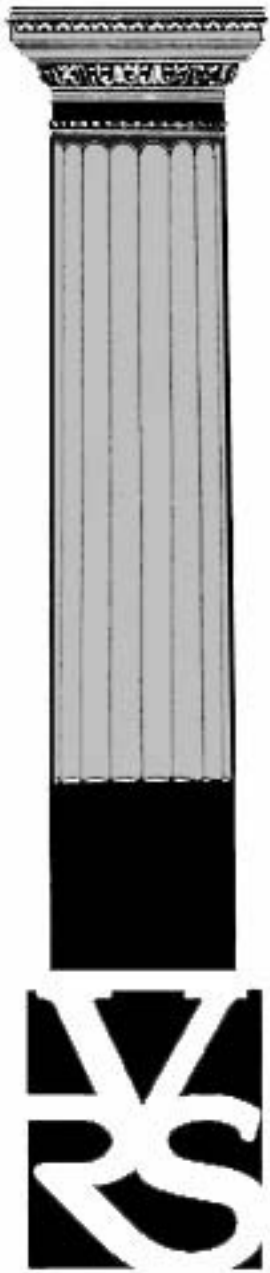
Funded Ratio



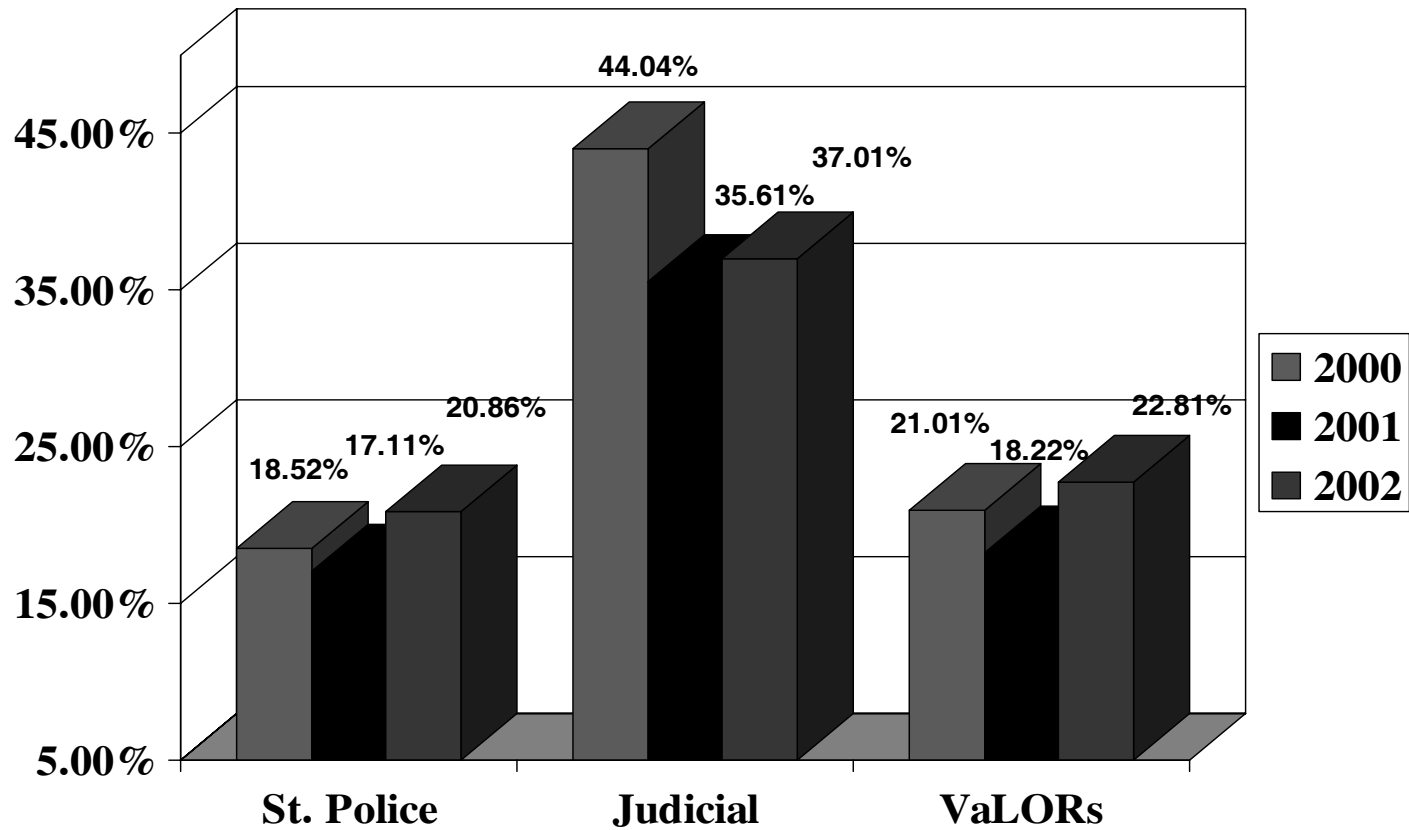
Calculated Contribution Rate (Excluding Health Credit)



•Pooled contribution rate is 10.23%
All rates include 5% member contribution.

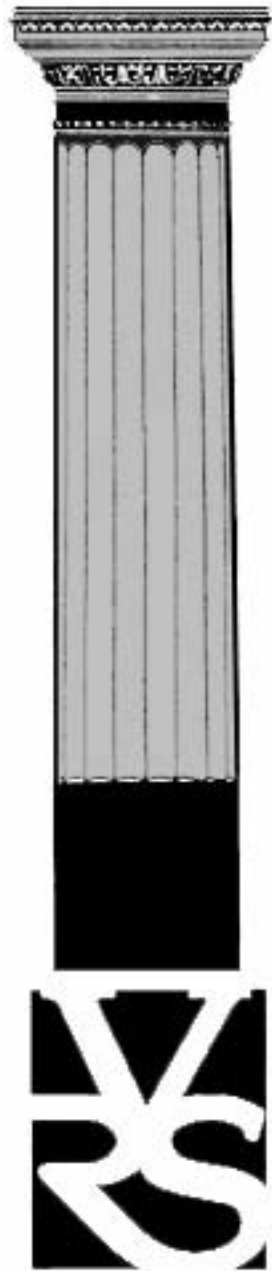


Calculated Contribution Rate (Excluding Health Credit)



All rates include 5% member contribution.

Summary of Calculated Contribution Rates (Excluding Health Credit) and Including 5% Member Contribution

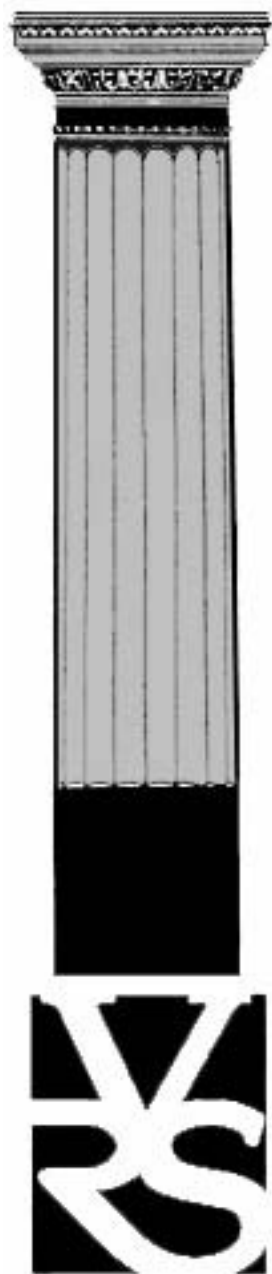


| | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-----------------------------------|-------------|-------------|-------------|
| State Employees | 8.04%* | 8.60% | 9.24% |
| Teachers | 11.55%* | 8.60% | 9.24% |
| State Police Officers | 20.86%** | 17.11%** | 18.52%** |
| State Judges | 37.01%*** | 35.61%** | 44.04%*** |
| Virginia Law Enforcement Officers | 22.81%** | 17.62%** | 21.01%** |

* Pooled contribution rate is 10%

** Board specified rate is 30% of payroll until 90% funded.

*** Board specified rate is 50% of payroll until 90% funded.

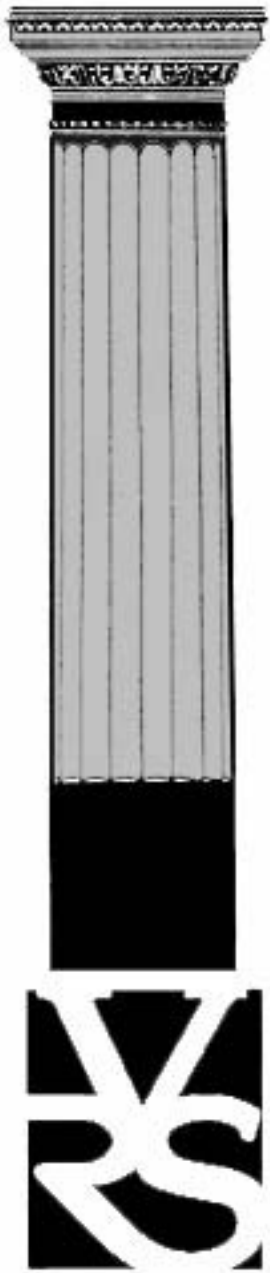


Comparison of Calculated, Board Specified, and Actual Contribution Rates (Excluding Health Credit) Including 5% Member Contribution

Fiscal Year 2002-2003

| | Calculated Rates* | Board Specified Rates | Actual Rates |
|-----------------------------------|----------------------|-----------------------------|-----------------|
| State Employees | 8.60% | 9.24% | 5.00% |
| Teachers | 8.60% | 9.24% | 8.77% |
| State Police Officers | 17.11% | 30.00% | 16.05% |
| State Judges | 35.61% | 50.00% | 34.00% |
| Virginia Law Enforcement Officers | 18.22% | 30.00% | 17.00% |

*Calculated rates were determined assuming that Board specified rates would be contributed for the 2002 fiscal year. Actual 2002 fiscal year contribution rates were lower than the Board specified rates.



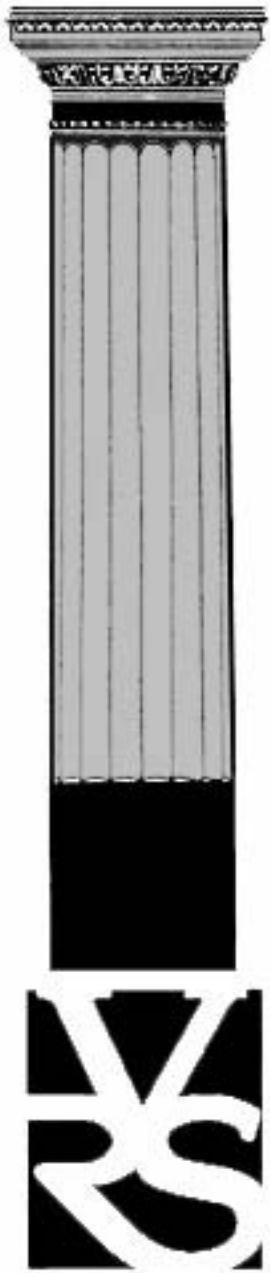
Summary of Valuation of Health Credit

| | <u>State Employees*</u> | <u>Teachers</u> |
|---|-----------------------------|-----------------|
| Pay-as-you-go Financing | | |
| Expected Benefit Payments (\$Millions) | \$37.7 | \$29.0 |
| Contribution Rate as % of Payroll | 1.12% | 0.59% |
| Pre-funded Financing | | |
| Unfunded Actuarial Accrued Liability (\$Millions) | \$515.3 | \$476.0 |
| Normal Cost (\$Millions) | \$9.1 | \$8.3 |
| Amortization Charge (\$Millions) | \$47.1 | \$43.5 |
| Total Charges (\$Millions) | \$56.2 | \$51.8 |
| Contribution Rate as % of Payroll | 1.67% | 1.05% |

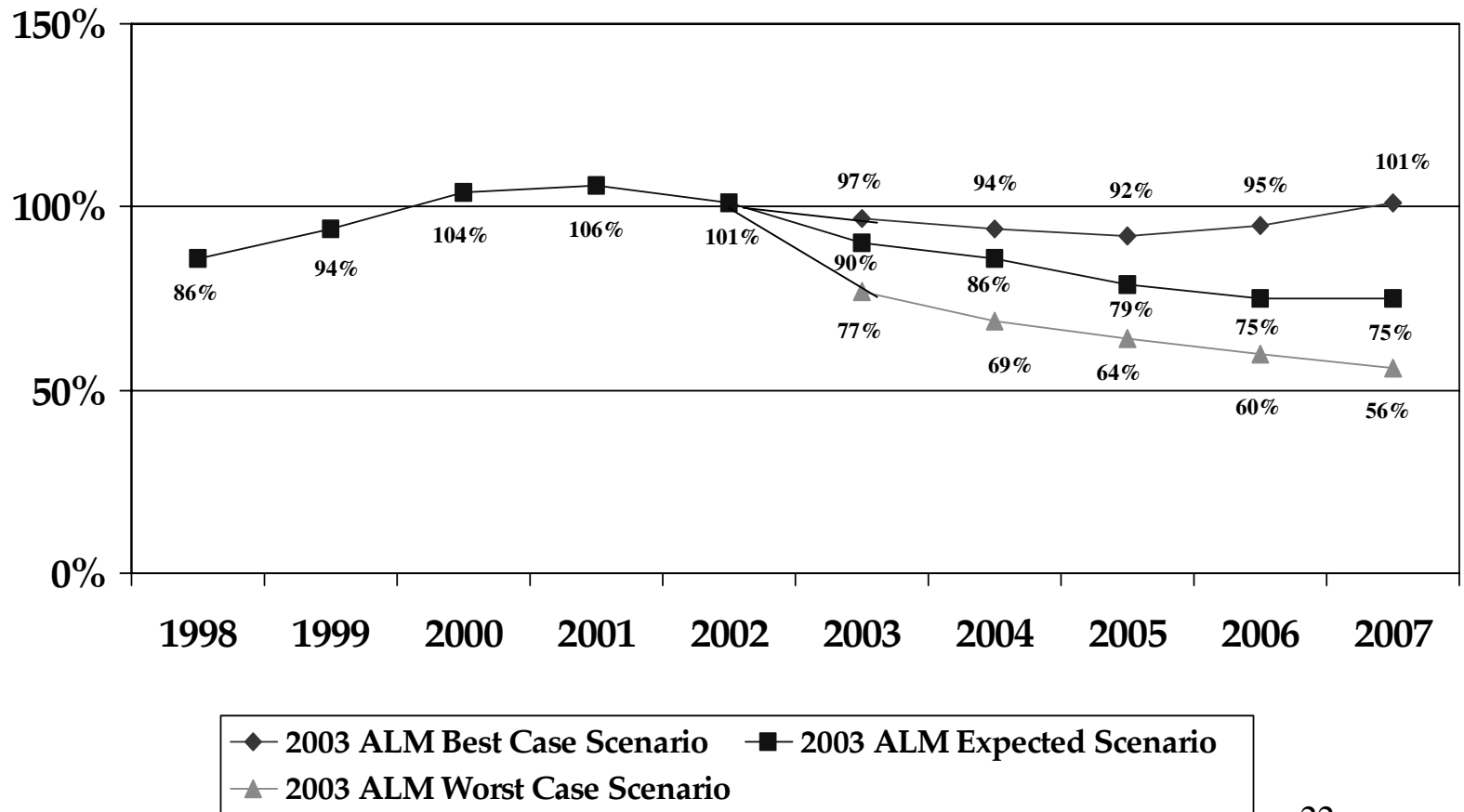
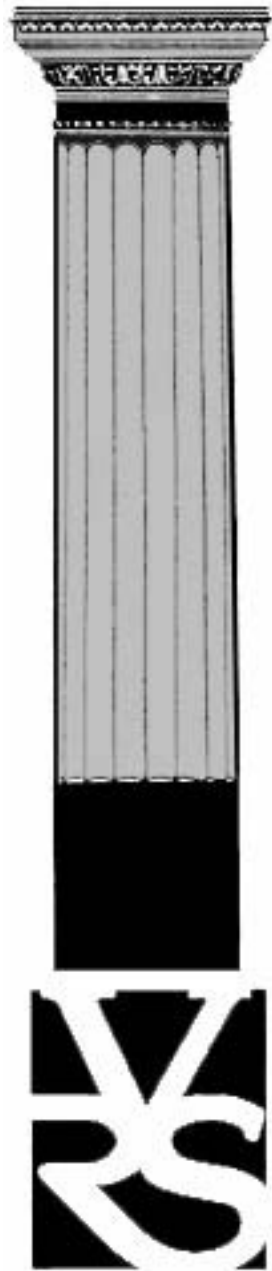
* Includes SPORs, VaLORs and Judges.

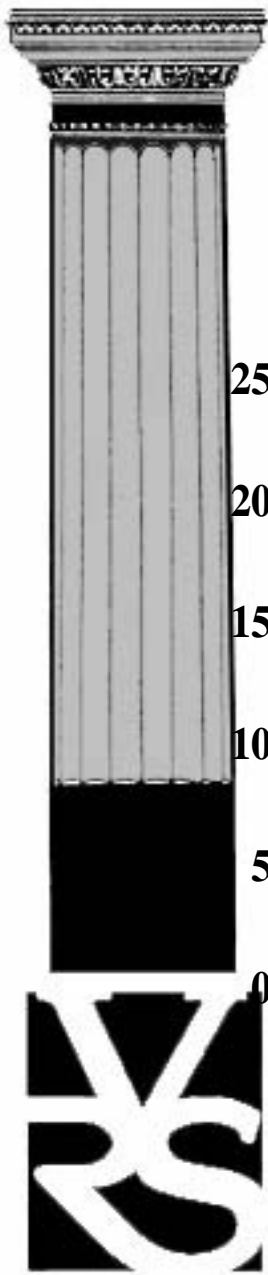
Summary of Valuation of Group Life Insurance Program

| | 2002 | 2001 | 1998 |
|--|-----------|---------|---------|
| Insurance Amounts (\$Millions) | | | |
| Active Members | \$23.6 | \$22.5 | \$17.9 |
| Retired Members | \$3.9 | \$3.2 | \$1.6 |
| Assets of Group Insurance Program | | | |
| Market Value (\$ Millions) | \$838.6 | \$938.1 | \$912.9 |
| Actuarial Value | \$1,006.3 | \$994.4 | \$762.8 |
| Recommended Rates for Retired Members | | | |
| ¢ per \$1,000 of Active Life Insurance | 30.5¢ | 27.2¢ | 20.1¢ |
| % of Active Payroll | 0.74% | 0.66% | 0.48% |
| Recommended Rates for All Members | | | |
| ¢ per \$1,000 of Active Life Insurance | 43.8¢ | 40.5¢ | 33.4¢ |
| % of Active Payroll | 1.06% | 0.98% | 0.80% |

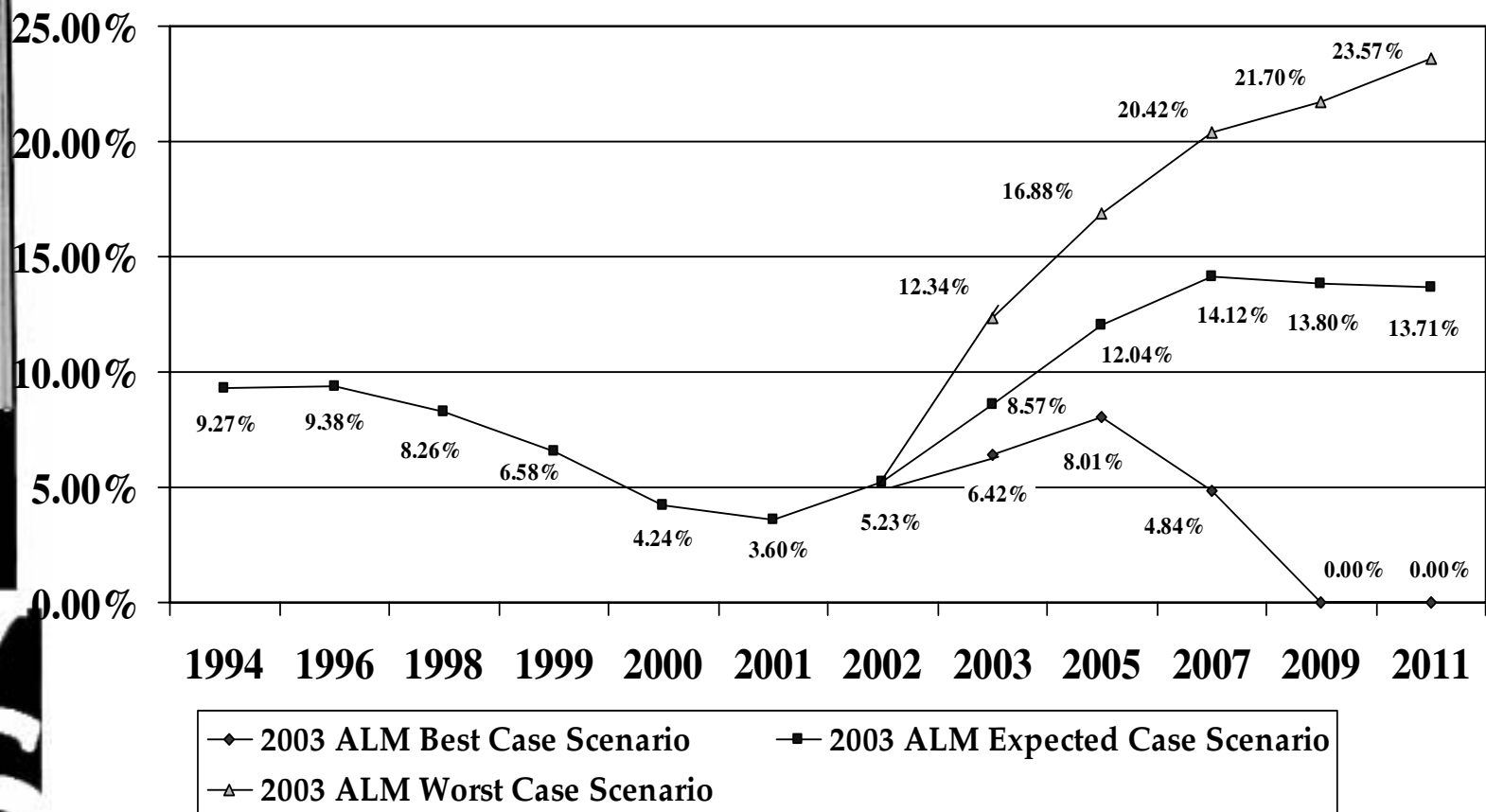


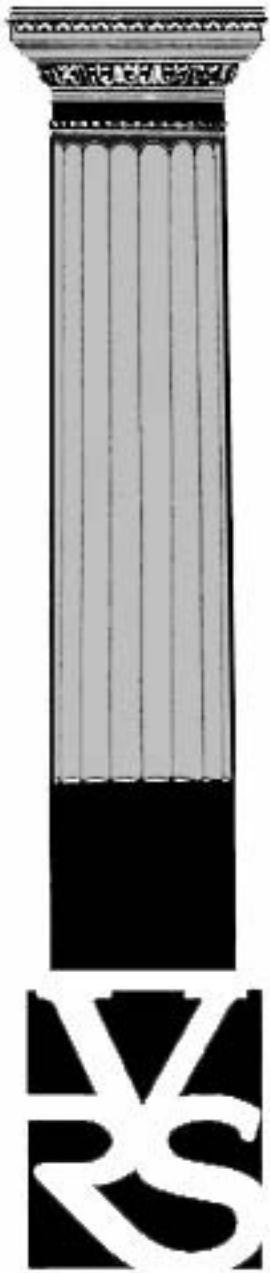
State Employees and Teachers Near-Term Forecast for Funded Ratio





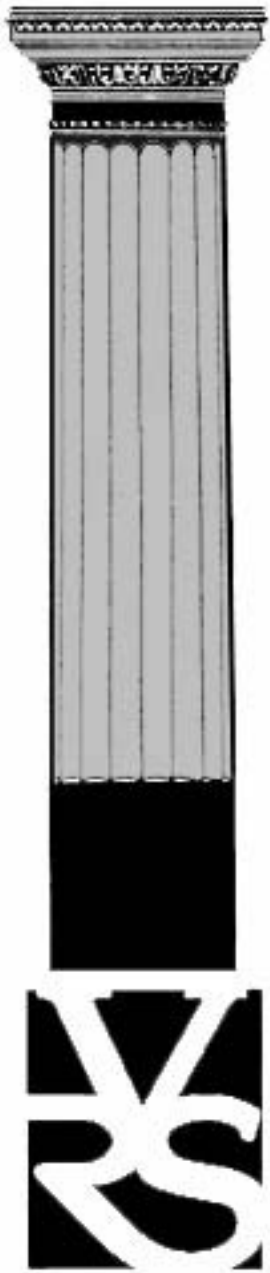
State Employees and Teachers Near-term Forecast or Calculated Composite Contribution Rate





What Does This Mean

- The first decade of the 21st century is not going to be bright.
- Funded ratios are going to decline.
- Contribution rates are going to increase for several years.
- Benefit enhancements may not be achieved again this decade.



Solutions

- Ensure that the contribution rate is not reduced.
- Be realistic in benefit enhancement expectations.
- Defined benefit plans provide members good benefits.
- Hope for major and sustained rebound in the investment markets.

Questions

