



Joint Legislative Audit and Review Commission VRS Presentation

July 13, 2009



Virginia
Retirement
System

Agenda

- Chairman Overview
A. Marshall Acuff, Jr.
- Investments Overview
Charles Grant, CIO
- Administration Overview
Robert Schultze, Director

Chairman's Remarks



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VRS Board Members

- A. Marshall Acuff Jr.,
Chair
- John M. Albertine, Ph.D.,
Vice Chair
- Edwin T. Burton III, Ph.D.
- Robert L. Greene
- Judith Ewell, Ph.D.
- Palmer P. Garson
- Mitchell L. Nason
- Paul W. Timmreck
- Raymond B. Wallace Jr.

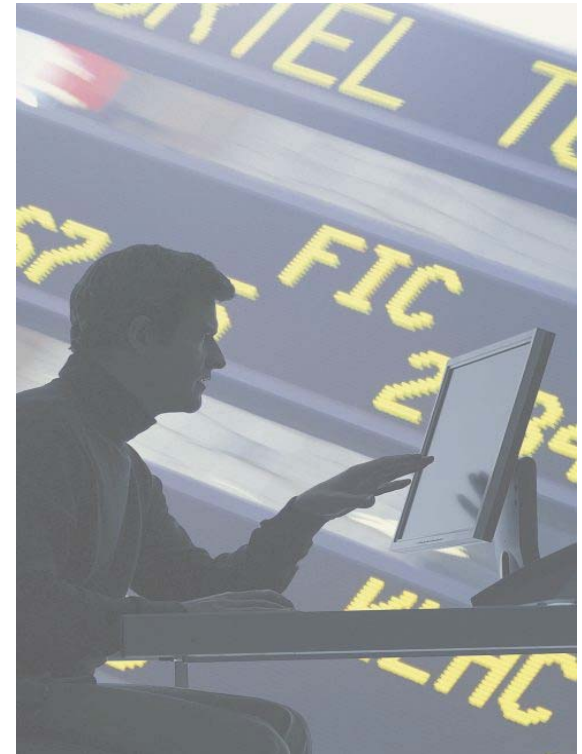
VRS Board Retreat

VRS Board Retreat

- September 25, 2009
- Richmond Omni

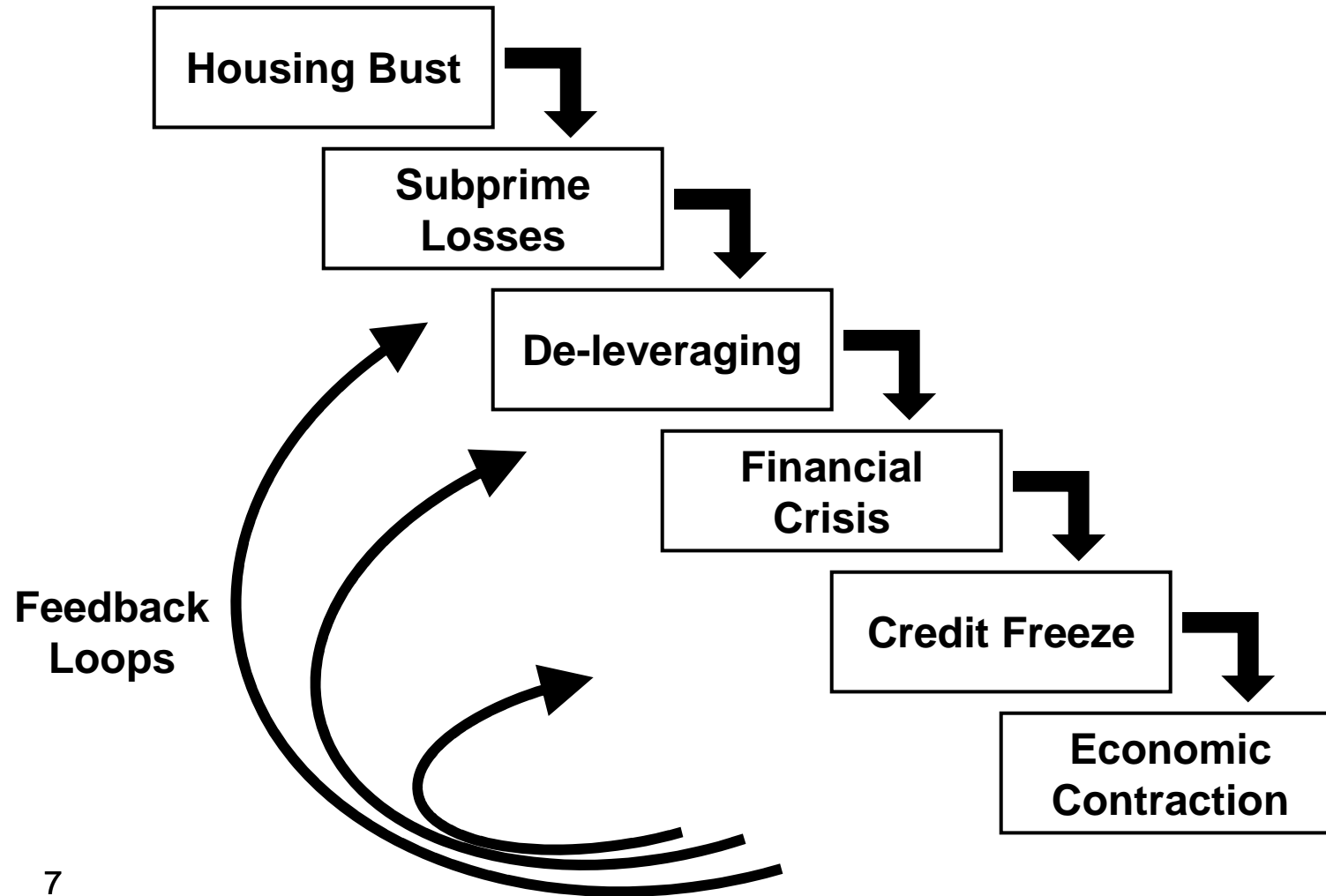
Investments

Charles Grant
Chief Investment Officer



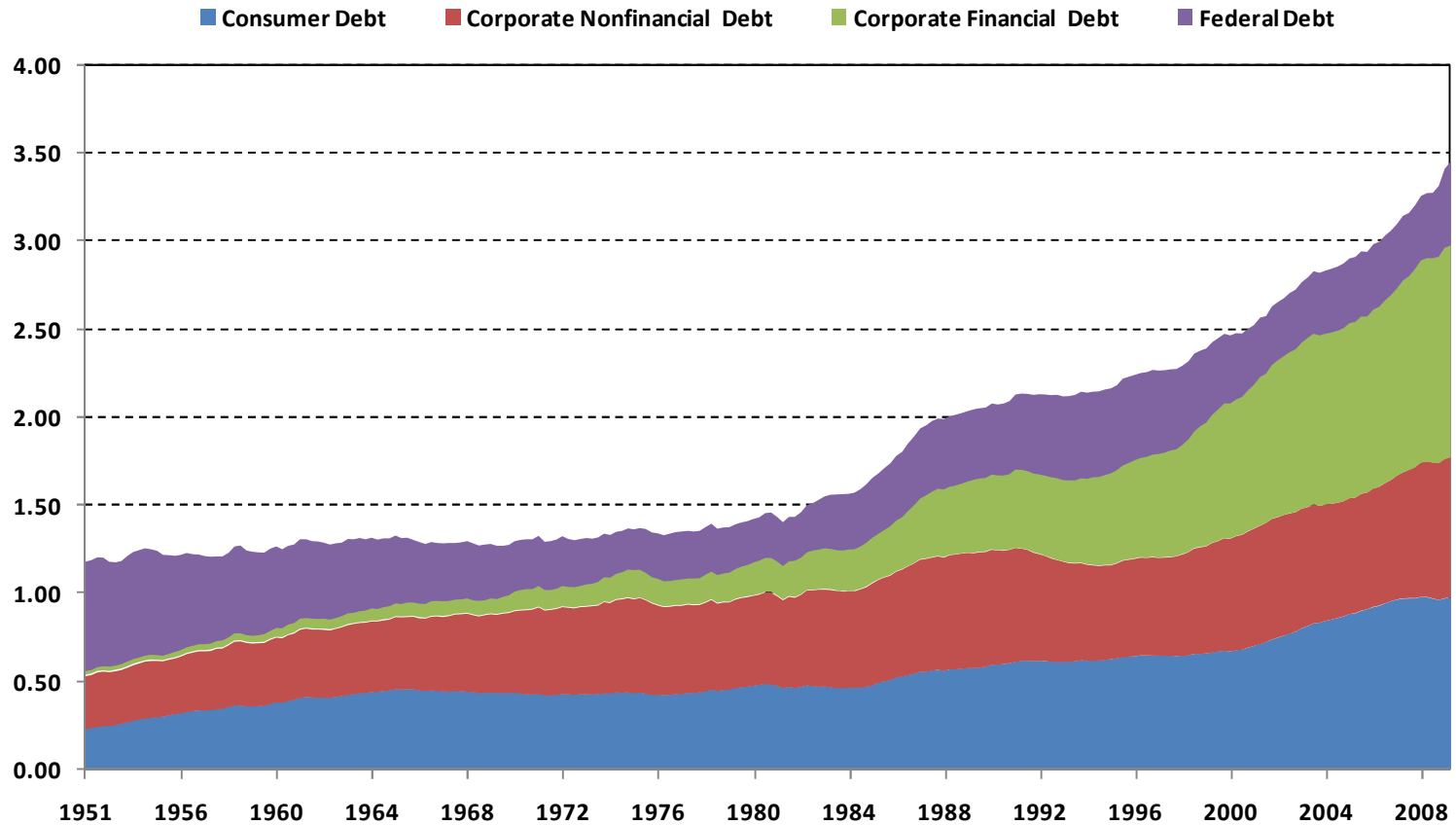
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Catalysts for "The Great Recession"



Bigger Picture Problem: Too Much Debt

Debt-to-GDP Ratios



Source: Flow of Funds, Bureau of Economic Analysis

Total Performance Ending 3/31/09

	VRS (%)	Benchmark (%)	Difference (%)
1 Yr	-29.09	-28.55	-0.54
3 Yr	-6.52	-6.74	0.23
5 Yr	0.71	0.14	0.57
10 Yr	2.75	1.91	0.84
15 Yr	6.98	6.49	0.49

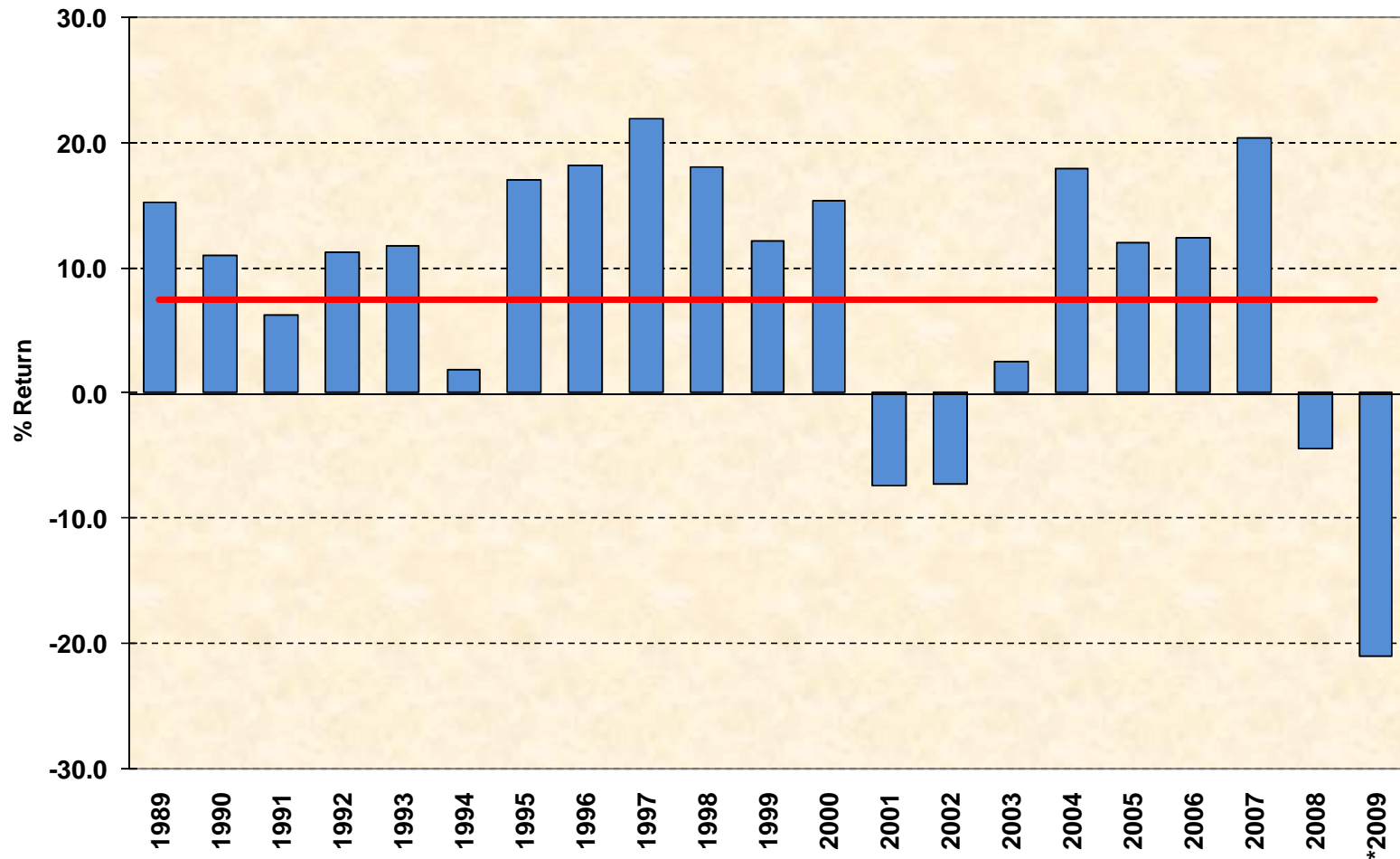
Performance is net of fees

Total Performance Ending 6/30/09*

	VRS (%)	Benchmark (%)	Difference (%)
1 Yr	-21.03	-20.09	-0.94
3 Yr	-3.16	-3.56	0.40
5 Yr	2.71	2.04	0.67
10 Yr	3.19	2.37	0.82
15 Yr	7.73	7.17	0.57

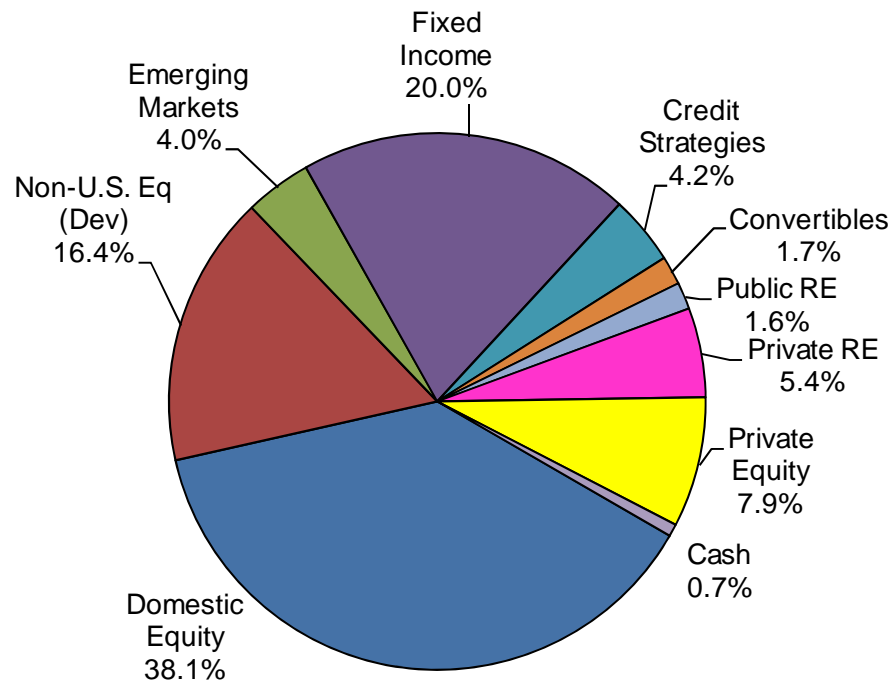
*Preliminary, subject to change
Performance is net of fees

VRS Fiscal Year Returns

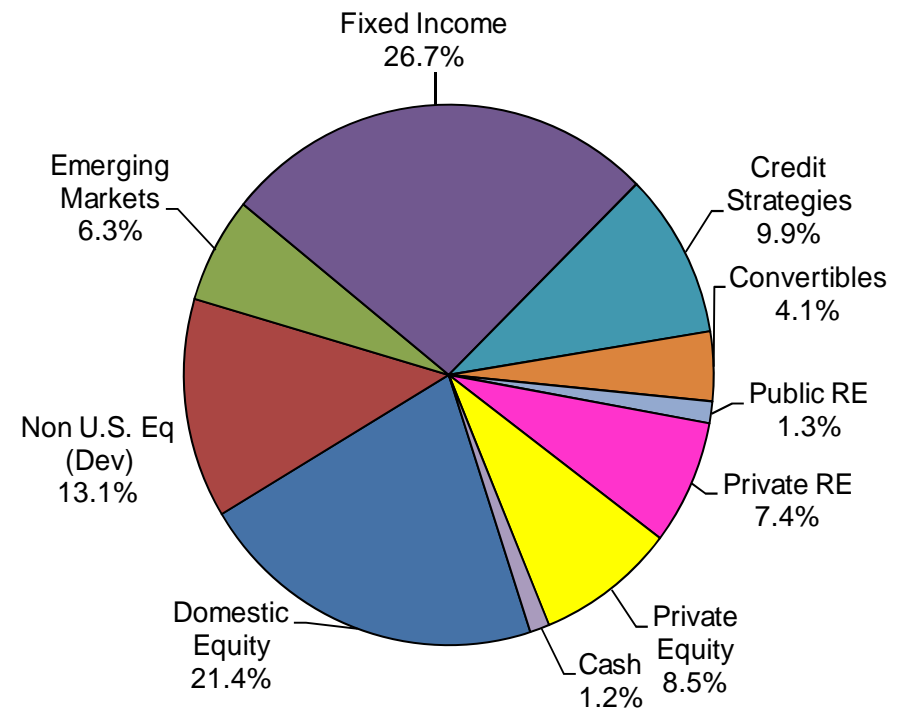


*Estimated

Asset Allocation: Current vs 3/31/08



3/31/08

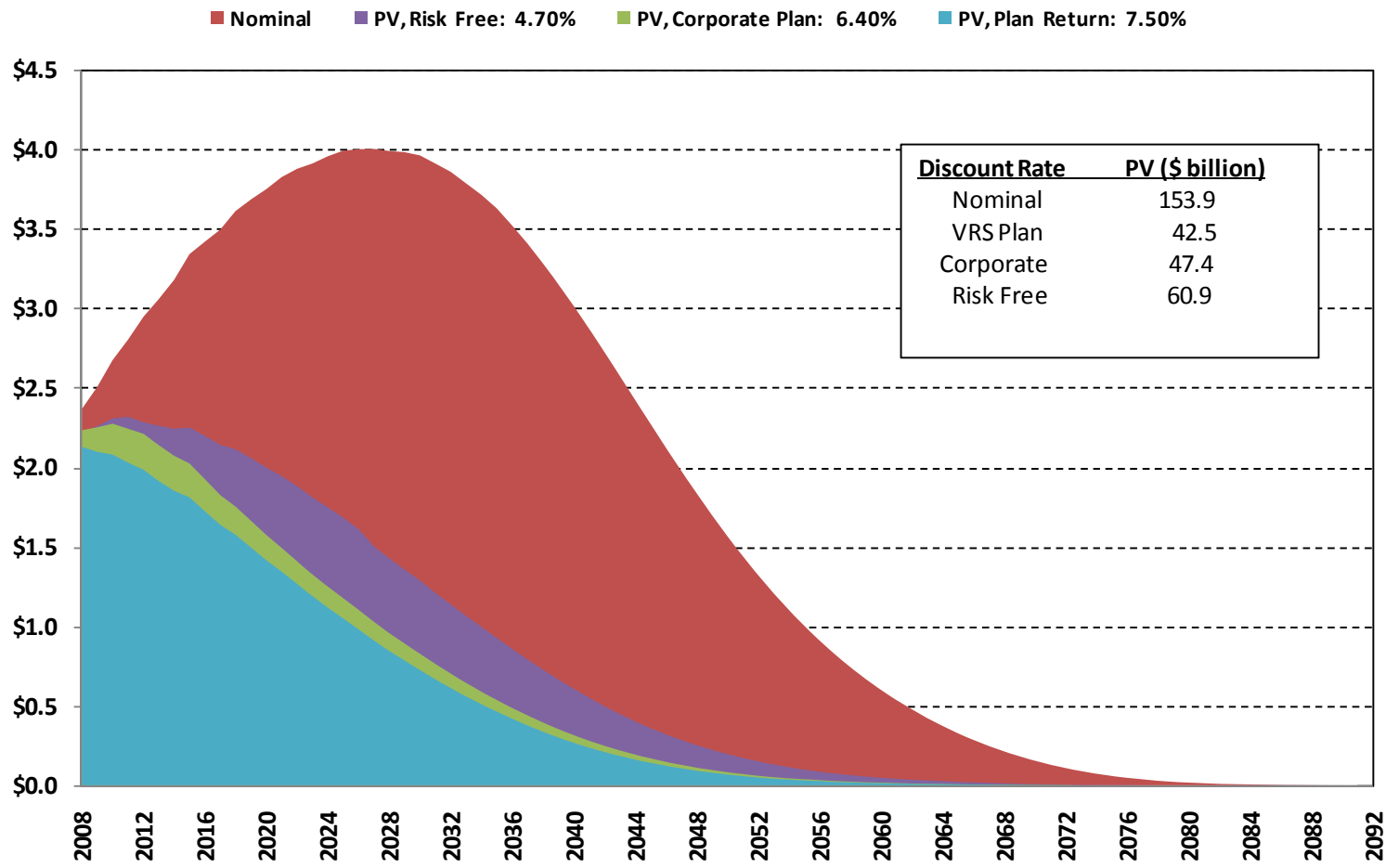


6/26/09



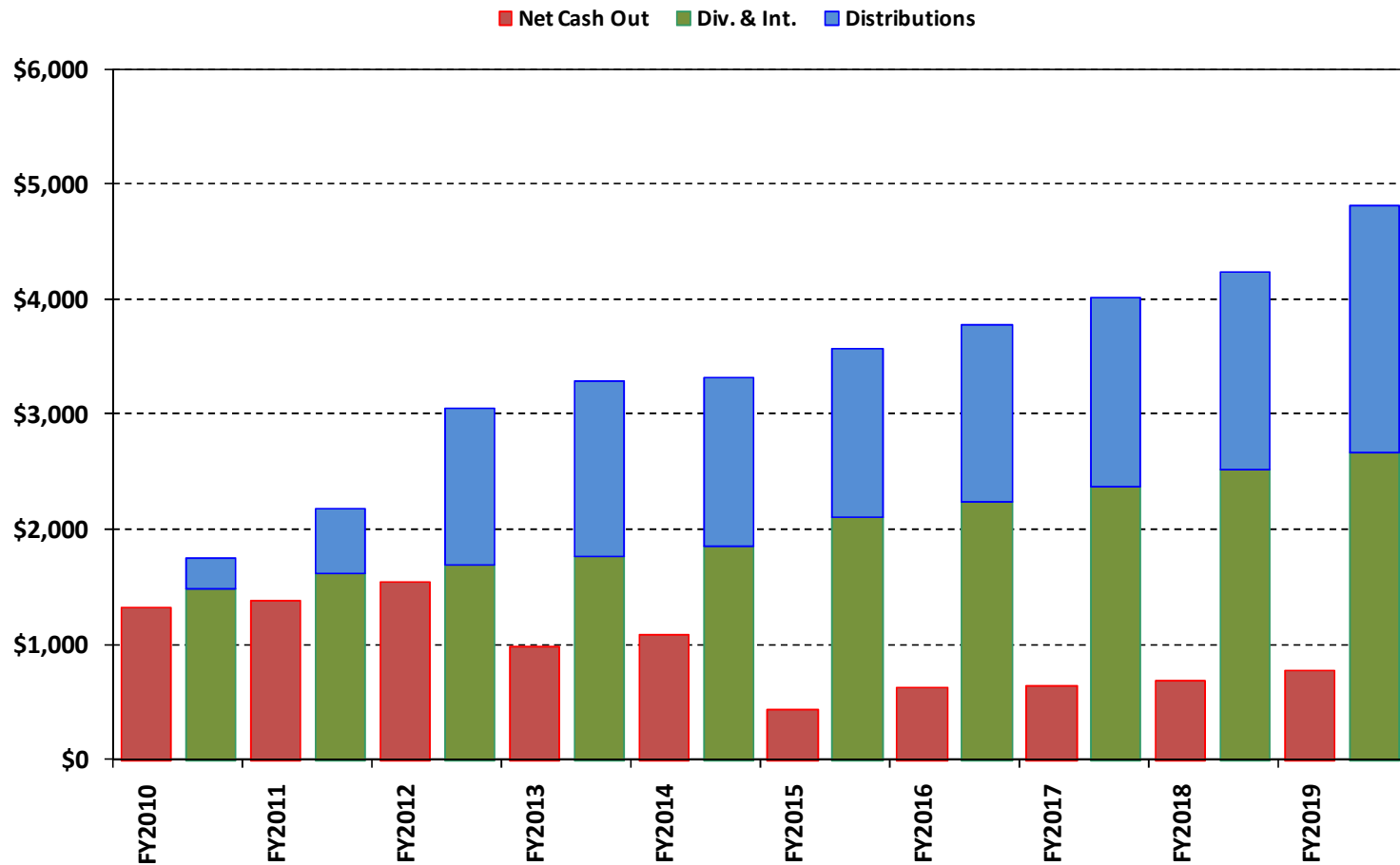
Long-Term Liabilities Require Long-Term Investing

Total PBO as of June 30, 2008 - State Employees and Teachers

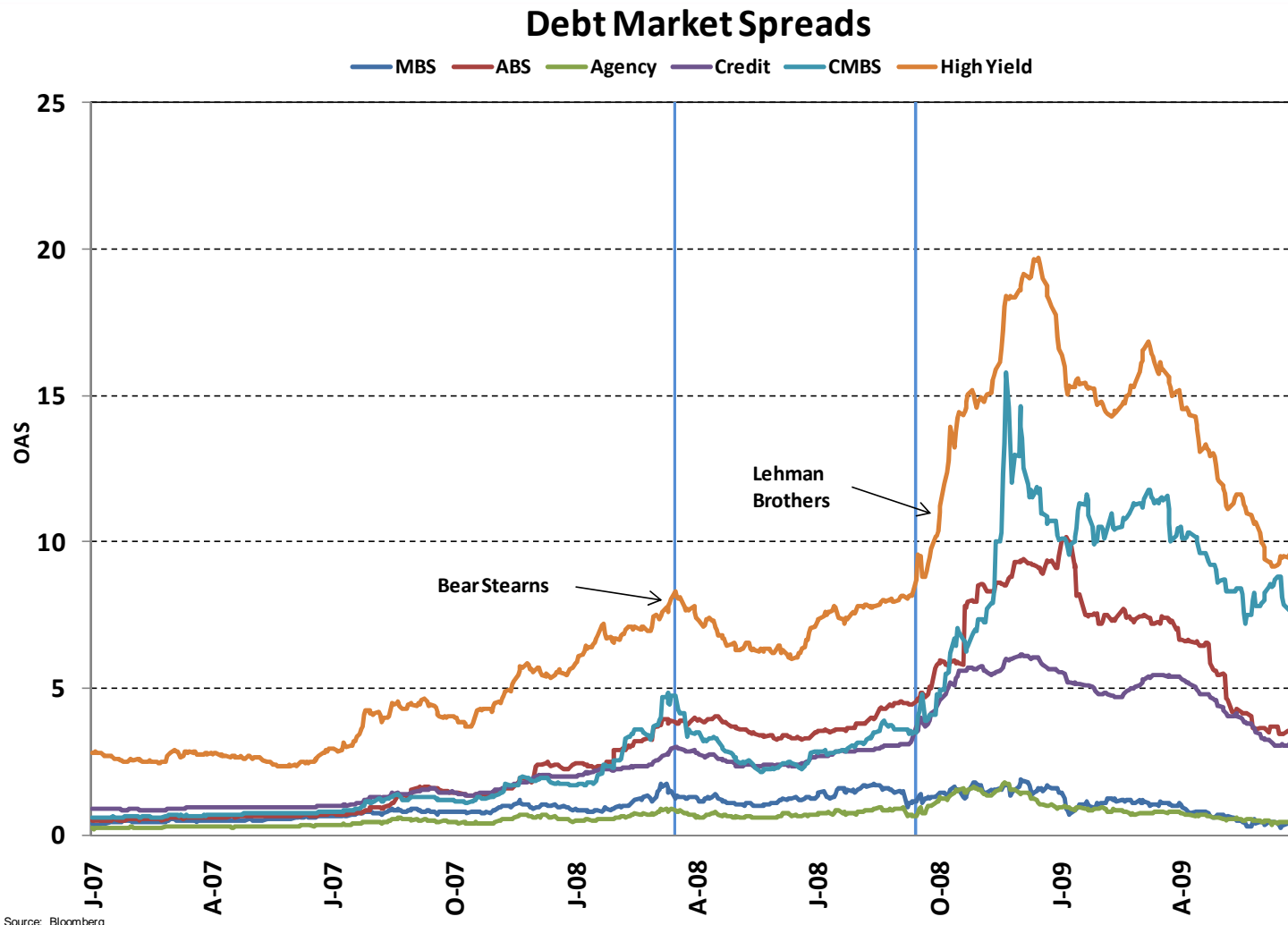


Cash Flow Projection – 10 Years

Cash Flow Projection - 10 Years (in millions)



Current Market Conditions: Credit Markets Are Healing



Looking Ahead

- De-leveraging will continue.
- Economic growth will be slower than we are accustomed to.
- Government policy will be critically important:
 1. Monetary Policy
 2. Fiscal Policy
- VRS will continue to invest opportunistically.

Administration

Robert Schultze
Director



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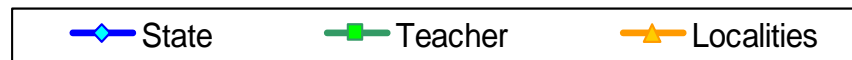
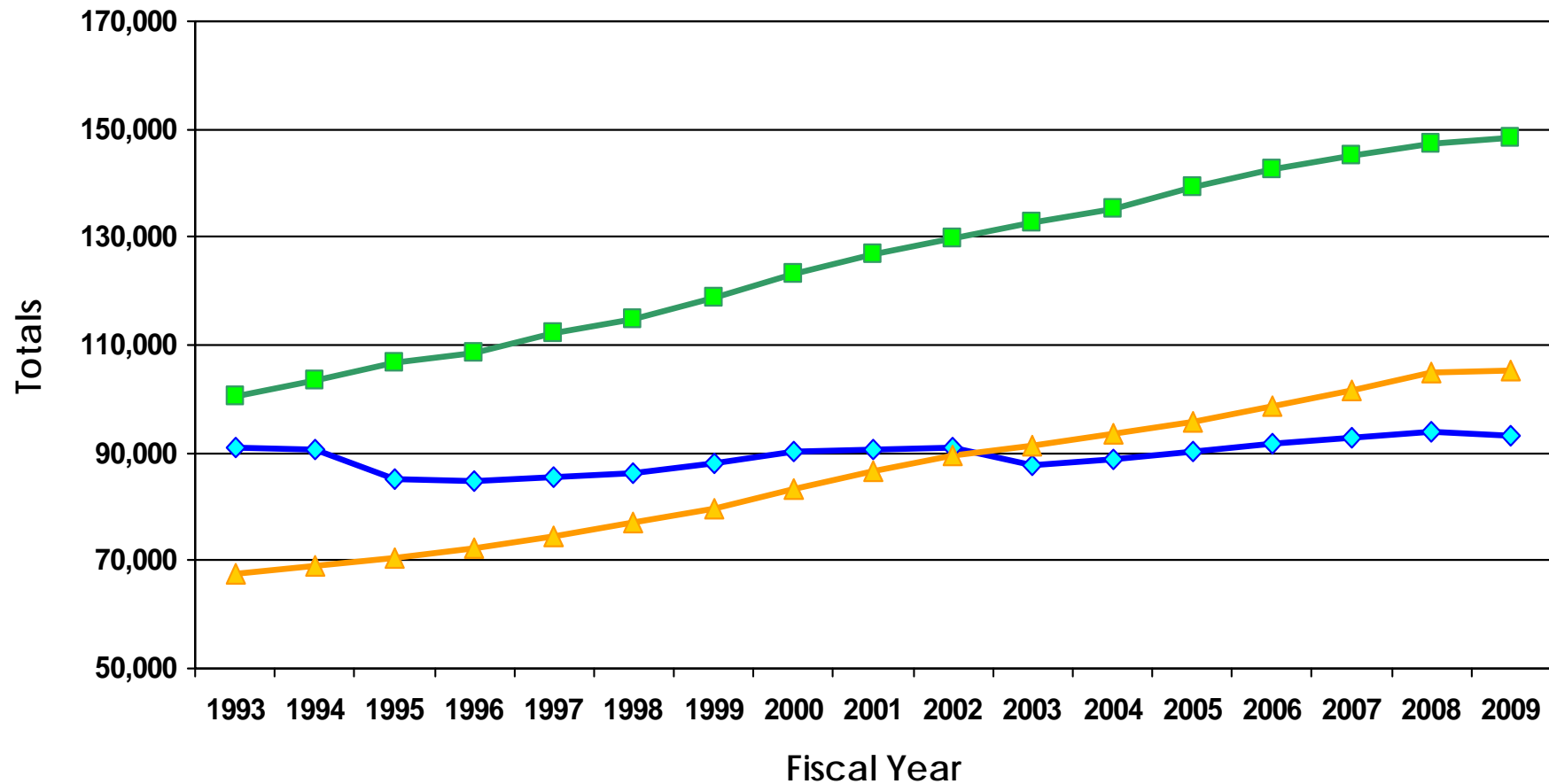
VRS Overview

- VRS is the 24th largest public or private pension system in the U.S.
- There are almost 600,000 members, retirees and beneficiaries.

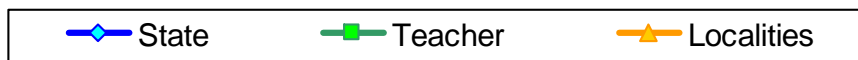
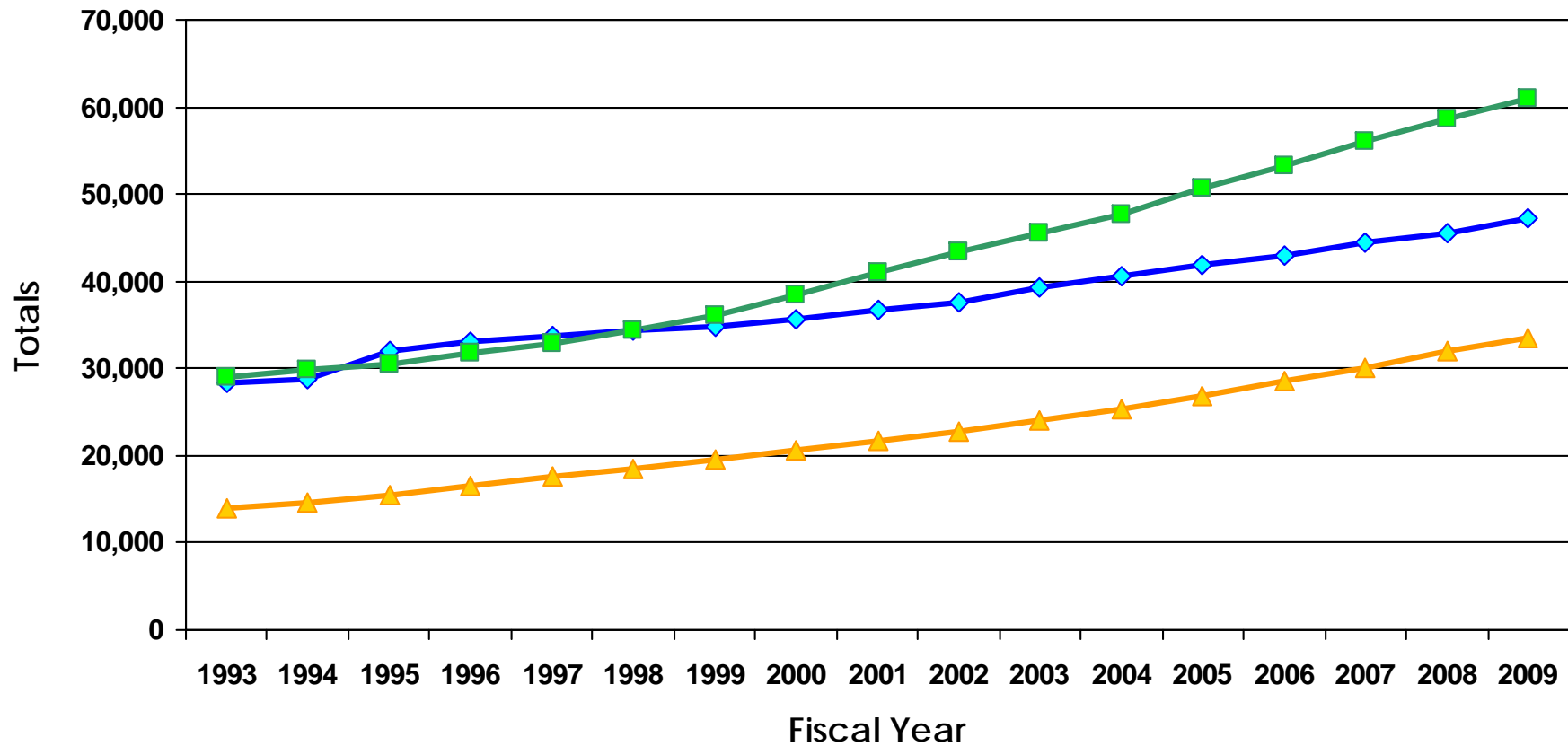
VRS Total Membership

Teachers	148,461
Political Subdivisions	105,404
State Employees	80,808
State Police Officers' Retirement System (SPORS)	1,826
Judicial Retirement System (JRS)	416
Virginia Law Officers' Retirement System (VaLORS)	10,014
Total Active Members	346,929
Retirees/Beneficiaries	141,746
Inactive/Deferred Members	107,551
VRS Overall Impact	596,226

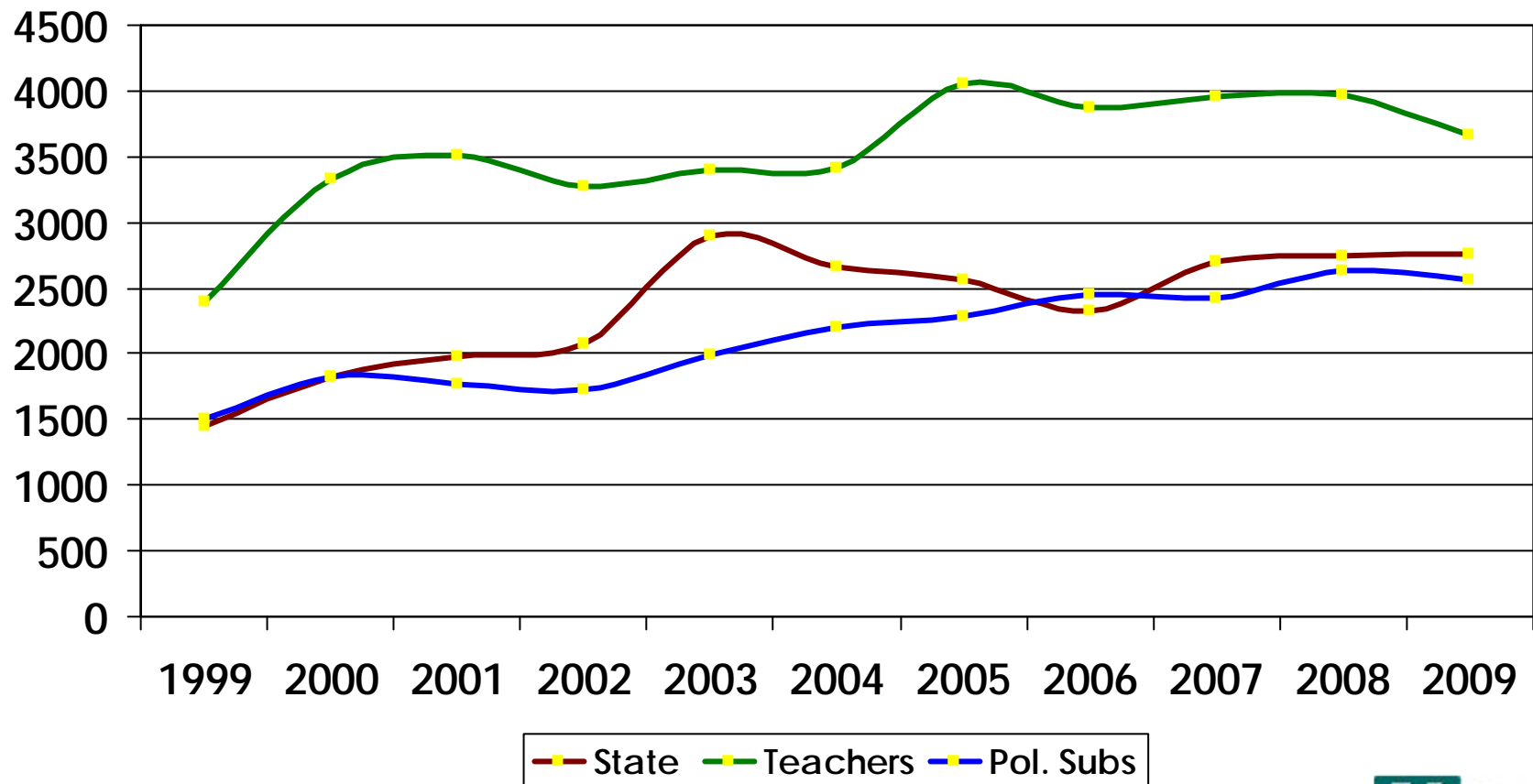
Active Members



Retirees



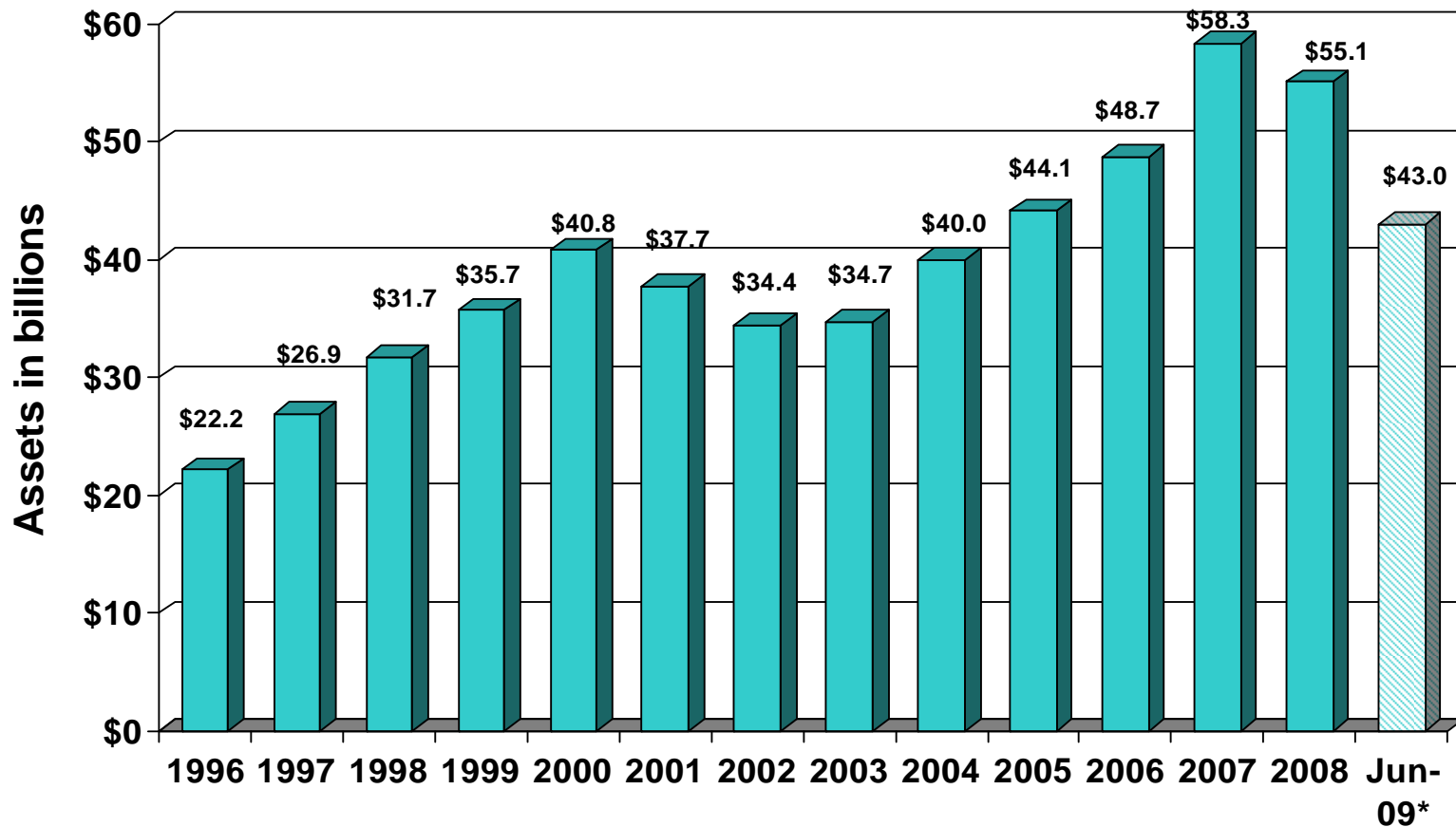
New Retirees Added to Payroll by Fiscal Year



Funding VRS Benefits

- 68% of benefit costs funded by investment earnings
- 32% of benefit costs funded by employee/employer contributions

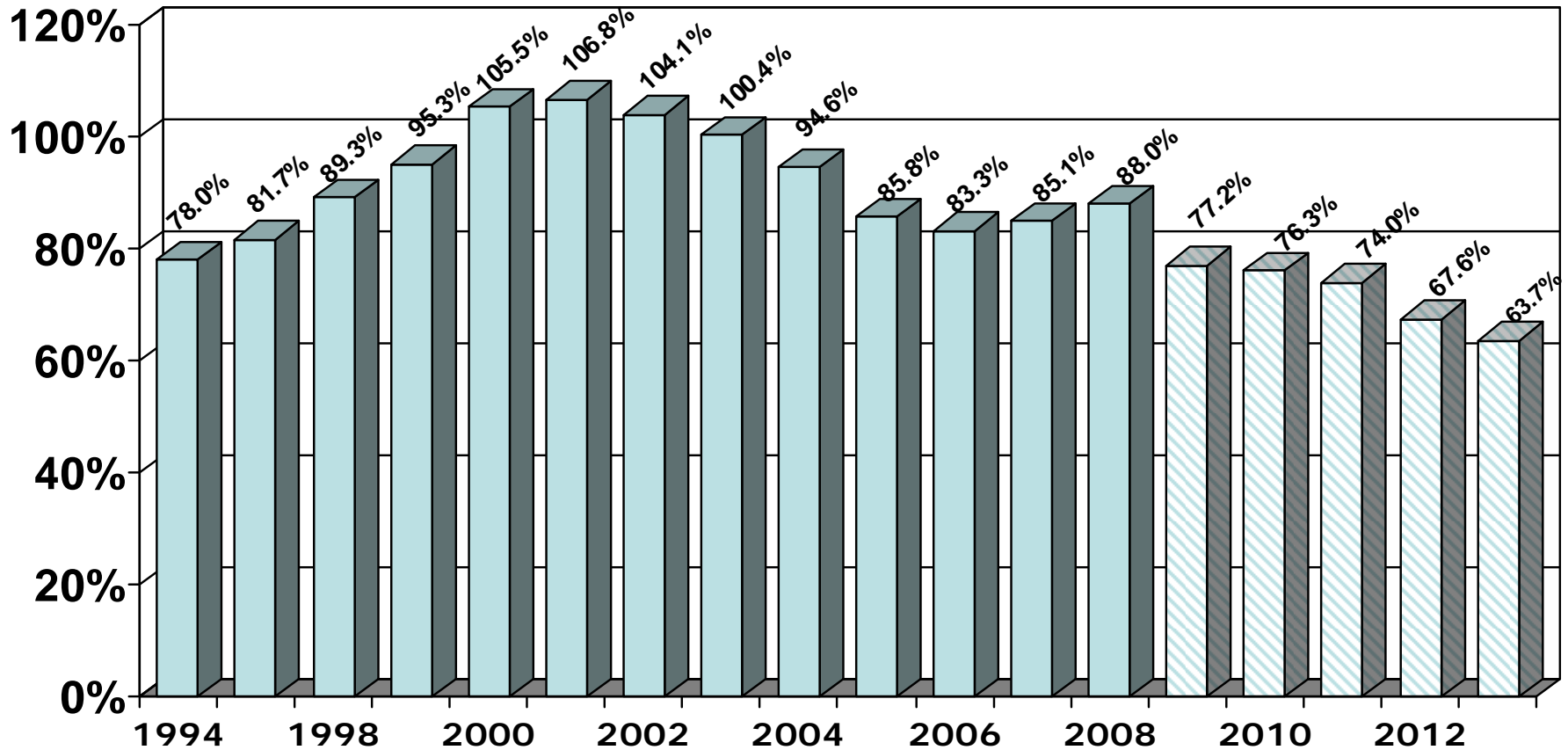
Net Assets Available for Benefits



* Estimated asset amount as of 6/30/09



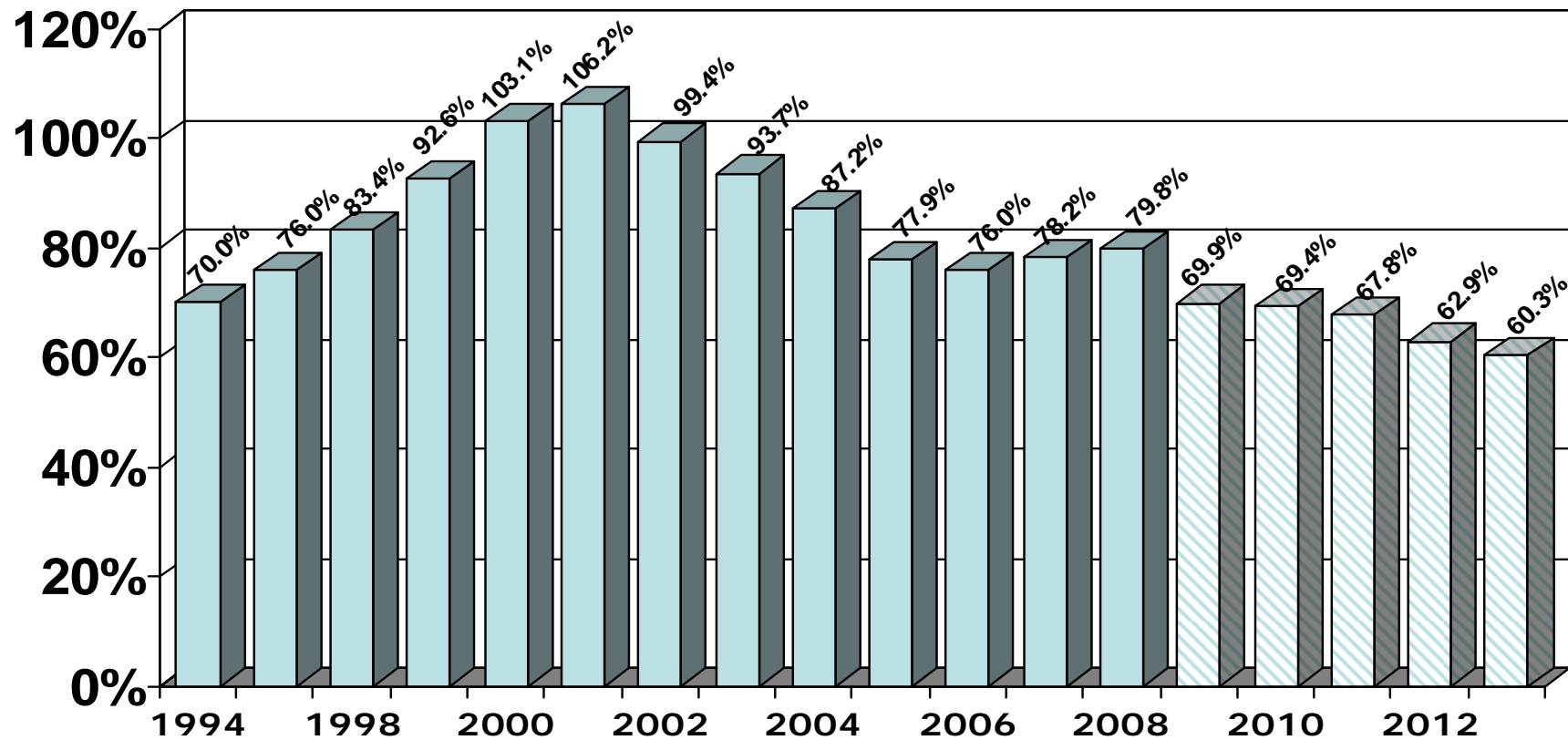
Funded Status: State Employees



Assumptions:

- FY 2009 investment return estimated at -20.0%.
- All projected years investment return is 7.5%.
- Employer contribution rates for fiscal year 2009 is fixed at 6.23% and for 2010 at 6.26% for state employees.

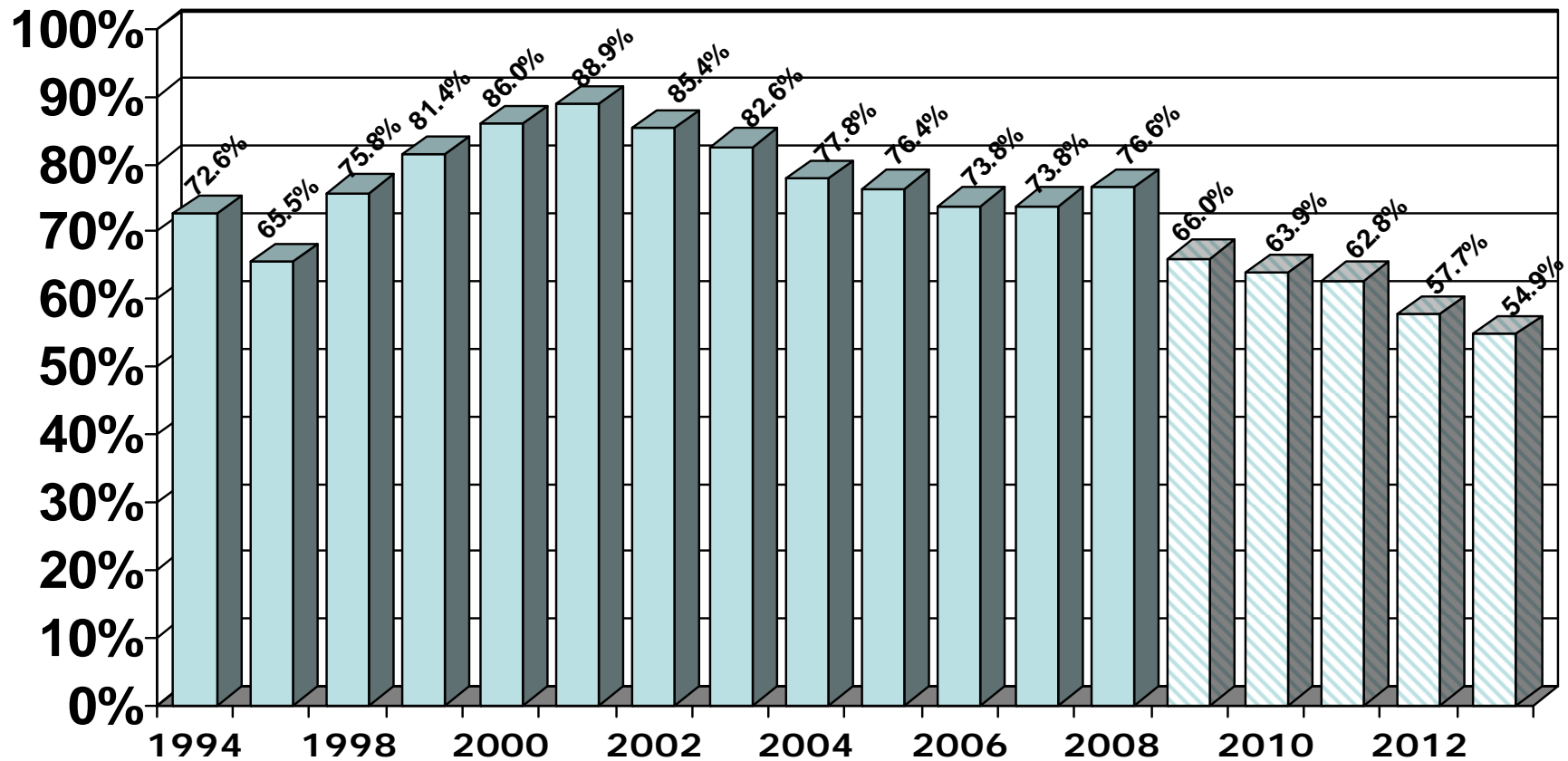
Funded Status: Teachers



Assumptions:

- FY 2009 investment return estimated at -20.0%.
- All projected years investment return is 7.5%.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 8.81% for teachers.

Funded Status: State Police

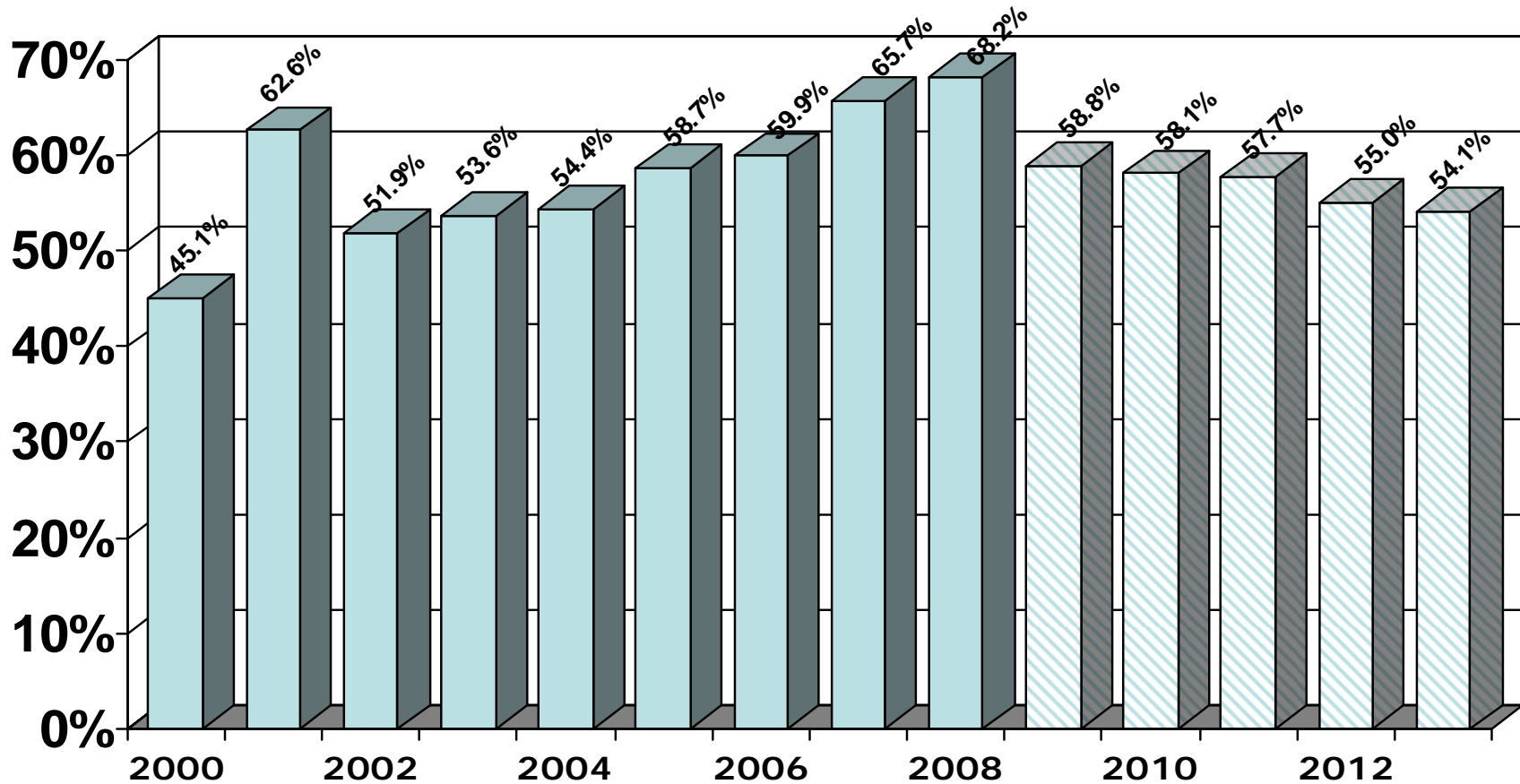


Assumptions:

- FY 2009 investment return estimated at -20.0%.
- All projected years investment return is 7.5%.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 20.05% for SPORS.



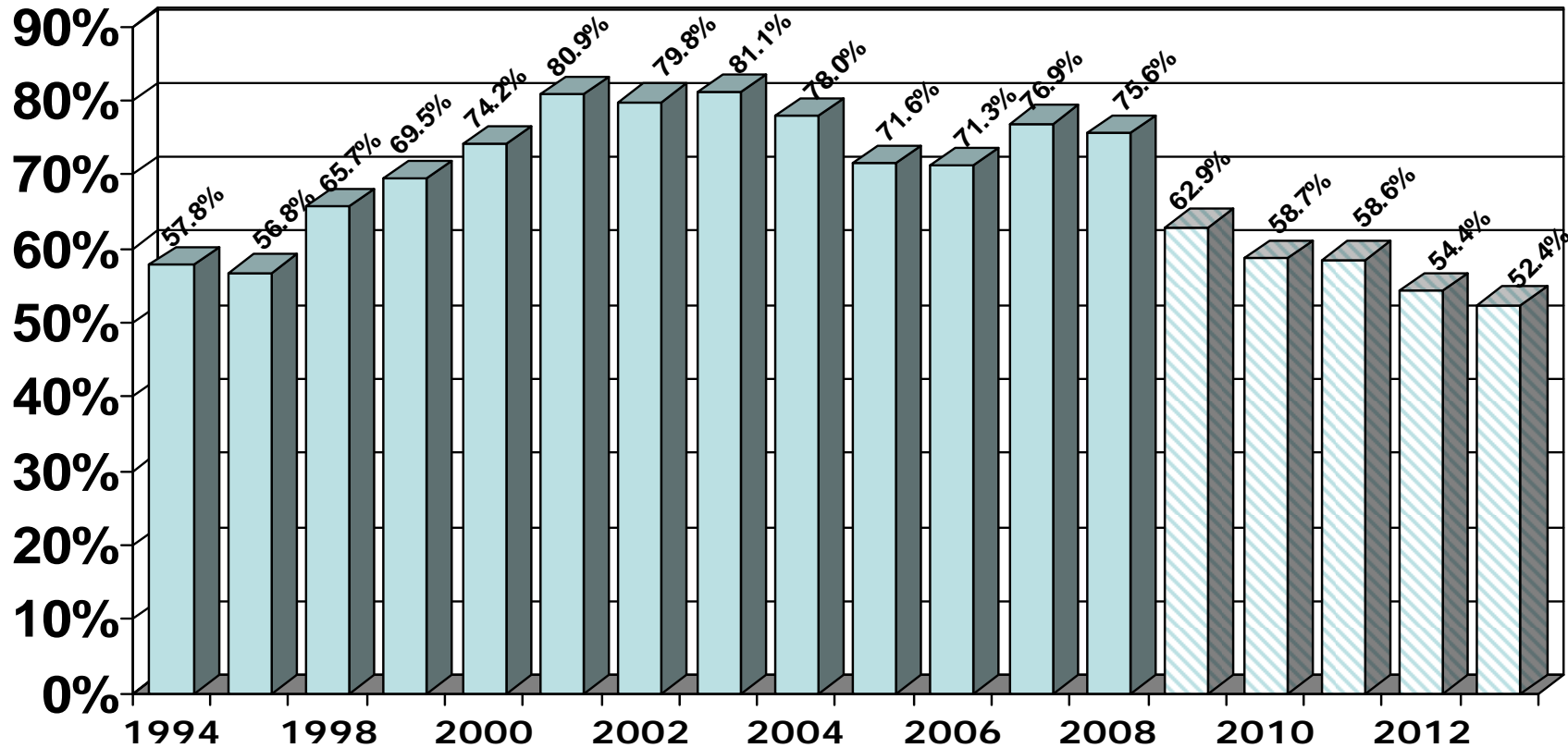
Funded Status: VaLORS



Assumptions:

- FY 2009 investment return estimated at -20.0%.
- All projected years investment return is 7.5%.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 14.23%.

Funded Status: JRS



Assumptions:

- FY 2009 investment return estimated at -20.0%.
- All projected years investment return is 7.5%.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 34.51% for JRS.

Employer Contribution Rates

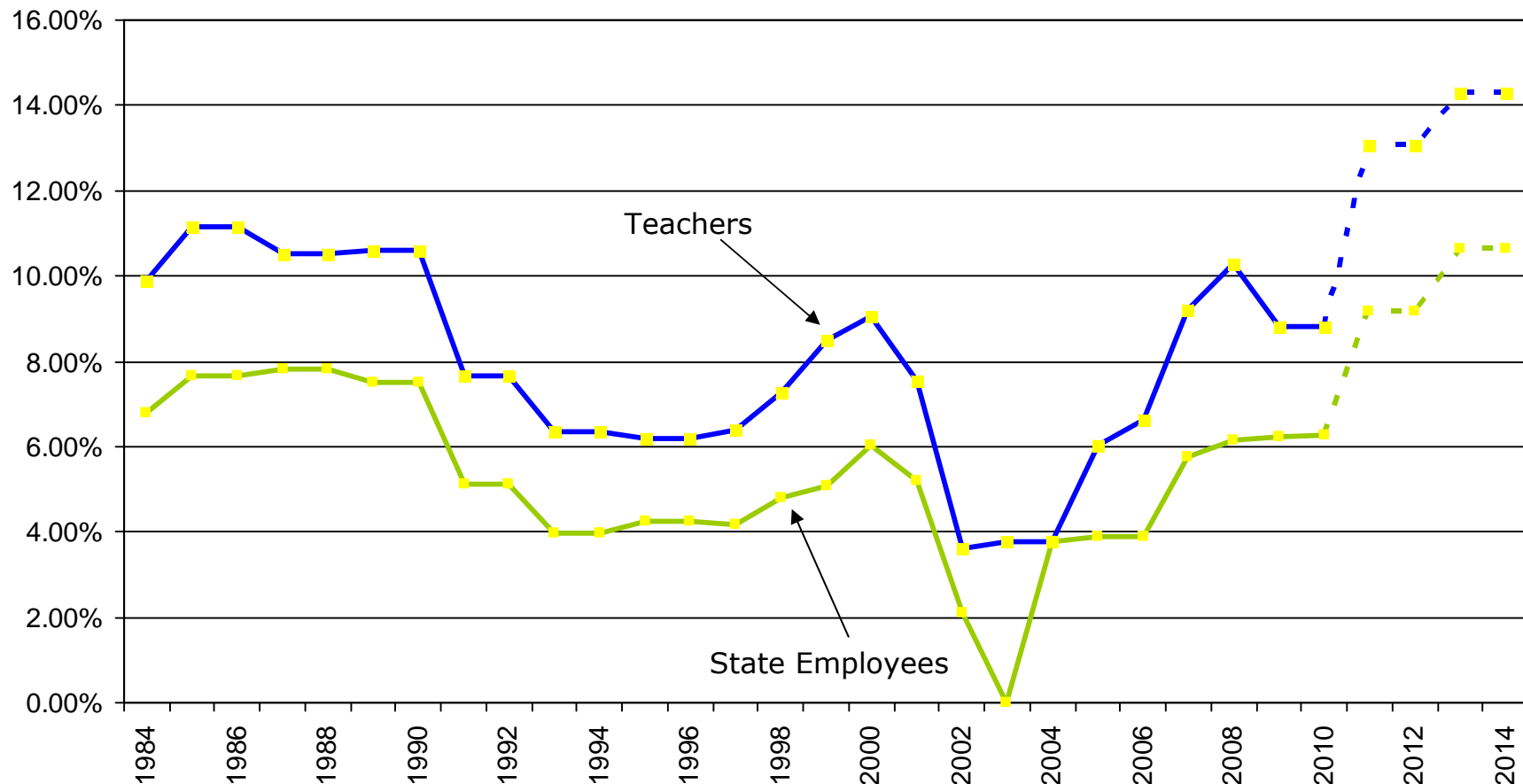
	FY 2010 Rate*	VRS Board
State Employees	6.26%	8.02%
Teachers	8.81%	11.84%
State Police	20.05%	24.09%
Virginia Law Officers	14.23%	16.78%
Judges	34.51%	38.04%

*Does not include 5% member contribution

OPEB Funded Ratios and FY 2010 Contribution Rates

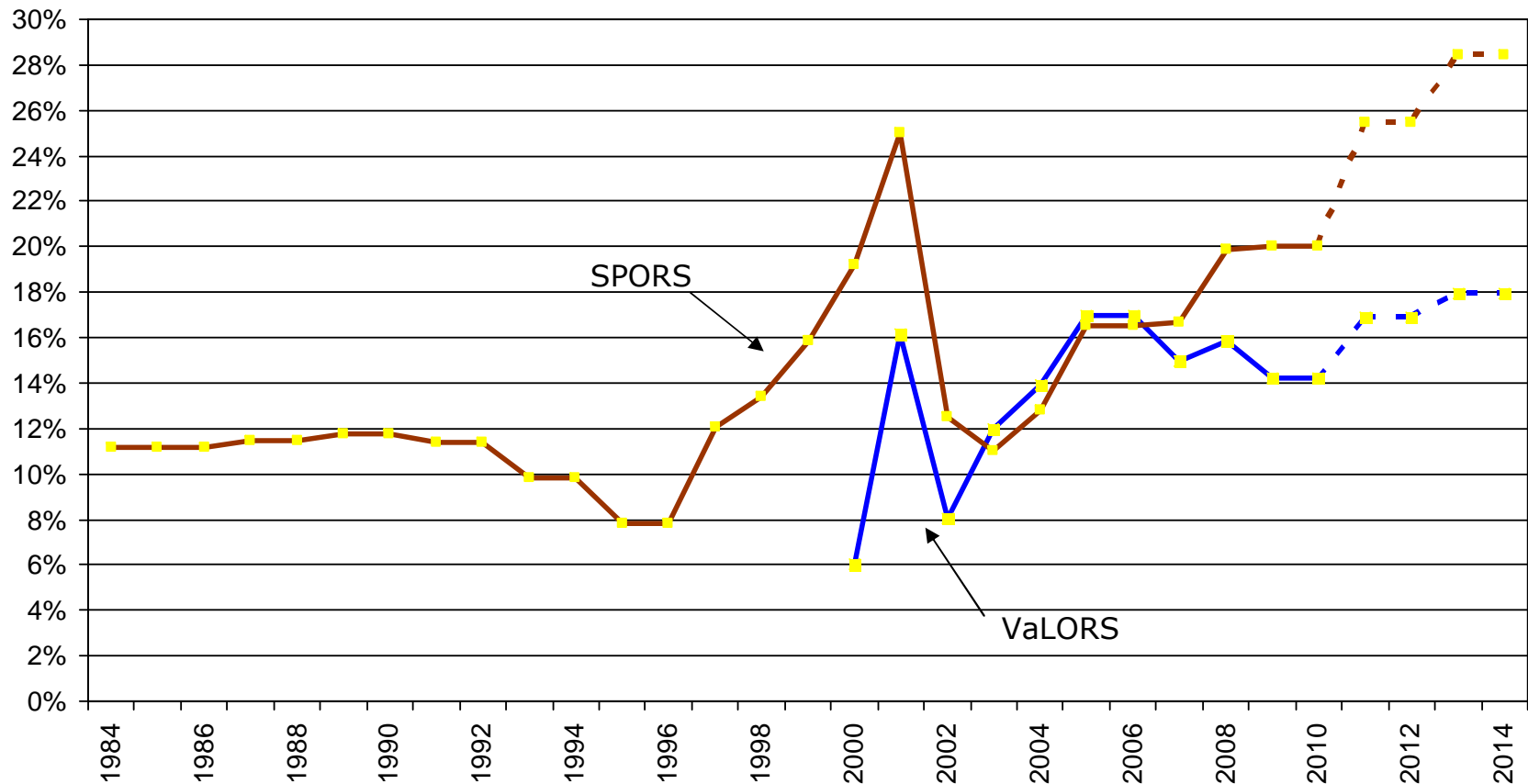
	Approved Contribution Rates	Funded Ratio As of 6/30/2008
Health Insurance Credit State Employees	1.00%	19.17%
Health Insurance Credit Teachers	1.04%	9.12%
Group Life Insurance All Employees	0.79%	55.03%
Virginia Sickness and Disability Plan (state only)	1.00%	78.86%

Teacher and State Contribution Rates FY '84 – '14



- Projected rates are based on an 8% rate of return, a 3% inflation rate and a 30-year amortization.
- These employer rates do not include the 5% member contributions that are also paid by employers.

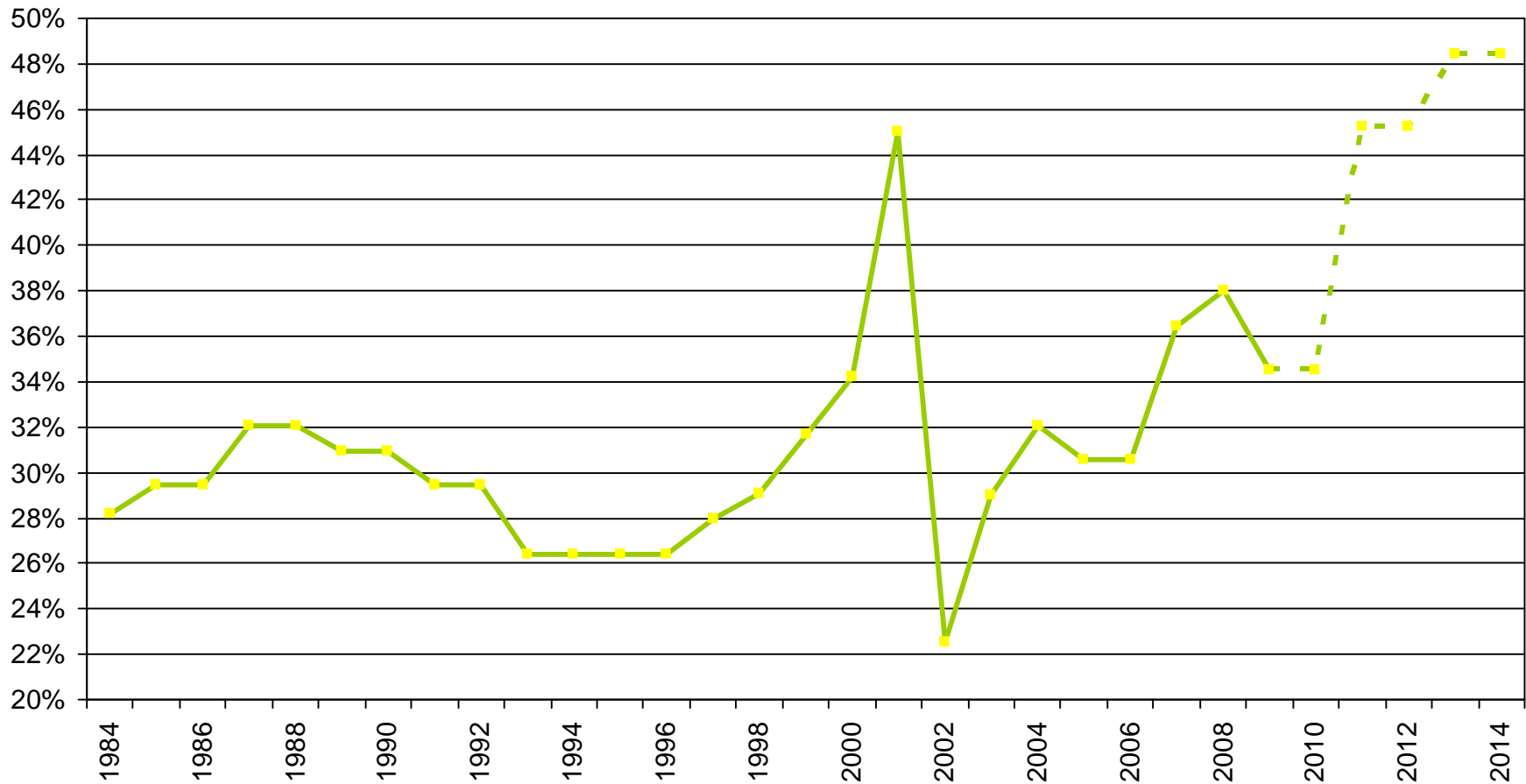
VaLORS, SPORS Contribution Rates FY '84 – '14



- Projected rates are based on an 8% rate of return, a 3% inflation rate and a 30-year amortization.
- These employer rates do not include the 5% member contributions that are also paid by employers.



JRS Contribution Rates FY '84 – '14



- Projected rates are based on an 8% rate of return, a 3% inflation rate and a 30-year amortization.
- These employer rates do not include the 5% member contributions that are also paid by employers.



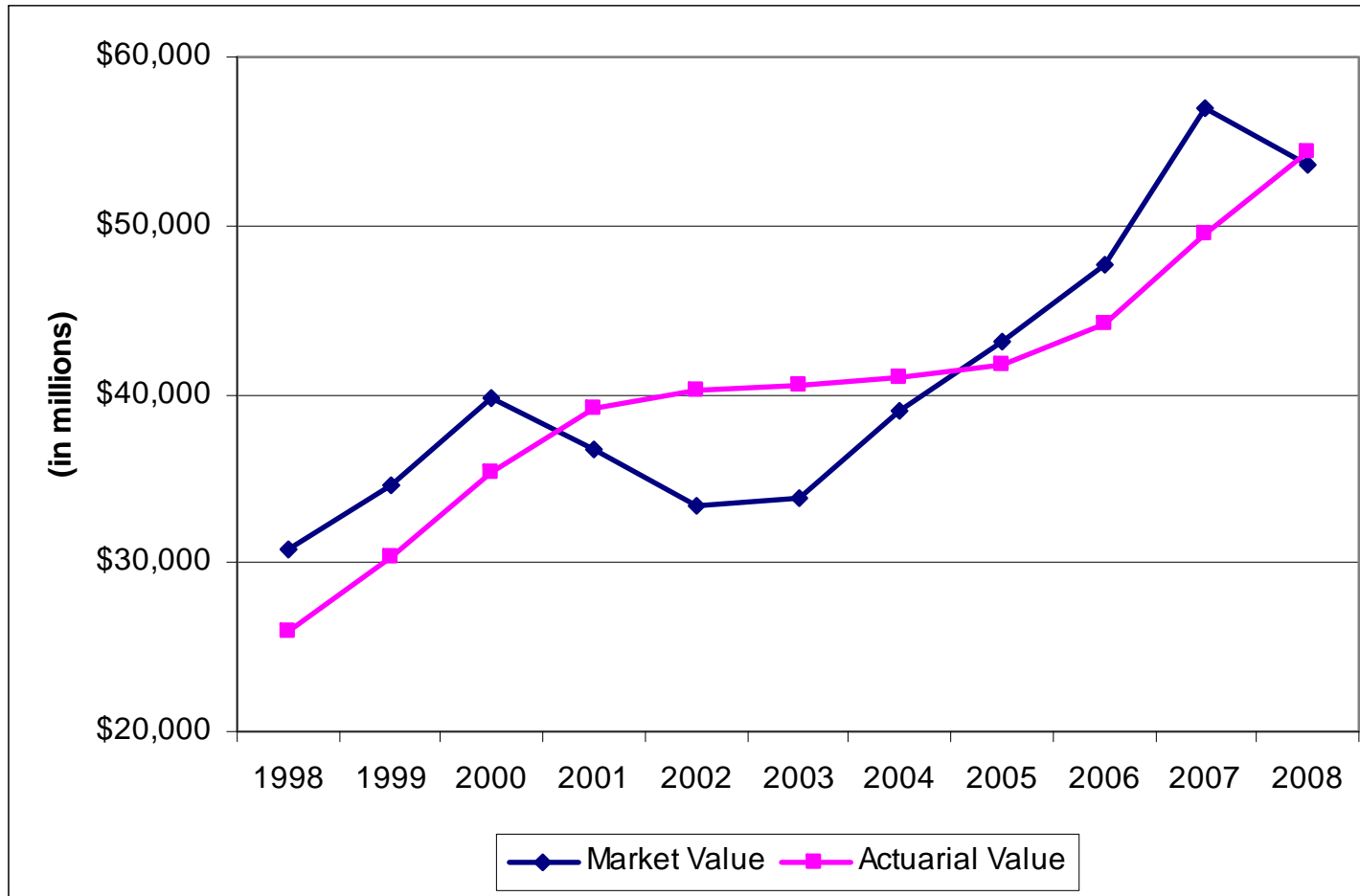
Potential Budget Impact

Projected Employer Contribution Rates

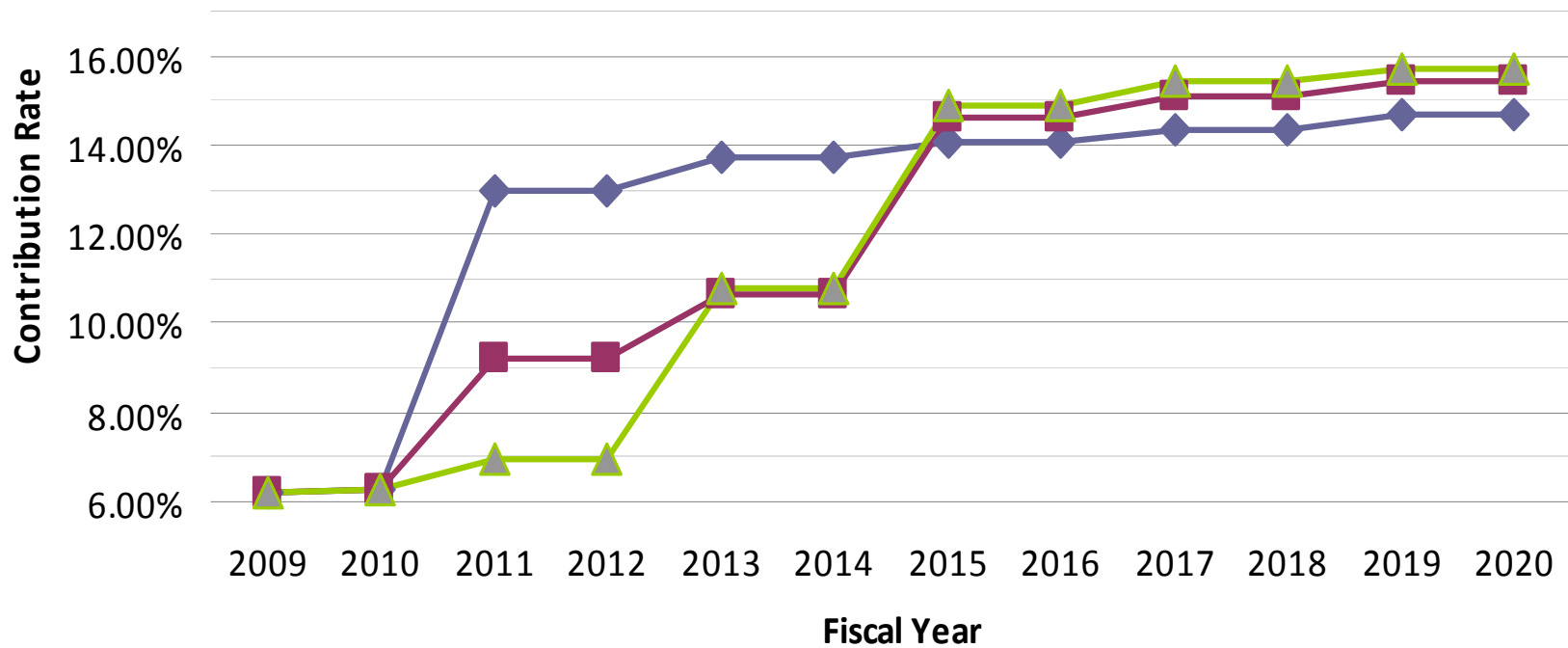
	Current Rates FY 2010	Projected Rates FY 2010-12	Potential Annual Cost Increase	Estimated General Fund Portion
State Employee	6.26%	9.19%	\$130 million	\$63 million
Teacher	8.81%	13.05%	\$353 million	\$139 million

- Projected rates are based on an 8% rate of return, a 3% inflation rate and a 30-year amortization.
- FY 2009 investment return estimated at -20.0%.
- These employer rates do not include the 5% member contributions that are also paid by employers.

Pension Trust Funds Market and Actuarial Value of Assets

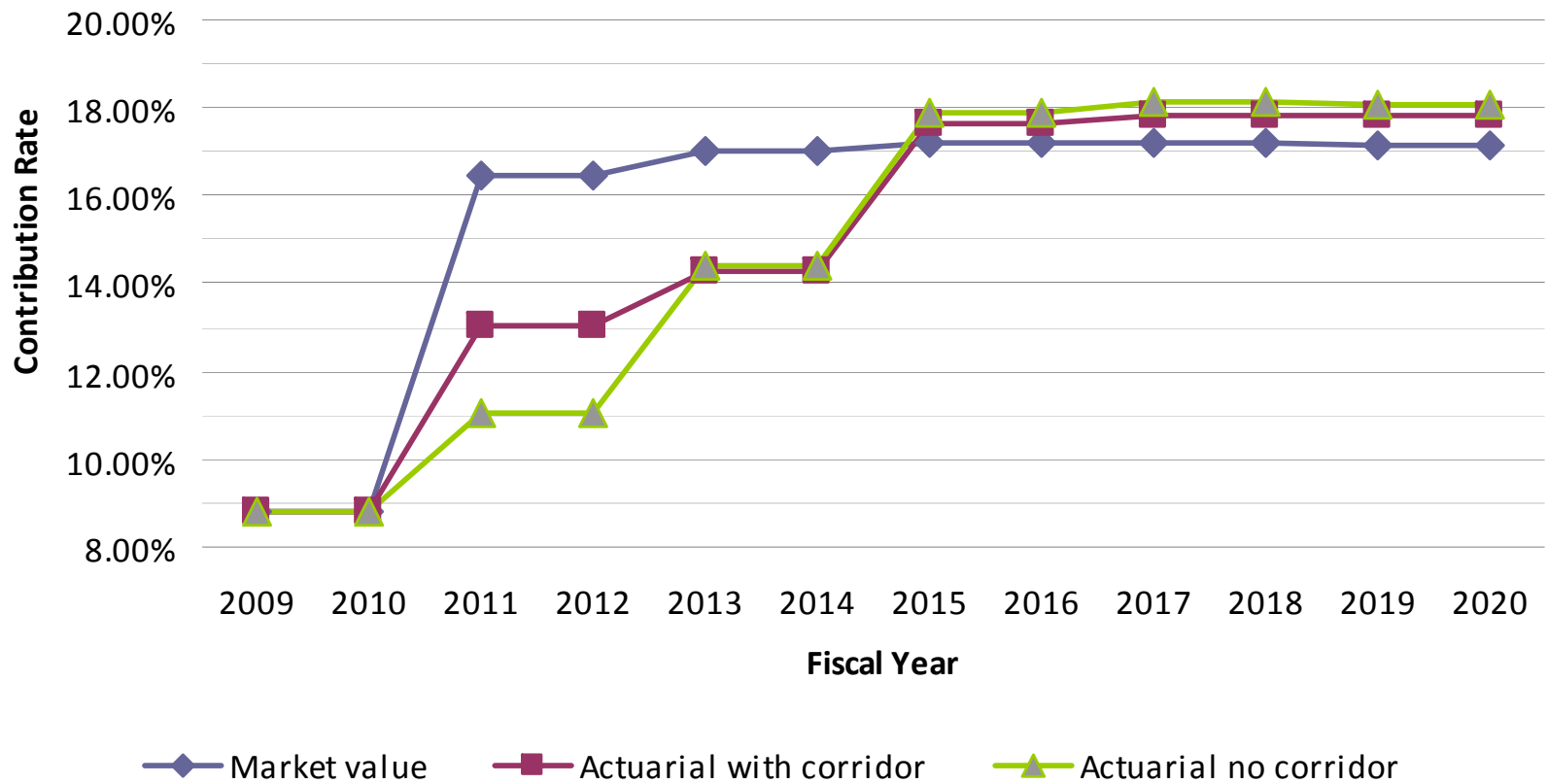


VRS State Projected Contribution Rates - Alternative Assumptions & Asset Methods



◆ Market value
 ■ Actuarial with corridor
 ▲ Actuarial no corridor

VRS Teachers Projected Contribution Rates - Alternative Assumptions & Asset Methods



Plan Design Changes Identified by PWC & JLARC

Benefit Change	Applicable			Savings/Cost Avoidance	
	Current Members	Non-vested members	New Hires	Immediate	Long-term
Employee-paid Member Contribution (2%)*	√	√	√	√	
Increase retirement age 60**		√	√		√
Reduce COLA for new retirees***	√	√	√		√
Combination Plan			√		√
Cash Balance Plan			√		√
Defined Contribution Plan			√		√

*PWC & JLARC assumed that the contributions would be phased in over a four-year period.

**PWC and JLARC did not apply retirement age design change to SPORS and VALORS.

***JLARC & PWC suggested that the General Assembly could consider exempting active employees within several years of retirement eligibility from this change. Such an exemption could help limit the extent to which employees in this group may have to alter their retirement plans. This exemption could also help avoid a sudden increase in employee retirement—and therefore loss of experienced employees—just prior to the effective date.



2009 General Assembly Highlights



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2009 General Assembly

Appropriations Act:

- In FY 2010, eligible counties, cities, towns and school divisions may elect to pay contribution rates using alternate actuarial assumptions.

	VRS Board Certified Assumptions	Alternate Assumptions
Amortization Period	20 years	30 years
Inflation Rate	2.5%	3.0%
Rate of Return	7.5%	8.0%

2009 General Assembly

Appropriations Act:

- VSDP Changes:
 - New or re-hired employees are eligible for:
 - Non-work related disability benefits after one continuous year of active employment.
 - Work-related disability benefits, family and personal leave and sick leave.
 - Income replacement of 60 percent of creditable compensation for the first 60 months of continuous state service for work-related disability.
 - Recurrent period was increased to 45 consecutive days.
- WTA costs not paid by terminating state agency, but will be factored into employer contribution rates paid to VRS in FY 2010.

2009 General Assembly

- HB 1647 (Marshall) and SB 1306 (Hurt)
Requires City of Danville to provide deputy sheriffs retirement benefits at age 50 with 25 years of service
- HB 2065 (Hamilton)
Requires regional jails to provide benefits comparable to those of state police officers to the jail's superintendent and sworn officers
- SB 994 (Miller, J. C.)
Allows campus police chiefs at institutions of higher education, removed from the Personnel Act, to retain VaLORS benefits

2009 General Assembly

- SB 919 (Reynolds)
Extends the sunset date to July 1, 2015 for the critical shortage program allowing retired teachers to return to work without loss of their retirement benefit
- HB 2128 (Cox)
Conforms the *Code* to the provisions of the HEART Act
- HB 2068 (Tata)
Certain forms no longer require notarization
- Other legislation was technical in nature

2008 Follow Up

- Deferred Compensation Plan
 - Automatic enrollment of new hires and rehires in the 457 Deferred Compensation Plan
 - 11,421 subject to auto enroll since January 2008
- Multiplier increase to 1.85% for all sheriffs, state police officers and by local election for other hazardous duty positions
 - 74 localities elected to provide 1.85% multiplier to hazardous duty employees

Thank you!



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