

**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**Impact of an Aging
State Workforce**

**Staff Briefing
Trish Bishop
November 14, 2005**

Staff for this Study

2

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Presentation Outline

3

- Background**
- General Trends in State Workforce Retirements**
- State Workforce Planning Activities**
- Demand for Retirement Benefits**
- Health Care Costs**
- Summary**

Study Mandate and Issues

4

- **House Joint Resolution 103 passed by the 2004 General Assembly directed JLARC staff to study the impact of Virginia's aging population**
- **This study, a companion to the study of the impact of the aging population on State agency services, focuses on the impact of an aging State workforce**

Research Activities

5

- **Structured interviews with 49 agencies and institutions**
- **Analysis of retirement and turnover data from the Virginia Retirement System (VRS) and Department of Human Resource Management (DHRM)**
- **Review of State agency workforce planning documents**
- **Surveys of 400 State employees, 410 recent retirees, and 96 agencies and colleges**
- **Other data collection and analysis**

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6

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State Government Employees Are Aging

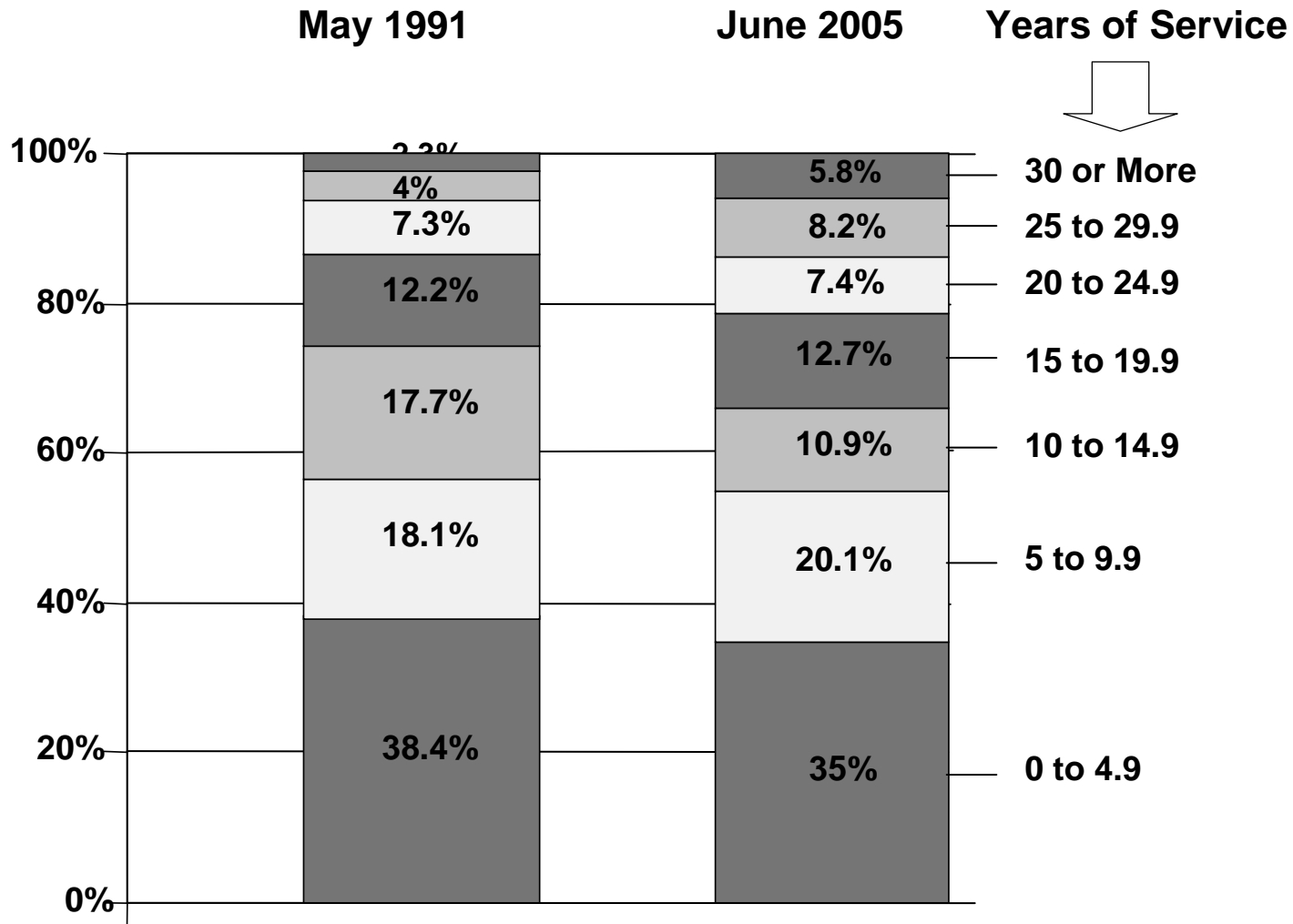
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- **Future trends in the labor force will be affected by the aging of the baby boom generation**

- **Trends for classified Virginia State employees**
 - **Average age is increasing**
 - 41 in 1991
 - 46 in 2005

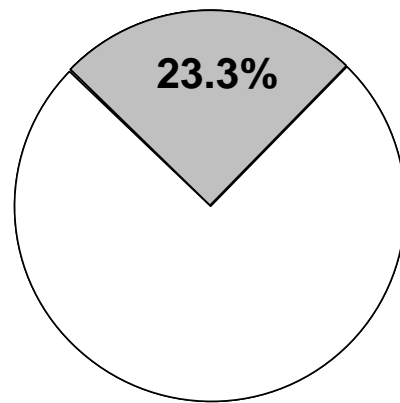
 - **Average number of years of service is increasing**

Years of Service for Classified State Employees for 1991 and 2005

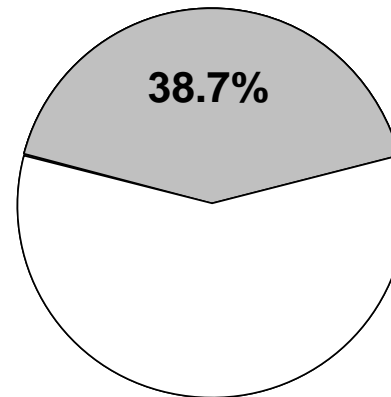


As Employees Age, More Could Be Eligible for an Unreduced Benefit

Employees Eligible for Unreduced Retirement Benefits



2006 - 2010



2006 - 2015

Many Employees Do Not Retire Once Eligible

10

- **The survey of State employees showed:**
 - **74 percent within five years of eligibility for a full benefit plan to continue working in State government after they are eligible to retire with an unreduced benefit**
 - **71 percent said that the cost of health care strongly influences their retirement plans**

- **Agency human resources staff also reported that employees delay retirement for a variety of reasons, including the cost of health care**

Many Employees Do Not Retire Once Eligible (continued)

11

- **According to the VRS actuary's 2004 experience study, covering FY 2000 to FY 2004:**
 - **of those State employees eligible for an unreduced benefit, 15.5 percent retired**
 - **of those State employees eligible for a reduced benefit, an average of 6.6 percent retired**

- **At age 65, however, 35 percent of State employees eligible for an unreduced benefit retired, and 33 percent of State employees eligible for a reduced benefit retired**

Retirement Trends

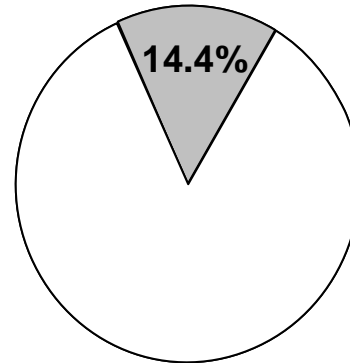
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- **As of June 30, 2005, approximately eight percent of employees were eligible to retire with an unreduced benefit**

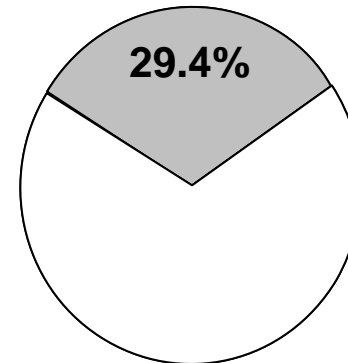
- **In FY 2005, two percent of employees retired from State service**
 - **Some of these retirees received an unreduced benefit, but a greater proportion received a reduced benefit**
 - **These data suggest that less than one-fourth of State employees eligible for an unreduced benefit actually retire**

Estimated Level of Future Retirements

Current Retirement Rate

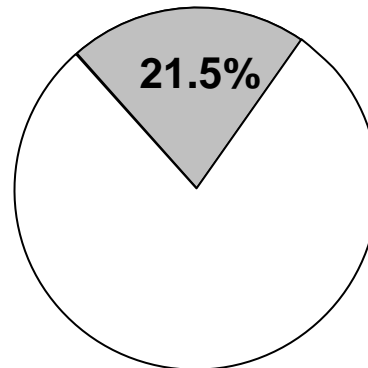


2006 - 2010

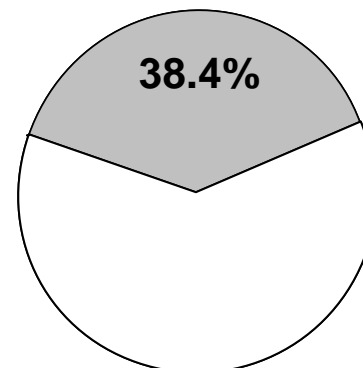


2006 - 2015

Double the Current Retirement Rate



2006 - 2010



2006 - 2015

Uncertainty Remains in Some Agencies About Potential Retirements

14

- **Large cohort of employees who are eligible but have delayed retirement creates uncertainty about future retirements**
 - **At the end of FY 2005, in five agencies approximately 15 percent or more of employees were eligible to retire, but had not**
 - **At some community colleges many faculty may retire within a short time frame because many faculty members eligible to retire were hired when the community college system was established in the late 1960s**

- **Some agencies face potential retirement levels that could be difficult to manage**
 - **At a few agencies almost 60 percent of their workforce will be eligible to retire with an unreduced benefit in the next ten years**
 - **Among classified positions with at least 30 employees, in several cases 60 percent or more of employees will be eligible for an unreduced benefit in the next ten years**

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15

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State Workforce Planning Activities

16

- In 2004, DHRM established a more formalized statewide workforce planning effort to
 - increase agency awareness of planning needs
 - help agencies identify staffing challenges

- State agencies were asked to
 - focus on current staffing issues as well as future needs
 - develop strategies to ensure a high level of performance, including the areas of retention and recruitment
 - evaluate the adequacy of staff and resources to meet mandates

- State agencies are also now required to submit strategic plans that include a section on human capital needs

Agencies Appear Prepared to Handle Future Retirement Levels

17

- **Most State agencies with a large percentage of employees eligible to retire recognize the potential problem, and many appear to have taken steps to mitigate the potential loss of employees in critical positions**
- **While the overall rate of retirements may not be a major concern at many agencies, the potential for retirements in particular positions, such as management and supervisory positions, might impact agency operations**

Knowledge Transfer and Succession Planning Are a Priority for Most Agencies

18

- **81 percent of agencies surveyed indicated that they consider knowledge transfer activities for addressing expected retirements a high or very high priority, and 84 percent indicated that they are engaging in knowledge transfer activities:**
 - **Cross-training**
 - **Documenting of procedures**
 - **Mentoring**
 - **Double-filling**

- **Agencies and employees surveyed agreed that cross-training was important, and 82 percent of agencies sometimes or often rely on cross-training**

Training Will Help Prepare Agencies for Future Retirements

19

- Agencies expressed concerns about training in interviews with JLARC staff and in their workforce plans
- Most agencies expressed an interest in the management and supervisory training being planned by DHRM
- DHRM piloted a learning management program which will help agencies to track training and identify employee competencies

Strategies Agencies May Want to Consider

20

- Under limited circumstances, hiring retirees as hourly employees
- Allowing employees near retirement to work 32 hours a week and maintain full health care benefit
- Phased retirement, to the extent allowable by IRS regulations

Presentation Outline

21

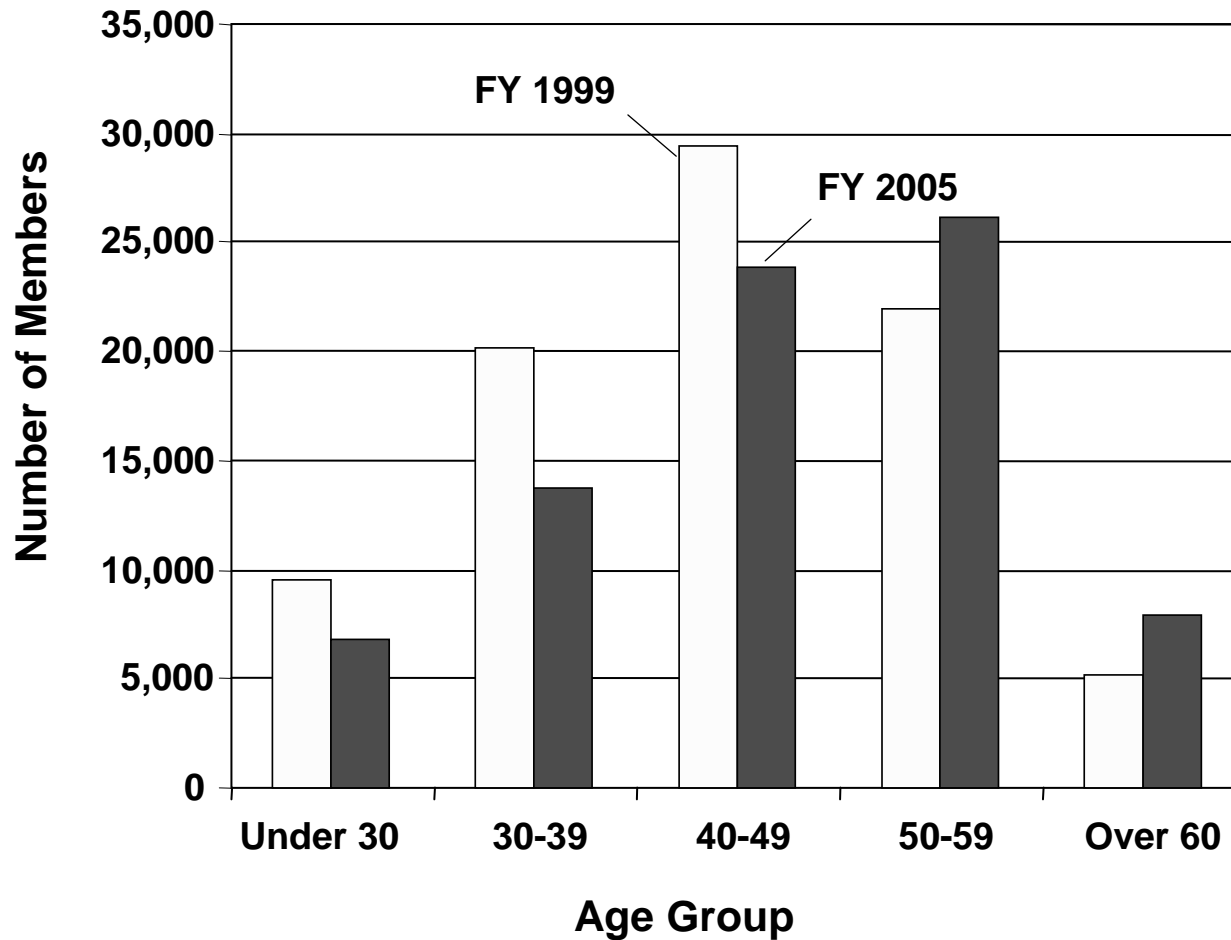
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Structure of the Defined Benefit Plan

22

- **The structure of the State's defined benefit plan, administered by the Virginia Retirement System (VRS):**
 - **provides benefits based on a formula which includes age, years of service, and average final compensation**
 - **encourages employees to remain employed with the Commonwealth**
 - **aids in maintaining skilled employees over time**

VRS State Employee Active Membership by Age Group



VRS Growth in Retired Membership

24

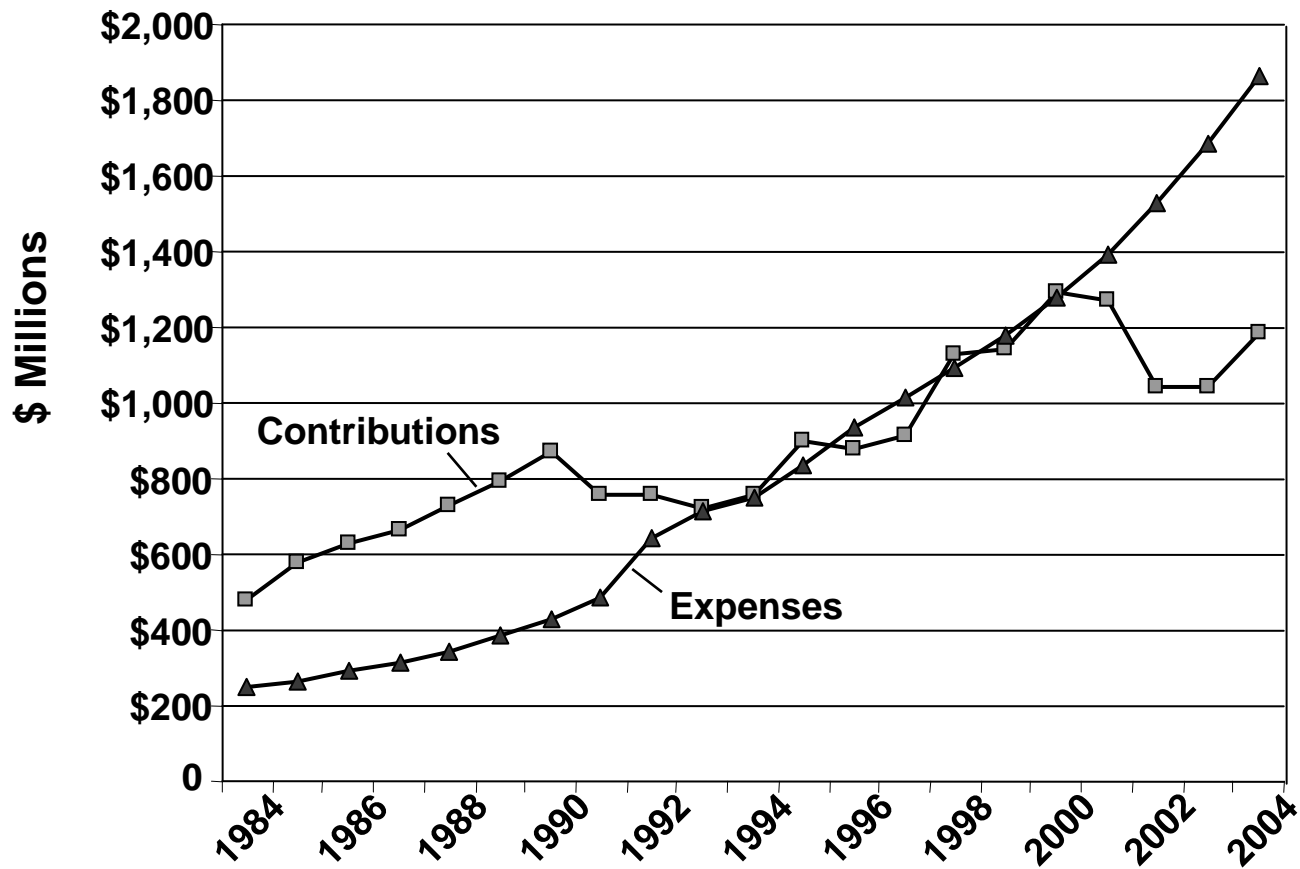
- Over the past decade, there has been considerable growth in the number of retirees and beneficiaries
- The average annual increase in the number of retirees has been almost 5 percent, and VRS projects annual growth to average 4.4 percent through 2020

Funding of the System

- **Contributions to the fund are essential because**
 - they directly fund a significant portion of the benefits paid
 - they are assets available for the fund to invest

- **For the average VRS member who retires with an unreduced benefit at age 61 with 30 years of service and lives for another 24 years, the 24 years of benefits are paid**
 - 24 percent from employer and employee contributions
 - 76 percent from investment earnings

VRS Contributions Compared to Expenses FY 1984 – FY 2004



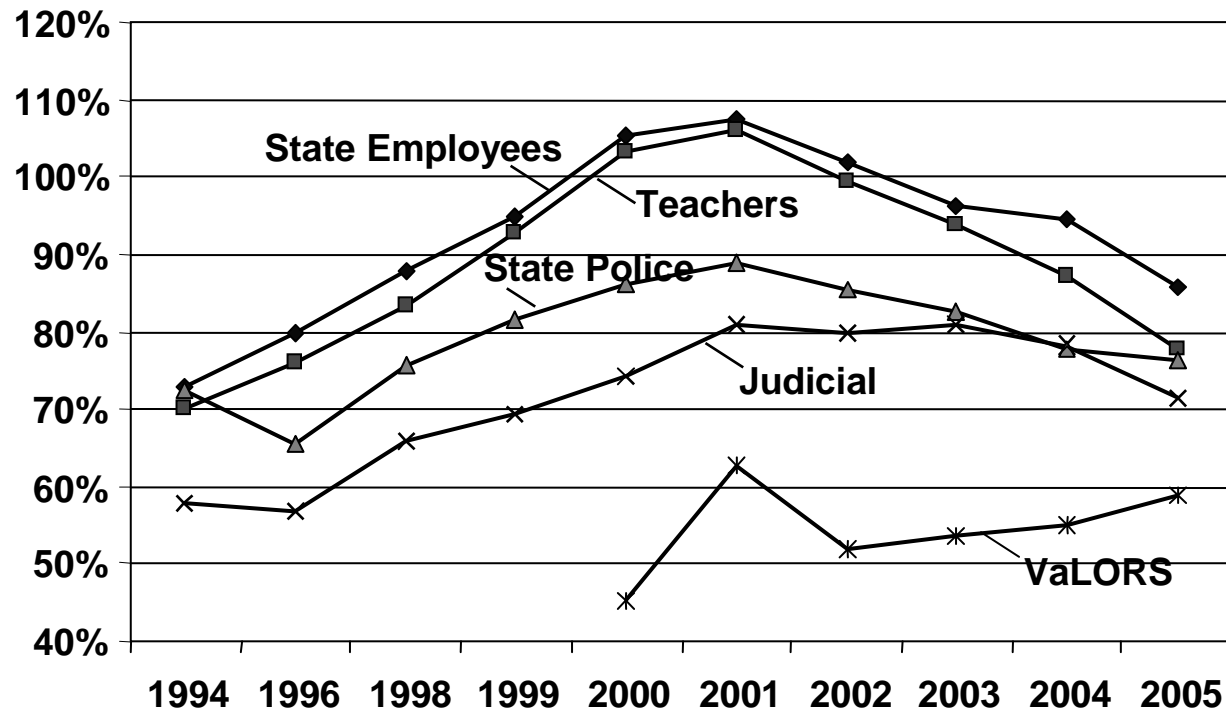
System Underfunding Is a Concern

27

- Under §51.1-145 of the *Code of Virginia*, the State's contribution shall be based on the contribution rates certified by the VRS Board of Trustees

- From FY 1992 to FY 2005, the State employee and teacher employer contribution rates were fully funded at the VRS Board-certified rates only twice; VRS estimates that those groups were underfunded by about \$1.1 billion
 - For the same period, JLARC staff estimates an additional shortfall of approximately \$242 million in the VaLORS, SPORS, and JRS funds

Actuarial Funded Ratios for Major Employer Groups in VRS



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29

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Health Care Is an Important Issue for Employees and Retirees

30

- According to staff at VRS and DHRM, the most important issue for employees as they near retirement age is health care
- Of those employees responding to the JLARC survey, 71 percent rated the cost of health care as having a strong or very strong influence on their decision to retire
- As retirees pay the full cost of health care premiums, rising costs are a particular concern

Average FY 2005 Retiree Monthly Benefit and Deductions

31

Average Gross Monthly Service Benefit for State Retiree	\$1,365
State Tax	(\$45)
Federal Tax	(\$0)
Average Health Insurance Credit (if > \$0)	\$105
Single Coverage Monthly Health Care Premium	(\$376)
Remaining Balance	\$1,049

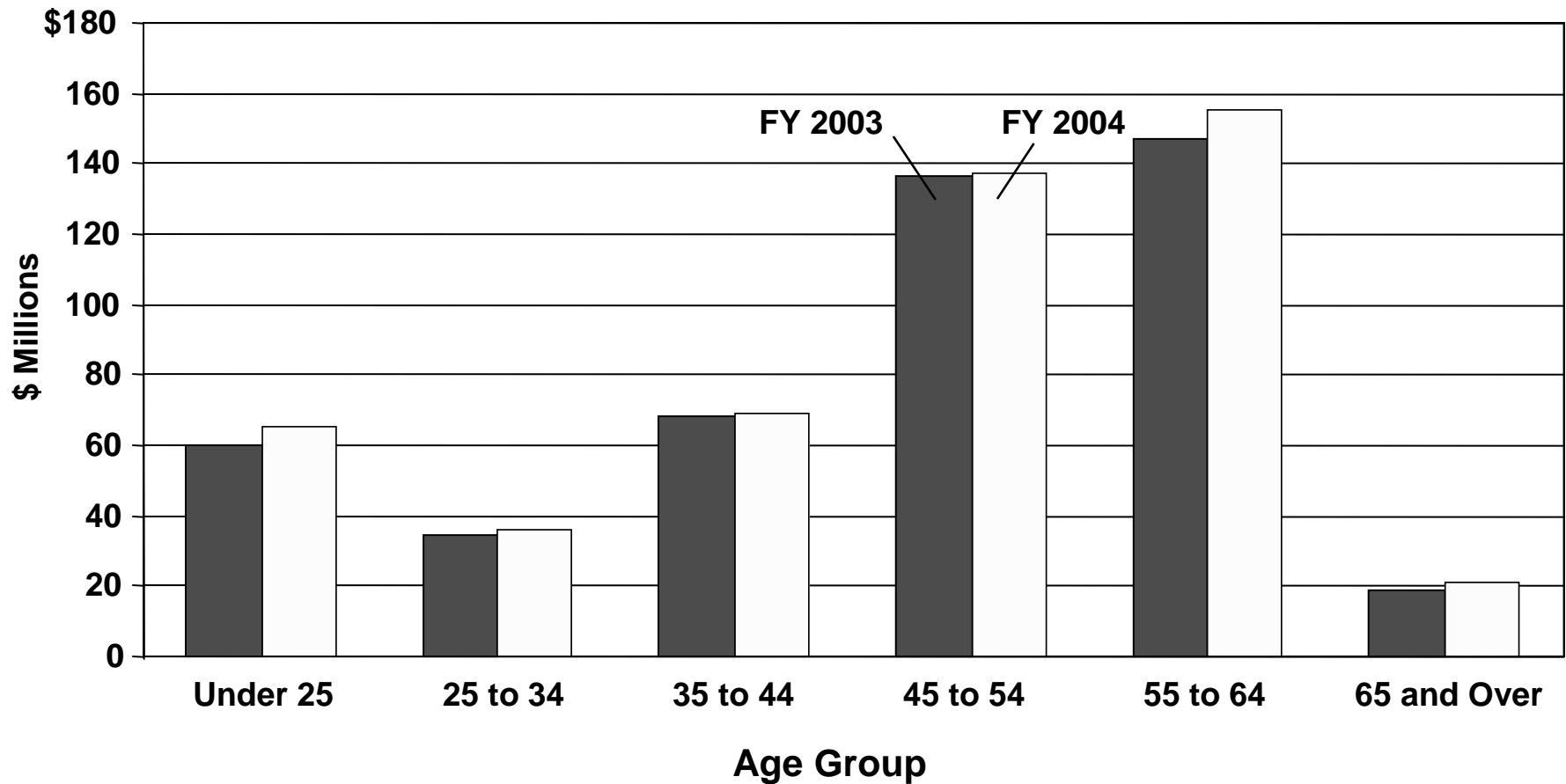
COVA Care Restructuring and Cost Controls

32

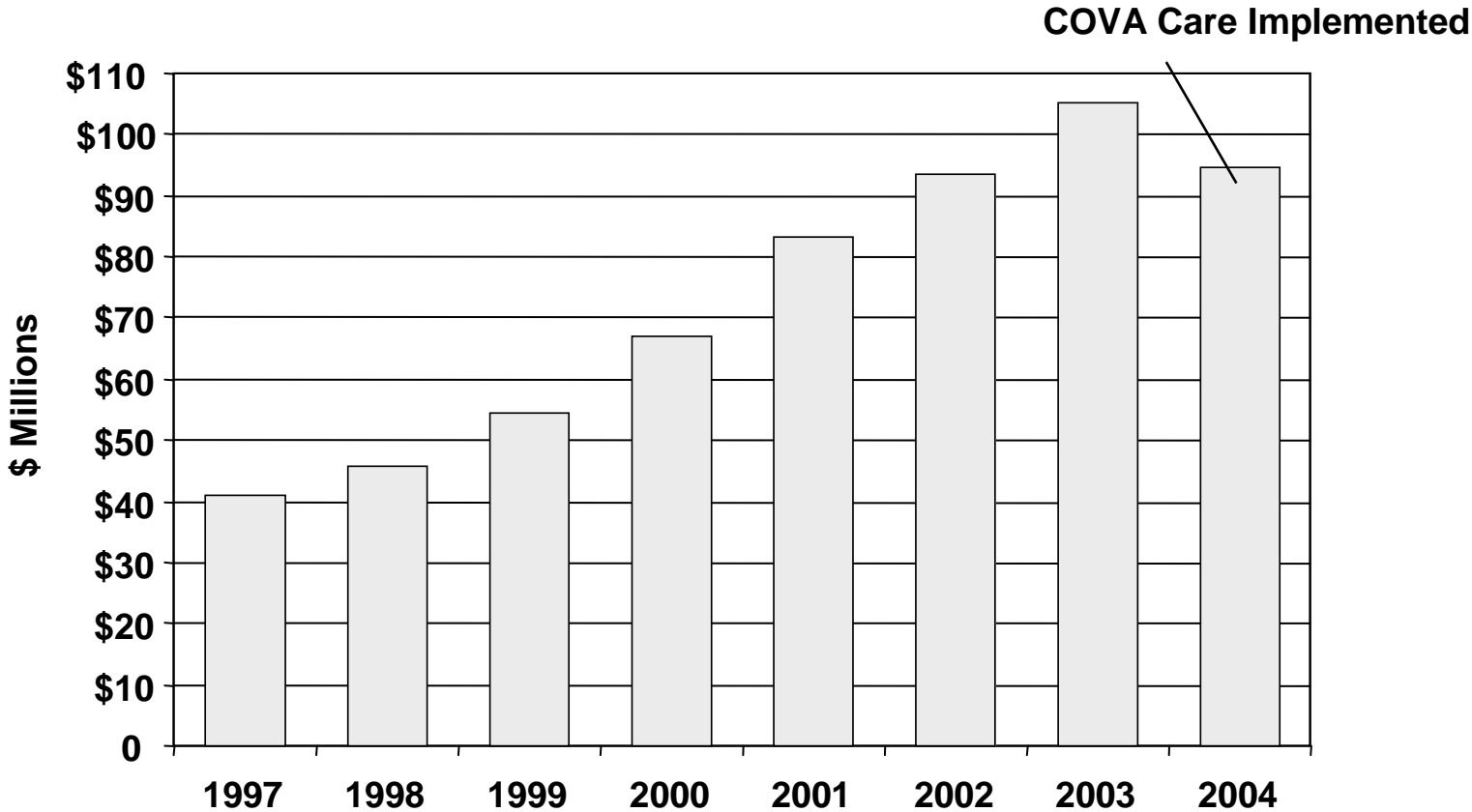
- **With an aging workforce, health care costs could be a significant concern for the State**

- **To address rising costs in the State's plan, DHRM developed COVA Care, which:**
 - **merged Key Advantage and Cost Alliance into one plan**
 - **emphasized preventive care**
 - **employed cost-shifting**
 - **implemented a three-tier prescription drug program**

State Health Benefits Program Claims by Age Group



Prescription Drug Benefit Expense, FY 1997 to FY 2004



GASB Requirements for Other Post-Employment Benefits

35

- **Implementation of the new accounting rules (Governmental Accounting Standards Board Statements 43 and 45) will impact how the Commonwealth reports liabilities associated with its other post-employment benefits, including**
 - **Early Retiree Health Care Plan**
 - **Retiree Group Life**
 - **Long-Term Disability**
 - **Retiree Health Insurance Credit**
- **Much like pension benefits, GASB 43 and 45 will require pre-funding of other post-employment benefits**
- **To meet the standards, the State would need to pre-fund the benefits or reflect any unfunded liability associated with pre-funding these plans in the Commonwealth's Annual Financial Report (CAFR)**

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36

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Summary of Findings

- **The percentage of employees eligible for an unreduced benefit is increasing**
- **The possibility of increased retirements is a concern for some agencies and for certain positions across agencies**
- **A variety of mitigating factors, particularly the cost of health care, will reduce the number of eligible employees who choose to retire**

Summary of Findings (continued)

38

- Largely through workforce planning efforts, agencies generally appear prepared to address upcoming retirements
- As demands on the Virginia Retirement System rise, funding actuarially calculated rates will become increasingly important. With the funding of these rates, it is anticipated that the system can remain viable
- To address rising costs in the health care plan, DHRM has restructured the plan and implemented cost-shifting