

**VRS BOARD OF TRUSTEES
BENEFITS AND ACTUARIAL COMMITTEE
October 19, 2016**

A regular meeting of the Benefits and Actuarial Committee of the VRS Board of Trustees was held on October 19, 2016 in Richmond, Virginia with the following members present:

Wallace G. Harris, Chair
Troilen G. Seward, Vice-Chair
Mitchell L. Nason

Also present were: Patricia Bishop, VRS Director; Rory Badura, Jeanne Chenault, Michael Cooper, Brian Goodman, Robert Irving, Jennifer Schreck and Cindy Wilkinson of the VRS Staff; Mark Gribbin with the Joint Legislative Audit and Review Commission (JLARC); Jose Fernandez, John Garrett and Eric Gary of Cavanaugh Macdonald Consulting, LLC; Joe Chang with Minnesota Life; Carol Donohue of the Virginia Education Association; and Mary Jo Fields of the Virginia Municipal League.

The meeting convened at 1:00 p.m.

Approval of Minutes

Upon a motion of Ms. Seward, with a second by Mr. Nason, the minutes of the June 6, 2016 meeting were approved.

Election of Vice-Chair

Mr. Nason nominated Ms. Seward to be Vice-Chair of the Committee. Mr. Harris seconded the nomination. Ms. Seward was elected by acclamation.

Optional Group Life – Update on Rate Reduction

Ms. Bishop advised that optional premium rates and claim experience are reviewed and evaluated on an annual basis by VRS in consultation with Minnesota Life. She noted that the last rate reduction occurred in July, 2014. At this time, VRS in consultation with Minnesota life determined that a change in the rates wasn't appropriate at this time.

At Ms. Bishop's request, Joe Chang of Minnesota Life, third party administrator of the Group Life Insurance Programs, provided an update on the status of the optional group life premium rates. The rate set in 2014 represented an eighth reduction. The 2014 rates were guaranteed for five years, meaning that rates could not increase but could be reduced based on experience.

Mr. Chang advised that although VRS can consider a 3% rate reduction, it may be prudent to hold the rates at the current levels because of the limited claim experience since the 2013 and 2014 reductions. He noted

that the rates and claim experience will be reviewed again in February, 2017.

Mr. Chang provided data regarding rates and claim experience and noted that the loss rate over time is more stable, with expected future loss ratio improvements to be more modest. As claim experience improved, rates were reduced. Five of the eight reductions occurred during a guarantee period. Overall, rates were reduced 51%. At the same time, participation rates for employees and their dependents have increased.

VRS Stress Testing and Pension Metrics

Ms. Bishop noted that during the Commission on Retirement Security and Pension Reform, the Pew Charitable Trusts recommended that VRS conduct stress testing of its plans. Mr. Badura, in collaboration with Cavanaugh Macdonald Consulting, LLC, the VRS plan actuary, conducted various stress tests.

At Ms. Bishop's request, Mr. Badura discussed an approach for stress testing of retirement plans, upon which the Pew recommendations were based, that was outlined by the Blue Ribbon Panel on Public Pension Funding commissioned by the Society of Actuaries in 2014. The Society of Actuaries has not made the Blue Ribbon Panel's recommendations part of the standards.

Mr. Badura also discussed and presented samples of alternative pension metrics and measures of long-term risk such as contribution components, key contribution benchmarks, differing returns and discount rates, and cash flow projections, all of which can be developed and provided to the Committee, the Board and other stakeholders on a regular basis to provide useful, VRS-specific information.

Mr. Nason suggested that stress tests results be incorporated in the annual actuarial valuation presentations made to the Benefits and Actuarial Committee. Mr. Harris endorsed that suggestion, and requested that VRS staff develop a plan addressing recommended metrics and frequency of reporting for the Committee for consideration.

2016 Actuarial Valuation Results

Jose Fernandez, John Garrett and Eric Gary of Cavanaugh Macdonald Consulting, LLC, the VRS plan actuary, presented the June 30, 2016 actuarial valuation results for the five statewide retirement plans (Teachers, State employees, JRS, SPORS, and VaLORS). In addition, Cavanaugh Macdonald also presented results of Other Post-Employment Benefit Programs (OPEBs) for the statewide plans, including Group Life Insurance (GLI), Health Insurance Credit (HIC), and the Virginia Sickness and Disability Program (VSDP), which includes self-funded Long-Term Care. Key points from the presentation included:

Retirement Plans

Funding:

- The 2016 valuations are not for rate setting, but for informational purposes.
- The 2016 Appropriation Act included \$189 million to pay off the balance of the 2010-2012 biennium contributions to the statewide plans, except for the Teachers Plan. The accelerated payback of deferred contributions to the statewide plans reduced the required employer contribution rates for the 2016 valuation. The Teachers Plan received an accelerated contribution of \$193 million in 2015 that reduced the outstanding balance of the 2010-2012 deferred contributions and also has lowered the required employer contribution rates for the Teachers Plan. As of June 30, 2016 the Teachers Plan has \$269.4 million outstanding on the 2010-2012 deferred contributions, which is scheduled to be paid off by June 2021.
- For the fiscal year ending 2016, the General Assembly provided additional funding to move to 90% of the required rates for State, SPORS, VaLORS, and JRS as of August 2015.
- Approximately two-thirds of the employer contribution rate for each plan is related to paying off the unfunded legacy liability.

Plan Experience:

- The funded status for all statewide plans showed slight improvement as of June 30, 2016 as actuarial gains from prior years continued to be phased in to results. On a market value basis, the funded status decreased slightly due to market value returns below the 7% expectation.
- The average age at retirement continues to go up, and has increased about approximately one year for state employees and teachers over the last five years.
- During the fiscal year ending 2016, the plan had a significant actuarial gain due to the cost of living adjustment paid being below the assumed rate.

Demographics:

- The active membership for the State and State Police plans decreased over the past year while active membership increases were seen in the Teacher, VaLORS, and Judges plans.
- The Hybrid Plan membership across all plans was approximately 34,000 as of June 30, 2016.

OPEB Plans

- Employer contribution rates for OPEB plans remained relatively unchanged from the prior valuation.

- Accounting changes are coming to OPEB plans with the introduction of GASB 74 and 75. Changes will be similar to those implemented with GASB 67 and 68.

With regard to the asset portion of the presentation, Mr. Nason suggested that a column be added to the charts that project the market and actuarial returns for 2017. He also suggested that data on projected employer contribution rates include scenarios that reflect graduated rates of return for future presentations.

Mr. Gary discussed the new Governmental Accounting Standards Board (GASB) disclosures for the OPEBs, Statement Nos. 74 and 75. The disclosure requirements will be similar to those under GASB Statement Nos. 67 and 68. GASB's authority extends only to accounting and financial reporting, not to funding. Mr. Gary noted that VRS will need to establish assumptions for future contributions to project the fiduciary net position (FNP) of the OPEB plans. He advised that two types of actuarial reports will be required, one for funding and another for accounting. He also advised that the new standards require the actuarial cost method to be Entry Age Normal (EAN).

The Committee discussed the report. Upon motion by Ms. Seward, with a second by Mr. Nason, the Committee approved and recommended to the Board the following action:

The Virginia Retirement System Board of Trustees accepts the June 30, 2016 Actuarial Valuations conducted by the VRS actuary, Cavanaugh Macdonald Consulting, LLC, for the Five Statewide Retirement Systems, Group Life Insurance, Health Insurance Credit and the Virginia Sickness and Disability Program.

Status Update – City of Petersburg

Ms. Bishop provided the Committee with an update on the City of Petersburg and its contributions to VRS. She advised that in compliance with a new provision in the current Appropriation Act, VRS sent a letter to the chairs of the Senate Finance Committee and the House Appropriations Committee informing them of the City of Petersburg's arrearages in various VRS contributions and the portion that is more than 60 days in arrears.

In response to Mr. Harris' inquiry, Ms. Bishop advised that VRS will communicate with the appropriate state agencies to discuss any legal issues or actions to be taken regarding the arrearages.

2017 Meeting Schedule

The Committee reviewed the proposed 2017 Committee meeting schedule. The schedule of meetings will be reflected on the VRS website.

Next Committee Meeting

The Committee's next scheduled meeting is November 14, 2016.

Meeting Adjourned

There being no further business, the meeting adjourned at 3:16 p.m.

11/14/2016
Date

Wallace G. Harris
Wallace G. Harris, Chair