

Employer Update



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Board Approves New Contribution Rates

The VRS Board of Trustees approved new employer contribution rates for state employees and teachers. The Board certified a rate of 7.33 percent for state employees and 11.18 percent for Virginia teachers. Rates become effective July 1, 2006.

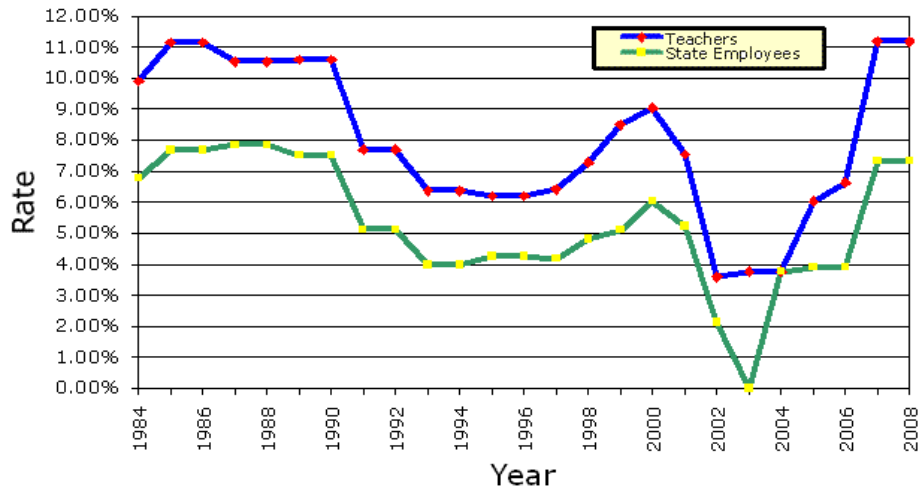
However, in his 2006-2007 budget, the Governor set a rate of 5.74 percent for state employees and a rate of 9.20 percent for teachers. The 2006 session of the General Assembly will consider these rates as part of the budget review process.

Both the rates proposed by the VRS Board of Trustees and by the Governor are higher than current rates being paid by employers. The increases can be attributed to:

- A weak market environment from 2001 through 2003.
- Recognition of investment gains and losses over a five-year “smoothing” method, which still includes the weak market environment of 2001 through 2003.
- Certified rates of the Board not fully funded in the past years.
- Lower estimates of future investment gains (7.5 percent vs. 8.0 percent annually) and lower inflation rates (2.5 percent vs. 3.0 percent).
- Revised assumptions that show retirees living longer and collecting retirement benefits over a longer period.

Employers providing retirement benefits to their employees make employer contributions to VRS as a percentage of active payroll. This amount, along with investment earnings and any employee contributions, funds the future retirement benefits of employees.

The chart below shows that employer rates are returning to levels experienced during the 1980s, before the historic run-up in the stock market in the 1990s.



Board Approves Contribution Rates for Localities

The VRS Board of Trustees approved new employer contribution rates for participating local government employers.

In November, the Board certified new contribution rates from the June 30, 2005 actuarial valuation. The new rates reflect a change in the investment return assumption from 8.00 percent to 7.50 percent and a decrease in the inflation assumption from 3.00 percent to 2.50 percent. They also reflect changes in the behavior patterns of the workforce and the continued impact of the five-year smoothing of the investment losses in fiscal year 2001 and fiscal year 2002. In addition, the Board switched from "banded" rates to calculated rates for employers.

While the calculated rates represent an increase for most employers, the increase was generally less than it would have been using banded rates. The calculated rates were determined using a consistent 21-year funding period for amortization of the unfunded accrued actuarial liability (UAAL). Under banding, employer rates were set based on the employer's UAAL as a percentage of covered payroll and the funding period fluctuated accordingly.

For the 561 local government entities that participate in VRS, 76 percent will experience a rate increase and 24 percent will see the rate stay the same or decline. The new rates become effective July 1, 2006.

Employers Must Report Value Of Life Insurance Coverage Over \$50,000 To IRS

The value of an employee's Basic Group Life Insurance over \$50,000 is subject to income and FICA taxes.

Section 79 of the Internal Revenue Code (IRC) requires employers to calculate imputed taxable income for employees with group life insurance

coverage in excess of \$50,000. Employers are responsible for reporting the imputed income to the Internal Revenue Service for:

- Active members.
- Members with deferred benefit status who are eligible to retire, but have deferred retirement.
- Retirees in an Optional Retirement Plan (ORP).
- Retirees in local government plans covered only by VRS group life insurance.

For more information see Group Life Insurance (Chapter 4) of the VRS *Employer Manual* available on the Web site at www.varetire.org under the “Employer” tab.

Use The VRS Web Site To Keep Track Of Legislation

With the legislative season approaching, employers may want to track legislation affecting VRS benefits. The 2006 General Assembly session begins January 11 and ends March 11, 2006.

Track the progress of proposed VRS through the legislation link found at www.varetire.org.

IRS Sets New Compensation Limits

The Internal Revenue Service (IRS) has set compensation limits for 2006. The IRS establishes compensation limits for calculating retirement benefits for highly paid employees. The amount of the limit is based on when the employee was first covered by VRS. Effective July 1, 2006, the compensation limit is \$220,000 for employees who were covered by VRS on or after April 9, 1996. For employees covered before April 9, 1996, the compensation limit is \$325,000. The new compensation limits will become effective for the VRS plan year beginning July 1, 2006.

Compensation amounts over these limits cannot be included when calculating the employee’s retirement benefit and should not be reported. For state agencies an elective deferral of the excess contributions may be made to the Commonwealth's 457 Deferred Compensation Plan, if the employee is a participant, to an employer sponsored 457 Plan if political subdivisions have such a plan available, or to the 403(b) account of the employee in the case of educational entities. Employer elective contributions count toward the 457 Plan annual limit.

VRS Excels in Public Pension Standards

The Public Pension Coordinating Council (PPCC) awarded VRS its Achievement Award for the third consecutive year. The award recognizes VRS for excellence in meeting professional standards for plan design and administration.

Developed by the PPCC to promote excellence among state and local public retirement systems, the Public Pension Standards are the benchmark for measuring current practices of defined benefit plans.

"VRS is proud to receive such a prestigious award that recognizes the commitment of our staff and Board of Trustees to providing financial security for members and beneficiaries," said VRS Director Robert P. Schultze.

Retirement Education Seminars And Group Counseling Sessions Are The First Step In Retirement Planning

For employees looking forward to retirement, the best first step they can take is to attend one of the VRS retirement planning educational sessions.

The half-day Retirement Education Seminars focus on members who are more than five years away from retirement. The seminars show participants how to decrease debt, use financial planning to prepare for retirement and how to use benefits such as deferred compensation to increase retirement income.

Employees within five years of retirement should attend a VRS Group Counseling Session. These half-day sessions concentrate on VRS retirement benefits, purchasing prior service credit, investing and instructions on completing the retirement application.

The latest schedules for the Retirement Education Seminars and Group Counseling Sessions are available on the VRS Web site at <http://www.varetire.org/Members/RetPlanning/EduCounsel.html> under the Member tab.

State Employers Update

A Guide To Retirement Under VSDP

Employees on short- or long-term disability under the Virginia Sickness and Disability Program (VSDP) continue to accrue service credit while on VSDP and are eligible for retirement when they meet age and service requirements. Once an employee on VSDP retires, VSDP benefits end.

If an employee wants to retire while on VSDP, here are some points to keep in mind:

- An employee under VSDP can apply for retirement only when meeting age and service eligibility for service retirement.
- An employee can apply for retirement while on short- or long-term disability.
- An employee applies for retirement using an Application for Service Retirement (VRS-5).

- An employee can select any retirement option when retiring from short-term disability.
- An employee can select the Basic Benefit, Survivor Option or Advance Pension Option when retiring on long-term disability. The employee can select PLOP only if he or she met PLOP eligibility requirements before taking long-term disability.
- An employee must retire at normal retirement age, unless the disability occurred at age 60 or older. In this case, the employee receives five years of combined short-term and long-term VSDP benefits.
- An employee's retirement benefit is calculated using average final compensation at the beginning of the disability leave, adjusted for cost-of-living increases provided under the program.

Defined Contribution Plans Amended

Here are recent changes to the defined contribution plans administered by VRS:

- If a participant changes the amount of compensation deferred to the 457 Deferred Compensation Plan (DCP) using the Payroll Authorization Form, the changes are effective no earlier than the first of the month following the month the participant submits the completed Payroll Authorization Form to the agency's payroll office.
- New employees may participate in the DCP beginning with their first paycheck by enrolling in the Plan the first day of employment.
- The Cash Match Plan, the Virginia Supplemental Retirement Plan (VSRP) and the Optional Retirement Plans (ORP) now allow rollovers from other retirement plans while the participant is an active employee and after the participant terminates employment or retires, as long as the participant has not taken a total lump-sum distribution. Rollovers are accepted from 401(a) plans, 403(b) accounts, 457 plans, 401(k) plans and traditional IRAs.
- If an Optional Retirement Plan participant is receiving benefits from the Plan and returns to employment in a covered position, the benefit from the ORP stops while the participant is employed. There is an exception if the benefit is a lifetime annuity purchased with Plan assets.

Using the DCP Payroll Authorization Form

Employees enrolled in the Deferred Compensation Plan use the Payroll Authorization Form to:

- Change the amount of deferrals.
- Use the Age 50+ Catch-up.
- Use the 457 Standard Catch-up.
- Make up contributions missed while on military leave.

- Defer payments for unused sick and vacation leave that would otherwise be paid at termination of employment. The participant must give the completed Payroll Authorization Form to the employer payroll office while still with that employer, no later than the month before the month in which the payment would otherwise be received. Because of lag pay, employers should monitor the timing of the receipt of these forms. Failure to follow these rules results in a refund of the deferral to the participant.

The Payroll Authorization Form may be ordered by calling 804/643-1882, or online at www.vadcp.com under Plan Information/457 Plan/Forms. The Payroll Authorization Form is submitted to the agency's payroll office.

Commonwealth of Virginia Deferred Compensation Plan Regional Enrollment/Education Meetings

Education sessions are now available to state employees and employees of participating political subdivisions. To provide your employees with more information about the Commonwealth's 457 Deferred Compensation Plan, you can arrange a meeting at your location. There are also Regional Enrollment Education Meetings being held at locations throughout the Commonwealth.

Employees can learn about the "Features and Benefits" of the Deferred Compensation and Cash Match Plans, explore "Account Management Strategies" or focus on the "Advantages of Budgeting." Both participants and non-participants are invited. Pre-registration is not required.

A new workshop on "Post-retirement Strategies" will address the management of resources during retirement and is designed for participants who are already retired or who are nearing retirement.

For more information visit the Virginia Deferred Compensation Plan website at <https://vadcpquest.gwrs.com/t1001/menu/FrameSet.Asp?M1=1231>.