Minutes

A regular meeting of the Benefits and Actuarial Committee of the VRS Board of Trustees was held on November 19, 2019 in Richmond, Virginia with the following members present:

Wallace G. Harris, Ph.D., Chair
Troilen G. Seward, Vice Chair
O'Kelly E. McWilliams, III

Board members present:

Mitchell L. Nason, VRS Chair
William H. Leighty (entered at 1:10 p.m.)

VRS Staff:

Trish Bishop, Jennifer Schreck, Rory Badura, Judy Bolt, Ty Bowers, Jeanne Chenault, Michael Cooper, Sara Denson, Krystal Groff, Angela Payne, Cat Pelletier, Jillian Sherman, Virginia Sowers, and Cindy Wilkinson.

Guests present were:

Larry Langer, Brad Wild and Alisa Bennett of Cavanaugh Macdonald Consulting, LLC; Latosha Johnson of the Department of Planning and Budget; Lauren Axselle and Jamie Bitz of the Joint Legislative Audit and Review Commission; Jeremy Bennett of the Virginia Association of Counties; and Rick Fowler of the Virginia Governmental Employees Association.

The meeting convened at 1:01 p.m.

Approval of Minutes

Upon a motion by Ms. Seward, with a second by Mr. McWilliams, the minutes of the October 16, 2019 meeting were approved.

2019 Actuarial Valuation Results for Political Subdivision Retirement Plans, the Virginia Local Disability Program (VLDP), Local Health Insurance Credit (HIC), and the Line of Duty Act (LODA) fund

Ms. Bishop introduced Larry Langer, Alisa Bennett and Brad Wild of Cavanaugh Macdonald Consulting, LLC, the VRS plan actuary, to present the June 30, 2019 actuarial valuation results for Political Subdivisions, the Health Insurance Credit for Certain Political Subdivisions, the Virginia Local Disability Program and the Line of Duty Act (LODA) fund.

Mr. Langer began his presentation by stating that the June 30, 2019 valuations are used to set the contribution rates for fiscal years 2021 and 2022. He provided an overview of the actuarial valuation process and explained the impact of lowering the plan discount rate on plan costs.

Mr. Langer noted that the primary driver of the current results was the reduction in the assumed rate of return from 7.00% to 6.75%. The market value return for the total fund of 6.70% fell just short of the
long-term assumed rate of return of 7.00%; however, the investment loss had minimal impact on results since it was close to expectations. Prior to the change in plan discount rate, the majority of local pension plans saw a decrease in funded status due to higher than expected salary increases, and plan experience such as unexpected retirements and disabilities. After incorporating the new 6.75% assumed rate of return, funded status decreased for most local plans with a corresponding increase in the employer contribution rates as compared to those in effect from the 2017 valuation.

Next, Alisa Bennett presented the results of Other Post-Employment Benefits (OPEBs) and the Line of Duty Act (LODA) fund.

Ms. Bennett stated that the local Health Insurance Credit (HIC) contribution rates based on the new 6.75% assumed rate of return remained largely consistent with the current rates being paid. The funded status increased for Constitutional Officers, Social Services and General Registrar plans, and decreased for the local Health Insurance Credit (HIC) plans in aggregate.

The Virginia Local Disability Program (VLDP) contribution rates and funded status increased for the Teacher Plan and Political Subdivision Plans, both before and after the reduction in the assumed rate of return.

The LODA fund provides benefits to eligible first responders who die or become disabled in the line duty. LODA benefit payments are projected for future years, which covers the cost of health care premiums for current beneficiaries and needs to cover the cost of any new claims that are expected to occur during the year.

Funding is on a "pay-as-you-go" basis, rather than a pre-funding of benefits, which requires that the discount rate be set lower than the rate used for the funding of pensions. LODA fund assets are expected to earn 4.75%.

The contribution rate per full-time employee (FTE) decreased from $705.77 to $695.18 for FY 2021 and FY 2022. The primary driver of this decrease was a reduction in the LODA health care premiums from the Department of Human Resource Management (DHRM) compared to the prior year. The full-time equivalent employees covered in the LODA fund increased from 19,013.65 to 19,243.35 as of the end of FY 2019. The total of current health care beneficiaries increased from 1,115 to 1,173. This includes disabled participants, spouses of disabled participants and surviving spouses.

Mr. Harris thanked Mr. Langer and Ms. Bennett for their presentation.

Upon a motion by Mr. McWilliams, with a second by Ms. Seward, the Committee recommended approval of the following action to the full Board:

**RBA: Approve Contribution Rates for Political Subdivisions, the Health Insurance Credit for Certain Political Subdivisions, the Virginia Local Disability Program and the Line of Duty Act Fund, Effective FY 2021 and FY 2022**

**Request for Board Action:** After considering the recommendations of its Plan Actuary, the Board accepts the June 30, 2019 valuation report for political subdivisions and the Health Insurance Credit (HIC) for
certain political subdivisions; approves a contribution rate of 0.36% for constitutional officers, a rate of
0.38% for social services employees, and a contribution rate of 0.39% for general registrars; approves a
contribution rate of 0.47% for the Virginia Local Disability Program (VLDP), including self-funded Long­
Term Care for Teachers and a rate of 0.83% for VLDP, including self-funded Long-Term Care for Political
Subdivisions; and approves a full-time equivalent premium rate of $695.18 for the Line of Duty Death
and Health Benefits Trust Fund, all for both FY 2021 and FY 2022, to be effective July 1, 2020.

Funding Policy Amendments

Mr. Badura presented the proposed amendments to the VRS Funding Policy. The Funding Policy
memorializes the methods by which the Board has elected to govern required funding for pension and
OPEB plans with the goal of ensuring that future contributions, along with current plan assets, are
sufficient to provide for all benefits expected to be paid when due.

Staff is proposing modifications to the Funding Policy to allow for accelerating funding of unfunded
liabilities in pension or OPEB plans where feasible and where available funding permits; and clarifying
funding parameters for political subdivision plans entering the Virginia Retirement System or enhancing
benefits for current participants. Mr. Badura noted that political subdivision plans that VRS has
identified as potentially “at-risk” due to low funded levels may require an additional surcharge or
shortened amortization period to bring the funded level of plans to a sustainable level as determined by
the Plan Actuary.

The proposed changes to the Funding Policy also document the discount rate being lowered to 6.75%
for actuarial valuations on or after June 30, 2019.

Upon a motion by Mr. McWilliams, with a second by Ms. Seward, the Committee recommended the
approval of the following action to the full Board:

RBA: Approve modifications to the VRS Funding Policy Statement to clarify that amortization periods
may be shortened to accelerate payment of unfunded liabilities and to authorize alternative funding
requirements.

Request for Board Action: The Board approves the changes to the VRS Funding Policy Statement
presented at this meeting and attached to this RBA. Changes include the following: authorize VRS staff,
working with the Plan Actuary, to shorten amortization periods of explicit bases in an effort to pay off
unfunded liabilities of either pensions or OPEBs earlier than originally scheduled depending on available
funding, and to determine alternative funding requirements that could be used to improve funding levels
of certain plans.

Information Items

Lastly, Mr. Harris noted the B&A Committee meeting schedule for 2020:

- February 12, 2020 at 1:00 p.m.
- June 10, 2020 at 1:00 p.m.
 Adjournment

There being no further business, Mr. Harris adjourned the meeting at 2:50 p.m.

2/12/2020

Wallace G. Harris, Chair
Benefits and Actuarial Committee