Overview of Financial Impact of H.764

Office of the State Treasurer
March 10, 2010

Pension Funding Requirements

Annual Actuarial Required Contributions (ARC) in the FY08 Valuation:

	Teachers
FY10	**$41.5 Million**

Annual Actuarial Required Contributions (ARC) in the FY09 Valuation:

	Teachers
FY11	**$63.5 Million**

Additional Resources Needed to Fund FY11 Estimated ARC Over FY10 Levels:	**$22.0 Million**
Impact of H.764, FY 11 ARC:	**$48.2 Million**
Savings vs. Original Projection:	**$15.3 Million**

Pension Funding Requirements

Normal Cost FY 11	
As of 6/30/09 Valuation:	**$22.8 Million**
Revised Per H.764:	**$10.3 Million***
Amortization of Unfunded Liability FY 11	
As of 6/30/09 Valuation:	**$40.7 Million**
Revised Per H.764:	**$37.9 Million**
ARC FY 11	
As of 6/30/09 Valuation:	**$63.5 Million**
Revised Per H.764:	**$48.2 Million**

* Normal cost represents the present value of benefits attributed by the funding method to service rendered during the valuation year. Under the Entry Age Normal method, the attribution is made by taking the cost of the full projected benefit for each participant and spreading it as a level percentage of payroll from year of hire to the assumed retirement date. Proposed employee contribution increases will have a significant positive impact on the development of this cost on an annual basis.

Pension Liabilities

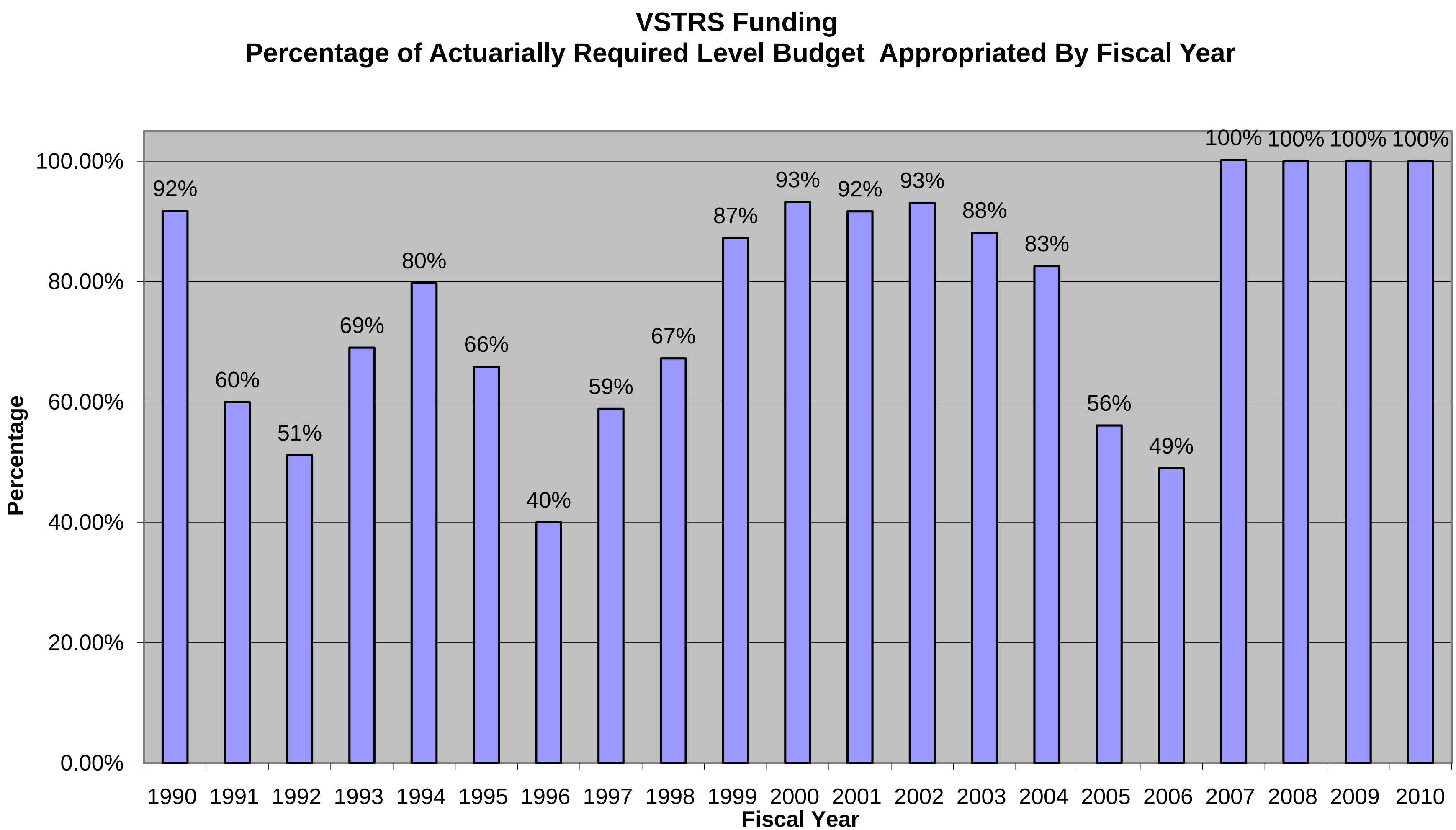
UAAL (pension only):

As of 6/30/08 Valuation:	**$379.5 Million**
As of 6/30/09 Valuation:	**$727.8 Million**
H.764 Impact:	**$679.3 Million**

Funding Ratio:

As of 6/30/08 Valuation:	**80.9%**
As of 6/30/09 Valuation	**65.4%**
H.764 Impact:	**67.0% approx.***

*With the increase in employee contributions and benefit provision changes, and as markets improve, the funded ratio will come back, assuming ARCs are funded annually.



Note: FY07, FY08, and FY09 includes anticipated Medicare D reimbursements. FY07 and later data based on conversion to "entry age normal" actuarial method. FY09 uses revised ARC based on March 2009 experience study.

Projected ARC Savings for VSTRS

Fiscal year	Current ARC Per Valuation Report*	ARC Components**:		ARC Per Proposed Change	ARC Components Based on Proposed Change		Savings
		Normal Cost	Amortization		Normal Cost	Amortization	
2011	63,501,220	22,828,834	40,672,386	48,233,006	10,270,041	37,962,965	15,268,214
2012	66,562,136	23,856,131	42,706,005	50,593,306	10,732,193	39,861,113	15,968,830
2013	69,770,962	24,929,657	44,841,305	53,069,311	11,215,142	41,854,169	16,701,651
2014	73,134,862	26,051,492	47,083,370	55,666,700	11,719,823	43,946,877	17,468,162
2015	76,661,348	27,223,809	49,437,539	58,391,436	12,247,215	46,144,221	18,269,912
2016	80,358,296	28,448,880	51,909,416	61,249,772	12,798,340	48,451,432	19,108,524
2017	84,233,967	29,729,080	54,504,887	64,248,269	13,374,265	50,874,004	19,985,698
2018	88,297,020	31,066,889	57,230,131	67,393,811	13,976,107	53,417,704	20,903,209
2019	92,556,537	32,464,899	60,091,638	70,693,621	14,605,032	56,088,589	21,862,916
2020	97,022,039	33,925,819	63,096,220	74,155,276	15,262,258	58,893,018	22,866,763

*The ARC is the annual actuarially required contribution.
**ARC represents normal cost plus portion (amortized) of unfunded liability .

Note: The figures presented, prepared by Buck Consultants, were developed by rerunning the 2009 actuarial valuation of the VSTRS under the provisions of this legislation. This allows for direct comparison of costs and liabilities of the system under current and proposed statute but does not reflect any demographic or economic experience of the system subsequent to June 30 of last year.

<u>OPEB Liabilities</u>

As of 6/30/09 Valuation <u>with</u> prefunding:	**$431.9 Million**
As of 6/30/09 Valuation <u>without</u> prefunding:	**$872.2 Million**
H.764 Impact (assumes no prefunding):	**$829.1 Million**

State Does NOT Prefund Teacher OPEB Benefits

Projected OPEB ARC and Cash Payouts for VSTRS

Fiscal year	Current ARC Per Valuation Report*	ARC Per Proposed Change Low**	ARC Per Proposed Change High**	ARC Savings (vs. Low Utilization Estimate)	Current Cash pay-Out Per Valuation Report	Estimated Cash Payout Per Proposed Change Low**	Estimated Cash Payout Per Proposed Change High**	Cash Savings (vs. Low Utilization Estimate)
2011	$62,147,390	$46,942,500	$47,289,605	$15,204,890	$19,909,578	$19,864,521	$19,864,521	$45,057
2012	65,465,928	49,115,181		16,350,747	21,911,328	21,784,174	21,784,174	127,154
2013	68,929,161	51,362,195		17,566,966	23,734,393	23,467,565	23,467,566	266,828
2014	72,551,696	53,695,685		18,856,011	25,618,354	25,153,079	25,153,088	465,275
2015	76,341,837	56,121,360		20,220,477	27,470,533	26,750,893	26,750,929	719,640
2020	98,138,390	69,856,617		28,281,773	38,339,180	35,553,023	35,558,737	2,786,157
2025	125,653,260	86,828,322		38,824,938	50,717,835	46,070,997	46,116,278	4,646,838
2030	160,769,765	108,013,155		52,756,610	63,119,143	56,785,422	57,100,802	6,333,721
2035	206,235,042	135,040,474		71,194,568	73,392,103	65,347,465	66,344,688	8,044,638
2040	$266,156,263	$170,526,670		$95,629,593	$77,409,329	$68,633,228	$70,356,949	$8,776,101

*The ARC is the annual actuarially required contribution. ARC represents normal cost plus portion (amortized) of unfunded liability . The ARC above is calculated without pre-funding. If prefunding were implemented, the value of investment income would significantly reduce the ARC.

** Low to high range based on assumed utilization of spousal option.

Note: The figures presented, prepared by Buck Consultants, were developed by rerunning the 2009 actuarial valuation of the VSTRS under the provisions of this legislation. This allows for direct comparison of costs and liabilities of the system under current and proposed statute but does not reflect any demographic or economic experience of the system subsequent to June 30 of last year.

In conclusion . . .

- To keep pension and OPEB benefits fair and affordable, we must:
  - Acknowledge the problem
  - Assess the ability to pay and identify existing and potential funding sources
  - As needed, restructure the payments with a realistic, dedicated source of funding matched to realistic and attainable benefits

- H.764 is a big step forward in this process. Continued Funding of the ARC is needed.

- Failure to address the issue now will lead to potentially larger problems later and the need for draconian steps, failing both the employees and the taxpayers.

Some Actuarial Terms

- Actuarial Accrued Liability (AAL)
  - Present value of projected future benefits
- Actuarial Value of Assets (AVA)
  - Market-related value, with smoothing, designed to minimize volatility
  - State utilized five-year smoothing method
- Unfunded Actuarial Accrued Liability (UAAL)
  - UAAL= AAL- AVA
- Funding Ratio:
  - Current assets expressed as a percentage of the actuarial accrued liability
- Funding of the Annual Required Contribution (ARC) is the method by which the UAL is eventually paid off
- ARC = sum of :
    - Normal Cost (the portion of the cost of projected benefits allocated to service rendered in the current plan year)
    - Amortization of unfunded accrued liability
      - Not to exceed 30 years
      - As a level $ or level % of pay
- Contributions that differ from the ARC result in the development of a Net Pension Obligation (NPO) or a Net OPEB Obligation (NOO).