



City of Virginia Beach

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March 31, 2017

The Honorable William D. Sessoms, Jr., Mayor
Members of City Council

Subject: Liabilities for Pensions and Other Post-Employment Benefits (OPEB) - June 30 2016

Dear Mayor and Council Members:

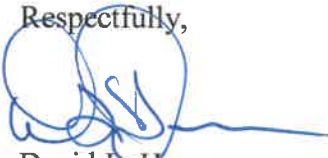
Attached is a memorandum from Mrs. Patricia Phillips, Director of Finance, which provides information on post-employment benefits that have actuarially determined unfunded liabilities. This information is provided in response to questions regarding these unfunded liabilities and how the City is funding them. As noted in the attached, the rates paid each year for pension and other OPEB obligations include amortizing the related unfunded liability:

- The City fully funds the recommended rates for its pension and OPEB obligations. The City pension plan is **81% funded**; the Schools is **71% funded**.
- Over one-half of the \$108 million paid in FY 2016 for VRS pension costs for City and School employees is for the amortization of the unfunded pension liabilities. The unfunded liability is projected to be fully funded in 26 years.
- The VRS rate paid for teachers is established by the General Assembly, which is less than the recommended rates of the VRS Board of Trustees. As a result, the unfunded pension liability for Schools, **\$667 million**, is much higher than for the City, which is **\$337 million**. (The full recommended rates are planned to be paid as of July 1, 2017).
- Other Post-Employment Benefits include retiree health care which has an unfunded liability of **\$68 million**; LODA benefits, schools health care credit, group life insurance, and the Virginia Local Disability Program have unfunded liabilities of **\$165 million** for the City and Schools.

The Honorable Mayor William D. Sessoms, Jr. and Members of City Council
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Post-employment benefits continue to be a significant consideration in budgeting. I encourage you to actively support any legislative efforts to minimize the impact of these changes for the City and all other VRS participating employers.

Respectfully,



David L. Hansen
City Manager

DLH/PAP/paw

Attachment

cc: Thomas M. Leahy III, Deputy City Manager
Patricia A. Phillips, Director of Finance



City of Virginia Beach

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FINANCE DEPARTMENT
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VIRGINIA BEACH, VA 23456-9006

INTER-OFFICE MEMORANDUM

DATE: March 31, 2017

TO: David L. Hansen, City Manager

FROM: Patricia A. Phillips, Director of Finance 

SUBJECT: Liabilities for Pensions and Other Post-Employment Benefits (OPEB) - June 30 2016

A number of post-employment benefits have actuarially-determined unfunded liabilities that have raised questions from time to time. This summary provides information that will be helpful to City Council and others in understanding these liabilities and how the City is funding them. While the unfunded pension liabilities are large, it is critical to stress that the rates paid each year include an amortization of the unfunded liability and is projected to be fully paid in 26 years. In fact, over one-half of the \$108 million paid in FY 2016 for VRS pension costs for City and School employees is for the amortization of the unfunded pension liabilities. Please note that the City pension plan is 81% funded and the Schools teacher pension plan is 71% funded.

VRS prepares the City's actuarial calculations of the pension liability and other OPEB items that VRS manages such as LODA, group life insurance, schools health care credit and VLDP. The City contracts with Milliman to provide the OPEB retiree health care liability. In addition, the actuarial reports include annual required contribution rates for employer and employees. The City fully funds the recommended rates for its pension obligation; however, please note that the rate the Schools pays for teachers is based on rates established by the General Assembly, which are less than the rates recommended by the VRS Board of Trustees. As a result, the unfunded pension liability for Schools, **\$667 million**, is much higher than for the City, which is **\$337 million**.

Other Post-Employment Benefits include retiree health care which has an unfunded liability of **\$68 million**; LODA benefits, schools health care credit, group life insurance, and the Virginia Local Disability Program have unfunded liabilities of **\$165 million** for the City and Schools.

Post-employment benefits continue to be a significant consideration in budgeting. I encourage you to actively support any legislative efforts to minimize the impact of these changes for the City and all other VRS participating employers.

Virginia Retirement System Pension Liability: Both the City and School Board non-professional employees (non-teachers) are separately rated employers within VRS; however, the School Board professional employees (teachers) are part of the State teachers' pool for VRS, and therefore have a prorated share of the statewide teacher unfunded pension liability.

VRS commissions an actuarial valuation of all pension plans at the end of each fiscal year which provides a summary of the funded status of the Plan, a recommended employer contribution rate, and accounting information in compliance with GASB 68, "Accounting and Financial Reporting for Pensions," which is reported on the City's financial statements (in the Statement of Net Position) for the City and School Board. The recommended rates are set every two years. The City is paying the current recommended employer rate which is 13.88% and the Schools recommended rate is 16.32%; however, the General Assembly adopted rate is 14.66%.

Employer Recommended Contribution Rates for FY 2017						
(Excludes employee rate of 5%)						
	<u>City</u>		<u>Schools</u>			
	<u>ER Rate</u>	<u>% of Total</u>	<u>Non-Teachers</u>		<u>Teachers</u>	
			<u>ER Rate</u>	<u>% of Total</u>	<u>ER Rate</u>	<u>% of Total</u>
Normal Cost Rate	6.64%	47.84%	4.39%	62.5%	5.61%	34.4%
UAAL Amortization Rate	6.87%	49.50%	2.22%	31.6%	9.55%	58.5%
Administrative Expense	0.30%	2.16%	0.29%	4.1%	0.25%	1.5%
Amortization of Deferred Contributions	-	-	-	-	0.84%	5.1%
DC Match - Hybrid Members	0.07%	0.50%	0.12%	1.7%	0.07%	0.4%
Total Rates	13.88%	100.00%	7.02%	100%	16.32%	* 100%

*General Assembly adopted rate: 14.66%

The table below includes total employer payments for FY 2016 as well as the net pension liability:

VRS Contributions for FY 2016 and GASB Net Pension Liability (NPL)					
<u>Plan</u>	<u>2016 Contributions</u>			<u>June 30, 2016</u>	
	<u>Employer</u>	<u>Employee</u>	<u>Total</u>	<u>NPL</u>	<u>Funded Ratio</u>
City	\$49,847,919	\$14,998,672	\$64,846,591	\$337,372,334	81.2%
Schools-Non Teachers	3,857,605	2,117,237	5,974,842	13,573,000	93.4%
Schools-Teachers	54,463,409	19,368,211	73,831,620	653,690,000	70.7%
Total	\$108,168,933	\$36,484,120	\$144,653,053	\$1,004,635,334	

The rates established by VRS are sufficient to fund the normal cost for all local government employers and to finance the net pension liability. In fact, of the \$108.2 million the City and Schools paid to VRS in FY16, 56% represented the amortization of the unfunded liabilities. In the past, the General Assembly did not fund the recommended rates and therefore the liability for the School Board for Teachers grew to the large balance shown at June 30, 2016. However, it is expected that the full recommended rates will be paid beginning July 1, 2017.

Other OPEB liabilities: In June 2015 GASB adopted the requirement that local governments report "Other Post-Employment Benefits" (OPEB) unfunded liabilities in the Statement of Net Position. This requirement is effective for FY 2018 and will include the City and School Board's liability for retiree health care costs, as well as the liabilities under cost sharing plans with the State which include: Health Insurance Credits (School Board

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only), Group Term Life Insurance, Line of Duty Act (LODA) Benefits and the Virginia Local Disability Plan (Hybrid Plan members). These are cost sharing plans with the State, where allocations to localities are based on employers' covered payroll for most plans and the number of participants for LODA. However, VRS is still working to determine the final actuarial liability to be allocated to each participating government.

Retiree Health Care: The unfunded liability for City and School Board (non-Teachers) pre-Medicare retirees' health care is calculated at **\$67.7 million** as of January 1, 2016. As noted to City Council in the review of the last actuarial study, the annual amortization of this liability has been fully funded each year since FY 2008. In addition, City Council has made significant changes to the health insurance benefits that have reduced this liability. At June 30, 2016, the funded ratio was 47.3% for both City and Schools.

Pooled Benefits:

The share of OPEB liabilities for those benefits that are managed at the State level are estimated for the City and School Board as follows (millions):			
	City	Schools	Total
Line of Duty (public safety officers retired on job related disability, generally)	\$28.1	-	\$28.1
Health Insurance Credit (Teachers only)	-	\$65.0	\$65.0
Group Life Insurance	\$29.7	\$42.4	\$72.1
VLDP (new program as of January 1, 2014)	\$0.1	-	\$0.1
Total at June 30, 2016	\$57.9	\$107.4	\$165.3

In FY 2018 the City's OPEB Liability could increase an additional \$57.9 million and the School Board an additional \$107.4 million, and will be reflected in the City and School Board financial statements; the funding of these liabilities is already incorporated in the contribution rates.

PAP/DLB/paw