



Virginia
Retirement
System

Richmond Retirement System

RRS

Building your financial future

Explore Transition to Virginia Retirement System (VRS)

Finance and Economic Development Committee

September 21, 2023





Section 1: Actions to Date

Summary and actions to date



TRANSITION ANALYSIS RESULTED FROM A CITY COUNCIL REQUEST

- Richmond Retirement System (RRS) is a responsibility of the city
- The decision to transition is the responsibility of City Council
- The city has previously looked at transitioning to several times
- This is the first time there is a viable plan for transition
- Work group, including RRS and RBHA staff,
 - Established for 1 ½ years
 - Bi-weekly meetings
- The city is asking VRS to join
- VRS sets the “joining” timeline



ONGOING AND INCLUSIVE DISCUSSION

- March 2022: Budget work session discussion about a potential transition to VRS
- April 2022: Discussion of Cost-of-Living Adjustments (COLAs), retiree compensation/benefits, and VRS transition
- July 2022: Introduction of City Council Resolution to use surplus funds for the transition analysis
- October 2022: Presentation to Organizational Development Committee
- April 2023: Council members asked for an update on transition analysis



INFORMATIONAL ACTIVITIES TO DATE

- Individual sessions held with City Council Members, Mayor, and Chief Administrative Officer
- Informational sessions held with:
 - Department directors, deputies, and select staff
 - Nine information sessions for over **1,100 employees**
 - Representatives from council appointee offices



UNDERSTANDING THE COMPLEXITY

- The transition analysis is a work in progress and subject to change as negotiations continue with **VRS**
- The final terms of the transition must be accepted and approved by **VRS** and City Council
- Retirement plans are not all the same
- Complex analysis because of many offerings
- If transition is approved, **RRS** will close to new employees as of January 1, 2024
- Current employees will make their own decision



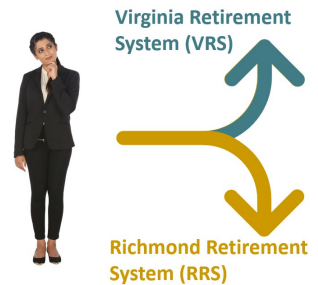
STRATEGIC DECISION

- City Council should make the best decision for the organization
- Existing employees will make the best decision for themselves
- While these are big decisions, the city and the employees will still have a retirement system
- Regardless of the decision, the costs still exists
- Most localities have already transitioned to **VRS**
- Delaying the decision will require an updated analysis of the transition and funding strategies



ITEMS TO KEEP IN MIND

- **RRS** is one of seven independent local system
- Current employees will have a choice
- **RRS** will stay in place for the existing participants
- **RRS** administration will also stay in place
- **RRS** service credit **cannot** be ported into **VRS**
- New employees hired as of January 1, 2024, will go into **VRS**
- Prior **VRS** employees may return to their previous plan





Section 2: **RRS** and **VRS** Plans



RRS HAS MANY PLAN OFFERINGS

- The multi-faceted nature of the offerings make analyzing the transition to **VRS** difficult
- The plans use different variables, and the required employee contribution is low
- Some employees contribute **0.0%**, others at least **1.0%**
- Need to create equity in the minimum amount contributed across all employee types



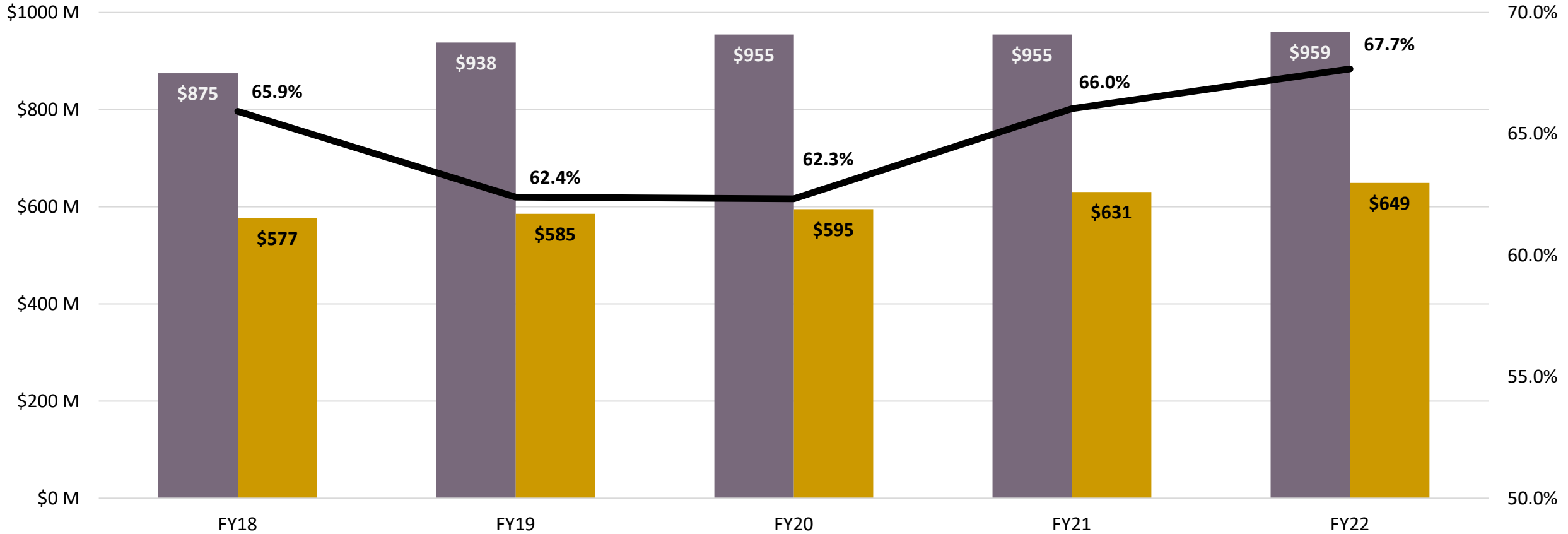
WHAT ARE THE MAJOR DIFFERENCES BETWEEN **RRS** **DB** AND **DC** PLANS?

	DEFINED BENEFIT (DB)	DEFINED CONTRIBUTION (DC)
What is it?	Pays out a monthly benefit	Account balance based on investment performance
How is it funded?	Employer Contribution (ER) + Employee Contribution (EE)	Employer Contribution (ER) Only RRS Structure Example: <5 years = 5.00% 5 - 9 years = 6.00% 10 -14 years = 8.00% 15+ years = 10.00%
How is the benefit calculated?	Creditable Compensation x Eligible Years of Service x Compensation Rate Multiplier = Monthly Benefit	Employer Contribution + Interest = Account Balance
Vesting Period	Five Years	Five Years



RRS LIABILITY NEEDS TO BE ADDRESSED

RRS' Five-Year History of Value of Assets vs. Actuarial Liability



Source: RRS 2022 Actuarial Valuation

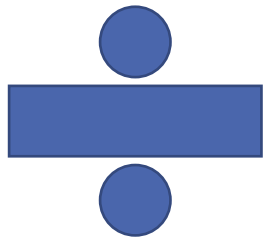
Actuarial Liability Value of Assets Funded Status

Note: Liability only applies to *Defined Benefit* employees. *Defined Contribution* employees do not have an impact on the unfunded liability.



HOW THE 67.7 PERCENT FUNDED STATUS IS CALCULATED

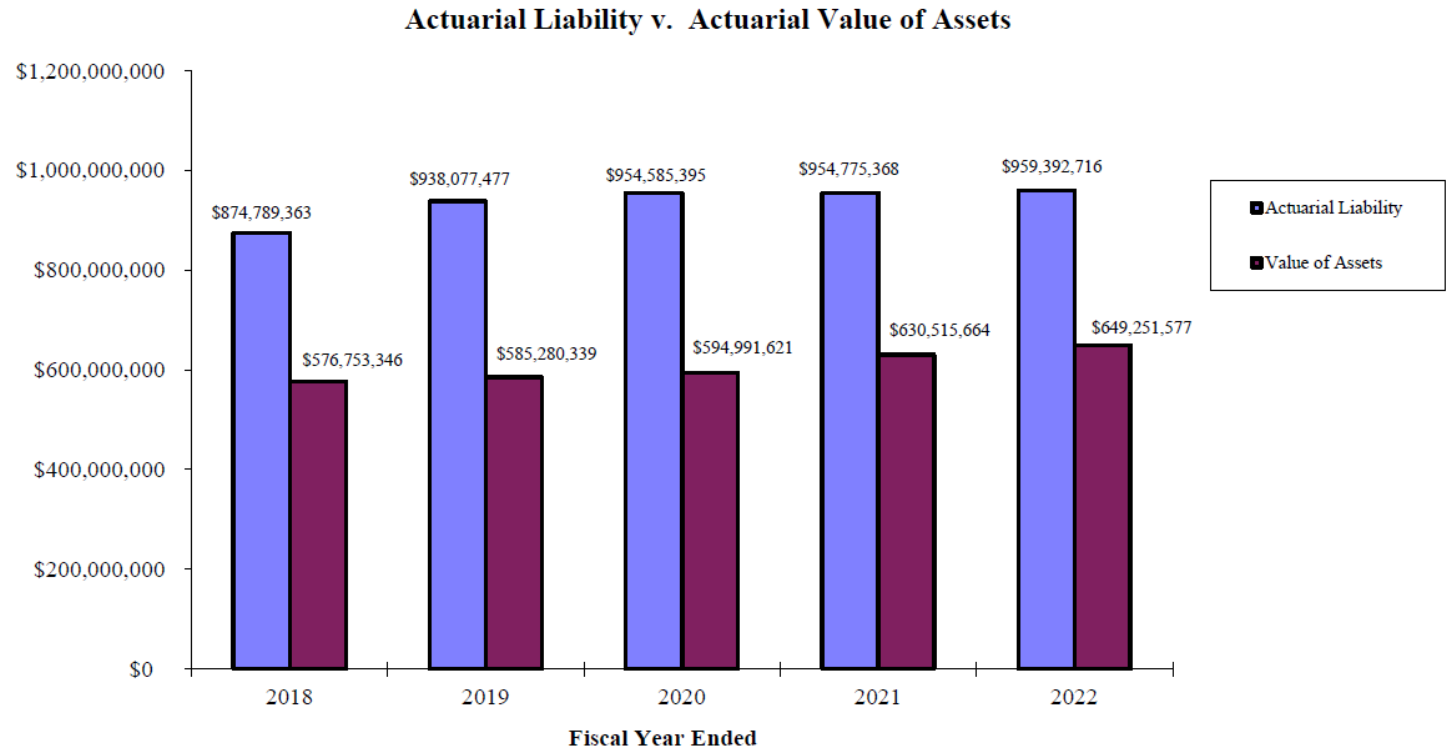
Value of Assets
(how much \$ we have)



Actuarial Liability
(how much we owe)

Page 7 of the RRS 2022 Valuation Report:

Five-Year History of Actuarial Liability and Value of Assets

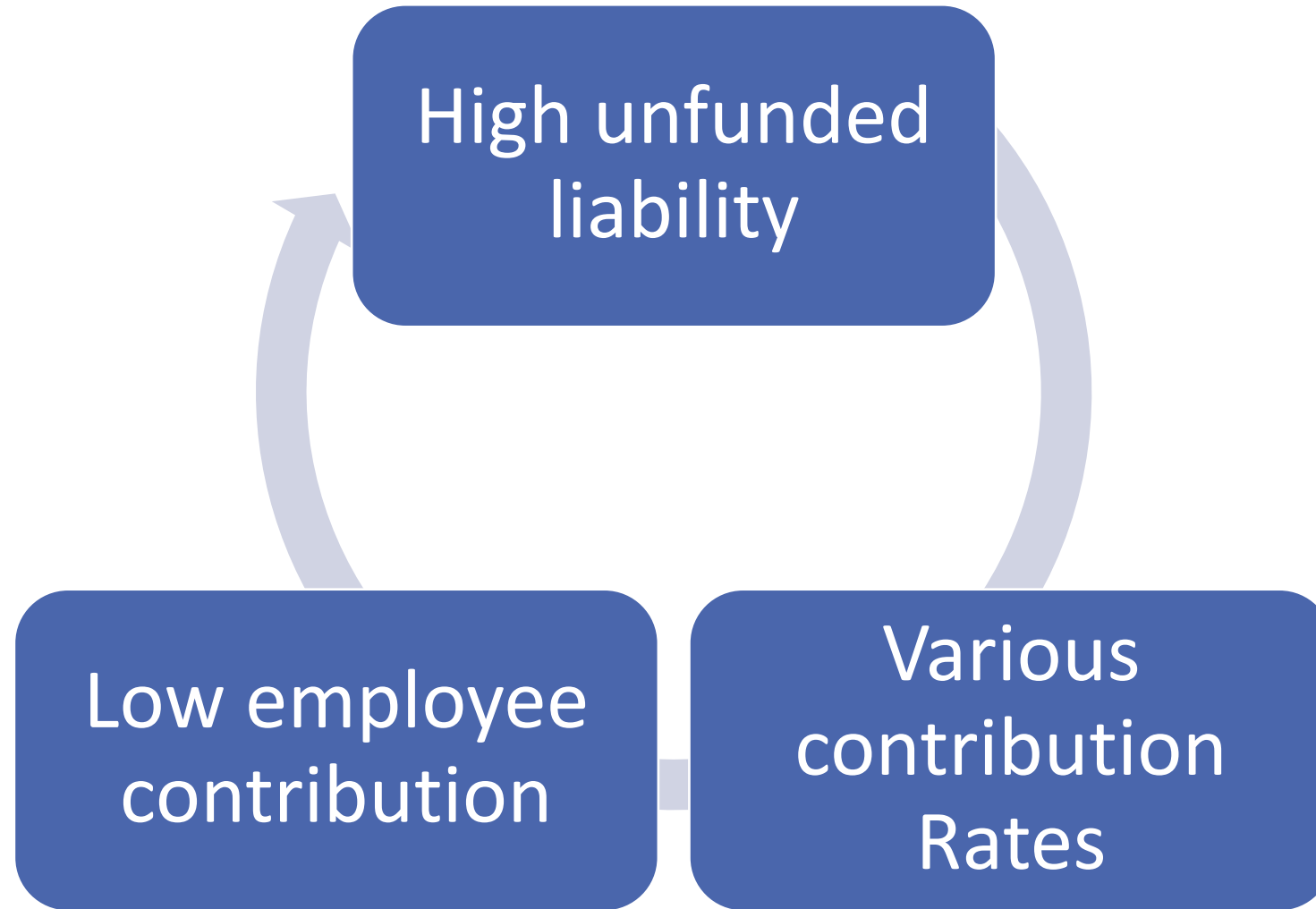


Page 6, RRS FY 2022 Valuation Report:

For purposes of determining contribution rates, the System's unfunded actuarial liability is measured by comparing the actuarial value of assets with the actuarial liability. The actuarial liability is determined under the entry age actuarial cost method. On this basis, the System's unfunded actuarial liability is \$310,141,139 as of July 1, 2022. The unfunded actuarial liability is based on an actuarial value of assets of \$649,251,577 and an actuarial liability of \$959,392,716.



CHALLENGES OF RRS



WHERE WILL CURRENT EMPLOYEES GO IN VRS?

Plan 1 Eligibility Defined Benefit

- Previous VRS General Employees, Police and Fire
- Member before 7/1/2010 &
- Vested by 1/1/2013

Plan 2 Eligibility Defined Benefit

- Previous VRS General Employees, Police and Fire
- Member after 7/1/2010 – 12/31/2013 OR
- Member before July 1, 2010 & not vested by 1/1/2013

Hybrid Plan Eligibility Defined Benefit & Defined Contribution

- New Employees
- General Employees, Police and Fire
- Hired after January 1, 2014



WHAT ARE THE VRS PLANS?

	Plan 1	Plan 2	HYBRID	
What is it?	Defined Benefit	Defined Benefit	Defined Benefit	Defined Contribution
Open to New Enrollees?	No	Sworn Only	General Only	
How is it funded?	Employer Contribution (ER) + Employee Contribution (EE) 5%	Employer Contribution (ER) + Employee Contribution (EE) 5%	ER ADC+ EE Contribution 4%	ER Contribution 1% + EE Contribution 1% 457 Voluntary Up to 4.00% to 457 + ER match up to 2.5% to 401(a)
How is the benefit calculated?	Compensation Rate Base x Eligible Years of Service x Compensation Rate Multiplier = Monthly Benefit	Compensation Rate Base x Eligible Years of Service x Compensation Rate Multiplier = Monthly Benefit	Compensation Rate Base x Eligible Years of Service x Compensation Rate Multiplier = Monthly Benefit	Based on withdrawal choices
Vesting Period	Five Years	Five Years	Five Years	2 years = 50% 3 years = 75% 4 years = 100%

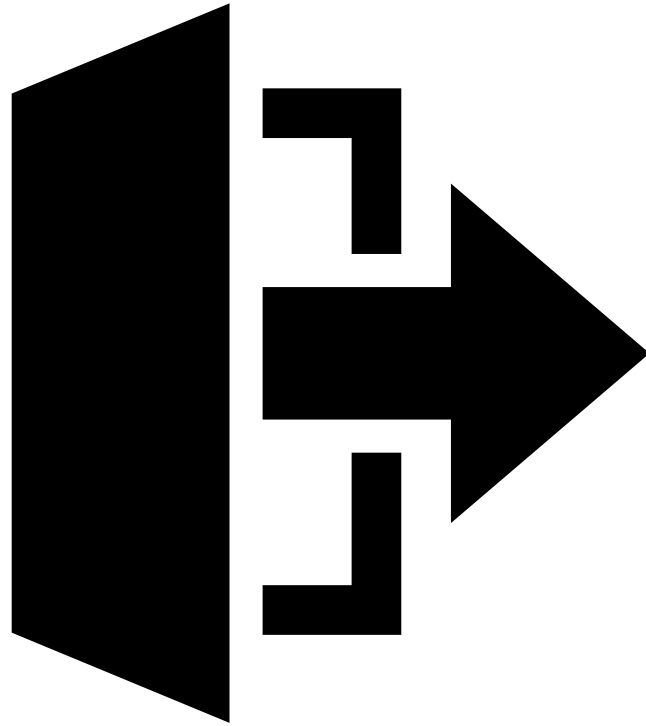
PERCEPTION OF A DIMINISHING RECRUITMENT TOOL FOR SWORN OFFICERS

- A common thought is that transition to **VRS** will eliminate the ability to attract police officers because of their ability to fully retire:
 - **RRS**: 20/25 years of service **or** at age 60
 - **VRS**: Age 60 **and** 5 years of service/age 50 **and** 25 years of service
- Less than 15 percent of sworn enroll in the enhanced plan which allows retirement at 20 years of service



OVER THE LAST 10 YEARS, ON AVERAGE SWORN WHO LEFT HAVE LESS THAN 20/25 YEARS OF SERVICE

Out of 627 Sworn who have left
(454 Police and 172 Fire)...



The average years of service by DB
plan type are...



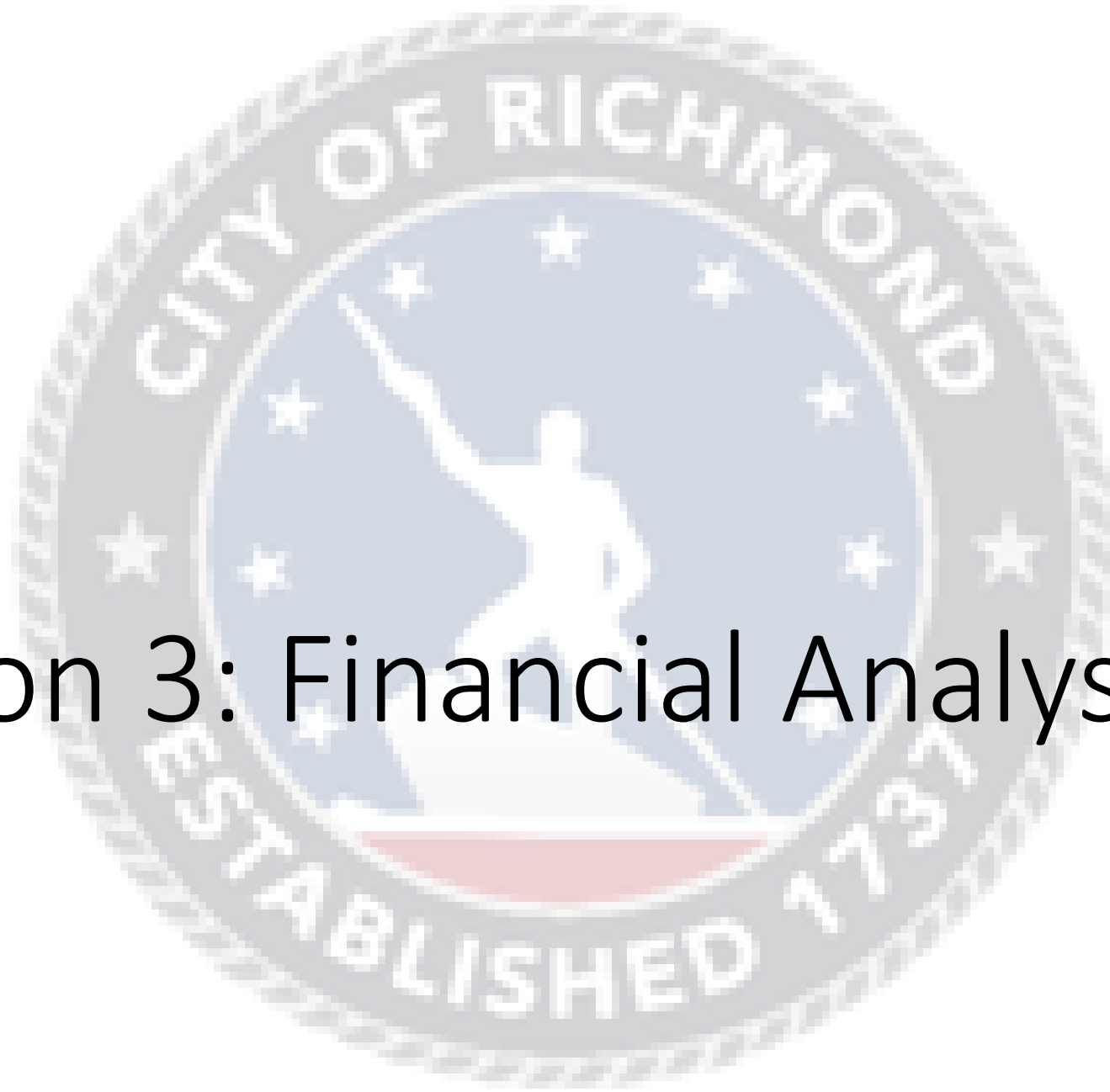
Basic = 12.5 years

Enhanced = 13.3 years



Basic = 18.2 years

Enhanced = 6.9 years



Section 3: Financial Analysis

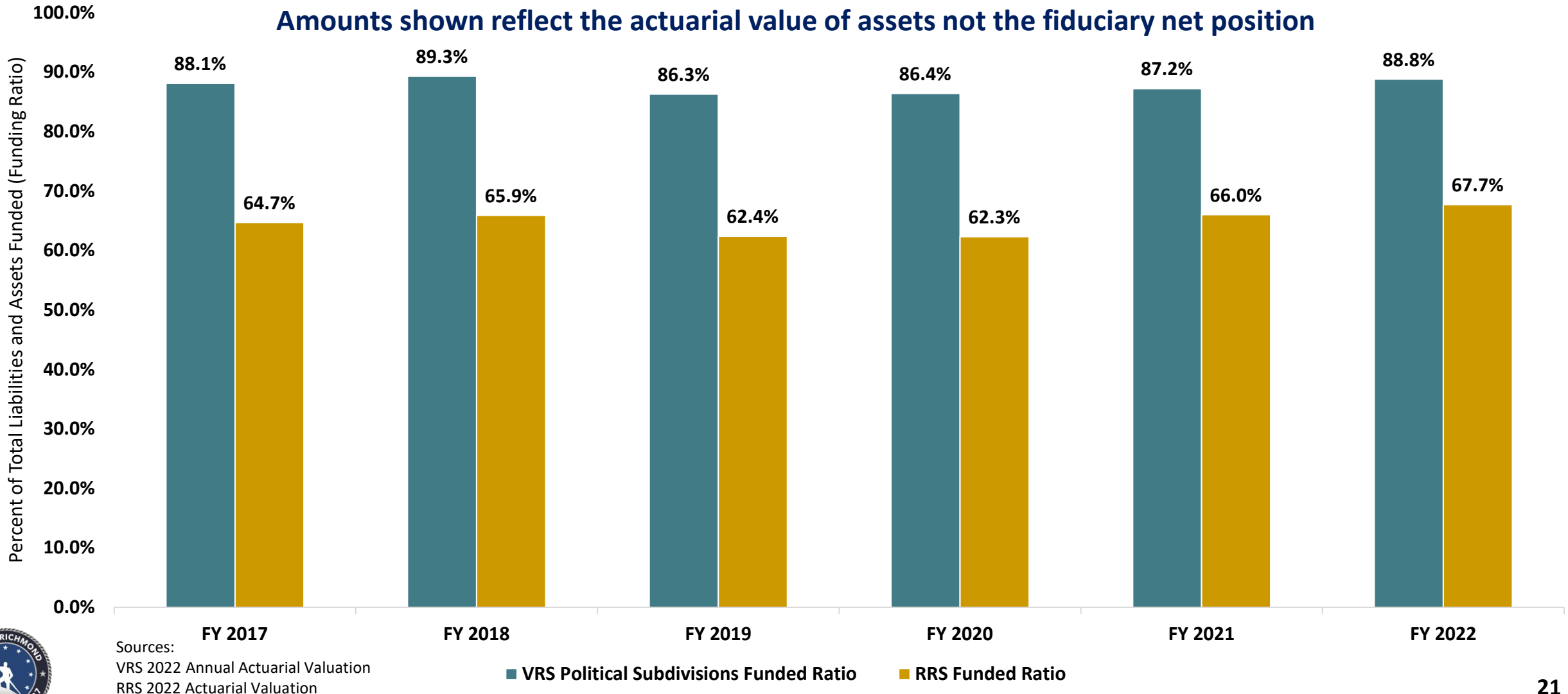


THE CITY'S FINANCIAL ADVISORS RECOMMEND TRANSITIONING TO VRS

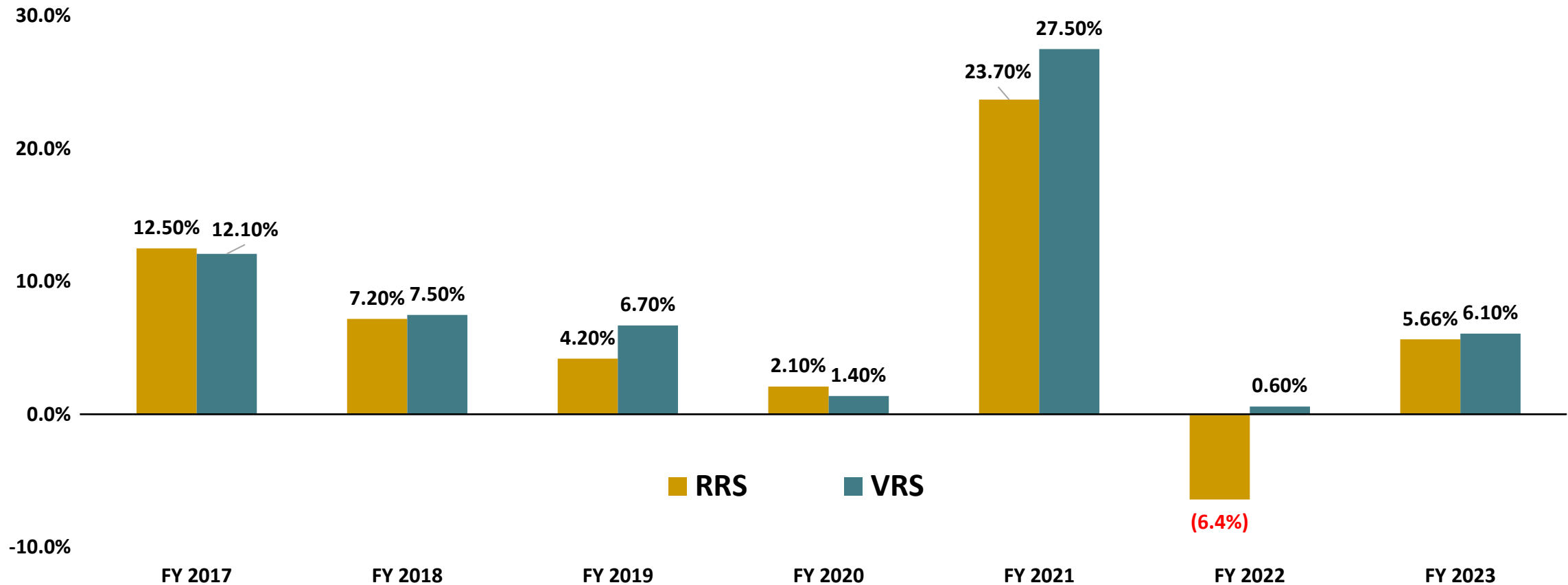
- Davenport & Co. has been the city's financial advisor for over 20 years
- Davenport, has a fiduciary responsibility to the city, recommends transitioning to VRS along with the recommended financial strategies because:
 - RRS is underfunded and is a credit weakness for the city
 - RRS has underperforming investment returns
 - VRS is a better managed/funded system
 - VRS provides richer benefits for the employees
 - VRS has better investment strategies and returns



VRS IS A BETTER FUNDED PLAN

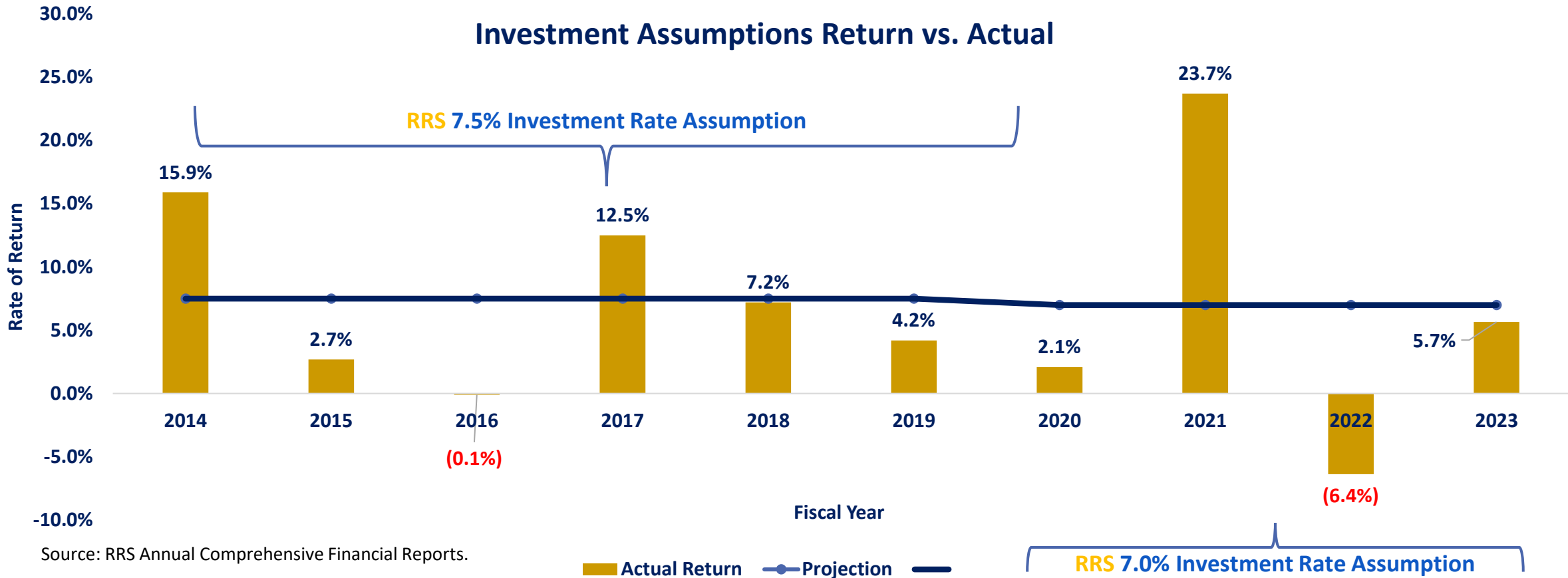


VRS HAS HAD HIGHER RATE OF RETURN IN FIVE OF SEVEN YEARS



Source: RRS and VRS Annual Comprehensive Financial Reports. FY 2023 RRS return based on September 2023 Callan report.

RRS INVESTMENT PROJECTIONS FELL BELOW THE EXPECTED RATE OF RETURN SEVEN OF TEN YEARS



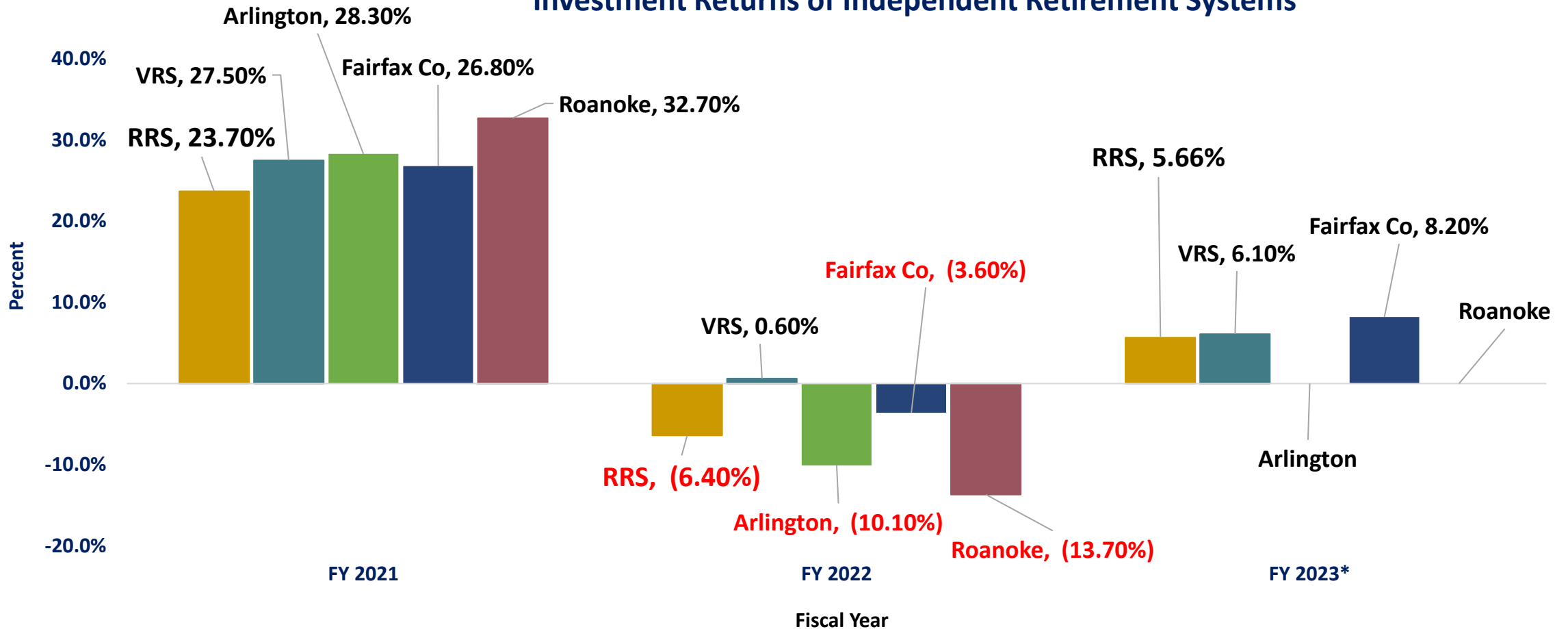
Notes:

- In 2014, it was estimated that the unfunded amortization would be largely done by 2026 based on investment assumption of 7.5%. The estimates at the time projected achieving 80% funded status in 2023 & approximately 90% in 2026.
- The Investment assumption was reduced from 7.5% to 7.0% in 2019 and the unfunded liability was re-amortized and extended until 2032.



RRS' INVESTMENT RETURNS ARE LOWER THAN OTHER INDEPENDENT RETIREMENT SYSTEMS

Investment Returns of Independent Retirement Systems

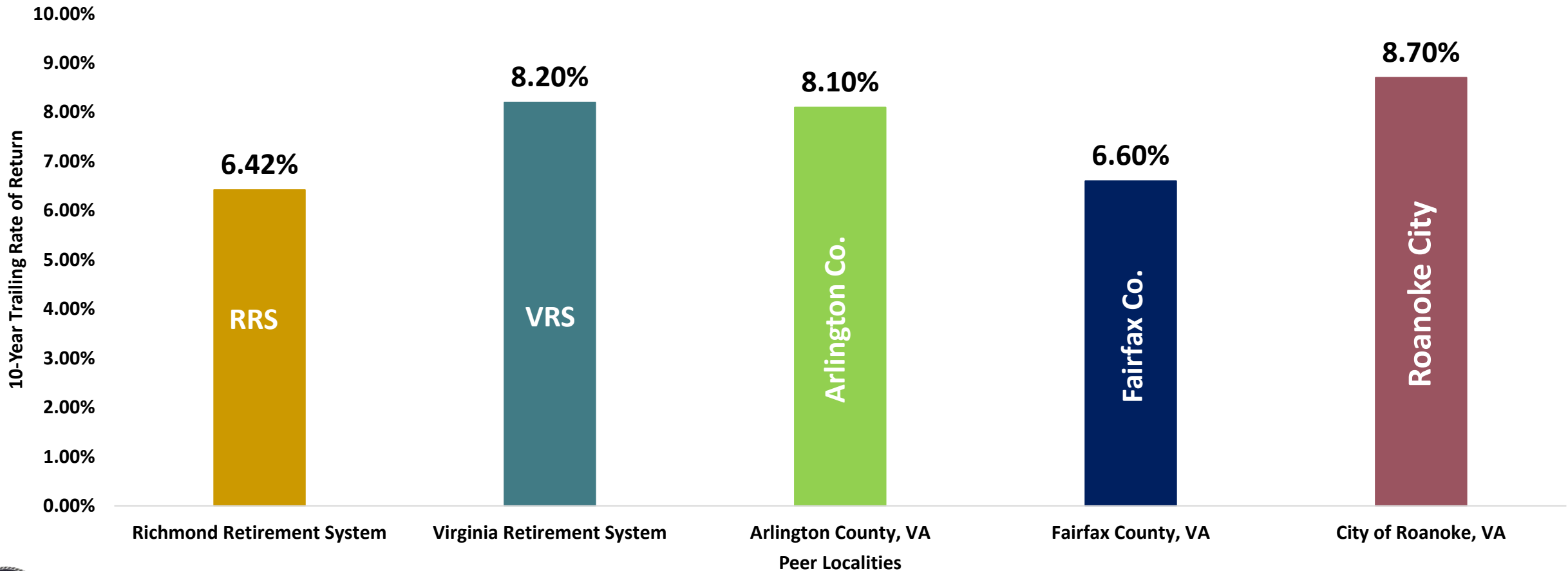


* FY 2023 data not available for all localities.



COMPARISON OF 10-YEAR ANNUALIZED RETURNS

10-year return is a good proxy for determining if investment assumptions are being met



RRS and VRS' 10-year returns are for FY 2023; the other jurisdictions' 10-year returns for FY 2022.



AN INFUSION OF CASH IS NECESSARY TO INCREASE RRS' FUNDED STATUS

- Minimum threshold for a pension system is 80 percent
- As of FY 2022, RRS' actuarial funded status is 67.7 percent, and the net funded status is 64.5 percent
- Approximately \$100 million is needed to bring RRS' funded status to 80 percent
- Credit rating agencies view the low funded status of the pension plan as a credit weakness



TRANSITION INVOLVES A 3-PRONGED FINANCIAL STRATEGY

1

Transition to VRS

2

Issue Pension Obligation Bonds (POBs) to reach minimum of 80% actuarial funded status of **RRS**

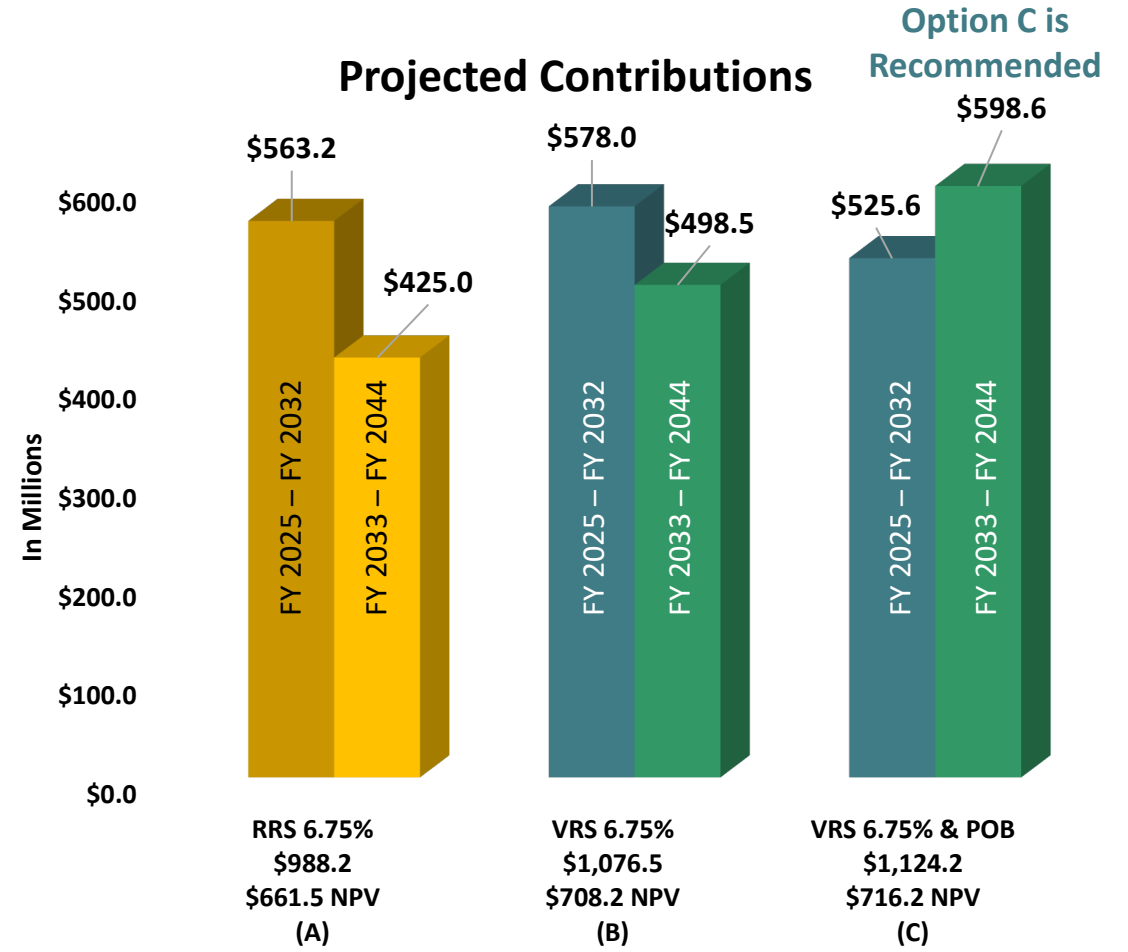
3

Establish financial policies which target 100% actuarial funded status and maintains minimum 80% threshold



BENEFITS OF TRANSITIONING TO VRS USING PENSION OBLIGATION BONDS (POB)

- Compared to (A), transitioning to VRS (Scenario B) results in an estimated \$14.8 million increase through 2032
- Transitioning to VRS with POBs provides a lower estimated annual contribution through 2032
 - Average of \$5.0 million less through 2032



RRS rate of return equalized to 6.75% to be comparable to VRS

Expected costs and savings are based on RRS' 2022 valuation report

Note: Projections represent preliminary estimates provided by Boomershine Consultants. Actual results will differ

ESTIMATED COST TO TRANSITION IS COMPARABLE TO ADDRESSING THE CURRENT LOW FUNDED STATUS OF RRS

Status Quo @ 6.75% Compared to VRS Transition with POBs

Fiscal Year	Option A Current RRS @ 6.75%	Option C New RRS, VRS, POB	Variance
2025	\$64,726,587	\$60,591,736	\$4,134,851
2026	\$66,324,802	\$60,698,816	\$5,625,985
2027	\$67,416,442	\$62,097,579	\$5,318,863
2028	\$70,360,418	\$65,327,473	\$5,032,944
2029	\$71,581,052	\$66,814,946	\$4,766,107
2030	\$72,890,351	\$68,381,843	\$4,508,507
2031	\$74,258,963	\$69,997,368	\$4,261,594
2032	\$75,688,001	\$71,661,844	\$4,026,156
2033	\$30,255,973	\$42,356,403	-\$12,100,431
2034	\$31,089,783	\$43,640,217	-\$12,550,435
2035	\$31,969,130	\$44,963,781	-\$12,994,651
2036	\$32,891,560	\$46,328,899	-\$13,437,339
2037	\$33,857,182	\$47,728,669	-\$13,871,487
2038	\$34,868,567	\$49,164,417	-\$14,295,849
2039	\$35,928,093	\$50,642,454	-\$14,714,361
2040	\$37,036,522	\$52,164,168	-\$15,127,646
2041	\$38,193,542	\$53,728,698	-\$15,535,155
2042	\$37,870,315	\$53,810,012	-\$15,939,697
2043	\$40,442,969	\$56,785,700	-\$16,342,731
2044	\$40,571,207	\$57,298,578	-\$16,727,371
Total	\$988,221,458	\$1,124,183,603	-\$135,962,145
NPV @ 5%	\$661,512,910	\$716,227,112	-\$54,714,203

- Expected savings over the short-term
- Expected increase in estimated costs over the long-term
- Considering the current low funded status of RRS and the need to fund above the expected ADC, costs will increase regardless of transitioning to VRS

Expected costs and savings are based on RRS' 2022 valuation report
Note: Projections represent preliminary estimates provided by Boomershine Consultants. Actual results will differ



SHIFT IN ESTIMATED COSTS OVER TIME TO VRS

Cost Components of Transition with POB – Scenario C

1	2	3	4	5	6
Fiscal Year	RRS ADC	RRS DC	VRS	Debt Service	Total
2025	\$39,420,398	\$5,453,016	\$7,350,390	\$8,367,933	\$60,591,736
2026	\$37,360,445	\$5,347,152	\$9,623,286	\$8,367,933	\$60,698,816
2027	\$37,408,959	\$5,042,933	\$11,277,754	\$8,367,933	\$62,097,579
2028	\$39,280,692	\$4,750,189	\$12,928,659	\$8,367,933	\$65,327,473
2029	\$39,395,270	\$4,470,275	\$14,581,467	\$8,367,933	\$66,814,946
2030	\$39,564,256	\$4,202,247	\$16,247,407	\$8,367,933	\$68,381,843
2031	\$39,751,663	\$3,941,060	\$17,936,712	\$8,367,933	\$69,997,368
2032	\$39,958,695	\$3,687,500	\$19,647,717	\$8,367,933	\$71,661,844
2033	\$9,172,304	\$3,450,564	\$21,365,603	\$8,367,933	\$42,356,403
2034	\$8,950,973	\$3,228,299	\$23,093,012	\$8,367,933	\$43,640,217
2035	\$8,740,512	\$3,016,660	\$24,838,676	\$8,367,933	\$44,963,781
2036	\$8,535,433	\$2,811,692	\$26,613,841	\$8,367,933	\$46,328,899
2037	\$8,340,678	\$2,612,315	\$28,407,744	\$8,367,933	\$47,728,669
2038	\$8,158,636	\$2,419,787	\$30,218,060	\$8,367,933	\$49,164,417
2039	\$7,987,361	\$2,235,371	\$32,051,789	\$8,367,933	\$50,642,454
2040	\$7,825,766	\$2,061,760	\$33,908,709	\$8,367,933	\$52,164,168
2041	\$7,673,125	\$1,894,932	\$35,792,707	\$8,367,933	\$53,728,698
2042	\$5,996,796	\$1,733,023	\$37,712,260	\$8,367,933	\$53,810,012
2043	\$7,170,026	\$1,578,727	\$39,669,014	\$8,367,933	\$56,785,700
2044	\$5,868,104	\$1,234,886	\$41,827,655	\$8,367,933	\$57,298,578
Total	\$406,560,093	\$65,172,387	\$485,092,463	\$167,358,660	\$1,124,183,603
NPV @ 5%	\$299,879,466	\$45,042,597	\$267,022,108	\$104,282,941	\$716,227,112

Migration Assumptions

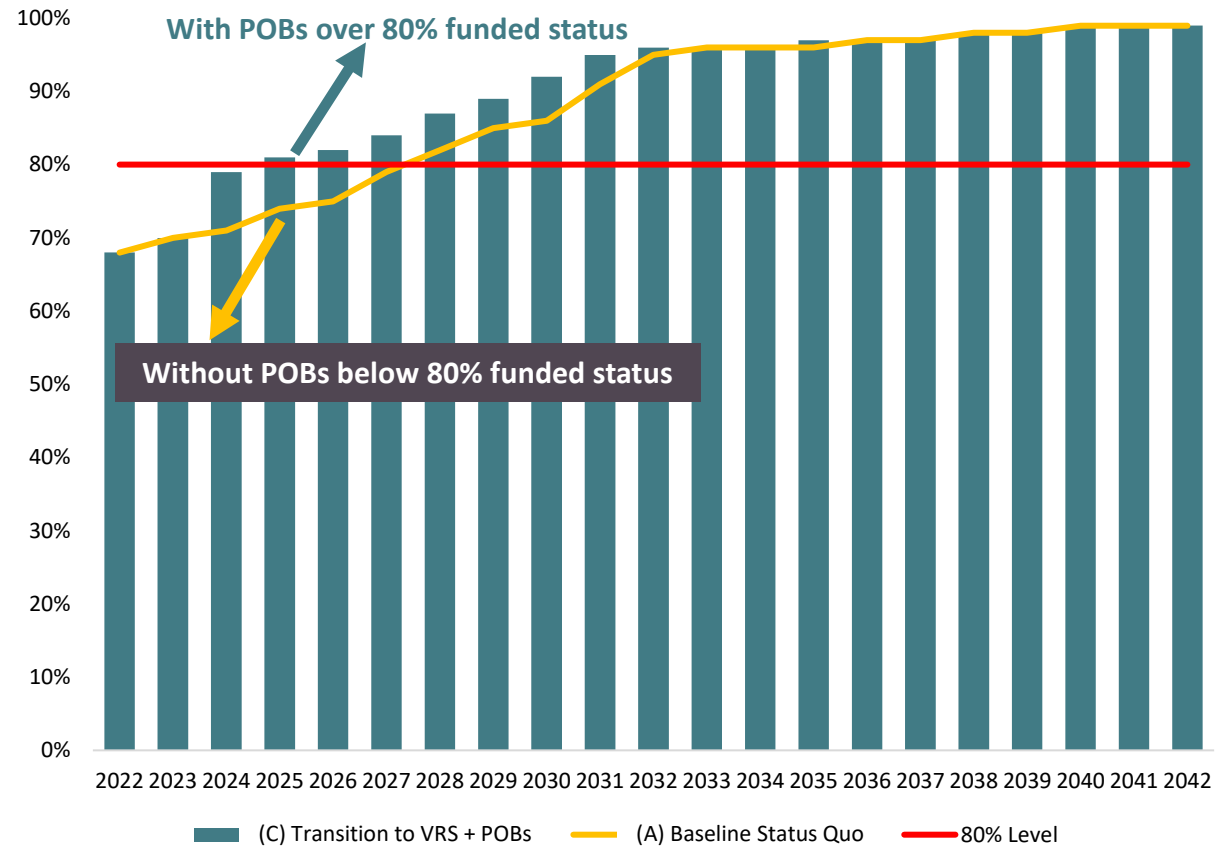
- 90% non-vested migration of current RRS DC plan members to VRS
- 10% of vested RRS DC members to VRS
- 25% non-vested RRS DB members to VRS
- 10% vested RRS DB members to VRS
- Based on RRS FY 2022 Valuation Report

Expected costs and savings are based on RRS' 2022 valuation report. Note: Projections represent preliminary estimates provided by Boomershine Consultants. Actual results will differ.



POB WILL IMMEDIATELY INCREASE RRS' FUNDED STATUS

RRS Vs. VRS & POBs⁽¹⁾



- Scenario A is projected to take another 5-years to reach approximately “80 percent”
- Scenario C has the immediate effect of increasing the funded status to approximately 80 percent
 - The funded status is projected to increase to approximately 90 percent by FY 2029
 - Funded status shown on an Actuarially Determined basis (includes smoothing)



(1) Independent actuarial calculation based on RRS's FY 2022 Actuarial Study adjusted for contribution timing and amortization balance. Assumes a 6.75% investment rate. Scenario C VRS Assumptions: 1.85% VRS multiplier for Public Safety; 0.85% VRS multiplier for General; 90% of non-vested DC, 10% of vested DC, 25% of non-vested DB, and 10% of vested DB elect transition to VRS; POBs assume 20 years amortization at 5.5%.

Note: Projections represent preliminary estimates provided by Boomershine Consultants. Actual results will differ.

RECOMMENDED FINANCIAL STRATEGIES

- **Strategy 1: Increase RRS ADC funded status**
 - Commit to always funding the ADC
 - Reach and maintain the minimum 80 percent actuarial funded status for RRS
 - Commit to reaching the long-term goal of 100 percent actuarial funded status for RRS
- **Strategy 2: Changes to RRS benefits**
 - Consider additions only if RRS funding ratio at or above the 85 percent level
 - Conduct fiscal impact analysis of potential changes prior to approval of benefits
 - Pay for changes upfront to not impact the actuarial funded status of RRS (i.e.: do not spread-out additional cost)
- **Strategy 3: Establish reserve account**
 - Invest savings achieved from the transition and corresponding issuance of the POBs
 - Issue additional POBs as needed when there is a more favorable interest rate climate
 - Invest funds such that it allows the city to support RRS funded status when it falls below the established minimum threshold of 80 percent



ISSUING POB DOES NOT NEGATIVELY IMPACT OUR CREDIT RATING

- The impact of the POBs and the increase in funded status have been modeled in estimates of Moody's new scorecard
- Transitioning to **VRS** with POBs effectively results in no material change
- The impact in the Fixed Costs Ratio is de minimis, as the debt liability is substituted for POBs for pension liability



	% of total	Richmond (Current)	Richmond (With POBs)
Economy (30%)			
Resident Income (%)	10%	81.1%	81.1%
Full Value Per Capita	10%	154,384	154,384
Economic Growth (%)	10%	-0.3%	-0.3%
Financial Performance (30%)			
Available Fund Balance Ratio (%)	20%	37.6%	37.6%
Liquidity Ratio (%)	10%	52.8%	52.8%
Institutional Framework (10%)			
Institutional Framework	10%	Aa	Aa
Leverage (30%)			
Long-Term Liability Ratio (%)	20%	204.8%	204.8%
Fixed Costs Ratio (%)	10%	13.8%	13.7%
Raw Score		3.19	3.18
Unadjusted Rating		Aa2	Aa2

Aaa Range	0.50-1.50
Aa1 Range	1.50-2.50
Aa2 Range	2.50-3.50
Aa3 Range	3.50-4.50



Source: Davenport & Co.



Section 4: Creating Equity



DB/DC PLAN EMPLOYEE BASE EMPLOYEE CONTRIBUTION ALIGNMENT

	Current	Change To
DB Plan	<p>Employee and Employer Contribution</p> <p>General = 1% + ADC Sworn = 1.5% + ADC</p>	<p>Employee and Employer Contribution</p> <p>General = 5.00 + ADC Sworn = 5.00 + ADC</p>
DC Plan	<p>Employer Contribution Only</p> <p><5 years = 5.00% 5 - 9 years = 6.00% 10 -14 years = 8.00% 15+ years = 10.00%</p>	<p>Employee and Employer contribution</p> <p>> - 9 years = EE: 5.00% + ER: 1.00% = 6.00% 10 -14 years = EE: 5.00% + EE: 3.00% = 8.00% 15+ years = EE: 5.00% + ER: 5.00% = 10.00%</p>



INCREASE ALL CITY EMPLOYEE SALARIES NEW CONTRIBUTION AMOUNT + GROSS UP

- **Regardless** of the decision to transition to **VRS**, create equity in member contributions
- Adjust salaries to cover the increased contribution and associated costs
 - Currently, **DB** plan members pay a base of 1.00% or 1.50% and **DC** members pay 0.00%
 - Employees would contribute 5.00% base contribution to retirement
 - Additional percentage included in pay to cover retirement contribution and FICA tax costs



HOW WILL THE CITY SUPPORT THE CURRENT EMPLOYEE INCREASE IN CONTRIBUTIONS?

- Currently, the city funds the retirement system through the ADC and DC contributions
- Move a portion of that payment to the employee's salary
- “Gross up” the salary to negate the FICA tax impact
- Employees pay a 5.0% contribution to **RRS**
- Gross up amount would be a new cost for the city
- Additional FY 2024 cost is anticipated to be: \$1.3 million



COMMITMENT TO PERSONAL INVESTMENT

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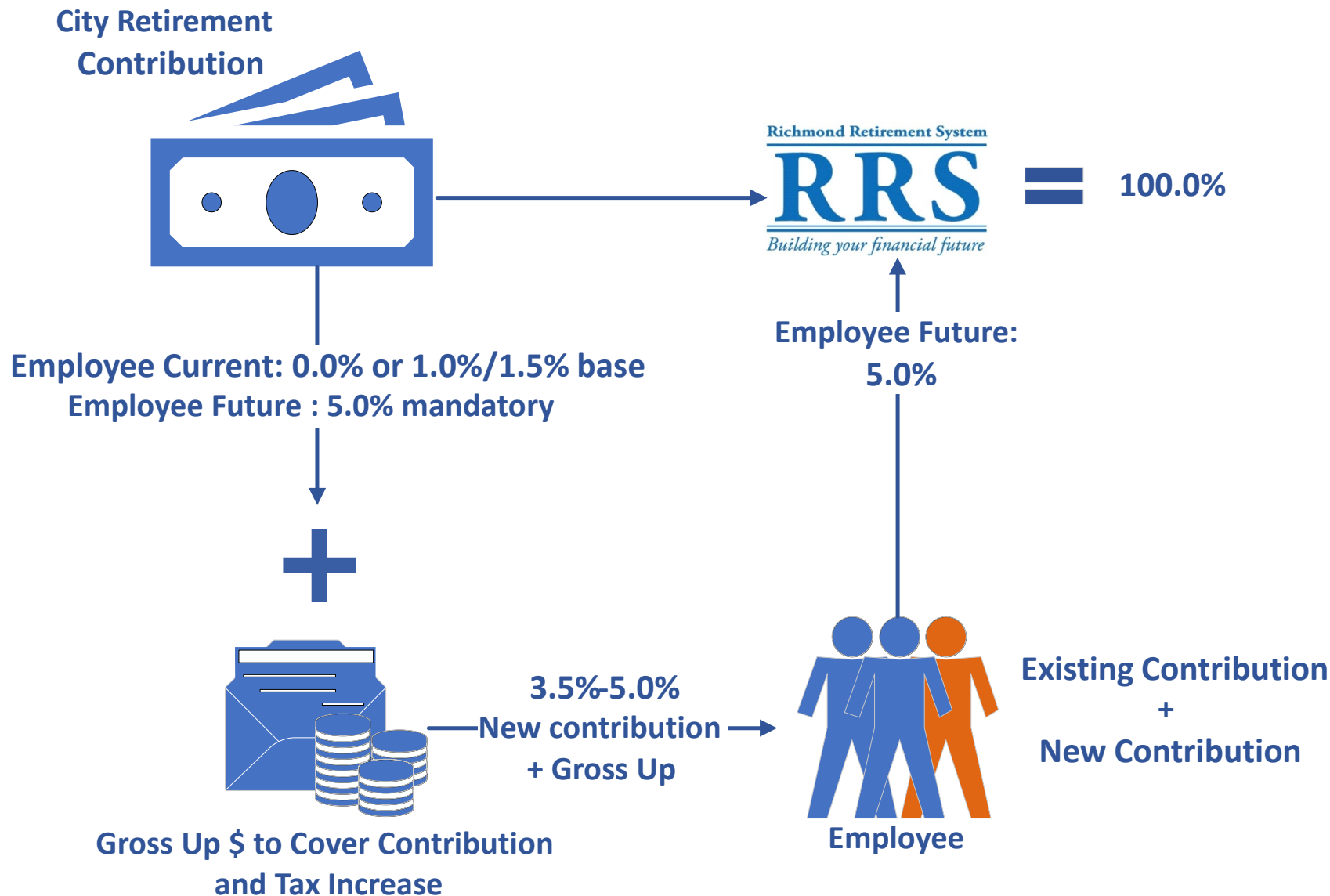


Illustration only. Actual percentages and amounts will differ.



RETIREMENT CONTRIBUTION IMPACTS

Employee Retirement Contribution and Salary Adjustment

Employee	Current Employee Contribution	Proposed Employee Contribution	Employee Salary Impact
DB General	1.00%	5.00%	4.58%
DB Sworn	1.50%	5.00%	4.01%
DC All	0.00%	5.00%	5.72%



ADJUSTMENT COVERS COST INCREASE

Illustration Only

DB General Employee New Contribution Scenario

Employee Impact	Current	Revised (4.58%)
Base Salary	\$50,000	\$52,290
FICA	\$3,825	\$4,000
Current 1% Retirement	\$500	\$523
New Employee Contribution (+4%)	\$0	\$2,092
Total after FICA taxes	\$45,675	\$45,675

Covers Increase

Note: Individual results may vary depending on tax criteria.



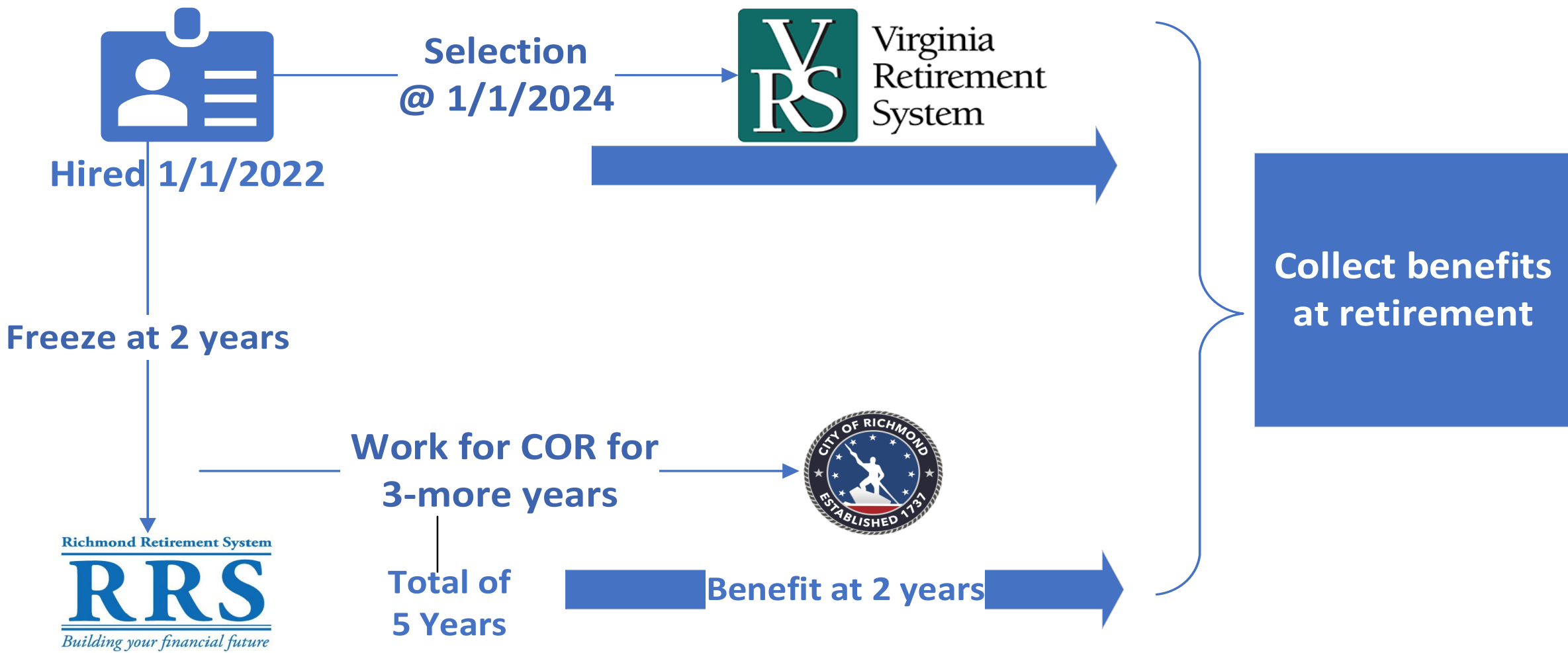
ADDRESSING THE NON-VESTED DC PLAN MEMBERS CHOOSING TO MOVE TO VRS

- **DC plan** non-vested **RRS** members choosing to move to **VRS** will start from day 1. It is recommended to:
 - Freeze the benefits at the time of for employees choosing to transition
 - Require employees to work for the city for the remainder of the five years to receive benefits at retirement
- Freezing these employees in **RRS** with a 5-year requirement allows them to:
 - Benefit from the time spent working for the city
 - Move to **VRS** without feeling like they lost years
 - Achieve equity with other employees who had worked five years to receive **RRS** benefits
 - These employees are not eligible to purchase Richmond years of service with **VRS**



HOW FREEZING THE NON-VESTED DC PLAN MEMBERS IN RRS WILL WORK

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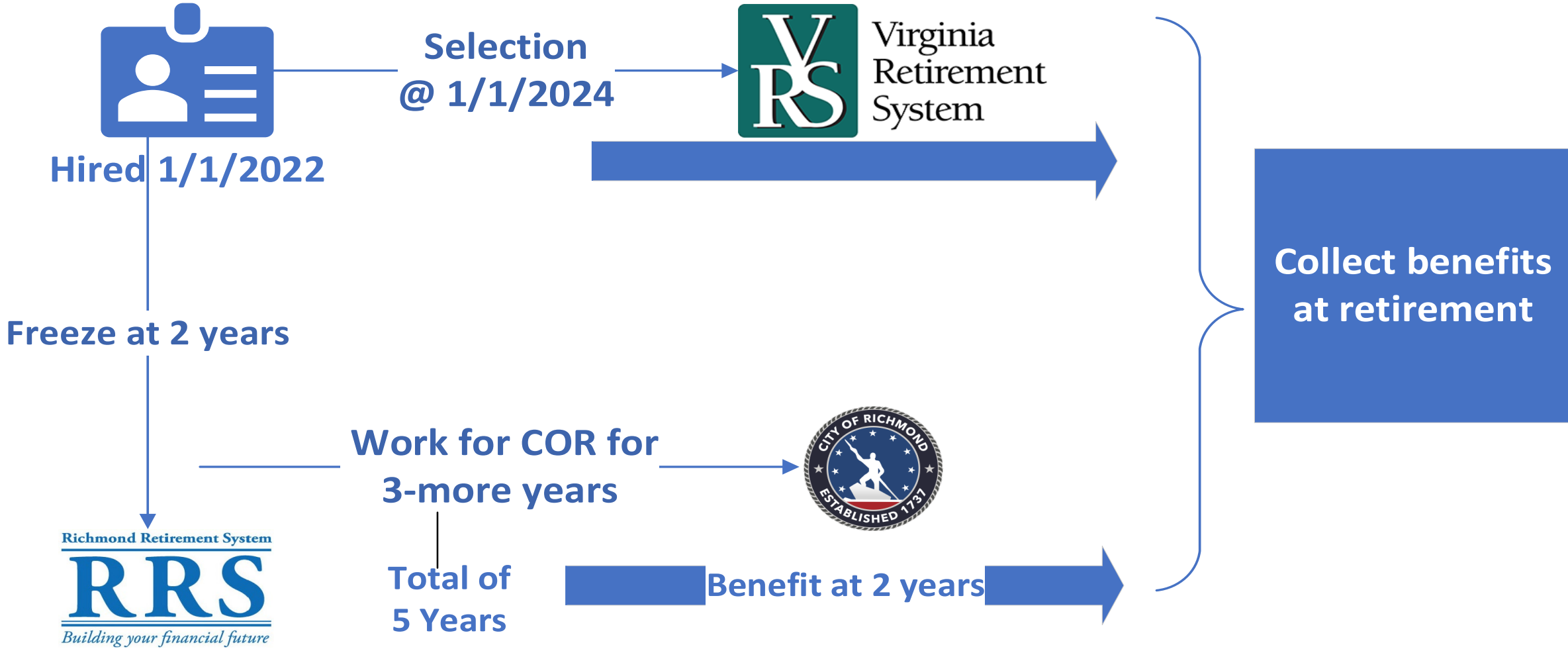
ADDRESSING THE CURRENT NON-VESTED DB PLAN MEMBERS CHOOSING TO MOVE TO VRS

- A trustee-to-trustee transfer will be made for **DB plan** non-vested **RRS** members
- Transferred member contributions will be used to buy service time under **VRS** general purchase of prior service rules
- May not be a 1:1 purchase of time

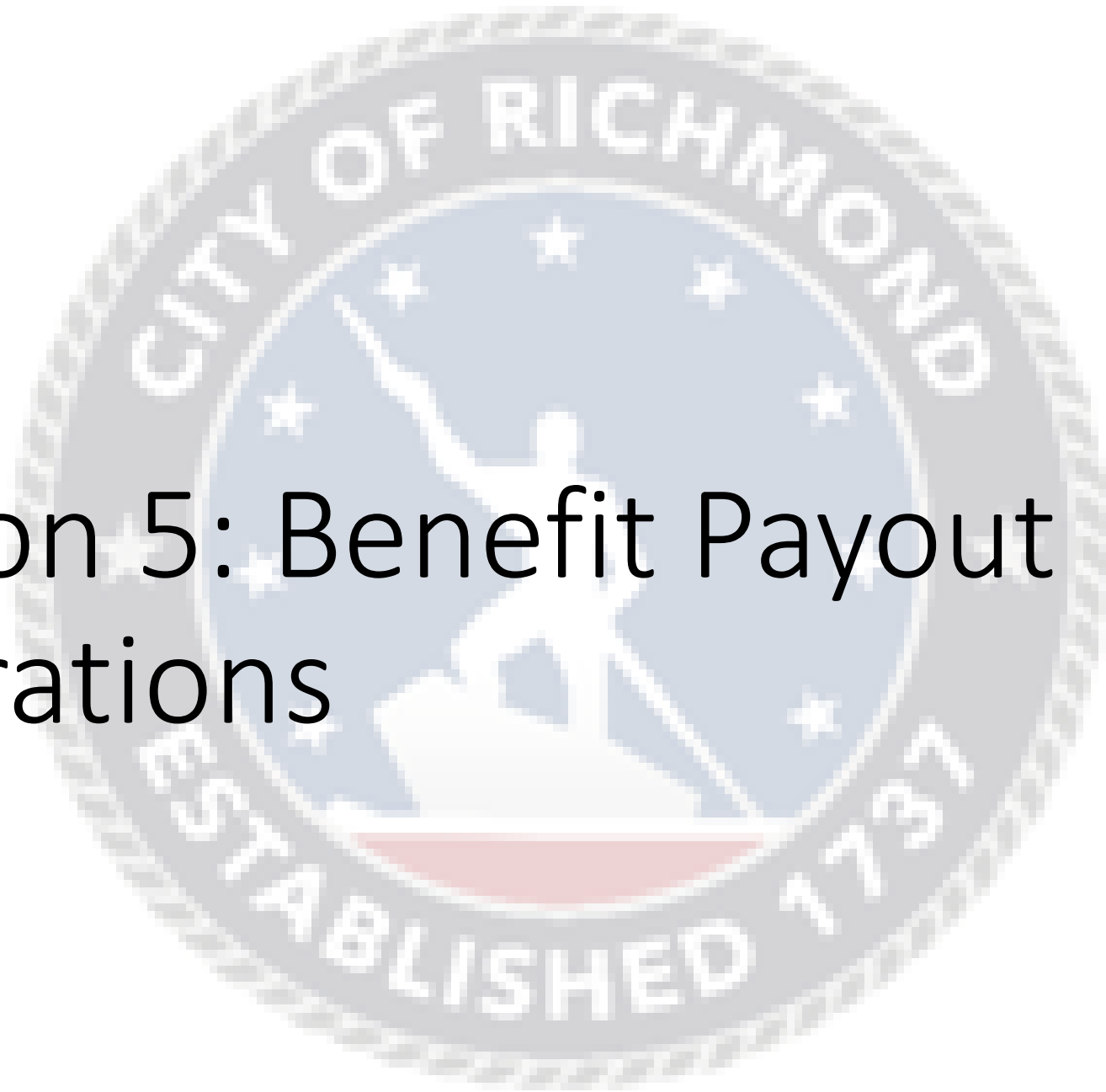


OR NON-VESTED DB PLAN MEMBERS CAN CHOSE THE FREEZE OPTION

Illustration Only



Section 5: Benefit Payout Illustrations



BENEFIT FOR **RRS** DC MEMBERS AND **VRS** HYBRID PLAN BENEFITS

Comparison of Estimated Annual/Monthly Benefits Considering All Factors Being Equal

(Benefits shown are before taxes and applicable fees)

Illustration Only

Variable		RRS Plan	VRS Hybrid Plan*		
		DC	DB	DC 2% Minimum	DC 8.5% Voluntary
1	Years of Service	30	30	30	30
2	AFC	\$50,000	\$50,000	\$50,000	\$50,000
3	Multiplier	N/A	1.00%	N/A	N/A
4	Annual	N/A	\$15,000	N/A	N/A
5	Monthly	N/A	\$1,250	N/A	N/A
6	Employer Contribution	\$122,500		\$15,000	\$52,500
7	Employee Contribution	\$0		\$15,000	\$75,000
8	7.5% Rate of Return (assumed)	\$252,742		\$77,187	\$328,044
9	Lifetime Benefit	\$375,242		\$107,187	\$455,544

*VRS includes an annual COLA which is not accounted for in this illustration



BENEFIT FOR SWORN **RRS** **DB** BENEFIT AND **VRS** HAZARDOUS DUTY 1 AND 2

Illustration Only

Comparison of Estimated Annual/Monthly Benefits Considering All Factors Being Equal

(Benefits shown are before taxes and applicable fees)

Variable	RRS		VRS*	
	DB Basic	DB Enhanced	Plan 1 Hazardous	Plan 2 Hazardous
1 Years of Service	30	30	30	30
2 AFC	\$50,000	\$50,000	\$50,000	\$50,000
3 Multiplier	1.65%	1.65%	1.85%	1.85%
4 Hazardous duty supplement RRS 65 yrs. or VRS SS age	0.75%	0.75%	\$16,884	\$16,884
5 Annual	\$34,125	\$34,125	\$44,634	\$44,634
6 Monthly	\$2,844	\$2,844	\$3,720	\$3,720

*VRS includes an annual COLA which is not accounted for in this illustration



BENEFIT FOR GENERAL EMPLOYEE FOR PRIOR VRS PLAN 1 AND PLAN 2 MEMBERS

Comparison of Estimated Annual/Monthly Benefits Considering All Factors Being Equal
 (Benefits shown are before taxes and applicable fees)

Illustration Only

Factor	RRS		VRS*	
	DB Basic	DB Enhanced	Plan 1	Plan 2
1 Years of Service	30	30	30	30
2 Average Final Compensation (AFC)	\$50,000	\$50,000	\$50,000	\$50,000
3 Multiplier	1.75%	2.00%	1.70%	1.65%
4 Annual	\$26,250	\$30,000	\$25,500	\$24,750
5 Monthly	\$2,188	\$2,500	\$2,125	\$2,063

*VRS includes an annual COLA which is not accounted for in this illustration



POWER OF THE COLA EXAMPLE 1: RRS GENERAL DB VS. VRS PLAN 1

Illustration Only

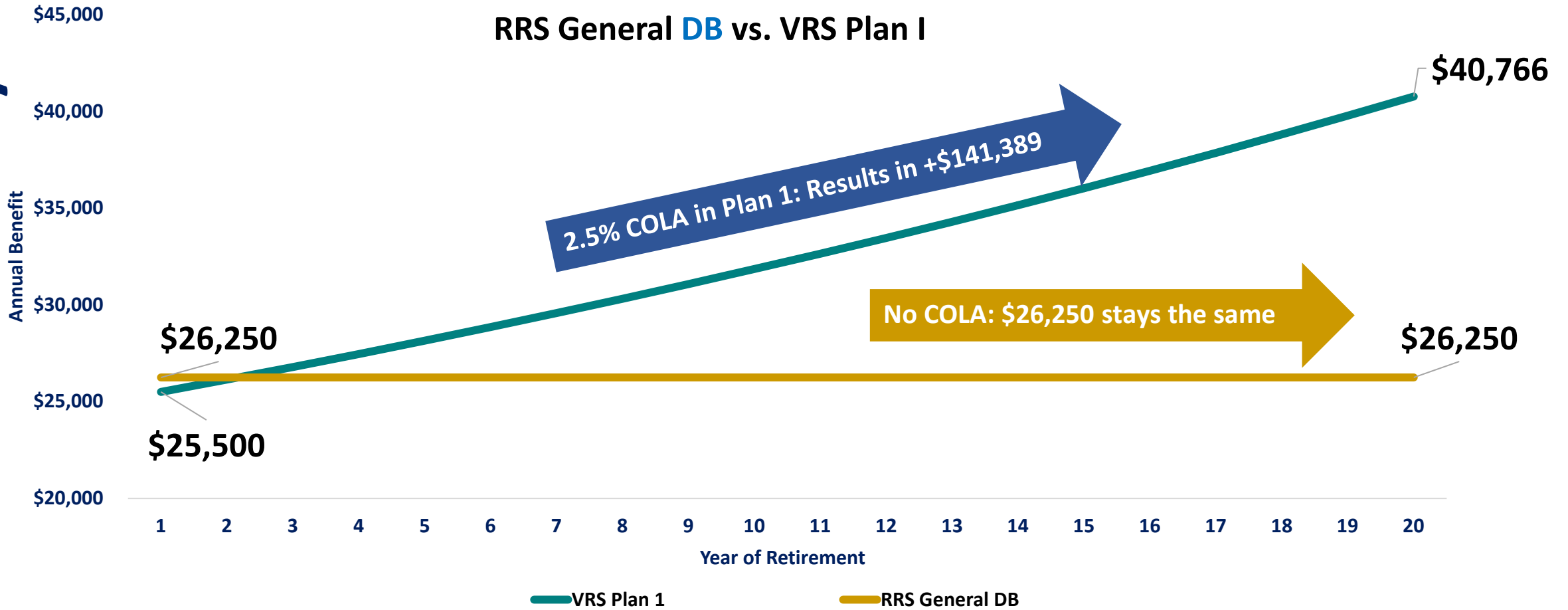


Illustration only. Assumes all things considered equal at 30 years of service and \$50,000 average final compensation in both plans.



POWER OF THE COLA EXAMPLE 2: **RRS** GENERAL **DB** VS. **VRS** PLAN 2

Illustration Only

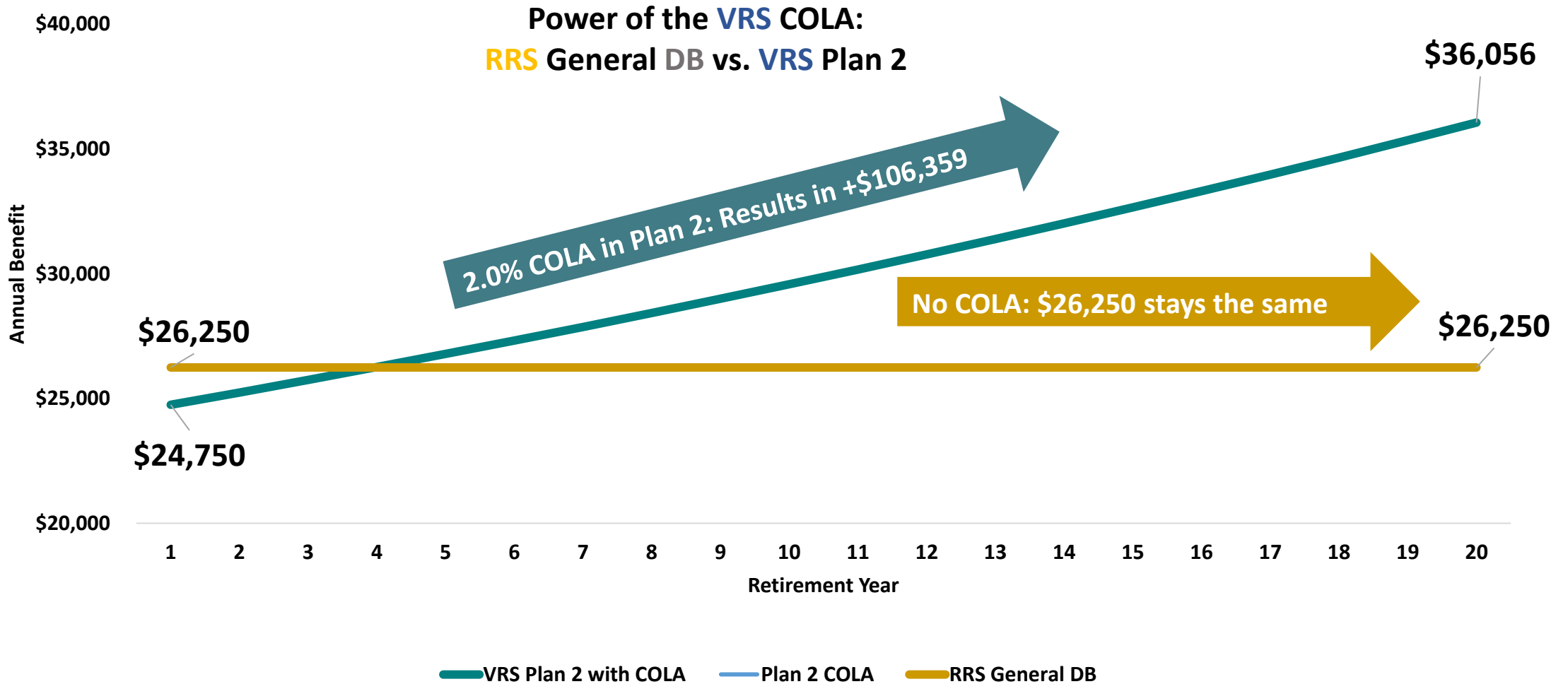


Illustration only. Assumes all things considered equal at 30 years of service and \$50,000 average final compensation in both plans.



POWER OF THE COLA EXAMPLE 3: RRS SWORN DB VS. VRS PLAN 2 HAZARDOUS DUTY

Illustration Only

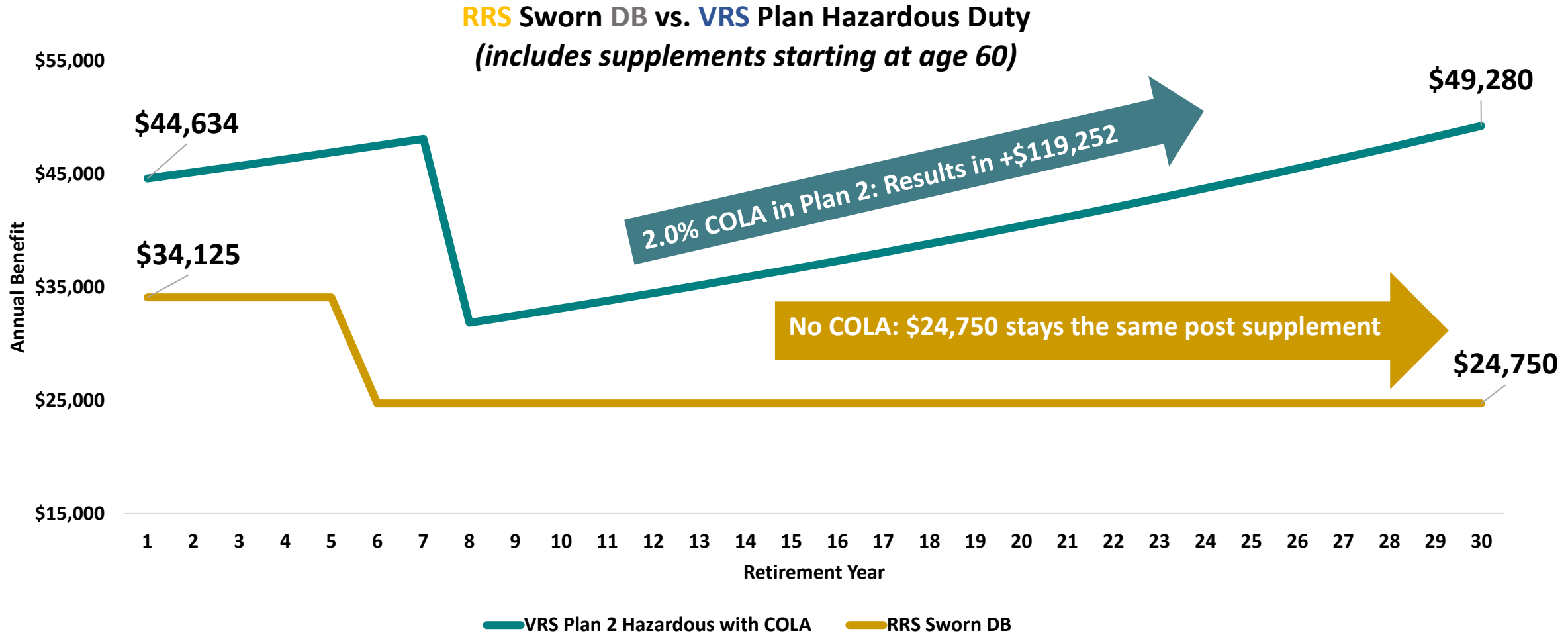


Illustration only. Assumes all things considered equal at 30 years of service and \$50,000 average final compensation in both plans. VRS supplement = Social Security age, RRS supplement until age 65 and max of 25 years.



POWER OF THE COLA EXAMPLE 4: RRS DC VS. VRS HYBRID

Illustration Only

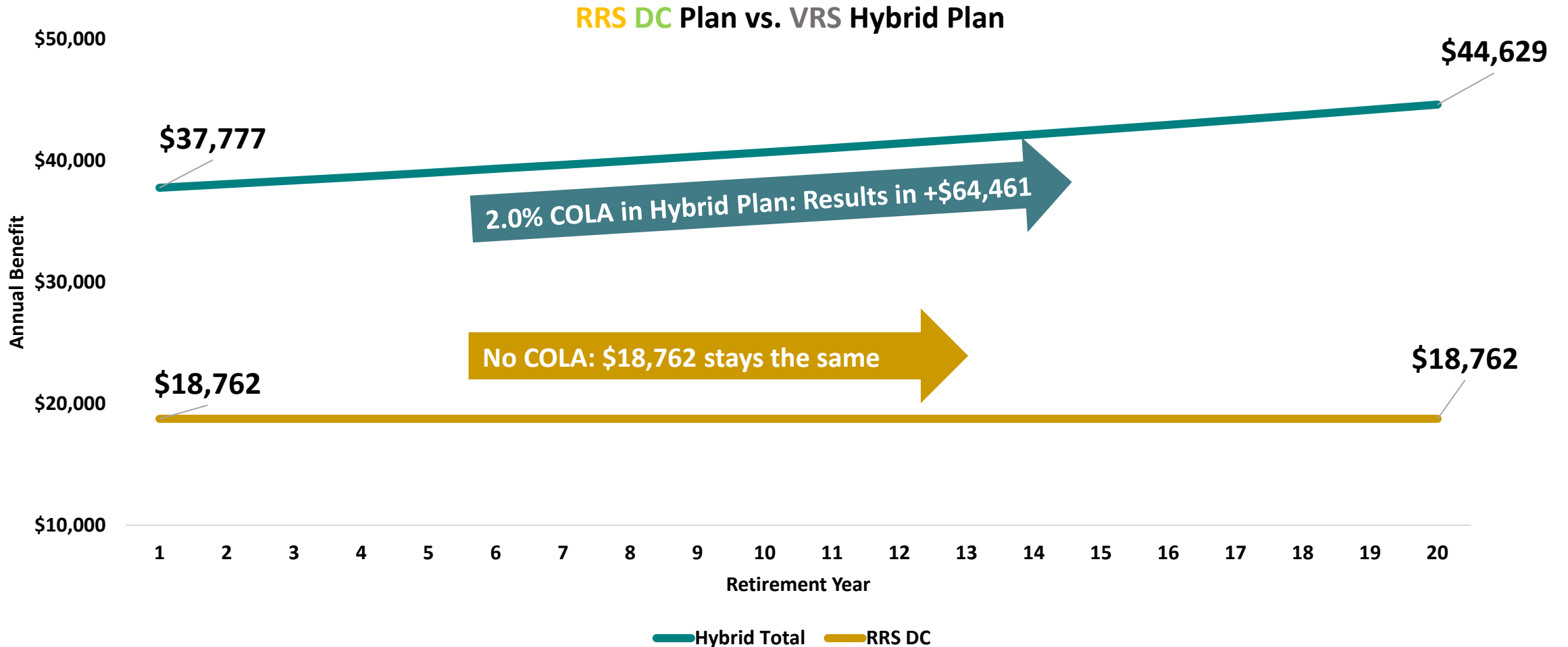



Illustration only. Assumes all things considered equal at 30 years of service and \$50,000 average final compensation in both plans. DC plan estimated final account balance divided over 20-year period not factoring additional investment gains/losses.



Part 6: Conclusion

THE PROS OUTWEIGH THE CONS OF A VRS TRANSITION

- 
- Risk of losing employees to other VRS employers
 - Slightly more expensive than **RRS** due to richer public safety benefits
 - **RRS** time is not portable
 - Requires a 5.0% employee contribution
 - No DROP program



- Recruit employees statewide
- Cost of Living Adjustment
- Hazardous Duty Supplement of \$16,884
- Well-funded system
- Portability state-wide
- Higher investment returns
- Allows prior VRS employees to return to VRS
- Ability to purchase prior service credit

VRS BECOMES THE CITY'S PRIMARY PLAN

Per Code of Virginia

- § 51.1-135 Compulsory membership

“Membership in the retirement system shall be compulsory for all eligible employees who enter service after the effective date of coverage. Once a political subdivision joins VRS, membership is compulsory in VRS for positions entitled to these benefits”

- City cannot have another primary retirement plan
- Only a supplemental plan would be allowed



RECOMMENDATION: TRANSITION TO VRS



1. Transition to VRS beginning January 1, 2024



2. Current Employees have set period to decide to stay in RRS or go to VRS



3. Close RRS to new employees as of December 31, 2023

TIMELINE FOR CITY COUNCIL CONSIDERATION

9/5/23 @ 4 p.m.

Organizational
Development
Committee

Presentation

9/21/23 @ 1 p.m.

Finance and Economic
Development
Committee

Discussion

9/11/23 @ 6 p.m.

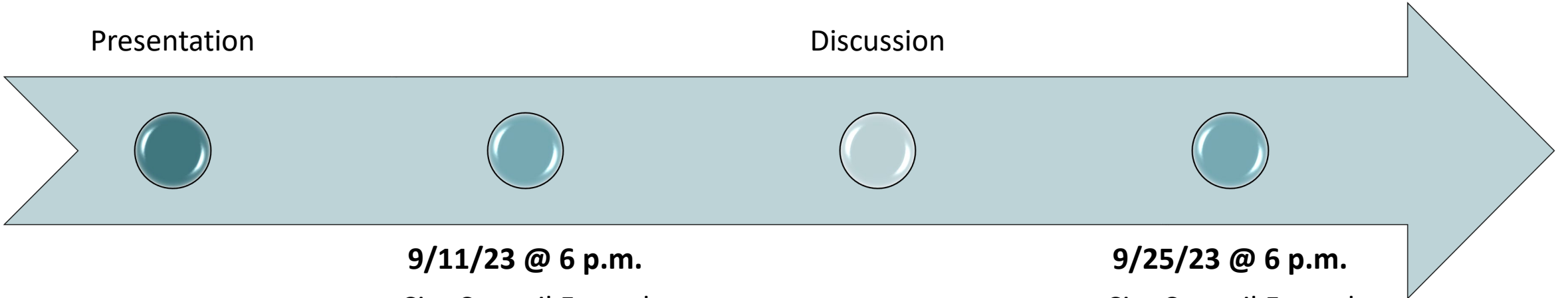
City Council Formal
Session

Introduction of **VRS**
Transition Resolution

9/25/23 @ 6 p.m.

City Council Formal
Session

Consideration of
VRS Transition



DISCUSSION

**Section 2: Slides primarily
used during information
sessions with employees**



Virginia
Retirement
System

Richmond Retirement System

RRS

Building your financial future

EXPLORE TRANSITION TO VIRGINIA RETIREMENT SYSTEM (VRS)



PURPOSE AND OUTLINE

- **Part I: *Introduction and Overview***

- About retirement and the systems
- Understanding the complexity

- **Part II: *Overview of Retirement Systems***

- Overview of **Richmond Retirement System (RRS)**
- Overview of **Virginia Retirement System (VRS)**

- **Part III: *Comparison of Plans***

- Benefit Options, Rates of Return, and Funding

- **Part IV: *Impact of Transition***

- Legal considerations
- Cost implications

- **Part V: *Investment and Equity***

- Creating the employee investment in personal finance
- Employee options

- **Part VI: *Recommendation and Next Steps***

- Proposed actions and key dates





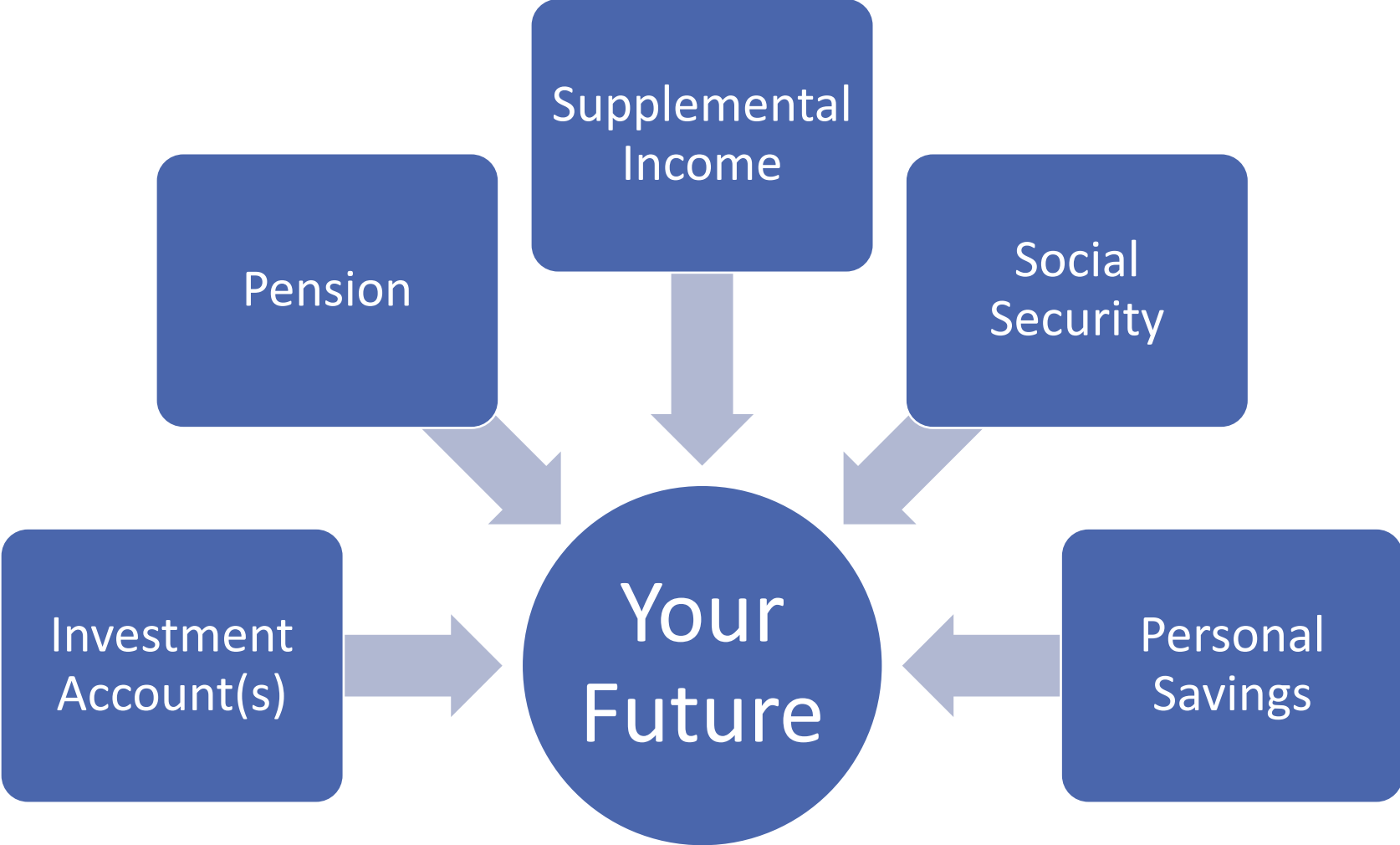
Part I: Introduction and Overview

WHAT IS RETIREMENT?

- Retirement refers to the time of life when one chooses to leave the full-time workforce behind
- The traditional retirement age is 65 in the United States and most other developed countries, many of which have some kind of national pension or benefits system in place to supplement retirees' incomes
- How much to save for retirement depends in part on how long you will expect to live in retirement and how much annual income you will need to live comfortably
- While an employer may help in retirement planning, it is ultimately an employee's responsibility



FINANCIAL SECURITY IS A PERSONAL RESPONSIBILITY



UNDERSTANDING THE COMPLEXITY

- The transition analysis is a work in progress and subject to change as negotiations continue with **VRS**
- The final terms of the transition must be accepted and approved by **VRS** and City Council
- Retirement plans are not all the same
- Complex analysis because of many offerings
- If transition is approved, **RRS** will close to all new employees as of **January 1, 2024**
- Existing employees will **make their own decision** about which plan to choose

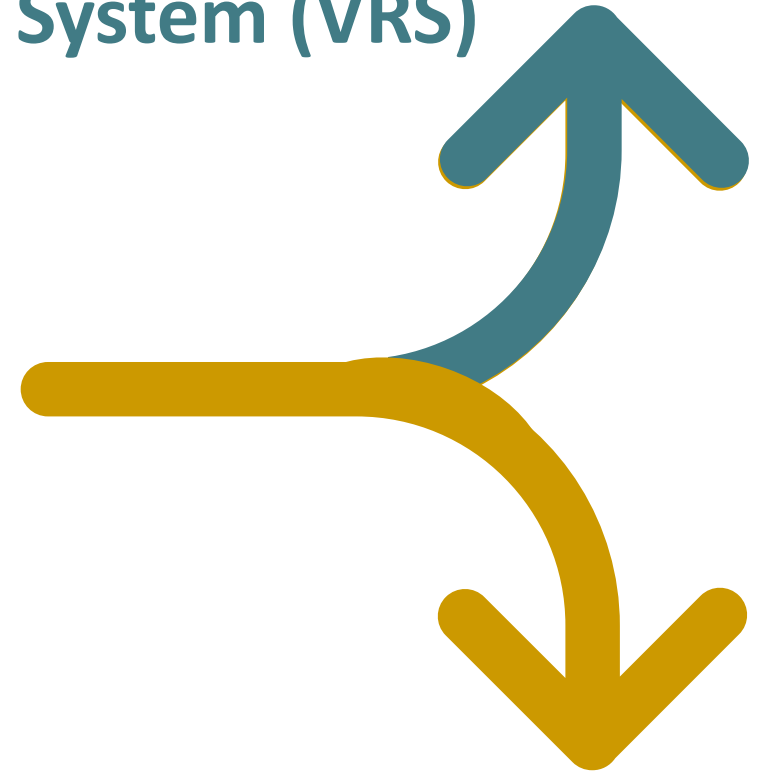


FOR CURRENT EMPLOYEES, IT IS AN INDIVIDUAL CHOICE

- Current city employees will have to choose either to stay in **RRS** or switch to **VRS**
- No one is required to change to **VRS**
- Each employee must make the choice for themselves



Virginia Retirement System (VRS)



Richmond Retirement System (RRS)

THIS IS MAJOR STRATEGIC DECISION

- City Council must make the best decision for the organization
- Existing employees must make the best decision for themselves
- While these are big decisions, the city and the employees will still have a retirement system
- Regardless of the decision, the cost for the organization still exists
- Most localities have already transitioned to **VRS**



KEY TERMS TO KNOW

No.	Term	Definition
1.	Actuarially Defined Contribution (ADC)	What the retirement system's actuaries annually say the city contribution should be to fund future benefit payments (for defined benefit plans)
2.	Defined Benefit	Pension plan to which employees and employers contribute money that provides a monthly retirement payment based on certain inputs and calculations
3.	Defined Contribution 401(a)	Retirement plan that contributes money into investment accounts; available for state and local governments
4.	Deferred Compensation 457(b)	Voluntary contributions made by the employee or employer which are invested; available for state and local governments
5.	EE	Abbreviation for "Employee" ("EE" contribution)
6.	ER	Abbreviation for "Employer" ("ER" contribution)
7.	Portability	Moving the time worked for a certain organization's retirement system to another
8.	Purchase service	Buying the time worked for certain organization's retirement system to another



ITEMS TO KEEP IN MIND

- **RRS** service credit cannot be ported into **VRS**
- Prior service (except **RRS** service) can be purchased by under **VRS** general purchase of prior service rules
- New employees hired as of January 1, 2024, will go into **VRS**
- Prior **VRS** employees may return to their previous plan
- **RRS** will stay in place for the existing participants
- **RRS** administration will also stay in place



THE CITY IS NOT NEW TO VRS

- Currently as a political subdivision, the city contributes to VRS for constitutional officers
- As of FY 2022 approximately 530 active VRS members were supported at a cost of \$3.2 million
- However, to enroll city employees into VRS, the City Council makes the decision to transition



VRS STEERING COMMITTEE

CITY OF RICHMOND STAKEHOLDERS



RBHA

Richmond Retirement System

RRS

Building your financial future

+

FINANCIAL AND ACTUARIAL CONSULTANTS



**BOOMERSHINE
CONSULTING GROUP, LLC
(BCG)**





Part II: Overview of Retirement Systems

Richmond Retirement System

RRS

Building your financial future

Richmond
Retirement
System (RRS)
Overview

RRS IS ONE OF SEVEN (7) INDEPENDENT SYSTEMS IN THE COMMONWEALTH



ARLINGTON
VIRGINIA



Norfolk transitioned to **VRS** in 2022

Commonwealth of Virginia has 38 cities and 95 counties for a total of 133 municipalities

ABOUT RRS

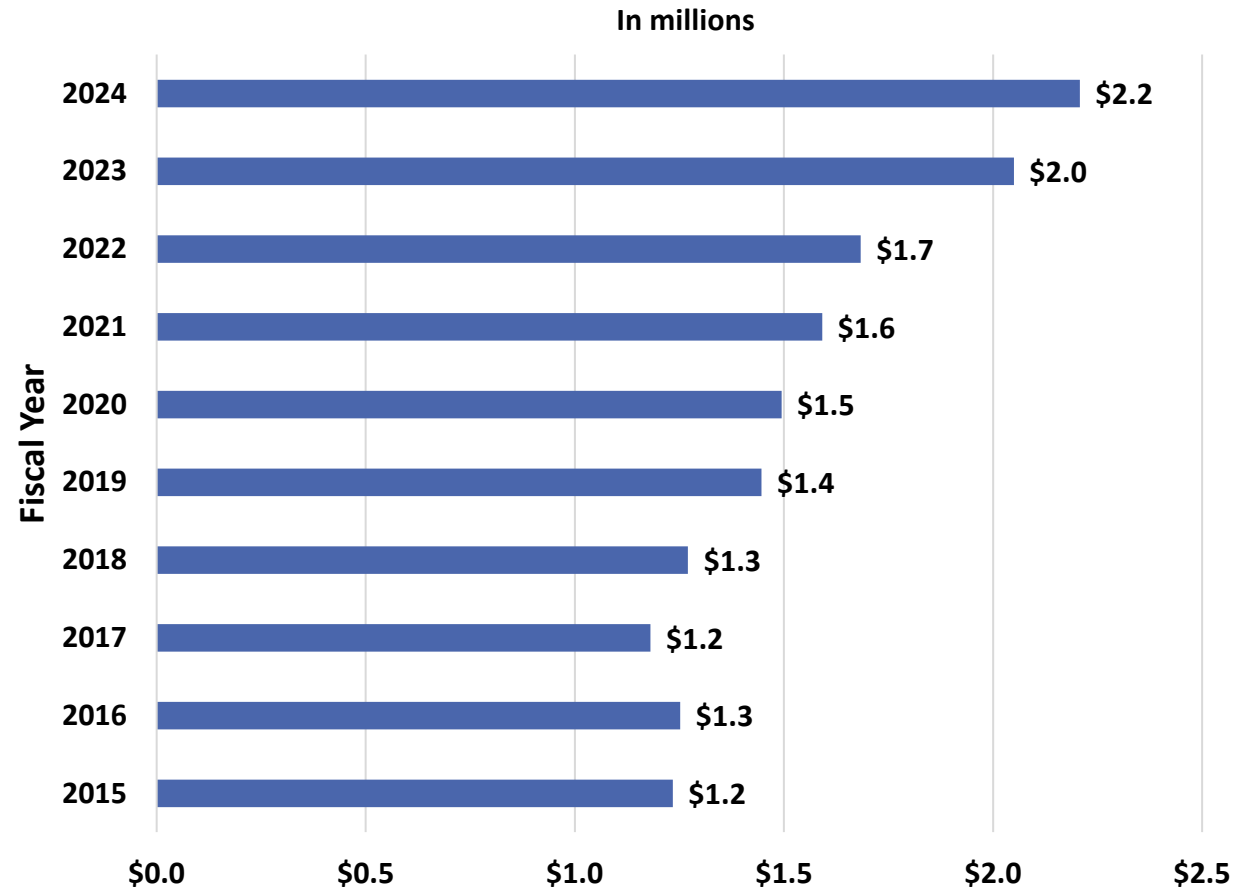
- Participants include:
 - City of Richmond and the Richmond Behavioral Health Authority
 - More than 10,000 Members
- Functions as a component unit of the city governed by a Board
 - Board of Trustees = seven members:
 - Two members appointed by the Mayor
 - Five members appointed by Council (two from classified)
- Board of Trustees hires retirement system executive director
- RRS administers benefits to general employees and sworn police officers and firefighters



OVER \$2.2 MILLION IS PROVIDED FOR RRS ADMINISTRATION

- RRS administration is supported by EE and ER contributions
- Employees of RRS are city employees
- Employees, financial advisors, investment brokers, actuaries, and accountants are supported with city dollars
- DC plan members pay fees for their retirement accounts

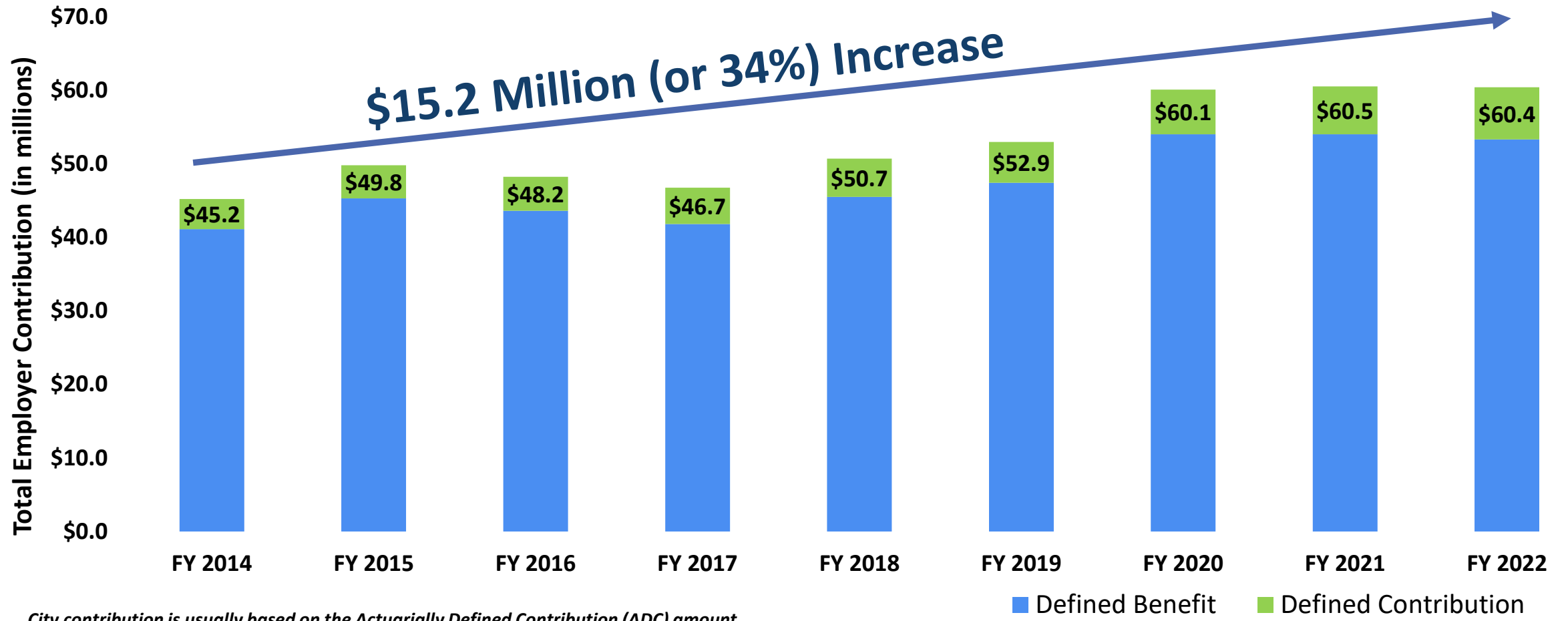
RRS Administrative Cost



Source: CoR Budget Documents; FY 2015 - 2022 are actuals, FY 2023 - 2024 are budget amounts



CITY CONTRIBUTIONS FOR RETIREMENT PLANS HAVE INCREASED OVER A NINE-YEAR PERIOD



City contribution is usually based on the Actuarially Defined Contribution (ADC) amount



The city's contribution to **VRS** (for constitutionals) has increased slightly by \$0.2 million over the same time

Sources: Defined Benefit – RRS ACFR, “Schedule of Changes in the Employers’ Net Pension Liability and Related Ratios”; Defined Contribution – RRS; VRS – City of Richmond’s ACFRs

RRS HAS MANY PLAN OFFERINGS

- The multi-faceted nature of the offerings make analyzing the transition to **VRS** difficult
- The plans use different variables, and the required employee contribution is low
- Some employees contribute **0.0%**, others at least **1.0%**
- Need to create equity in the minimum amount contributed across all employee types



RRS HAS THE FOLLOWING PLANS

- Defined Benefit Basic (General)
- Defined Benefit Enhanced (General)
- Defined Benefit Basic (Sworn)
- Defined Benefit Enhanced (Sworn)
- Defined Contribution (General/Sworn)



IMPORTANT TO UNDERSTAND THE DIFFERENCE BETWEEN RETIREMENT PLANS

**Defined
Benefit
(DB)**



**Payout of Benefits
(Pension) Based on
Calculation**

**Defined
Contribution
401(a)
(DC)**



**Payout Based on
Investment Earnings**

MAJOR DIFFERENCES BETWEEN DB AND DC PLANS

Defined Benefit (DB)

- Foundation of future retirement
- Pays a monthly retirement benefit
- Retirement system manages the investments
- Retirement system manages the risks
- The city pays for the retirement system, employees, and related fees

Defined Contribution (DC)

- Provides a tax-deferred savings plan
- Pays a retirement benefit based on contributions to the plan and investment performance
- YOU manage the investments
- YOU manage the risks



WHAT IS THE **RRS DB** PLAN? WHO QUALIFIES?

- **Defined Benefit** (pension plan)
 - Calculated monthly benefit
*(length of service * salary * multiplier)*
 - Required employee contributions
- All employees hired before July 1, 2006
 - General Employees
 - Sworn Officers



WHAT IS THE RRS DC PLAN? WHO QUALIFIES?

- **Defined Contribution (401(a) Plan)**

- Employees have more control over their investment choices
- Growth could be more significant over time and has the potential to significantly outpace inflation
- Employee contribution not allowed

- Employees hired after July 1, 2006

- General Employees
- Sworn Officers (choice)



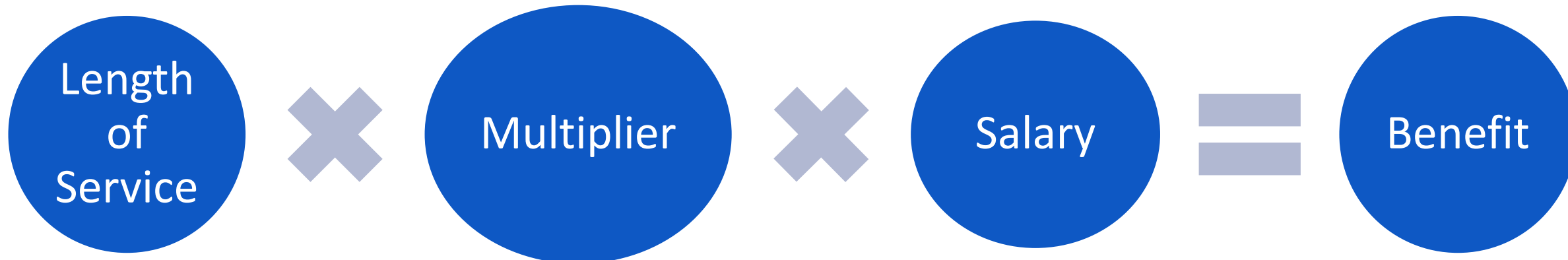
WHAT ARE THE MAJOR DIFFERENCES BETWEEN **RRS** **DB** AND **DC** PLANS?

	DEFINED BENEFIT (DB)	DEFINED CONTRIBUTION (DC)
What is it?	Pays out a monthly benefit	Account balance based on investment performance
How is it funded?	Employer Contribution (ER) + Employee Contribution (EE)	Employer Contribution (ER) Only RRS Structure Example: <5 years = 5.00% 5 - 9 years = 6.00% 10 -14 years = 8.00% 15+ years = 10.00%
How is the benefit calculated?	Creditable Compensation x Eligible Years of Service x Compensation Rate Multiplier = Monthly Benefit	Employer Contribution + Interest = Account Balance
Vesting Period	Five Years	Five Years

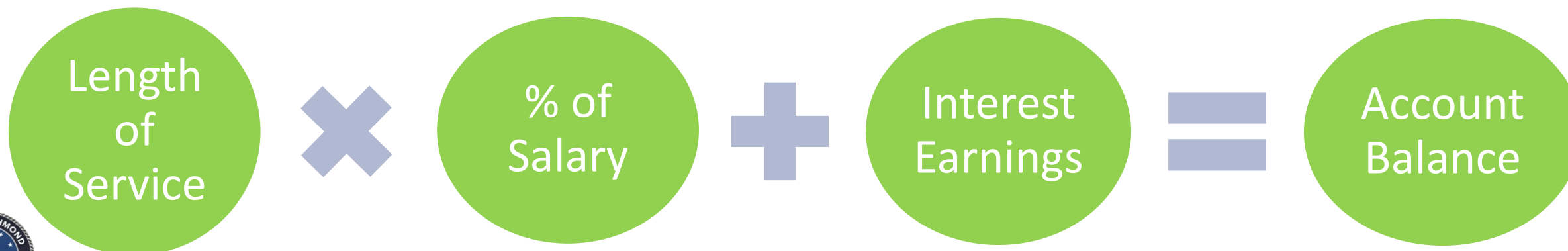


HOW DOES THE RETIREMENT PAY OUT WORK? IN SIMPLE TERMS

DB Plan



DC Plan



HOW IS THE RRS DB MONTHLY BENEFIT CALCULATED? GENERAL EMPLOYEES

BASIC PLAN

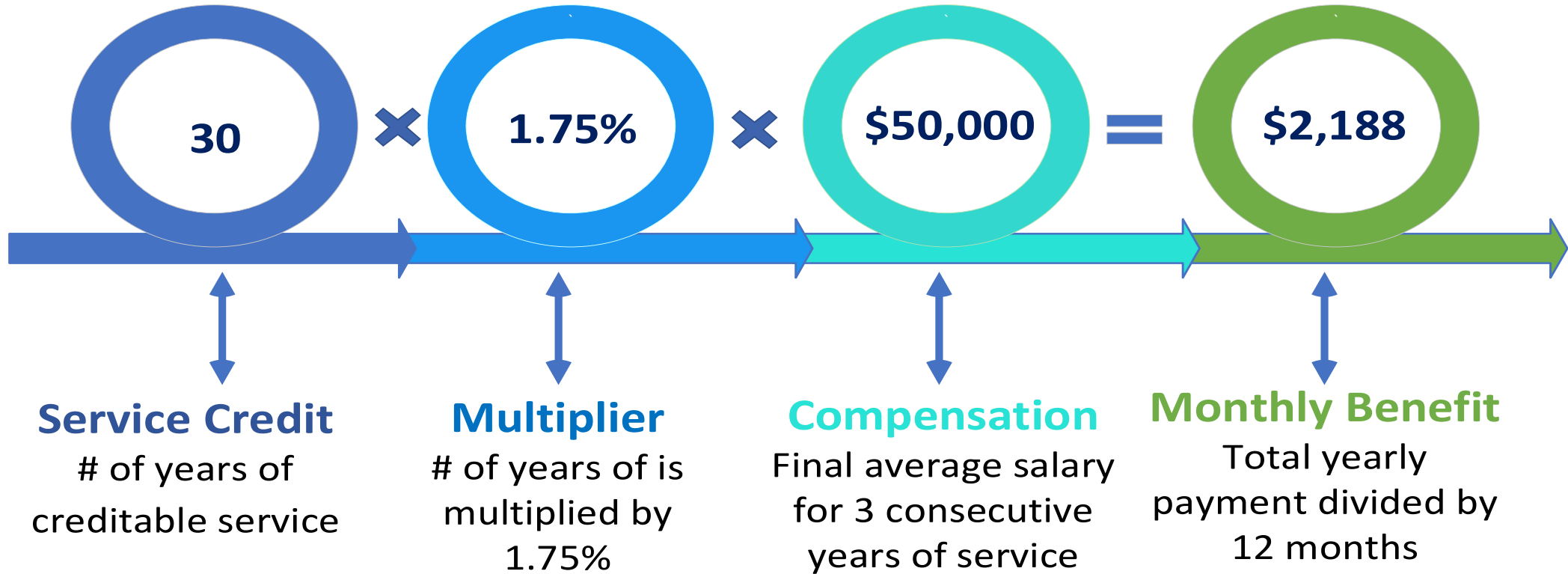


ILLUSTRATION ONLY

- **Creditable years:** # years worked + military (while working for COR) + P/T + ported + purchased + severance + 50% unused sick leave balance
- **Creditable compensation:** average highest 3 consecutive years + differential pay + educational + bonuses + severance
- **Enhanced:** Required employee contributions of 1.00%, 3.57% = 4.57%



HOW IS THE RRS DB MONTHLY BENEFIT CALCULATED? SWORN EMPLOYEES

BASIC PLAN

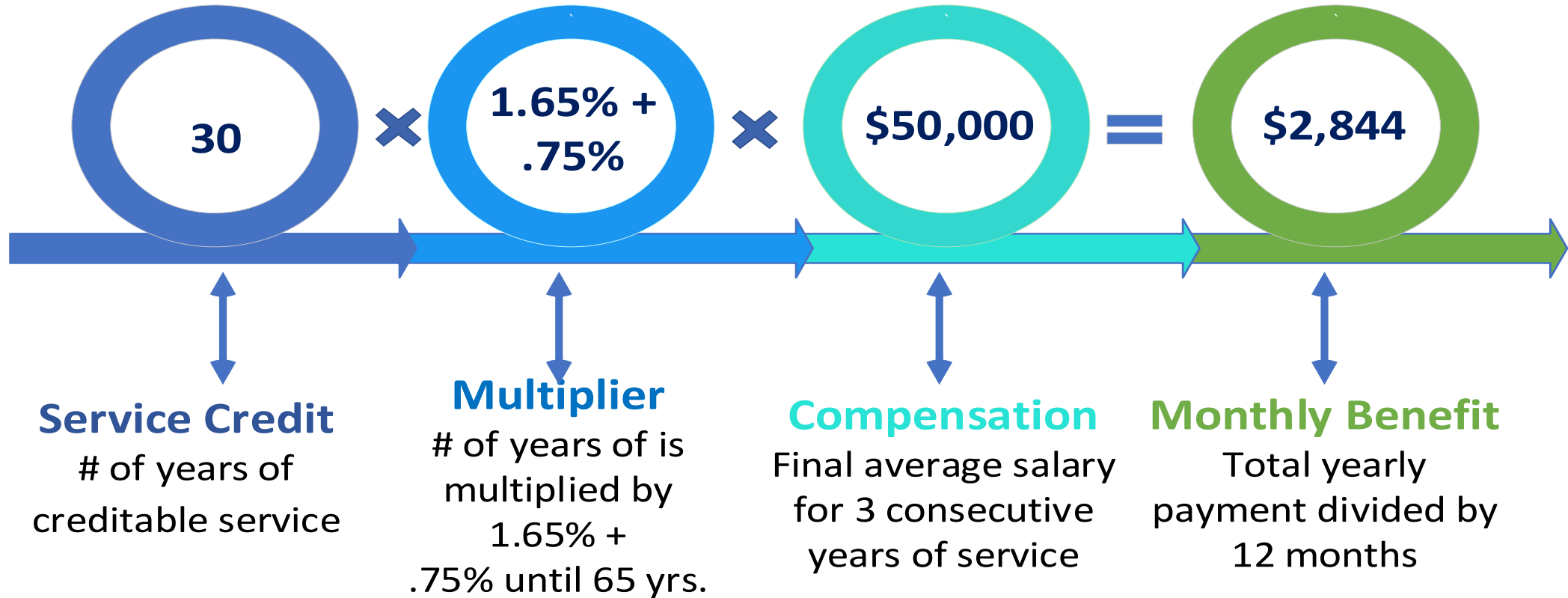


ILLUSTRATION ONLY

- **Creditable years:** # years worked + military (while working for COR) + P/T + ported + purchased + severance + 50% unused sick leave balance
- **Creditable compensation:** average highest 3 consecutive years + differential pay + educational + bonuses + severance
- **Enhanced:** Required employee contributions of 1.50%, 3.95% = 5.45%



HOW IS THE RRS DC BENEFIT CALCULATED?

DC PLAN

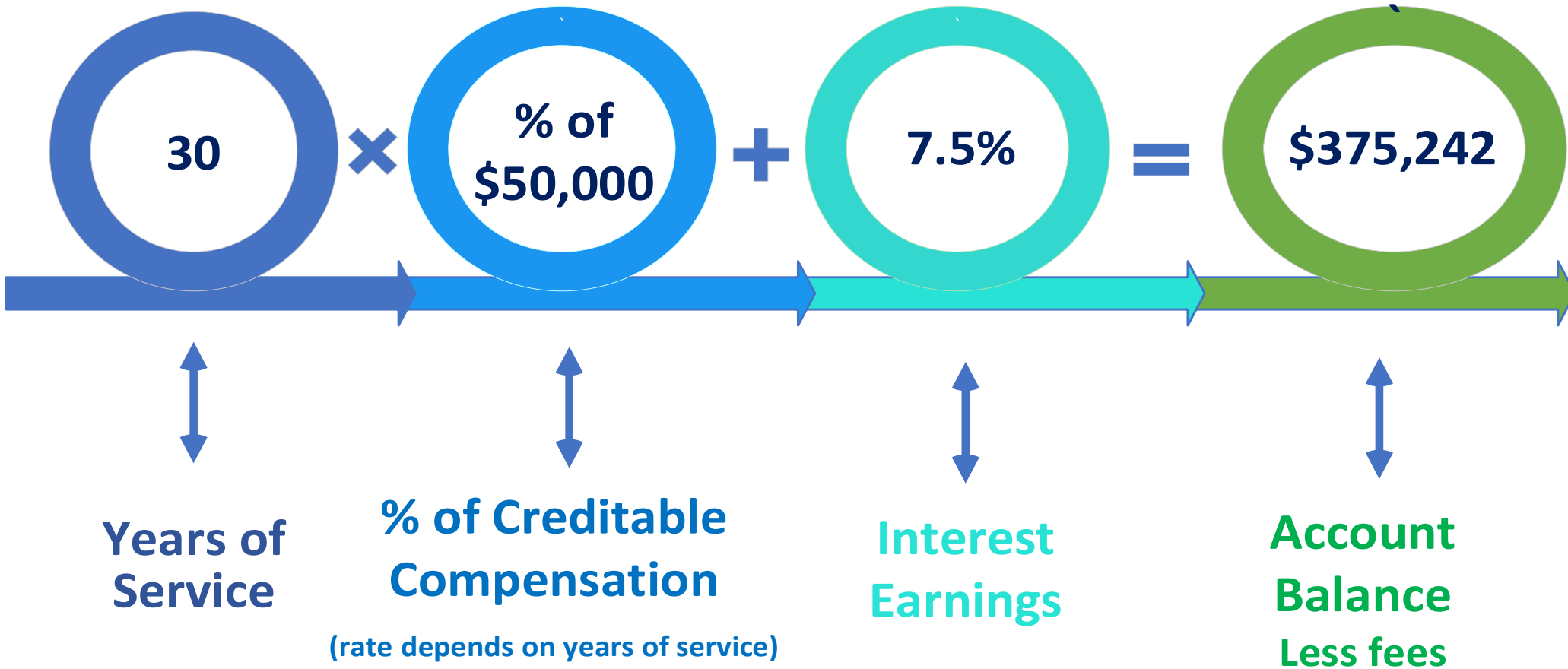


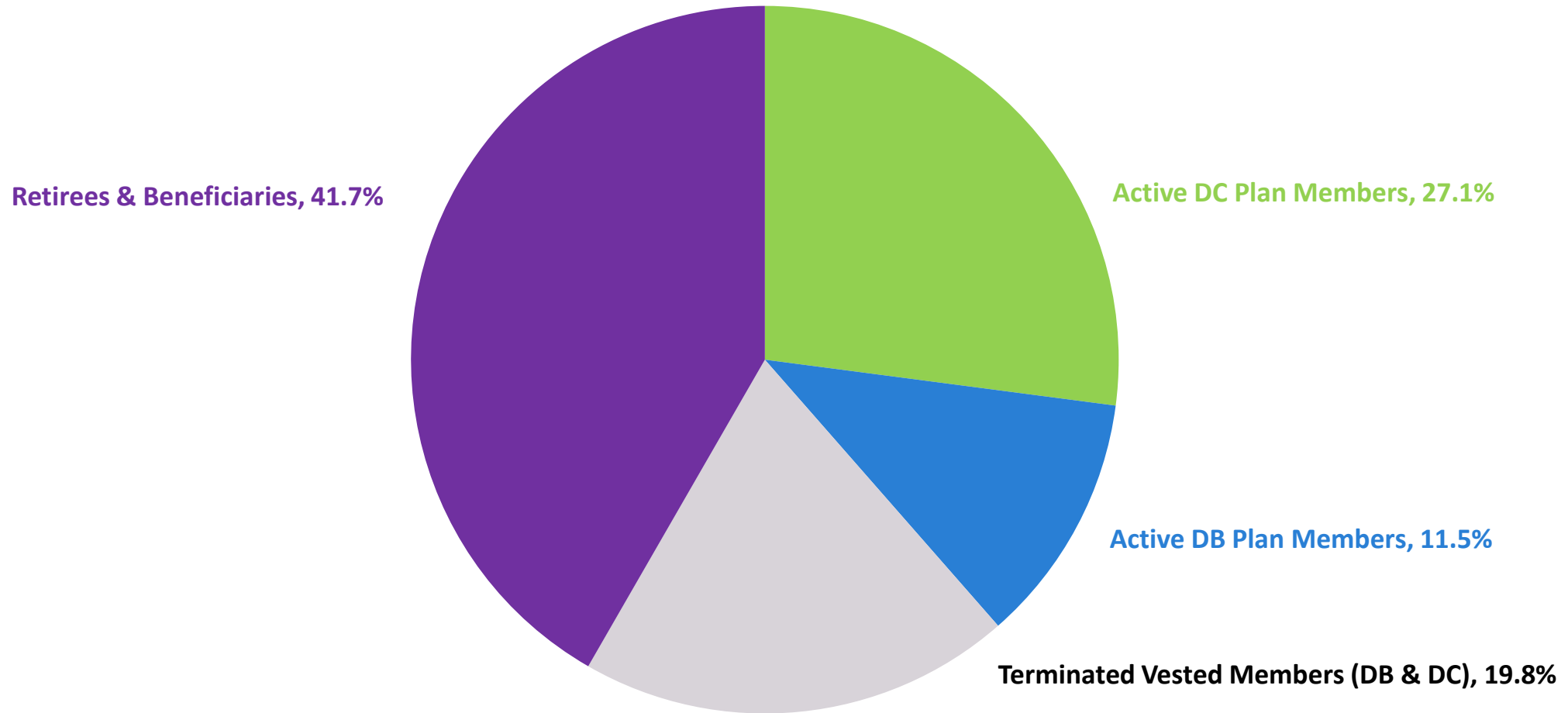
ILLUSTRATION ONLY

- **Creditable years:** # years worked + military (while working for COR) + severance
- **Creditable compensation:** current pay rate + differential pay + educational + bonuses + severance



RRS HAS OVER 10,000 MEMBERS

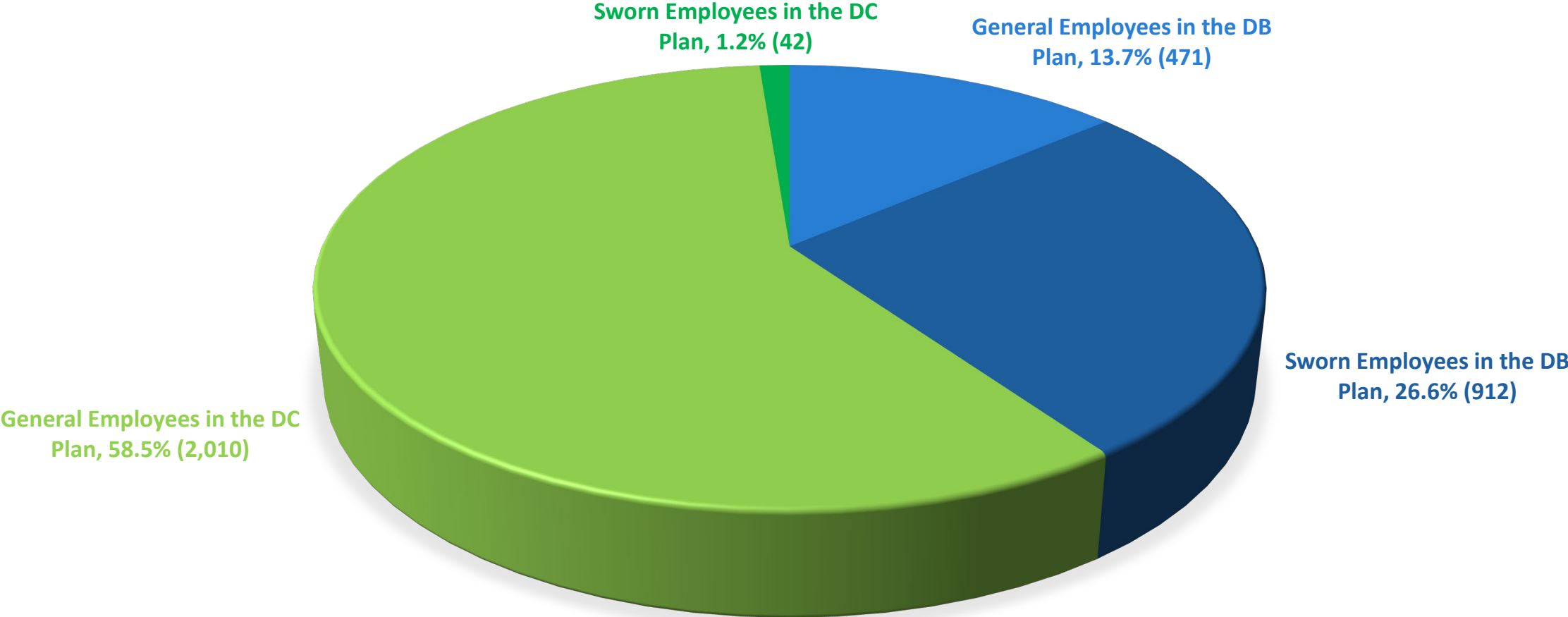
RRS Membership as of FY 2022



Source: Richmond Retirement System FY 2022 ACFR (June 30, 2022). Represents all RRS membership.



RRS ACTIVE EMPLOYEE PLAN ENROLLMENT



General Employees in the DC Plan, 58.5% (2,010)

Sworn Employees in the DC Plan, 1.2% (42)

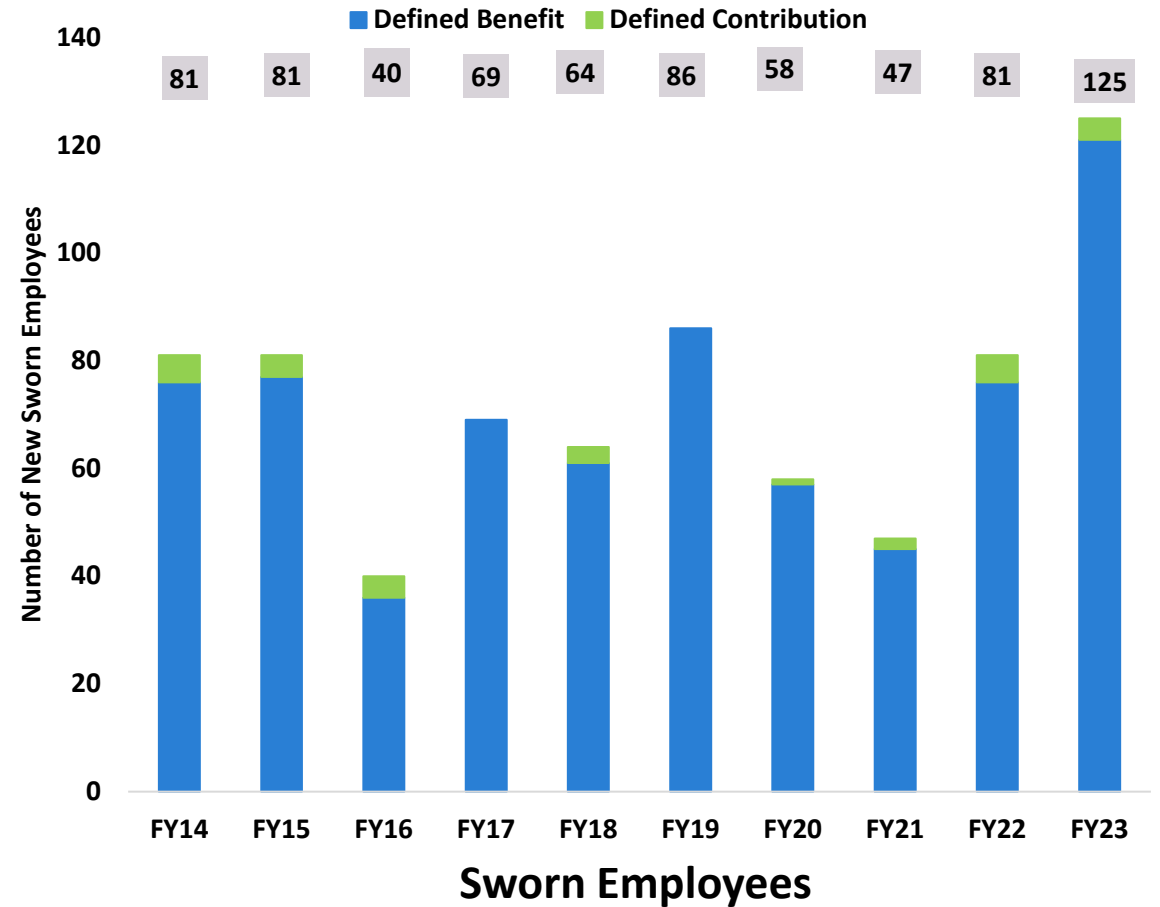
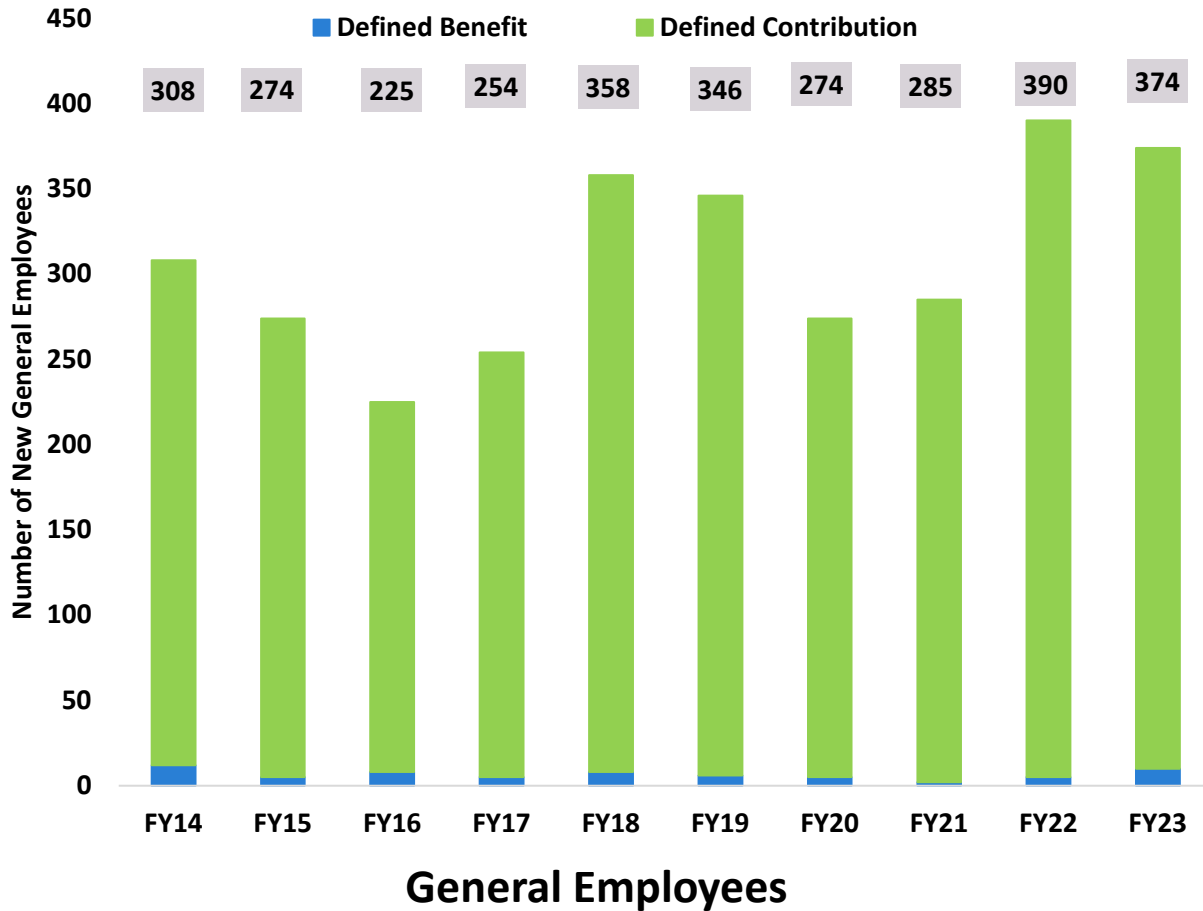
General Employees in the DB Plan, 13.7% (471)

Sworn Employees in the DB Plan, 26.6% (912)



Source: CORERP data.

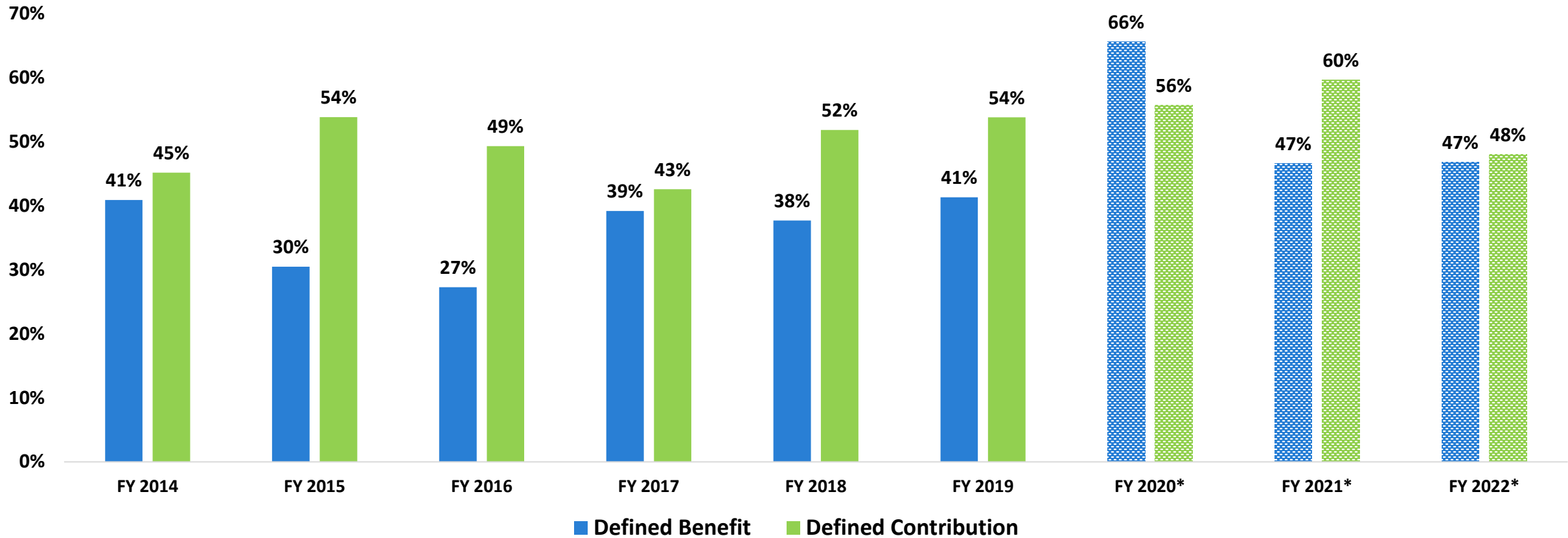
NEW EMPLOYEE PLAN PARTICIPATION



New general employees go into the **DC plan**, whereas most new Sworn employees opt for the **DB plan**.

RATE OF EMPLOYEES HIRED WHO SEPARATED BEFORE VESTING

Percent of New Hires Separating By Year Five

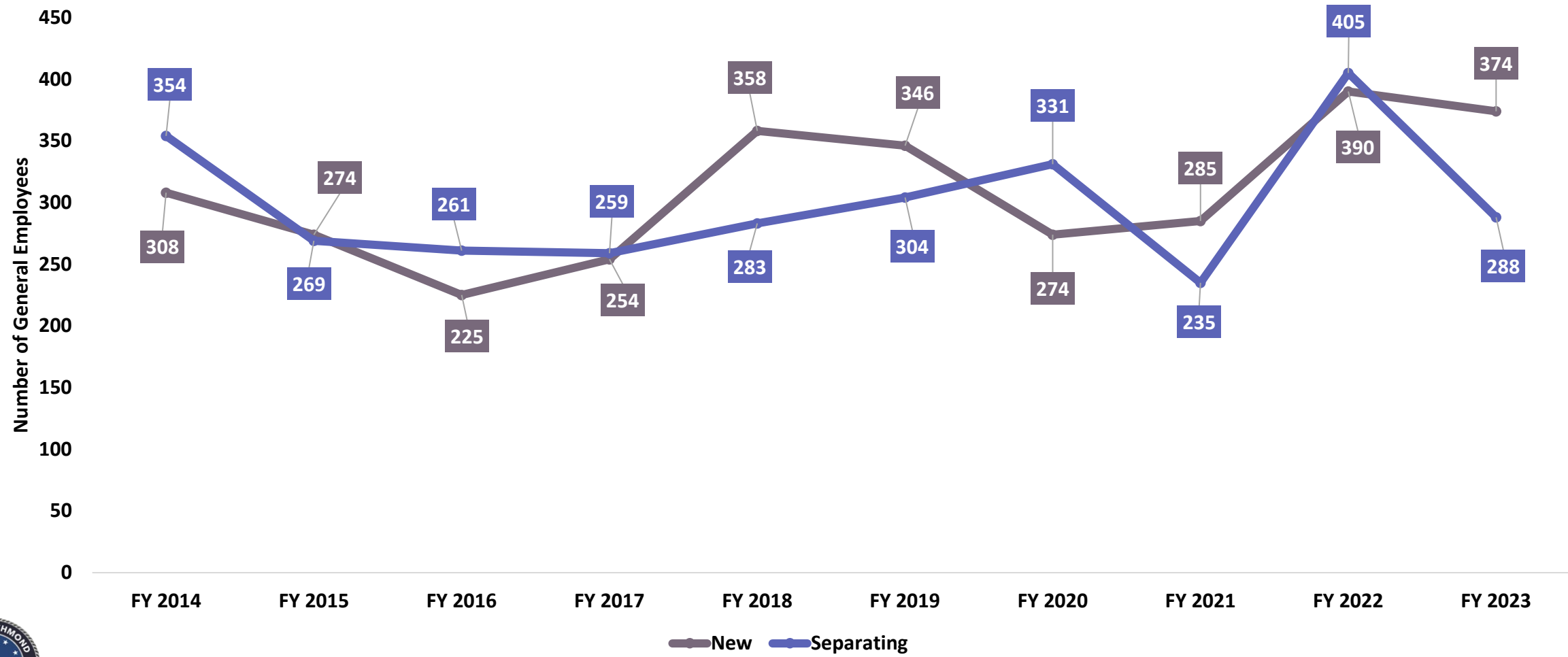


*Projected

Source: CORERP data.

NEW HIRES OUTNUMBERED SEPARATING GENERAL EMPLOYEES IN FIVE OUT OF TEN YEARS

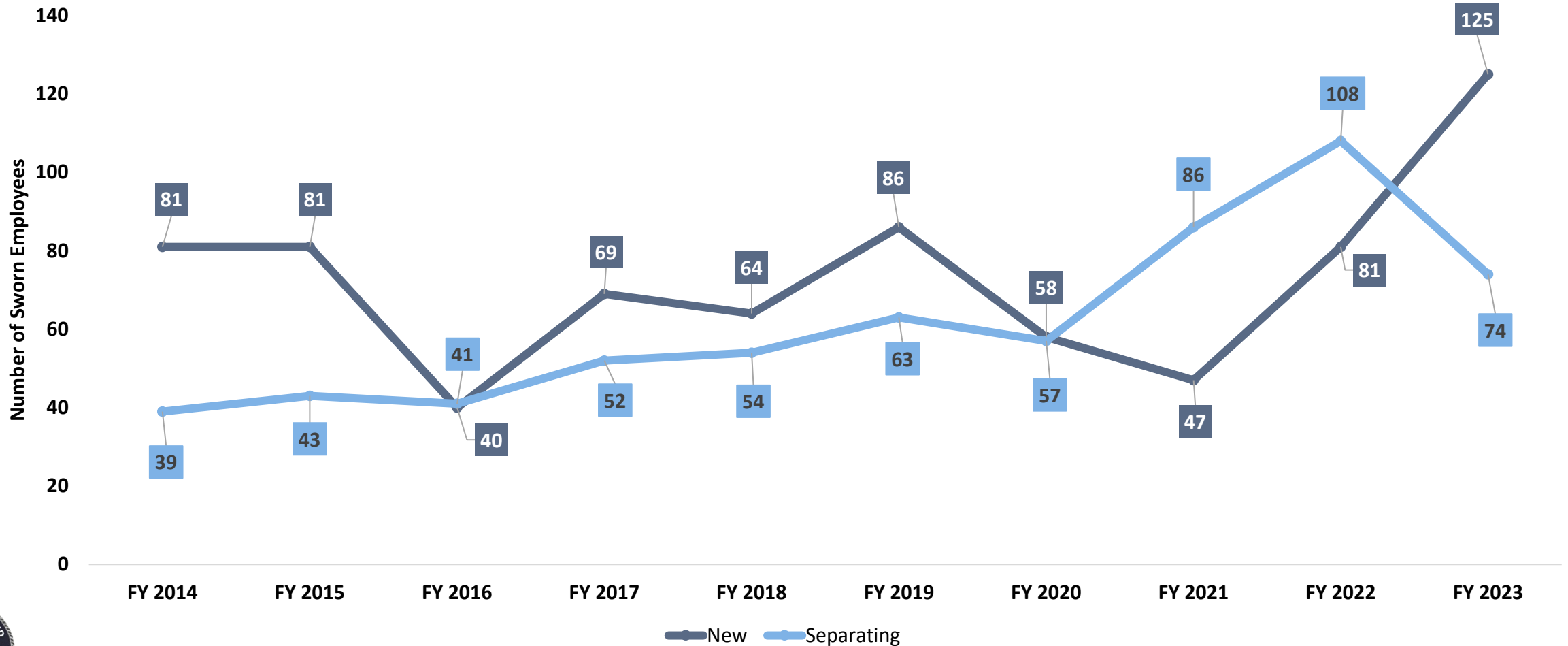
Number of New and Separating General Employees by Year



Source: RRS & CORERP data.

NEW HIRES OUTNUMBERED SEPARATING SWORN EMPLOYEES IN SEVEN OF TEN YEARS

Number of New and Separating Sworn Employees By Year



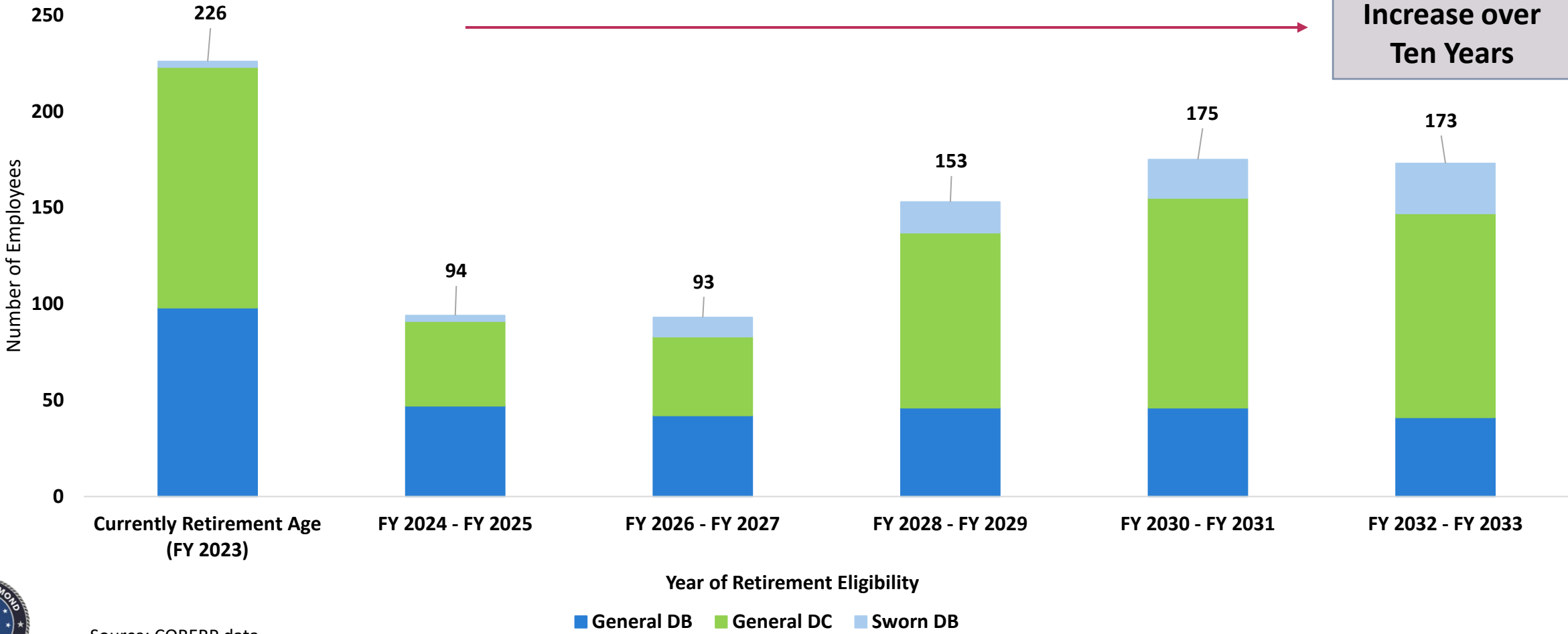
Source: RRS & CORERP data.



84.0 PERCENT INCREASE IN THE NUMBER OF CURRENT EMPLOYEES WHO WILL REACH RETIREMENT AGE

Ten-Year Biennial Retirement Eligibility by Age

84.0 Percent Increase over Ten Years

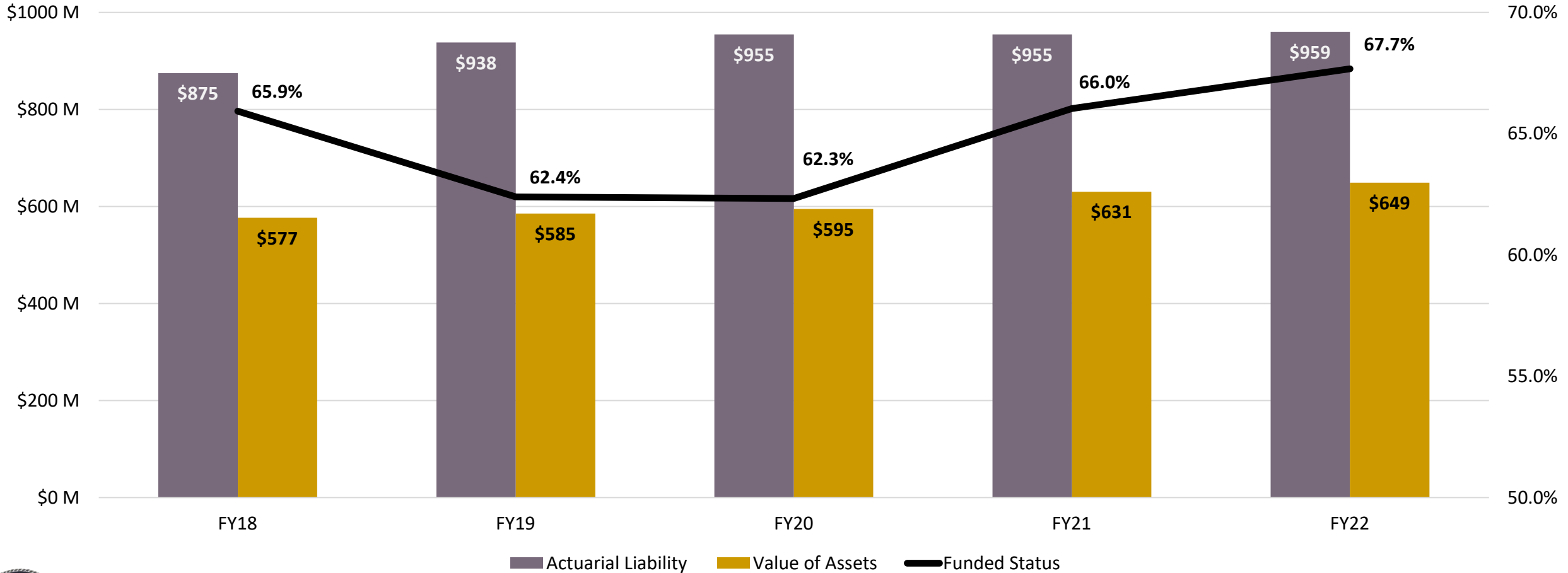


Source: CORERP data.
 *Retirement age as defined by plan; Social Security age used for DC plan



RRS LIABILITY NEEDS TO BE ADDRESSED

RRS' Five-Year History of Value of Assets vs. Actuarial Liability

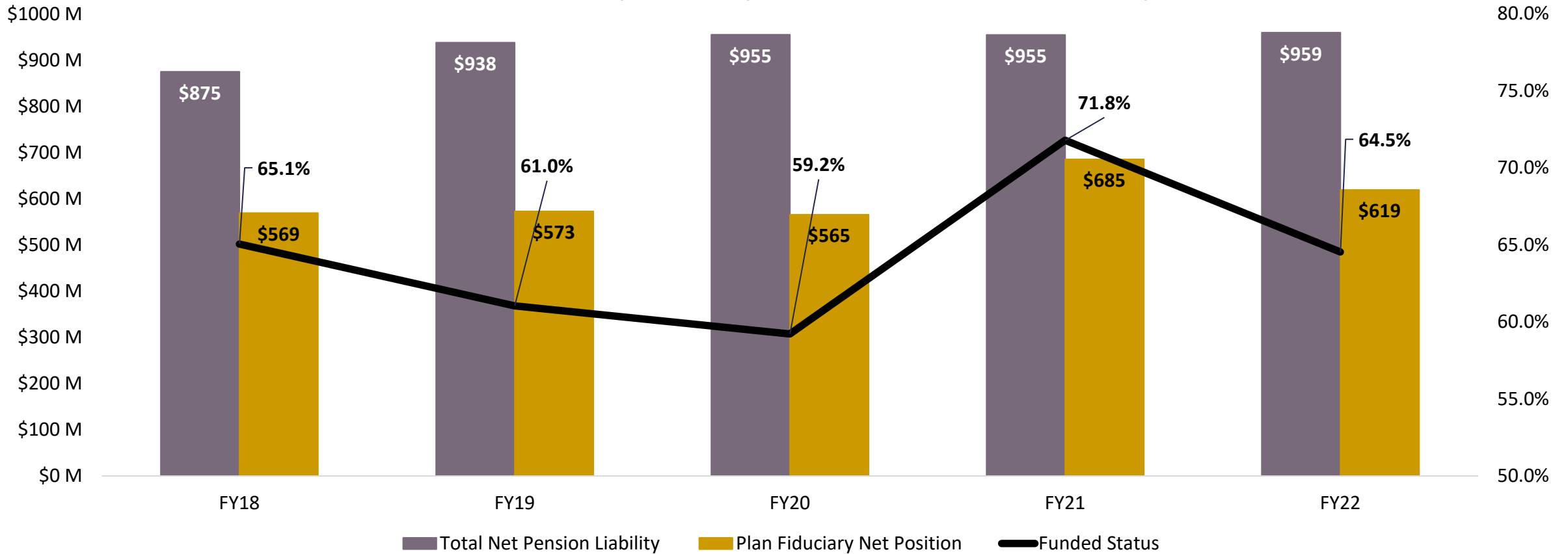


Note: Liability only applies to *Defined Benefit* employees. *Defined Contribution* employees do not have an impact on the unfunded liability.

Source: RRS 2022 Valuation Report with funded status from FY 2022 RRS ACFR.

RRS FUNDED STATUS BASED ON TOTAL PENSION LIABILITY AND FIDUCIARY NET POSITION IS LOW AT 64.5 PERCENT

RRS' Five-Year History of Fiduciary Net Position vs. Total Pension Liability

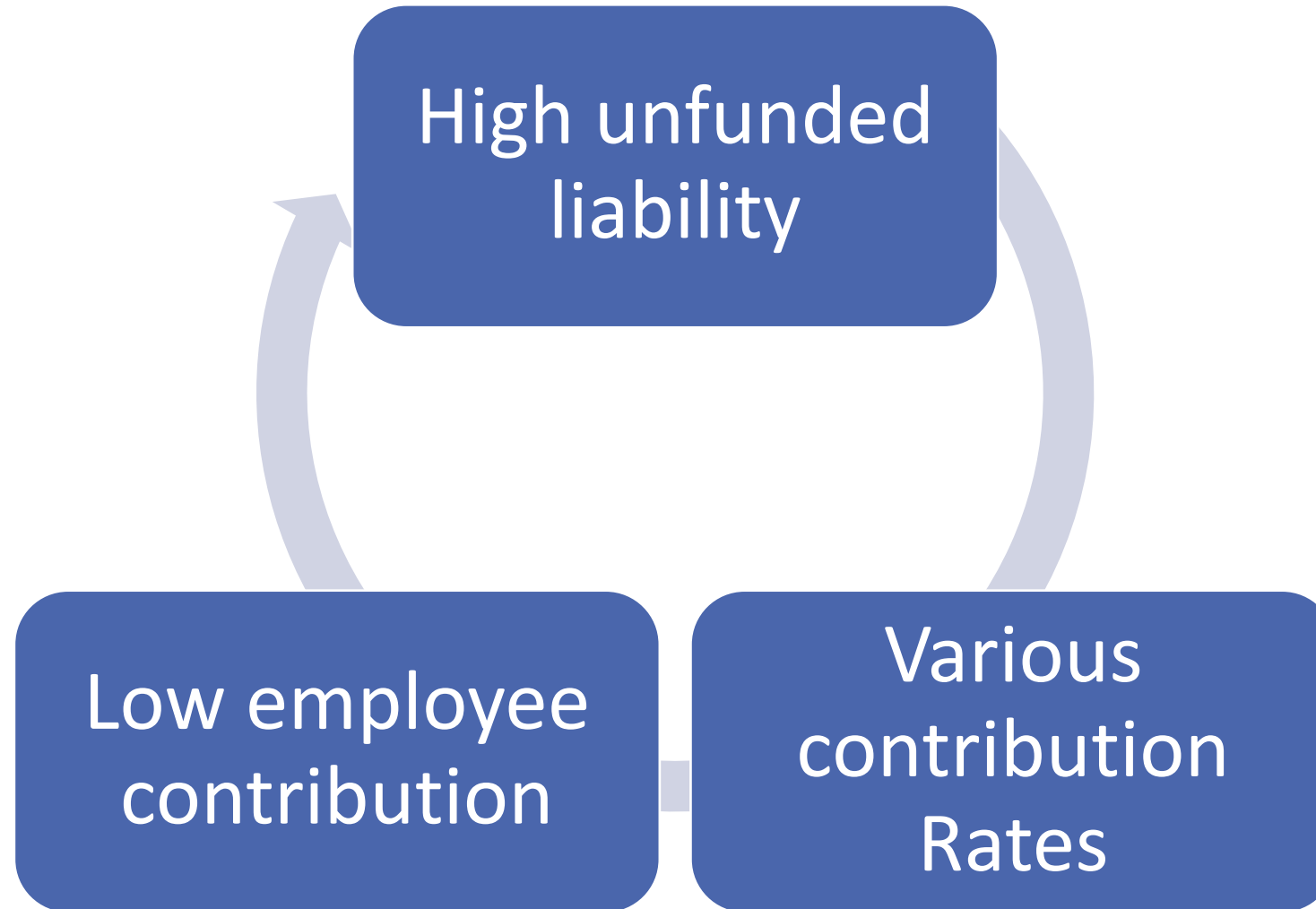


Note: Liability only applies to *Defined Benefit* employees. *Defined Contribution* employees do not have an impact on the unfunded liability.

Source: RRS FY 2022 Valuation Report.



CHALLENGES OF RRS





Virginia
Retirement
System

VRS OVERVIEW

- Participants include:
 - Approximately 832 employers
 - More than 778,000 members
- Acts as an independent state agency
- 14th largest pension fund in the U.S. and the 42nd largest in the world
- Includes public school teachers, state police, Virginia law officers and the judiciary, state agencies, and public colleges and university employees, and political subdivisions

WHERE WILL CURRENT EMPLOYEES GO IN VRS?

Plan 1 Eligibility Defined Benefit

- Previous VRS General Employees, Police and Fire
- Member before 7/1/2010 &
- Vested by 1/1/2013

Plan 2 Eligibility Defined Benefit

- Previous VRS General Employees, Police and Fire
- Member after 7/1/2010 – 12/31/2013 OR
- Member before July 1, 2010 & not vested by 1/1/2013

Hybrid Plan Eligibility Defined Benefit & Defined Contribution

- New Employees
- General Employees, Police and Fire
- Hired after January 1, 2014



WHAT ARE THE VRS PLANS?

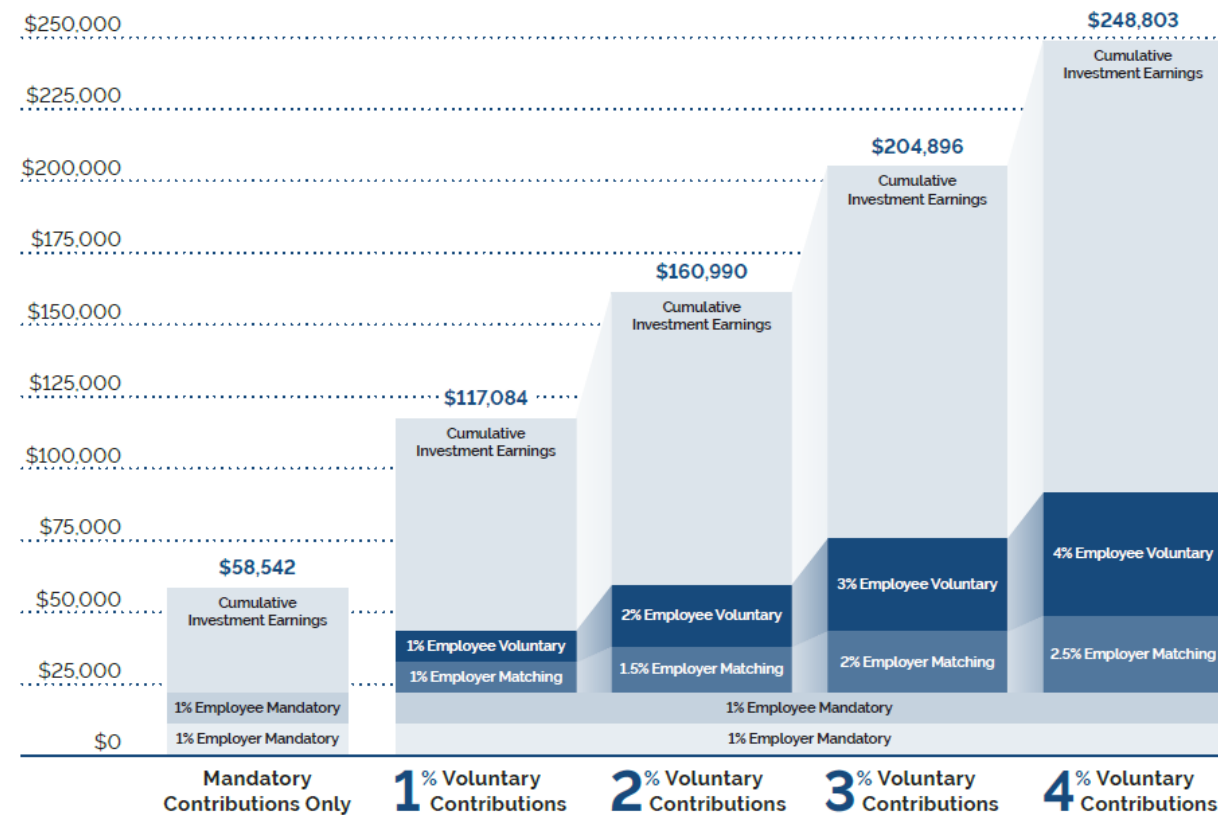
	Plan 1	Plan 2	HYBRID	
What is it?	Defined Benefit	Defined Benefit	Defined Benefit	Defined Contribution
Open to New Enrollees?	No	Sworn Only	General Only	
How is it funded?	Employer Contribution (ER) + Employee Contribution (EE) 5%	Employer Contribution (ER) + Employee Contribution (EE) 5%	ER ADC+ EE Contribution 4%	ER Contribution 1% + EE Contribution 1% 457 Voluntary Up to 4.00% to 457 + ER match up to 2.5% to 401(a)
How is the benefit calculated?	Compensation Rate Base x Eligible Years of Service x Compensation Rate Multiplier = Monthly Benefit	Compensation Rate Base x Eligible Years of Service x Compensation Rate Multiplier = Monthly Benefit	Compensation Rate Base x Eligible Years of Service x Compensation Rate Multiplier = Monthly Benefit	Based on withdrawal choices
Vesting Period	Five Years	Five Years	Five Years	2 years = 50% 3 years = 75% 4 years = 100%

VRS VALUE OF CONTRIBUTING MONEY OVER TIME

Table 1: Hybrid Plan DB & DC Potential

Plan	Employee	Employer	Total Impact
DB	4.0%	ADC	4.0% + ADC
Mandatory DC	1.0%	1.0%	2.0%
Voluntary DC	+Up to 4.0%	+Up to 2.5%	+Up to 6.5%
Total Possible	9.0%	ADC + 3.5%	ADC + Up to 12.5%

Table 2: Cumulative Hybrid DC Earnings Example*



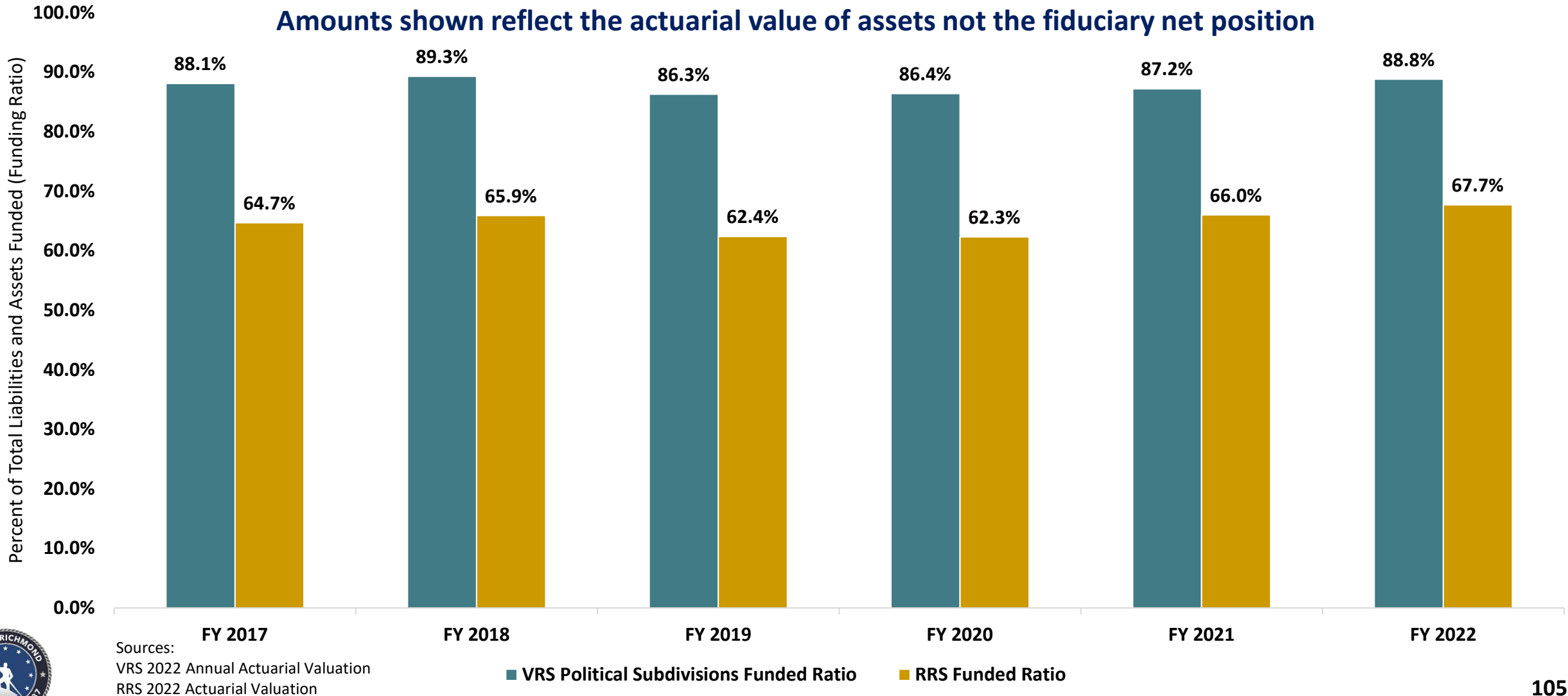
Source: VRS Hybrid Handbook, pgs. 24-25

*For illustrative purposes only and based on a monthly income of \$3,000; and a 6% average annual return after 30 years. Does not account for plan fees and expenses, which would lower net returns.

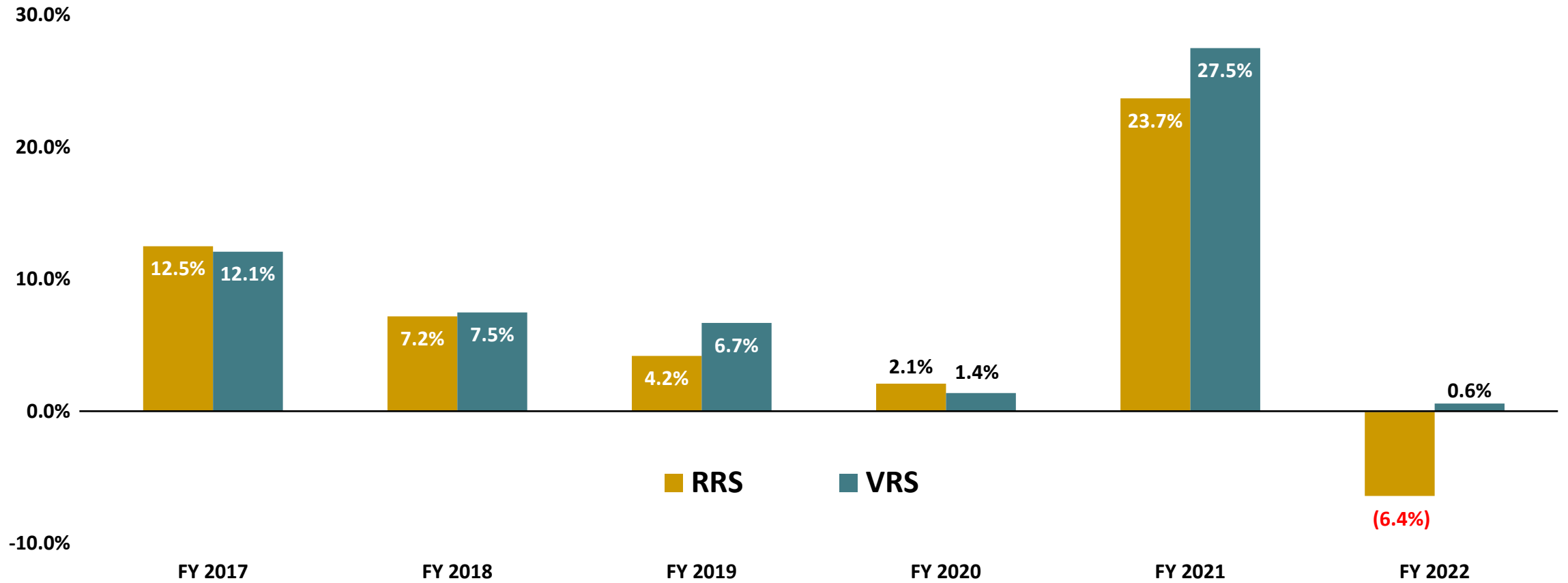


Part III: Comparison of Plans

VRS IS A BETTER FUNDED PLAN

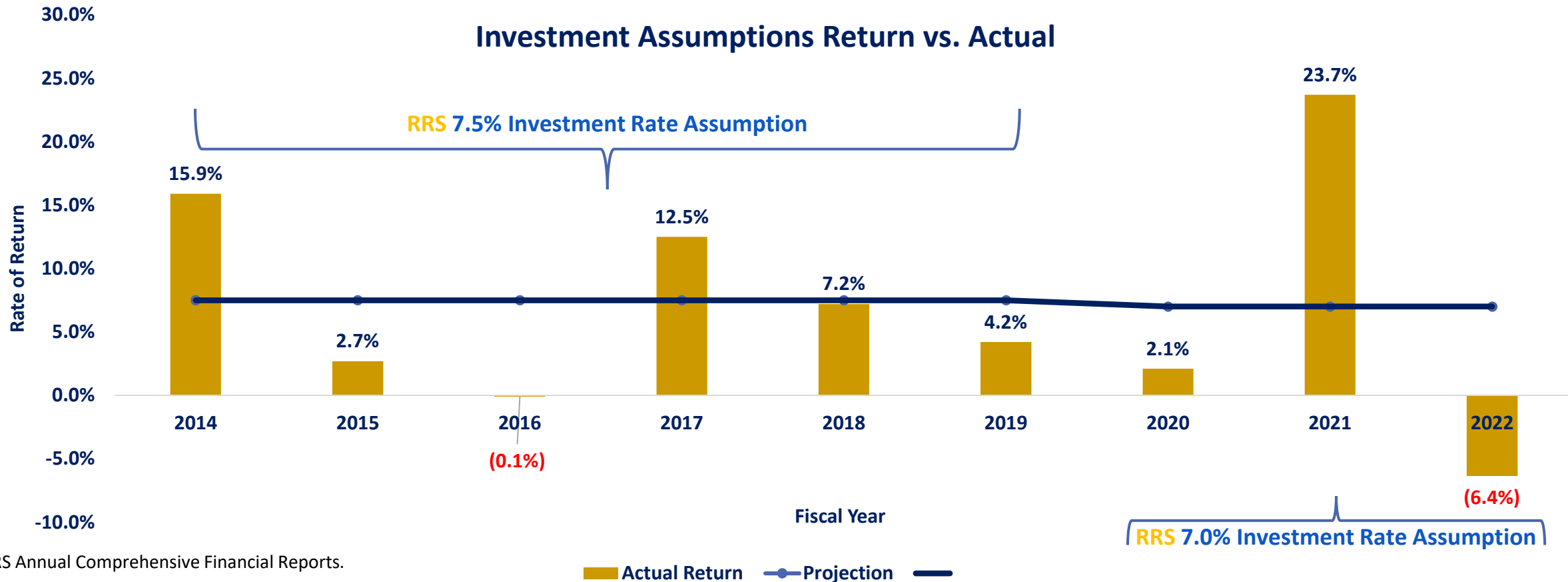


VRS HAS HAD HIGHER RATE OF RETURN IN FOUR OF SIX YEARS



Source: RRS and VRS Annual Comprehensive Financial Reports.

RRS INVESTMENT PROJECTIONS FELL BELOW THE EXPECTED RATE OF RETURN SIX OF NINE YEARS



Notes:

- In 2014, it was estimated that the unfunded amortization would be largely done by 2026 based on investment assumption of 7.5%. The estimates at the time projected achieving 80% funded status in 2023 & approximately 90% in 2026.
- The Investment assumption was reduced from 7.5% to 7.0% in 2019 and the unfunded liability was re-amortized and extended until 2032.



OTHER BENEFIT OPTIONS

No.	Benefit	City/RRS	VRS
1.	Cost of Living Increase (COLA)	Ad Hoc	✓
2.	457 Deferred Compensation Plan (w/employer matching)		✓
3.	Disability Retirement	✓	✓
4.	Virginia Local Disability Program (Hybrid Plan)		✓
5.	Virginia Sickness and Disability Program (state employees, Plan 1 & 2)		✓
6.	Long-Term Care Insurance Plan		✓
7.	Health Insurance (must be active at time of retirement) City = Ages 55 - 65	✓	
8.	Health Insurance Credit		✓
9.	Life Insurance Plans	✓	✓
10.	Line of Duty Act (LODA)	✓	✓
11.	Sworn Officer Supplement (VRS adjusted every 2 years)	.75% Until Age 65	\$16,884/yr. Until Social Security Age



COMPARISON OF BENEFITS FOR PUBLIC SAFETY

Key differences include an automatic COLA (up to 3% per year) and 1.85% multiplier.

Provision	RRS	VRS Hazardous Plan 2
Retirement Eligibility (Age/Service)	60 / or 25 (Basic) or 20 (Enhanced)	60/5 or 50/25
Final Average Pay	3 Years	5 Years
Vesting	5 Years	5 Years
Employee Contributions	1.50% or 5.45% (Enhanced)	5.00%
Benefit Multiplier	1.65%	1.85%
Early Retirement	5% reduction/year Age 50 or 25/20 Service Years (Basic/Enhanced)	6% reduction 1 st 5 years then 4.8% Preceding Age 60 with 5-years of service or age 50 with 25 years of service
Duty Death/Disability	Yes	Yes
Temporary Supplement	0.75% to age 65	\$16,884/year (\$1,407/month) to Social Security age
Retiree COLA	Ad Hoc	Automatic, up to 3%/year
Option Programs	Deferred Retirement Option Program (DROP)	Partial Lump Sum Option Payment (PLOP)



AN INFUSION OF CASH IS NECESSARY TO INCREASE RRS' FUNDED STATUS

- Minimum threshold for a pension system is 80 percent
- As of FY 2022, RRS' actuarial funded status is 67.7 percent, and the net funded status is 64.5 percent
- Approximately \$100 million is needed to bring RRS' funded status to 80 percent
- Credit rating agencies view the low funded status of the pension plan as a credit weakness





Part IV: Impact of Transition

TRANSITION INVOLVES A 3-PRONGED FINANCIAL STRATEGY

1

Transition to VRS

2

Issue Pension Obligation Bonds to reach minimum of 80% actuarial funded status of RRS

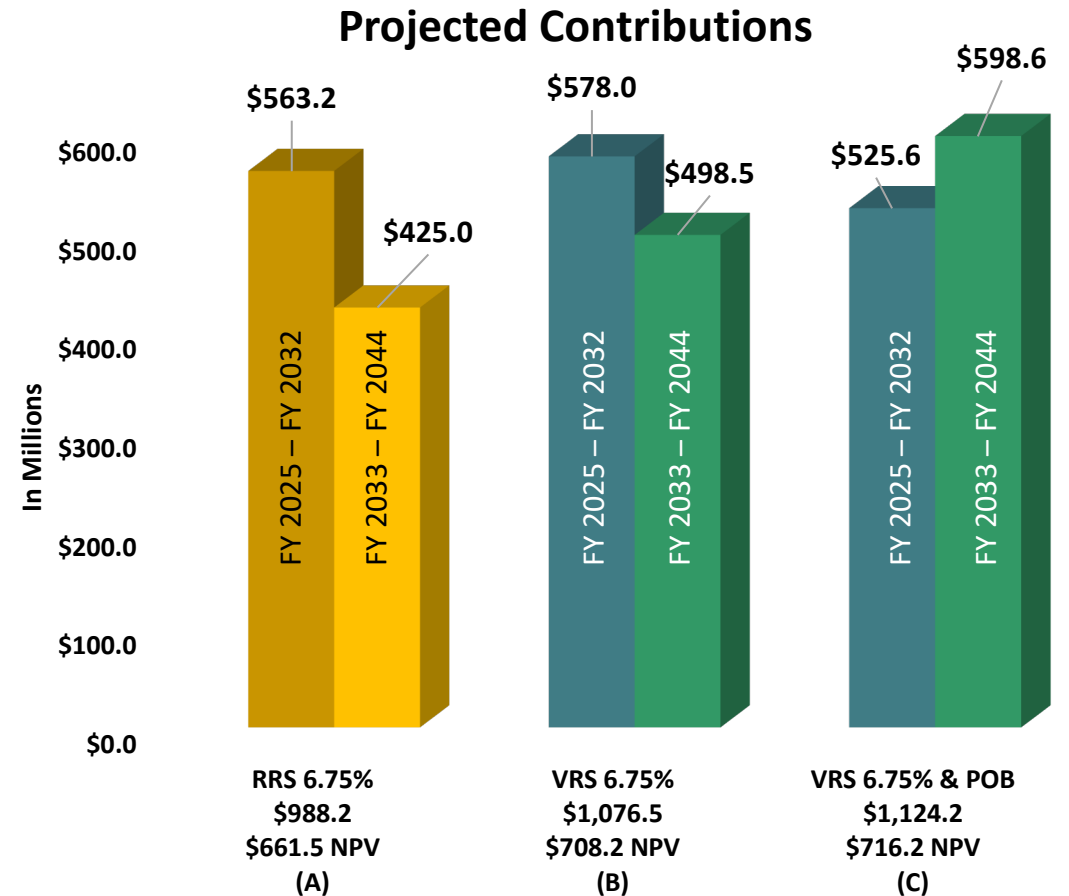
3

Establish financial policies which target 100% actuarial funded status and maintains minimum 80% threshold



BENEFITS OF TRANSITIONING TO VRS USING PENSION OBLIGATION BONDS (POB)

- Compared to (A), transitioning to VRS (Scenario B) results in an estimated \$14.8 million increase through 2032
- Transitioning to VRS with POBs provides a lower estimated annual contribution through 2032
 - Average of \$5.0 million less through 2032



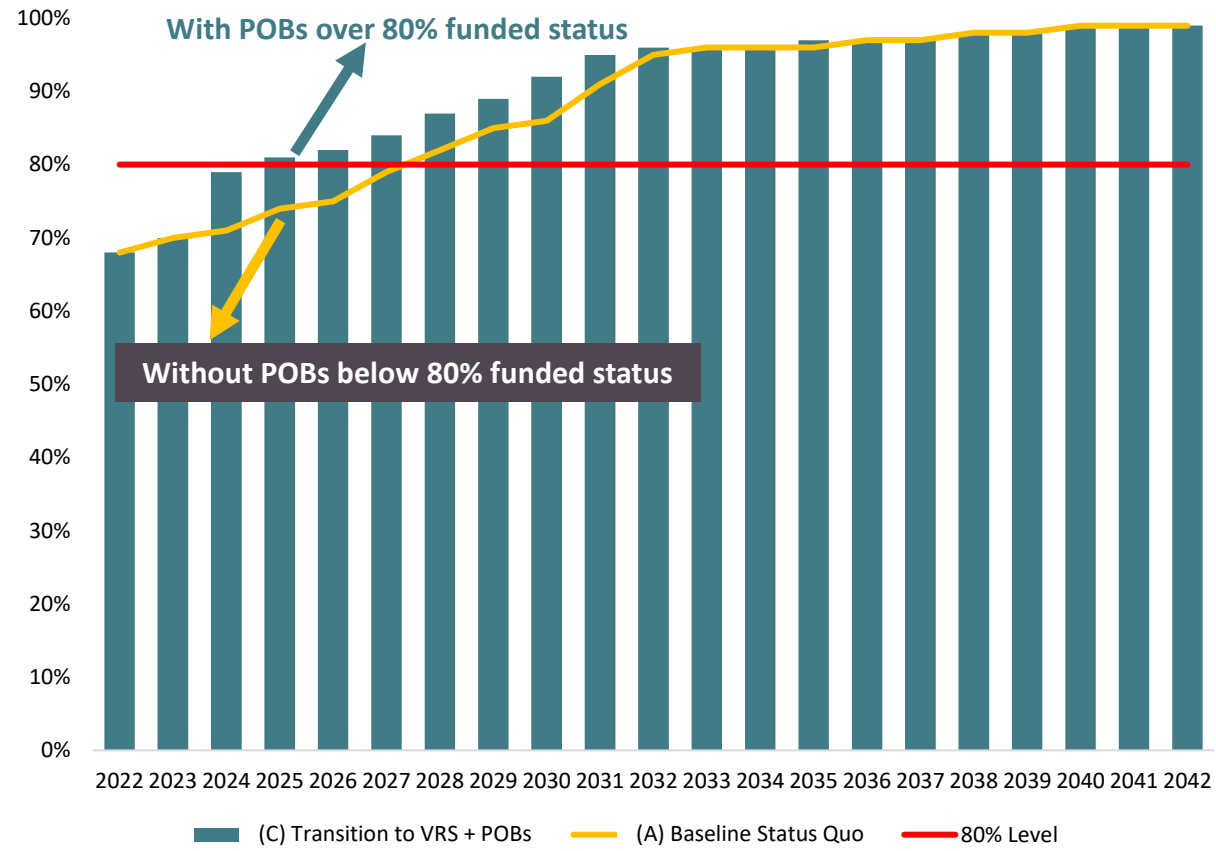
RRS rate of return equalized to 6.75% to be comparable to VRS

Expected costs and savings are based on RRS' 2022 valuation report

Note: Projections represent preliminary estimates provided by Boomershine Consultants. Actual results will differ

POB WILL IMMEDIATELY INCREASE **RRS'** FUNDED STATUS

RRS Vs. VRS & POBs⁽¹⁾



- Scenario A is projected to take another 5-years to reach approximately “80 percent”
- Scenario C has the immediate effect of increasing the funded status to approximately 80 percent
 - The funded status is projected to increase to approximately 90 percent by FY 2029
 - Funded status shown on an Actuarially Determined basis (includes smoothing)



(1) Independent actuarial calculation based on RRS’s FY 2022 Actuarial Study adjusted for contribution timing and amortization balance. Assumes a 6.75% investment rate. Scenario C VRS Assumptions: 1.85% VRS multiplier for Public Safety; 0.85% VRS multiplier for General; 90% of non-vested DC, 10% of vested DC, 25% of non-vested DB, and 10% of vested DB elect transition to VRS; POBs assume 20 years amortization at 5.5%.

Note: Projections represent preliminary estimates provided by Boomershine Consultants. Actual results will differ.

ISSUE POBs FOR A LONG-TERM SOLUTION

- **VRS** is more expensive because of richer benefits for public safety (COLA and 1.85% multiplier)
- POBs help to defray the near-term expected costs of transitioning to **VRS**
- Regardless of the chosen path, a cash infusion for **RRS** is needed to reach the minimum 80 percent threshold
- A plan to address the perpetual underfunded pension system and accelerate funding to 80 percent will be positively viewed by the rating agencies



RECOMMENDED FINANCIAL STRATEGIES

- **Strategy 1: Increase RRS ADC funded status**
 - Commit to always funding the ADC
 - Reach and maintain the minimum 80 percent actuarial funded status for RRS
 - Commit to reaching the long-term goal of 100 percent actuarial funded status for RRS
- **Strategy 2: Changes to RRS benefits**
 - Consider additions only if RRS funding ratio at or above the 85 percent level
 - Conduct fiscal impact analysis of potential changes prior to approval of benefits
 - Pay for changes upfront to not impact the actuarial funded status of RRS (i.e.: do not spread-out additional cost)
- **Strategy 3: Establish reserve account**
 - Invest savings achieved from the transition and corresponding issuance of the POBs
 - Issue additional POBs as needed when there is a more favorable interest rate climate
 - Invest funds such that it allows the city to support RRS funded status when it falls below the established minimum threshold of 80 percent



ISSUING POB DOES NOT NEGATIVELY IMPACT OUR CREDIT RATING

- The impact of the POBs and the increase in funded status have been modeled in estimates of Moody's new scorecard
- Transitioning to **VRS** with POBs effectively results in no material change
- The impact in the Fixed Costs Ratio is de minimis, as the debt liability is substituted for POBs for pension liability



	% of total	Richmond (Current)	Richmond (With POBs)
Economy (30%)			
Resident Income (%)	10%	81.1%	81.1%
Full Value Per Capita	10%	154,384	154,384
Economic Growth (%)	10%	-0.3%	-0.3%
Financial Performance (30%)			
Available Fund Balance Ratio (%)	20%	37.6%	37.6%
Liquidity Ratio (%)	10%	52.8%	52.8%
Institutional Framework (10%)			
Institutional Framework	10%	Aa	Aa
Leverage (30%)			
Long-Term Liability Ratio (%)	20%	204.8%	204.8%
Fixed Costs Ratio (%)	10%	13.8%	13.7%
Raw Score		3.19	3.18
Unadjusted Rating		Aa2	Aa2

Aaa Range	0.50-1.50
Aa1 Range	1.50-2.50
Aa2 Range	2.50-3.50
Aa3 Range	3.50-4.50



Source: Davenport & Co.

KEEPING WITH **RRS** SCENARIO BASELINE STATUS QUO

Advantages

- Lower projected total costs over the 20-year projection period due primarily to less generous public safety benefits package
 - **VRS** has automatic retiree COLA
 - **RRS** has a 1.65 percent multiplier vs. **VRS**' 1.85 percent multiplier

Disadvantages

- More difficult to recruit and retain essential public safety employees over time
- Higher near-term budget pressure through FY 2032 (Scenario A) vs. transitioning to **VRS** with POBs (Scenario C)
- Funded status is projected to remain below 80 percent through approximately 2028-2029 (assuming a 7.0 percent investment rate)
- Does not resolve the credit rating agency's concern about the city's credit weakness
- Actual funded status may continue to remain below 80 percent
- Will need a cash infusion of \$100.0 million to get to 80 percent funded status



TRANSITION TO VRS WITH POBs

Advantages

- Better benefits for public safety (3.0 percent COLA, 1.85 percent multiplier)
- Better able to recruit and retain public safety employees
- State-wide portability for employee recruitment and retention
- Lower near-term costs: \$5.0 million/year less through FY 2032
- Immediately increases **RRS'** actuarial funded status to 80 percent
- Moves toward the goal of achieving "AAA" ratings by minimizing credit weakness

Disadvantages

- Slightly more expensive plan in the long term
- Increased cost over the 20-year projection period due to better benefits for public safety.
- Cost of issuing POBs

SHIFT IN COSTS



RRS

The administration of retirement benefits will gradually shift from **RRS** to VRS



The shift will be a long-term transition due to the number of current retirees and employees who are expected to remain with RRS



VRS



Part V: Investment and Equity

IMPORTANCE OF INVESTING IN YOUR OWN FUTURE

Long-term financial stability is a cornerstone of well-being and quality of life

- Encourage employees to save for retirement
- Contributions to the retirement plan creates an investment on the employee's part
- Builds a solid foundation for retirement
- Encourages financial literacy by not putting off saving for the future
- Enhances the tax advantages and compound interest growth
- Helps with long-term financial security
- Encourages personal discipline



HOW WILL THE CITY SUPPORT EMPLOYEE PERSONAL INVESTMENTS?

- Currently, the city contributes a certain amount to **RRS** for employees
- Move a portion of that payment to the employee's salary
- “Gross up” the salary to negate the FICA tax impact
- Employees pay their 5.0% contribution to **RRS**
- Gross up amount would be a new cost for the city
- Additional FY 2024 cost is anticipated to be: \$1.3 million



COMMITMENT TO PERSONAL INVESTMENT

Illustration Only

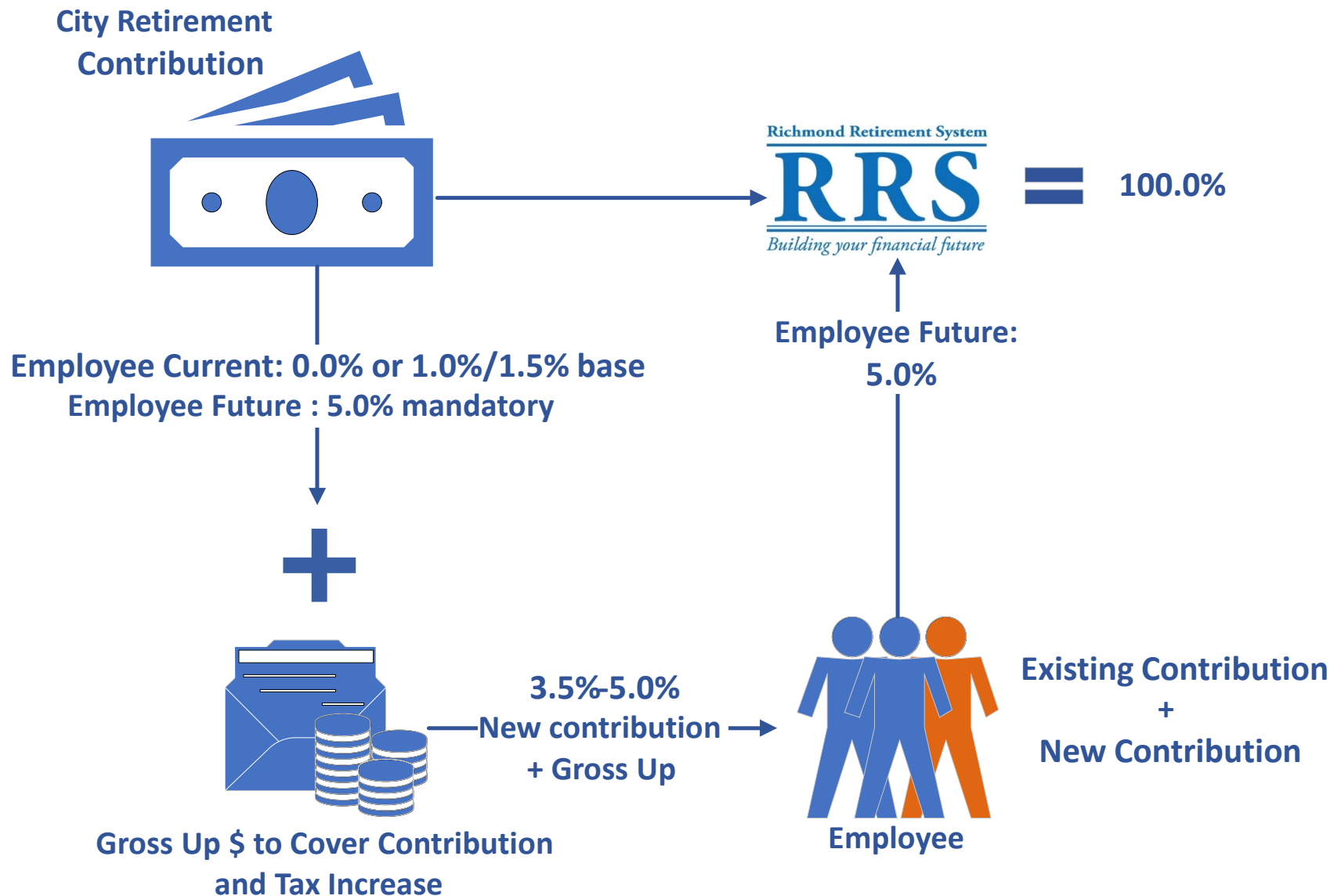


Illustration only. Actual percentages and amounts will differ.



INCREASE ALL CITY EMPLOYEE SALARIES NEW CONTRIBUTION AMOUNT + GROSS UP

- **Regardless** of the decision to transition to **VRS**, create equity in member contributions
- Adjust salaries to cover the increased contribution and associated costs
 - Currently, **DB** plan members pay a base of 1.00% or 1.50% and **DC** members pay 0.00%
 - Employees would contribute 5.00% base contribution to retirement
 - Additional percentage included in pay to cover retirement contribution and FICA tax costs



ADJUSTMENT COVERS COST INCREASE

Illustration Only

DB General Employee New Contribution Scenario

Employee Impact	Current	Revised (4.58%)
Base Salary	\$50,000	\$52,290
FICA	\$3,825	\$4,000
Current 1% Retirement	\$500	\$523
New Employee Contribution (+4%)	\$0	\$2,092
Total after FICA taxes	\$45,675	\$45,675

Covers Increase

Note: Individual results may vary depending on tax criteria.



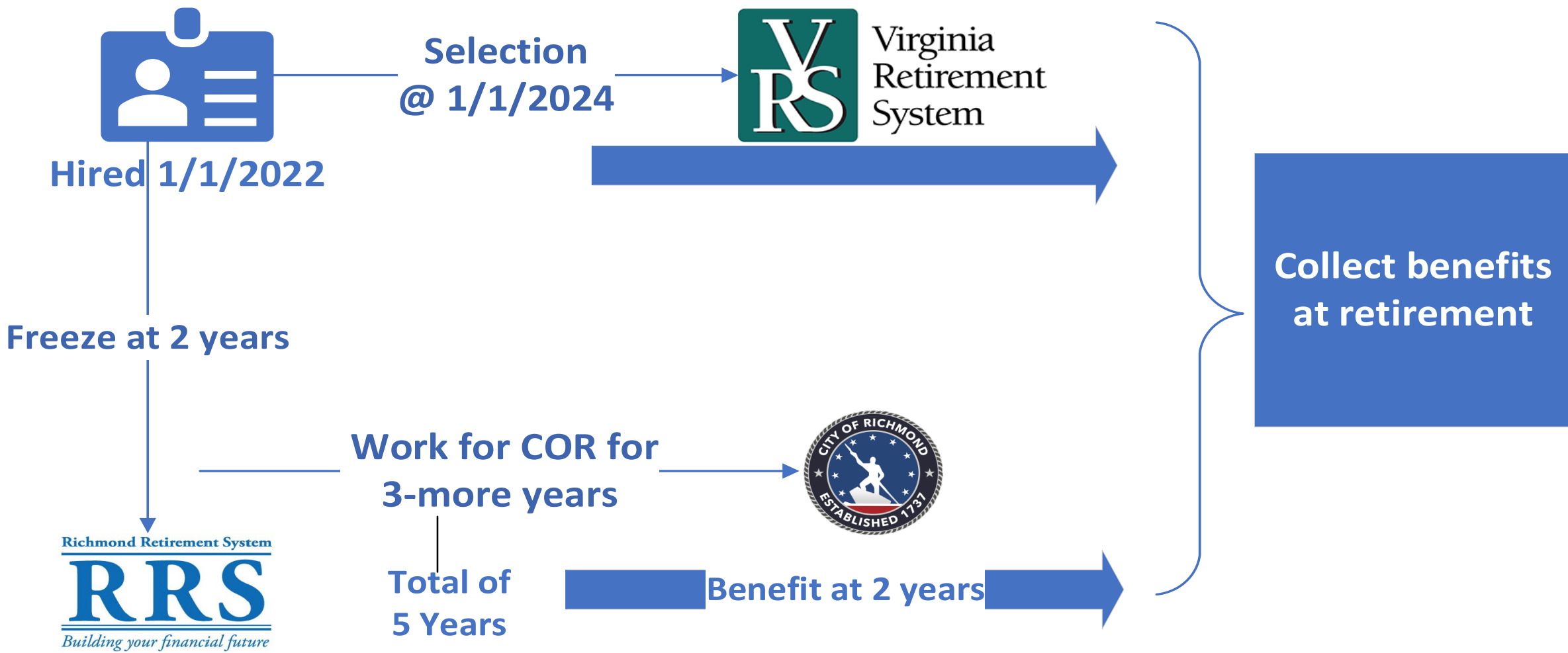
ADDRESSING THE NON-VESTED DC PLAN MEMBERS CHOOSING TO MOVE TO VRS

- **DC plan** non-vested **RRS** members choosing to move to **VRS** will start from day 1. It is recommended to:
 - Freeze the benefits at the time of for employees choosing to transition
 - Require employees to work for the city for the remainder of the five years to receive benefits at retirement
- Freezing these employees in RRS with a 5-year requirement allows them to:
 - Benefit from the time spent working for the city
 - Move to **VRS** without feeling like they lost years
 - Achieve equity with other employees who had worked five years to receive **RRS** benefits
 - These employees are not eligible to purchase Richmond years of service with **VRS**



HOW FREEZING THE NON-VESTED DC PLAN MEMBERS IN RRS WILL WORK

Illustration Only



ADDRESSING THE CURRENT NON-VESTED DB PLAN MEMBERS CHOOSING TO MOVE TO VRS

- A trustee-to-trustee transfer will be made for **DB plan** non-vested **RRS** members
- It is not recommended these employees vest at time of transfer because the city will have increased liability costs without their contributions
- Transferred member contributions will be used to buy service time under **VRS** general purchase of prior service rules




EMPLOYEE CONSIDERATIONS WHEN DECIDING TO MOVE OR NOT

- Vested **RRS** benefits are retained and start accruing service with **VRS**
- **VRS** requires five-percent member contribution
- **VRS** does not offer Deferred Retirement Optional Program (DROP)
- City employees with prior **VRS** service credit retain the benefit plan they had from previous employment
- **VRS** benefits will stop for city employees who are also **VRS** retirees if they choose to join **VRS**



THE PROS OUTWEIGH THE CONS OF A VRS TRANSITION

- 
- Risk of losing employees to other VRS employers
 - Slightly more expensive than RRS due to richer public safety benefits
 - RRS time is not portable
 - Requires a 5.0% employee contribution
 - No DROP program



- Recruit employees statewide
- Cost of Living Adjustment
- Hazardous Duty Supplement of \$16,884
- Well-funded system
- Portability state-wide
- Higher investment returns
- Allows prior VRS employees to return to VRS
- Ability to purchase prior service credit



Part VI: Recommendation and Next Steps

RECOMMENDATION: TRANSITION TO VRS



1. Transition to VRS
beginning
January 1, 2024



2. Current Employees
have set period to
decide to stay in **RRS**
or go to VRS



3. Close **RRS** to new
employees as of
December 31, 2023



ANTICIPATED TIMELINE FOR CITY COUNCIL CONSIDERATION

9/5/23 @ 4 p.m.

Organizational
Development
Committee

Presentation

9/11/23 @ 6 p.m.

City Council Formal
Session

Introduction of VRS
Transition Resolution

9/21/23 @ 1 p.m.

Finance and Economic
Development
Committee

Discussion

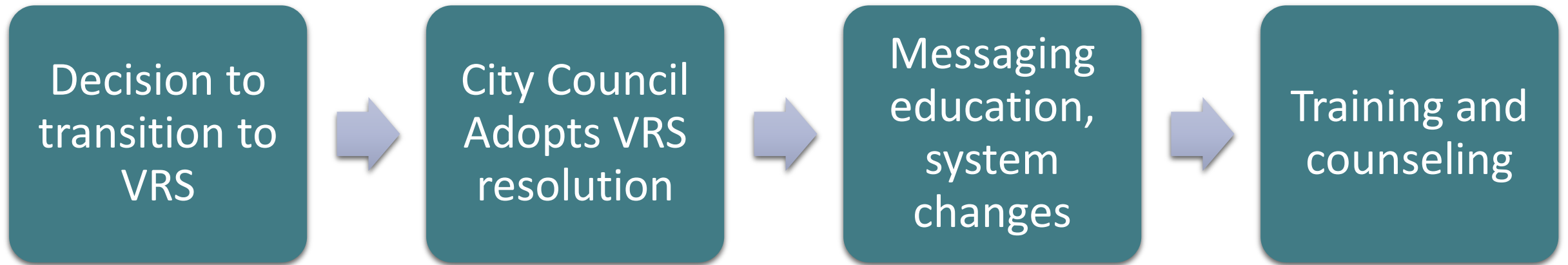
9/25/23 @ 6 p.m.

City Council Formal
Session

Consideration of
VRS Transition



VRS TRANSITION – NEXT STEPS



VRS BECOMES THE CITY'S PRIMARY PLAN

Per Code of Virginia

- § 51.1-135 Compulsory membership

“Membership in the retirement system shall be compulsory for all eligible employees who enter service after the effective date of coverage. Once a political subdivision joins VRS, membership is compulsory in VRS for positions entitled to these benefits”

- City cannot have another primary retirement plan
- Only a supplemental plan would be allowed



TRANSITIONING TO **VRS** IS AN INDIVIDUAL DECISION

Each current employee must make their own decision to stay in **RRS** or transition to **VRS**

Each decision is personalized

Counseling sessions offered by **RRS** and **VRS**

Set time period to decide

Decisions are irrevocable

All new employees will automatically be enrolled in **VRS**

OUTREACH TO EMPLOYEES

- VRS and the city will coordinate implementation
- Train City of Richmond how to interact with VNAV (VRS Navigator)
- Provide benefit plan overview to employees but will not advise on their individual situations and decisions
- Designate a point of contact to address questions
- MissionSquare will provide defined contribution support, as most employees will become members of the Hybrid Retirement Plan





DISCUSSION