



Virginia
Retirement
System

Richmond Retirement System

RRS

Building your financial future

Actions Supporting a Transition to Virginia Retirement System (VRS)

Finance and Economic Development Committee

October 19, 2023





Section 1: Actions to Date

Summary and actions to date



TRANSITION TO VIRGINIA RETIREMENT SYSTEM APPROVED

- September 25, 2023: Council adopted Resolution 2023-R050 to transition to VRS
- Adopting this the resolution is an irrevocable decision
 - “WHEREAS, subject to the approval of the Virginia Retirement System (“VRS”) Board of Trustees, Code of Virginia § 51.1-130 permits a political subdivision of the Commonwealth of Virginia to make an irrevocable election to join VRS and to provide retirement benefits for its eligible employees...”*
- October 3, 2023: Letter from VRS approving the city’s joining:
 - “This election is irrevocable and coverage for eligible employees is effective January 1, 2024.”*

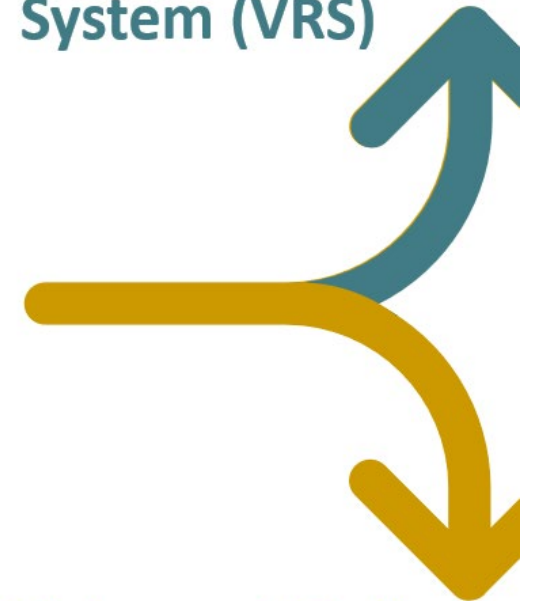


MOVING FORWARD

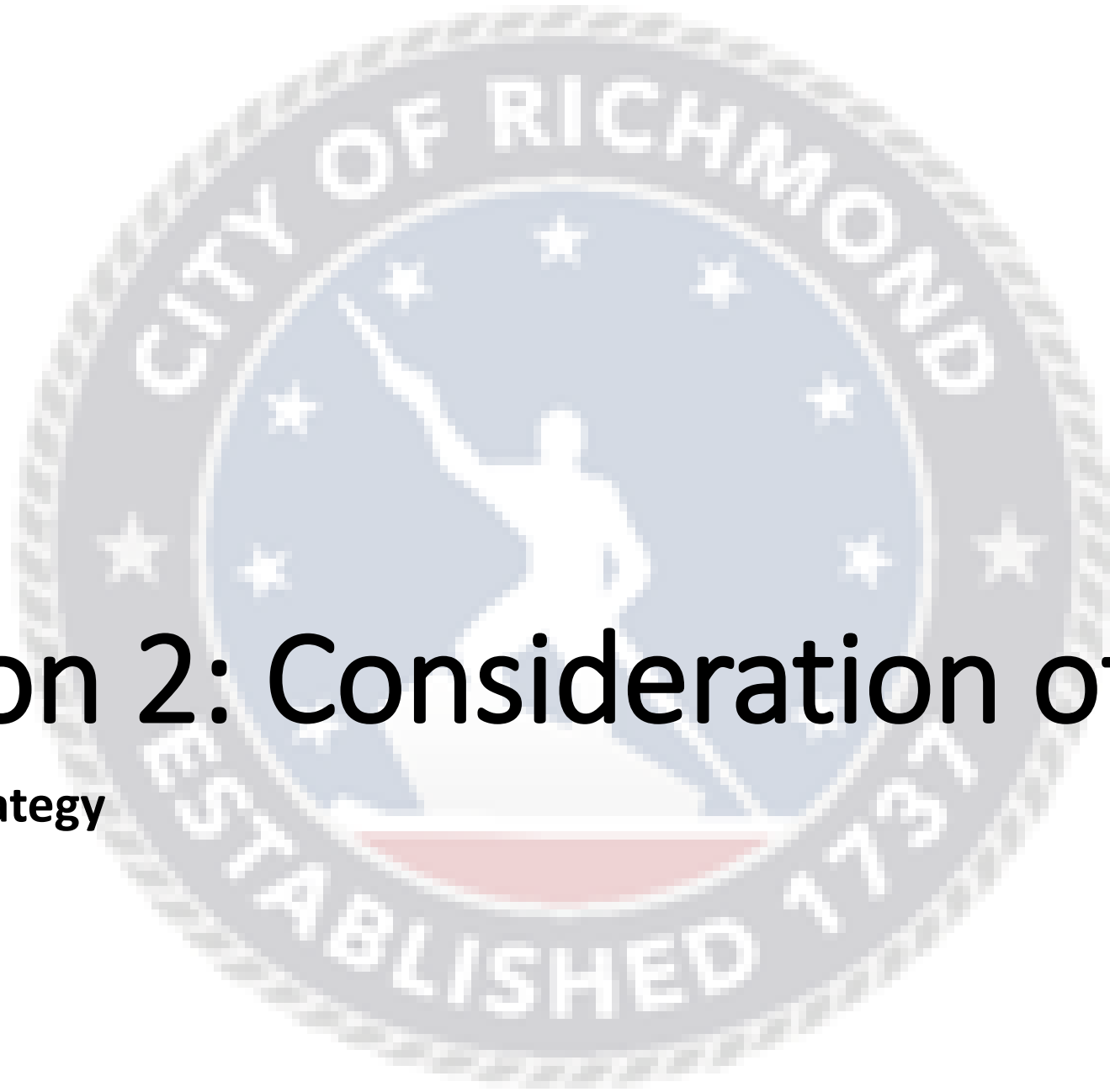
- RRS will close to new employees as of January 1, 2024
- From January 1, 2024, new hires will go into VRS
- If employed with the city as of December 31, 2023, employees have until December 31, 2024 (one-year)
- Prior VRS employees may return to their previous plan
- The decision is irrevocable



Virginia Retirement System (VRS)



Richmond Retirement System (RRS)

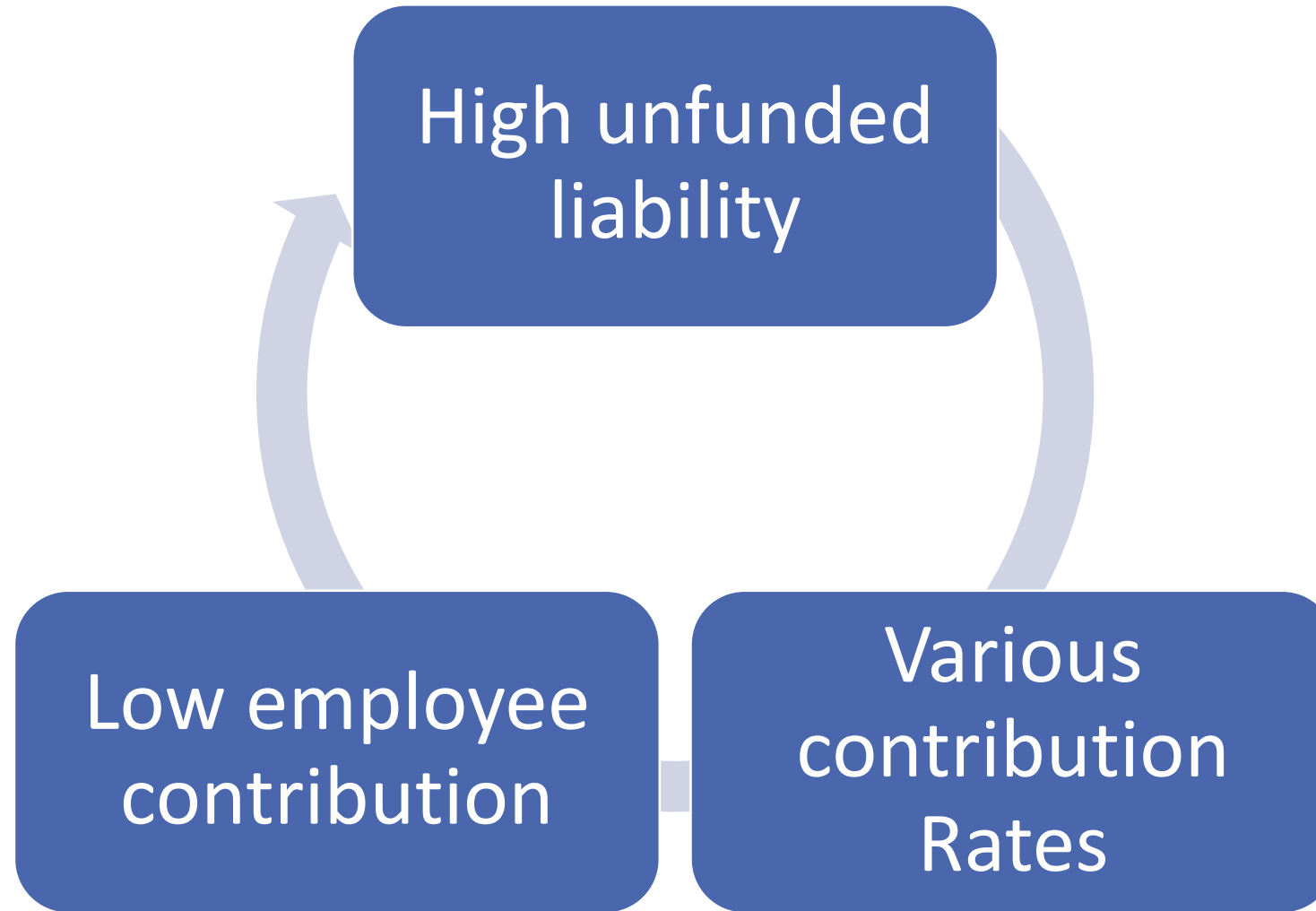


Section 2: Consideration of Papers

Financial Strategy

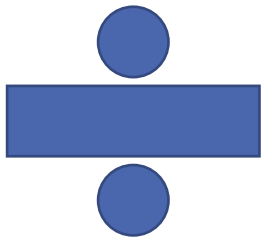


CHALLENGES OF RRS



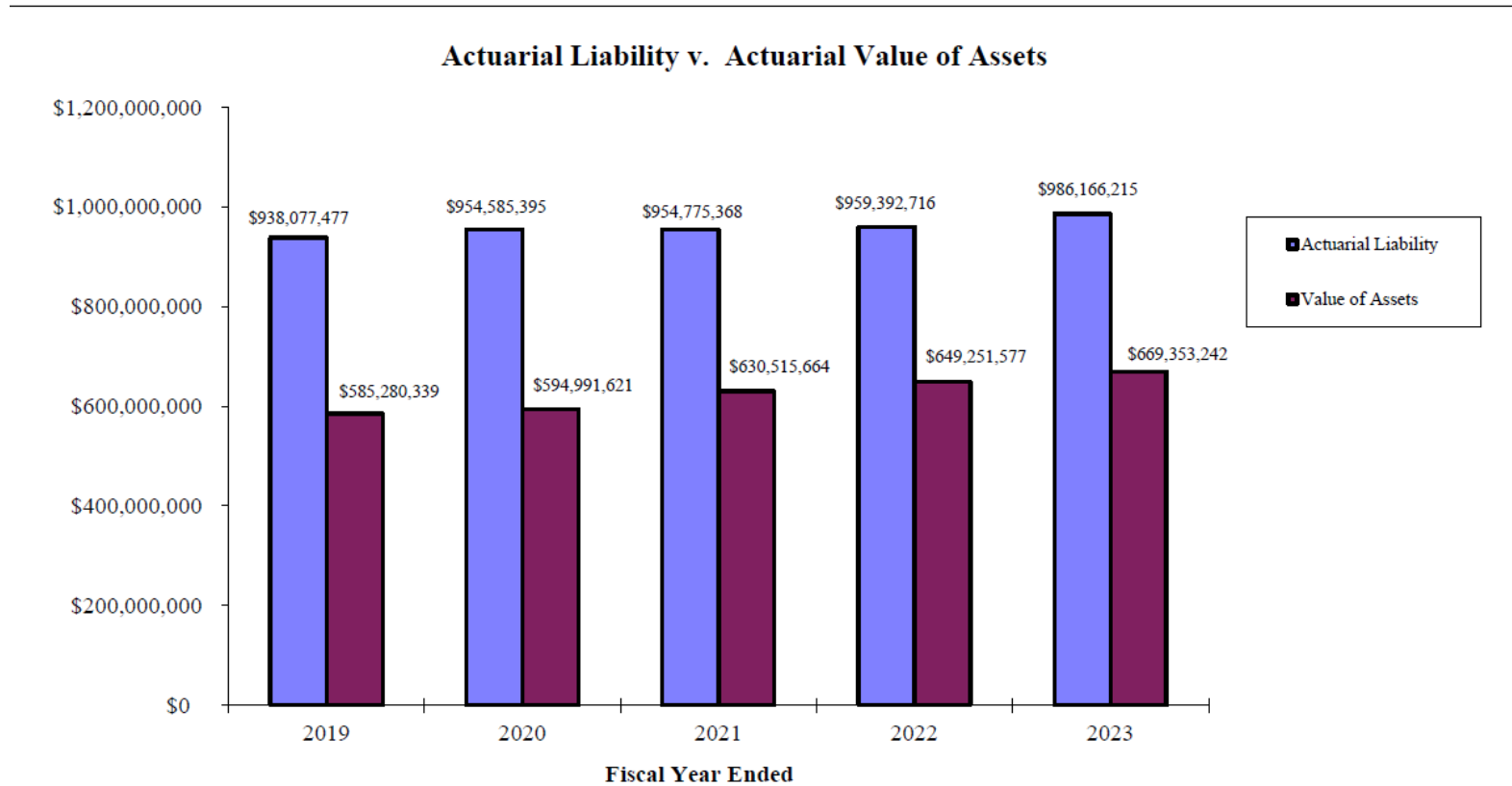
HOW THE 67.9 PERCENT FUNDED STATUS IS CALCULATED

Value of Assets
(how much \$ we have)



Actuarial Liability
(how much we owe)

Page 7 of the RRS 2023 Valuation Report:
Five-Year History of Actuarial Liability and Value of Assets



Page 6, RRS FY 2023 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 \$316,812,973 as of July 1, 2023. The unfunded actuarial liability is based on an actuarial value of assets of \$669,353,242 and an actuarial liability of \$986,166,215.



RRS LIABILITY NEEDS TO BE ADDRESSED

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

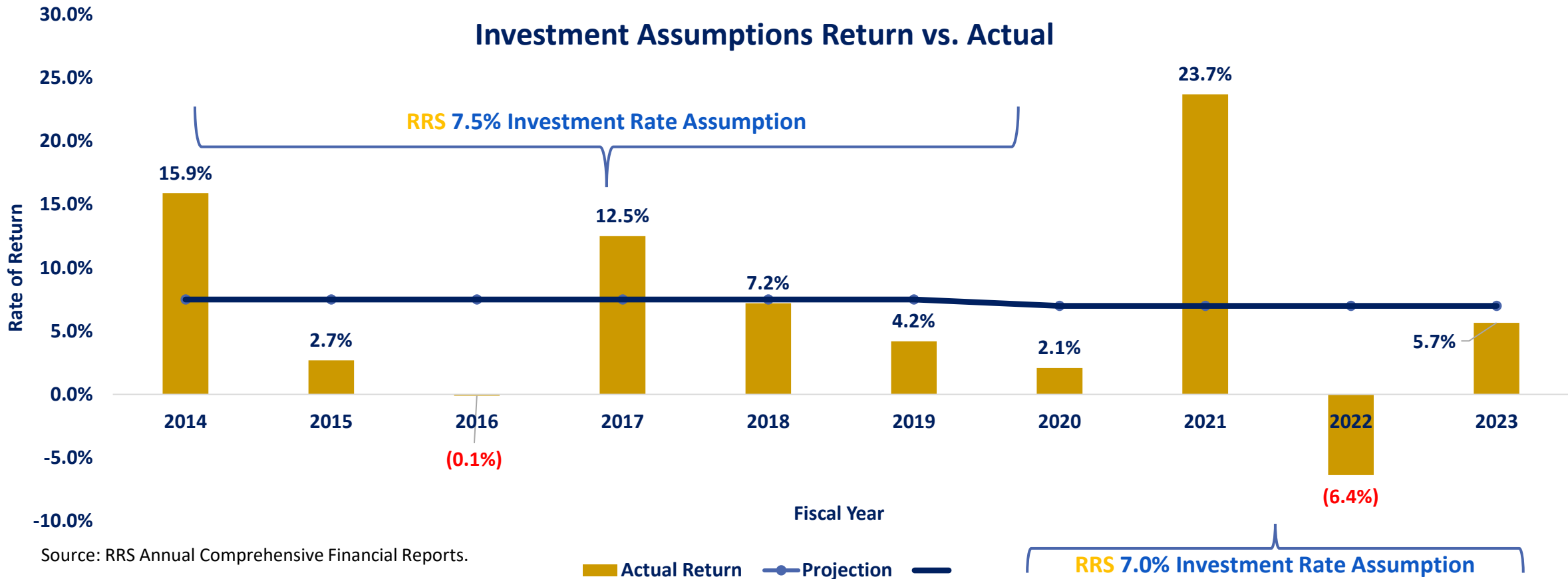


Source: RRS 2022-2023 Actuarial Valuation Reports ■ Actuarial Liability ■ Value of Assets — Funded Status

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



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



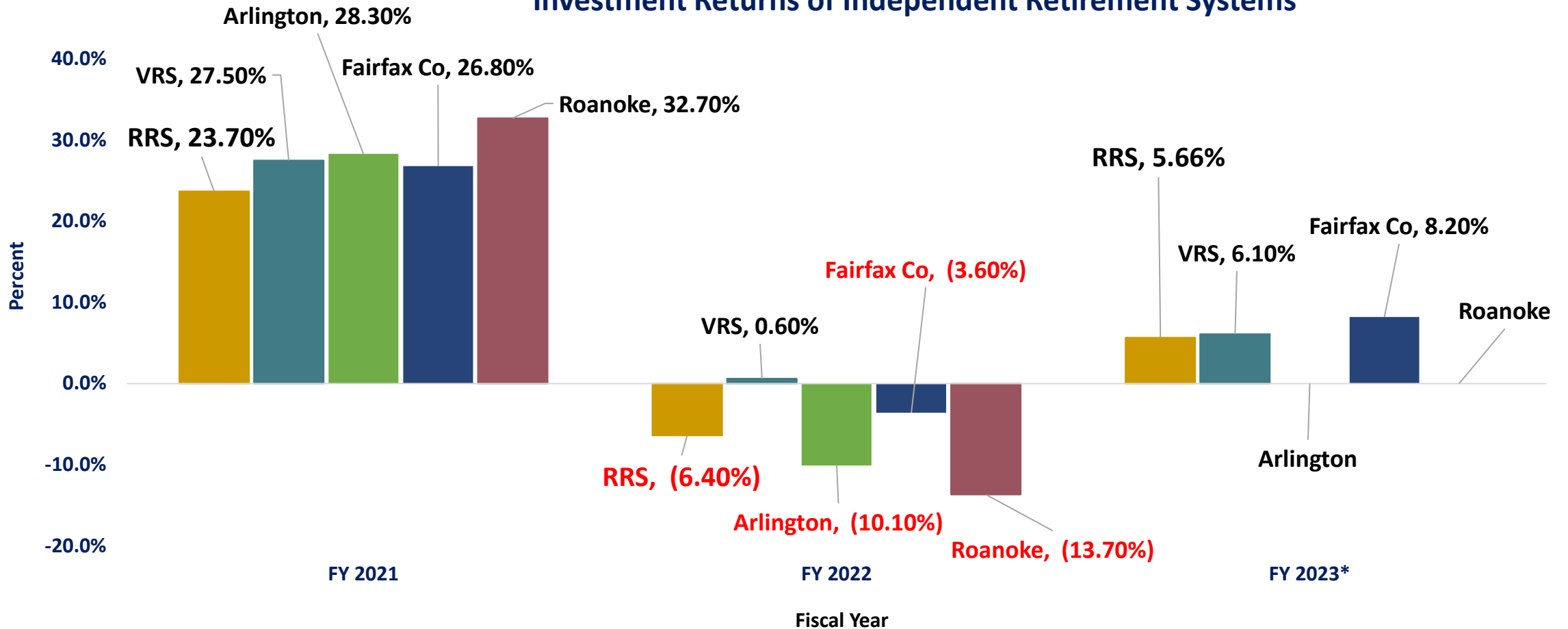
Notes:

- 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

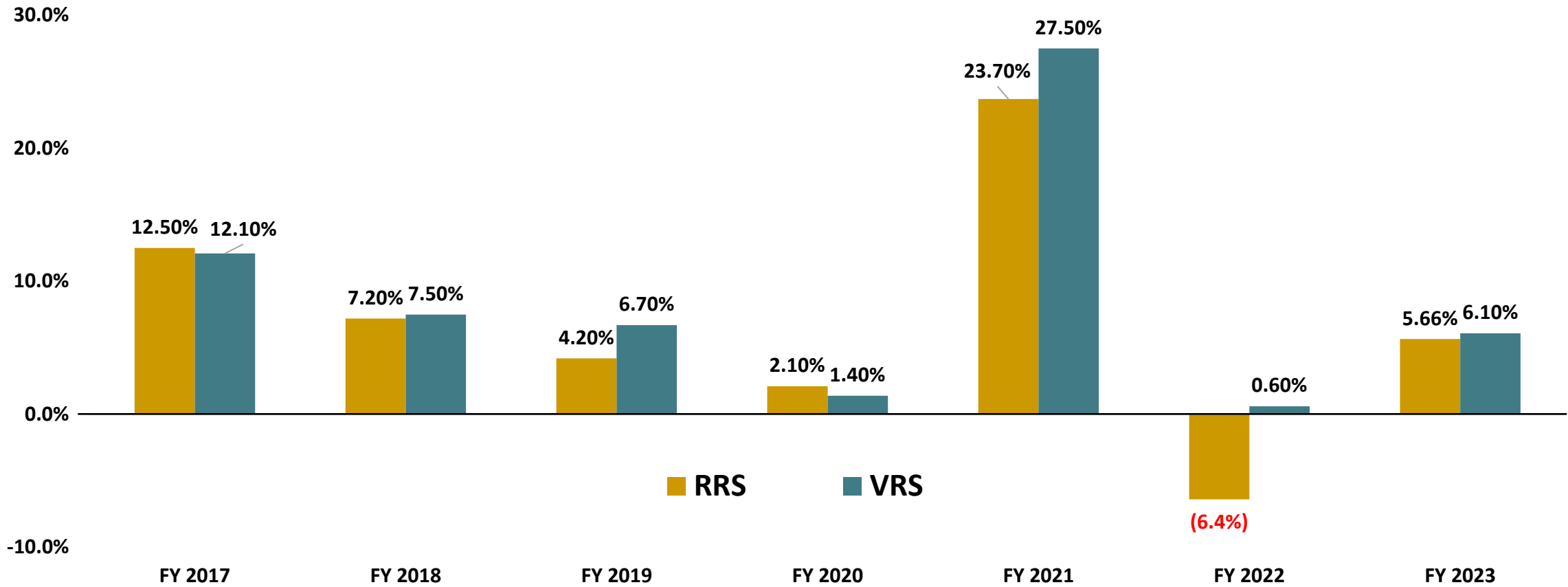
Investment Returns of Independent Retirement Systems



* FY 2023 data not available for all localities.



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

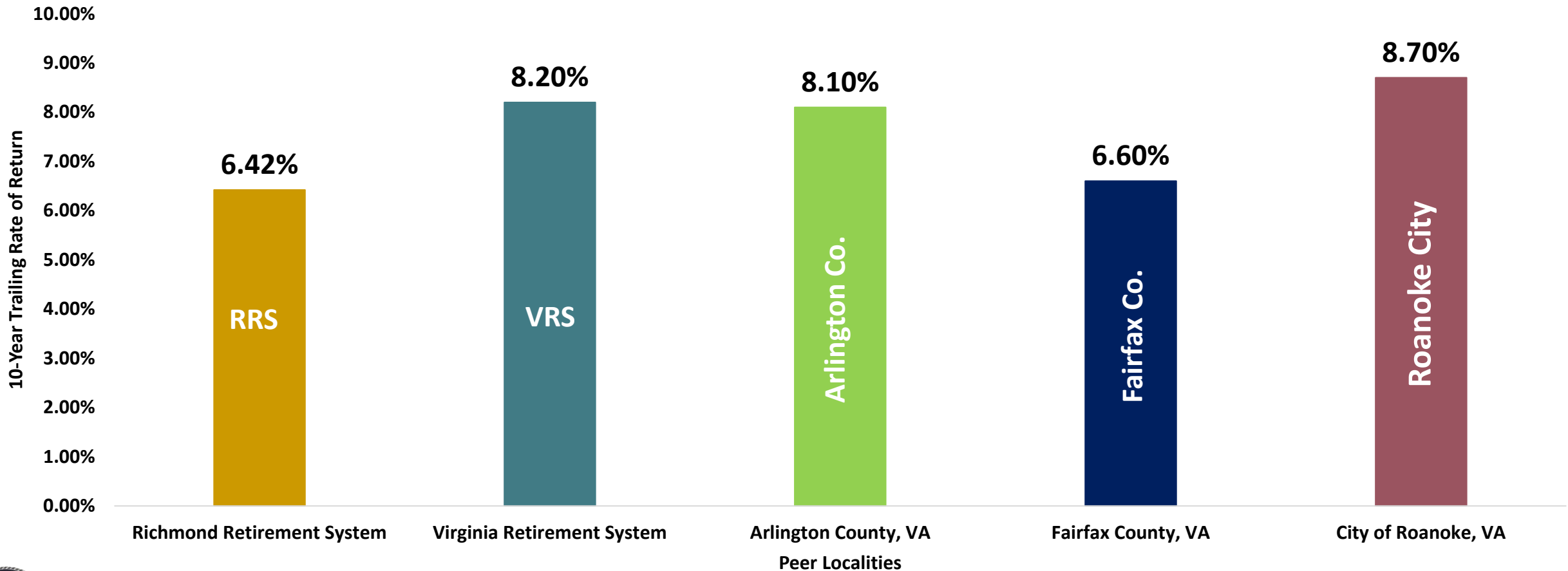


Source: RRS and VRS Annual Comprehensive Financial Reports. FY 2023 RRS return based on September 2023 Callan report.



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.



SALARY CHANGES IMPACT THE LIABILITY OF RRS

- Salary and retirement benefit changes can significantly impact the actuarial gain/loss and add to the unfunded liability.
- Approximately two-thirds of the actuarial changes were due to FY 2023 salary actions.

RRS		
Details of Actuarial (Gain) / Loss for the		
	FY 2022	FY 2023
Active salary	\$8,530,000	\$25,220,000



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



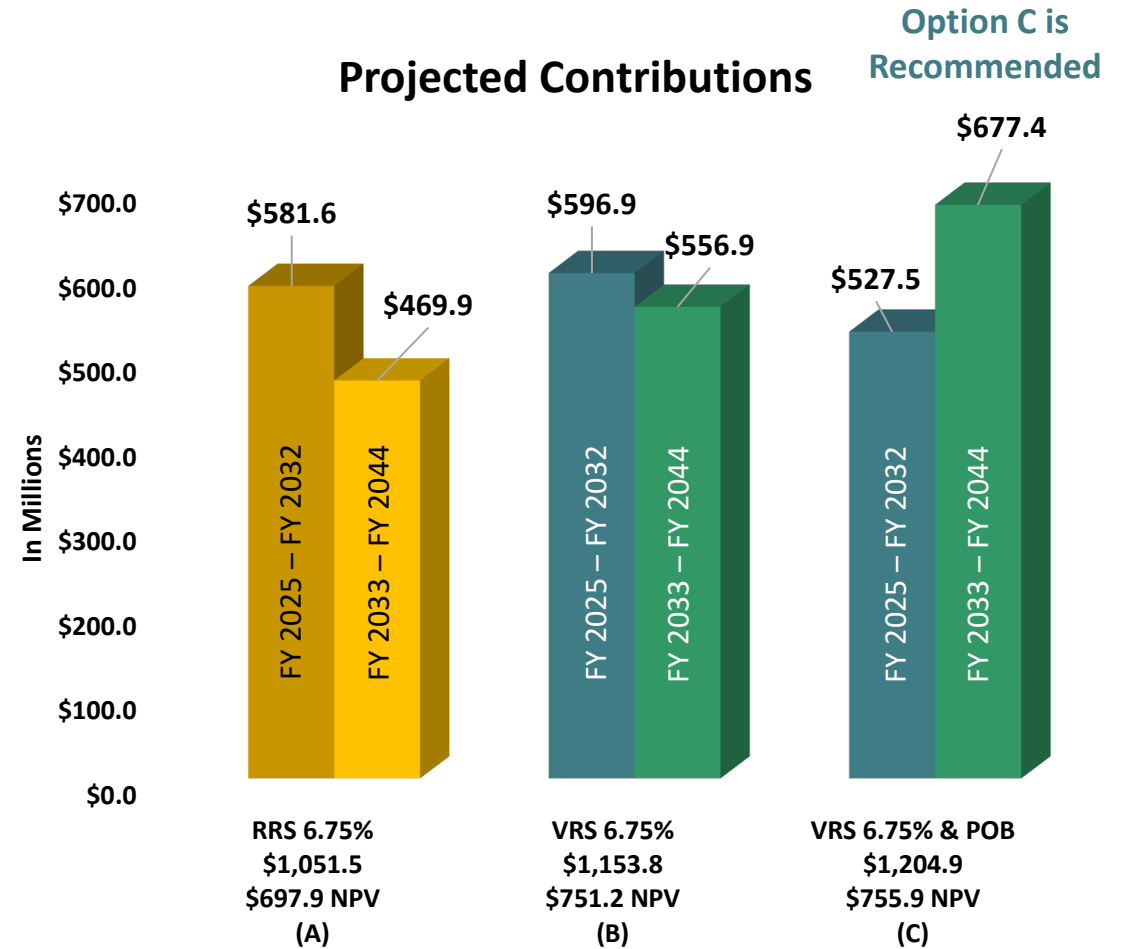
AN INFUSION OF CASH IS NECESSARY TO INCREASE RRS' FUNDED STATUS

- Minimum threshold for a pension system is 80 percent
- In the most recent FY 2023 Valuation Report, RRS' actuarial funded status is 67.9 percent, and the net funded status is 65.0 percent
- Based on the new FY 2023 results, approximately \$120 million is needed to bring the funded status to 80 percent
- Credit rating agencies view the low funded status of the pension plan as a credit weakness



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

- Compared to (A), transitioning to VRS (Scenario B) without POBs results in an estimated \$15.2 million increase through 2032
- Transitioning to VRS with POBs provides a lower estimated annual contribution through 2032
 - Average of \$6.8 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' 2023 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	\$65,086,136	\$59,234,963	\$5,851,172
2026	\$68,541,163	\$61,489,182	\$7,051,981
2027	\$69,903,496	\$62,214,696	\$7,688,801
2028	\$72,938,604	\$65,605,977	\$7,332,627
2029	\$74,440,504	\$67,438,346	\$7,002,157
2030	\$75,394,955	\$68,705,415	\$6,689,540
2031	\$76,884,874	\$70,493,921	\$6,390,953
2032	\$78,440,389	\$72,332,881	\$6,107,508
2033	\$33,140,197	\$47,386,979	(\$14,246,781)
2034	\$34,111,473	\$48,937,284	(\$14,825,811)
2035	\$35,133,966	\$50,529,727	(\$15,395,760)
2036	\$36,204,957	\$52,167,883	(\$15,962,926)
2037	\$37,324,557	\$53,845,291	(\$16,520,734)
2038	\$38,495,602	\$55,562,582	(\$17,066,980)
2039	\$39,720,711	\$57,325,767	(\$17,605,055)
2040	\$41,000,716	\$59,137,020	(\$18,136,304)
2041	\$42,335,262	\$60,996,652	(\$18,661,390)
2042	\$42,195,687	\$61,379,151	(\$19,183,463)
2043	\$44,958,311	\$64,662,471	(\$19,704,161)
2044	\$45,283,032	\$65,486,368	(\$20,203,336)
Total	\$1,051,534,593	\$1,204,932,555	(\$153,397,962)
NPV @ 5%	\$697,861,454	\$755,922,988	(\$58,061,534)

- 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' 2023 valuation report. Note: Projections represent preliminary estimates provided by Boomerishine 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	\$37,472,064	\$4,016,036	\$7,705,344	\$10,041,520	\$59,234,963
2026	\$36,405,681	\$3,824,246	\$11,217,735	\$10,041,520	\$61,489,182
2027	\$35,632,248	\$3,608,164	\$12,932,764	\$10,041,520	\$62,214,696
2028	\$37,518,118	\$3,400,596	\$14,645,744	\$10,041,520	\$65,605,977
2029	\$37,833,332	\$3,201,311	\$16,362,184	\$10,041,520	\$67,438,346
2030	\$37,559,316	\$3,011,117	\$18,093,462	\$10,041,520	\$68,705,415
2031	\$37,776,828	\$2,825,640	\$19,849,934	\$10,041,520	\$70,493,921
2032	\$38,015,877	\$2,645,443	\$21,630,041	\$10,041,520	\$72,332,881
2033	\$11,448,096	\$2,478,293	\$23,419,070	\$10,041,520	\$47,386,979
2034	\$11,354,975	\$2,321,021	\$25,219,768	\$10,041,520	\$48,937,284
2035	\$11,277,432	\$2,169,783	\$27,040,993	\$10,041,520	\$50,529,727
2036	\$11,209,840	\$2,022,401	\$28,894,123	\$10,041,520	\$52,167,883
2037	\$11,156,508	\$1,878,755	\$30,768,508	\$10,041,520	\$53,845,291
2038	\$11,119,975	\$1,739,150	\$32,661,937	\$10,041,520	\$55,562,582
2039	\$11,098,827	\$1,603,886	\$34,581,534	\$10,041,520	\$57,325,767
2040	\$11,092,064	\$1,476,235	\$36,527,202	\$10,041,520	\$59,137,020
2041	\$11,098,747	\$1,353,437	\$38,502,949	\$10,041,520	\$60,996,652
2042	\$9,586,610	\$1,233,641	\$40,517,379	\$10,041,520	\$61,379,151
2043	\$10,929,197	\$1,119,483	\$42,572,272	\$10,041,520	\$64,662,471
2044	\$9,800,261	\$812,134	\$44,832,454	\$10,041,520	\$65,486,368
Total	\$429,385,995	\$46,740,770	\$527,975,397	\$200,830,392	\$1,204,932,555
NPV @ 5%	\$306,587,813	\$32,353,894	\$291,841,752	\$125,139,529	\$755,922,988

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' 2023 valuation report. Note: Projections represent preliminary estimates provided by BoomerShine Consultants. Actual results will differ.



PROPOSED FINANCIAL STRATEGIES

- **Strategy 1: Increase RRS actuarial funded status (City Code Section 12-265.1.(b)-(d))**
 - It is the city's policy that the RRS ADC shall be funded in each fiscal year.
 - It is the city's policy that the RRS actuarial funded status shall be at least 80 percent in each fiscal year.
 - It is the city's long-term goal that the RRS actuarial funded status shall be 100 percent.
- **Strategy 2: Changes to RRS benefits (City Code Section 12-265.1.(e))**
 - 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 (City Code Section 12-265.1.(f)-(g))**
 - 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

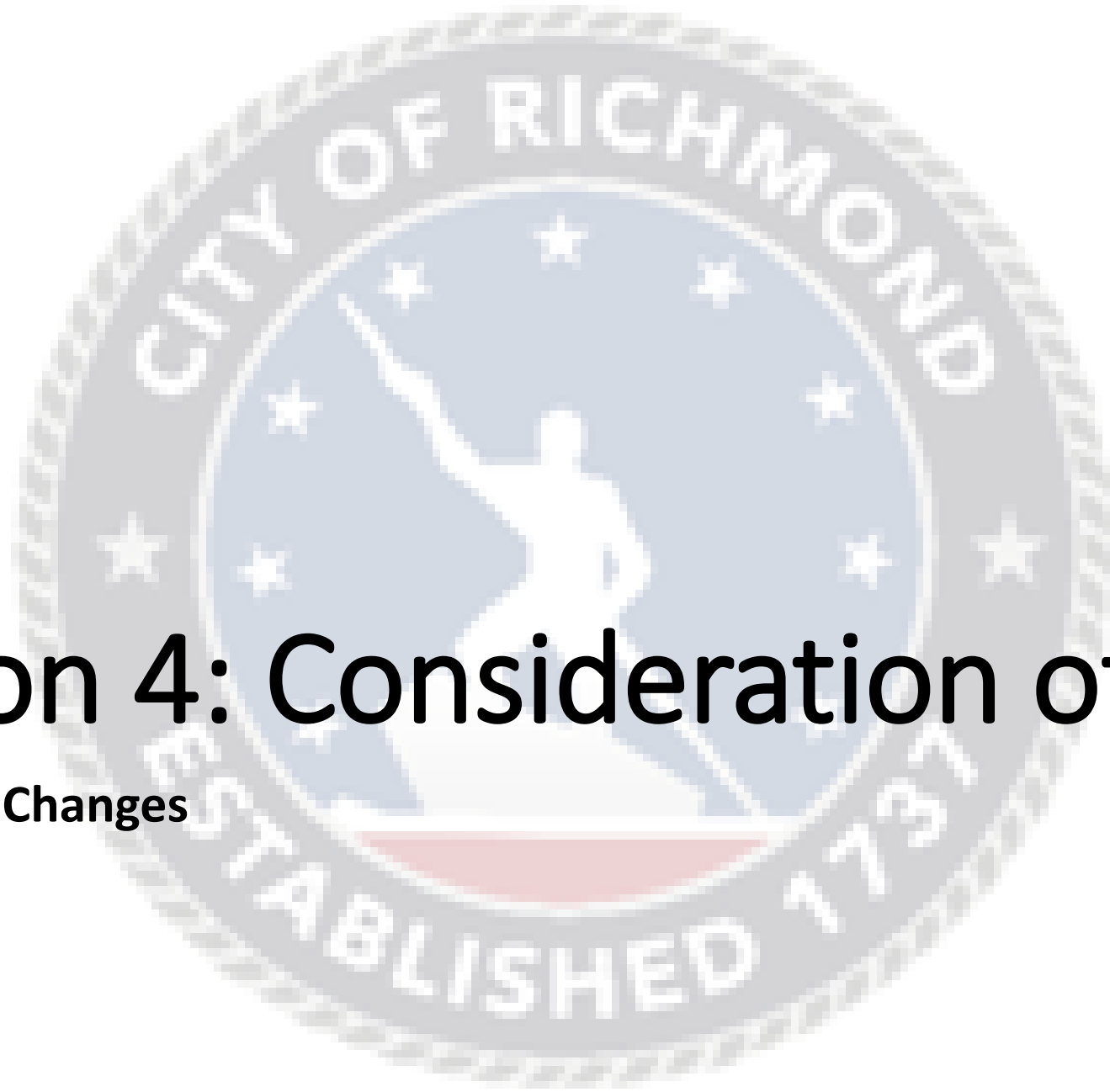


	% of total	Richmond (Current)	Richmond (With POBs)
Economy (30%)			
Resident Income (%)	10%	81.1%	81.1%
Full Value Per Capita	10%	154,384	154,384
Economic Growth (%)	10%	-0.3%	-0.3%
Financial Performance (30%)			
Available Fund Balance Ratio (%)	20%	37.6%	37.6%
Liquidity Ratio (%)	10%	52.8%	52.8%
Institutional 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: Consideration of Papers

Current Plan Changes



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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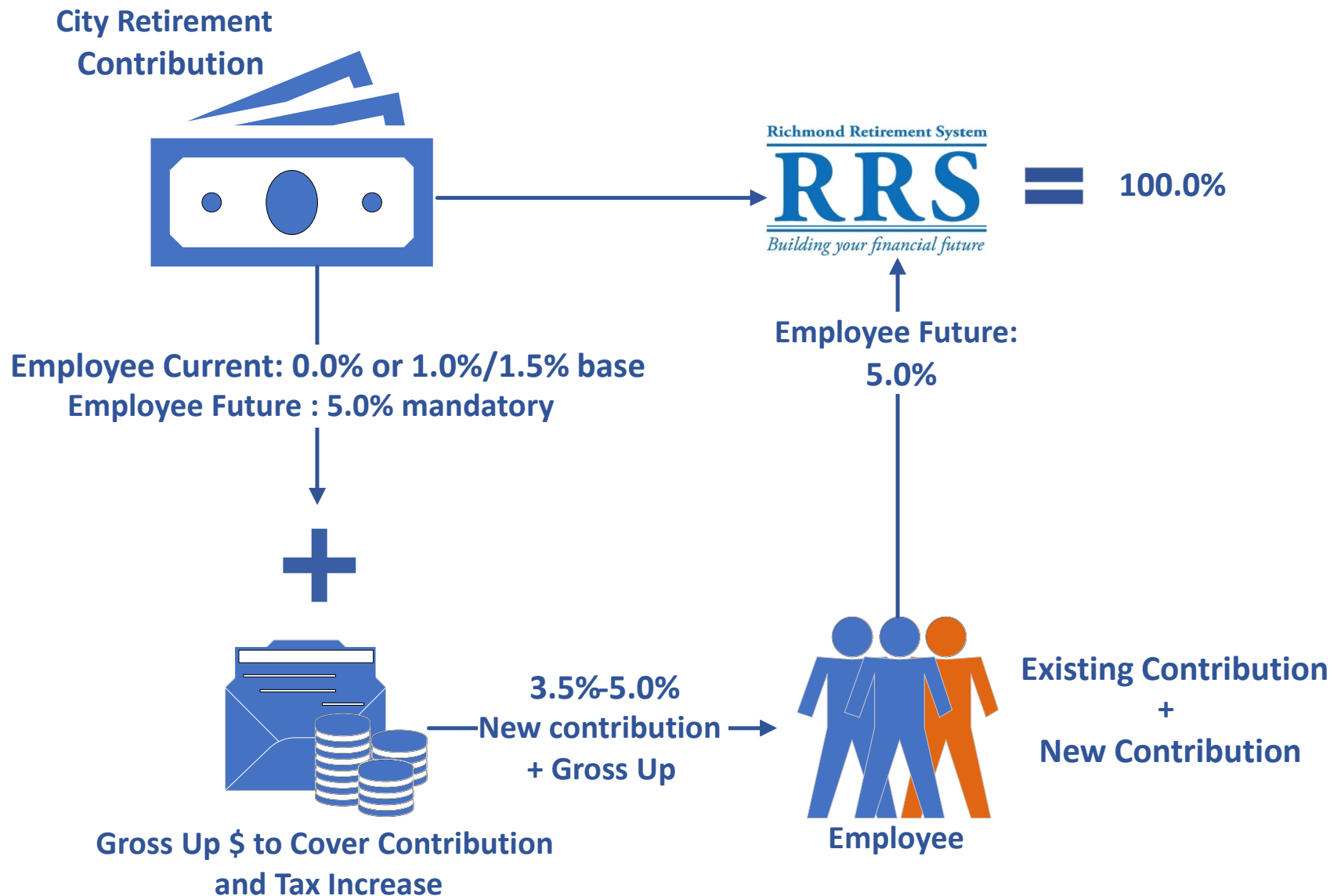


Illustration only. Actual percentages and amounts will differ.



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.



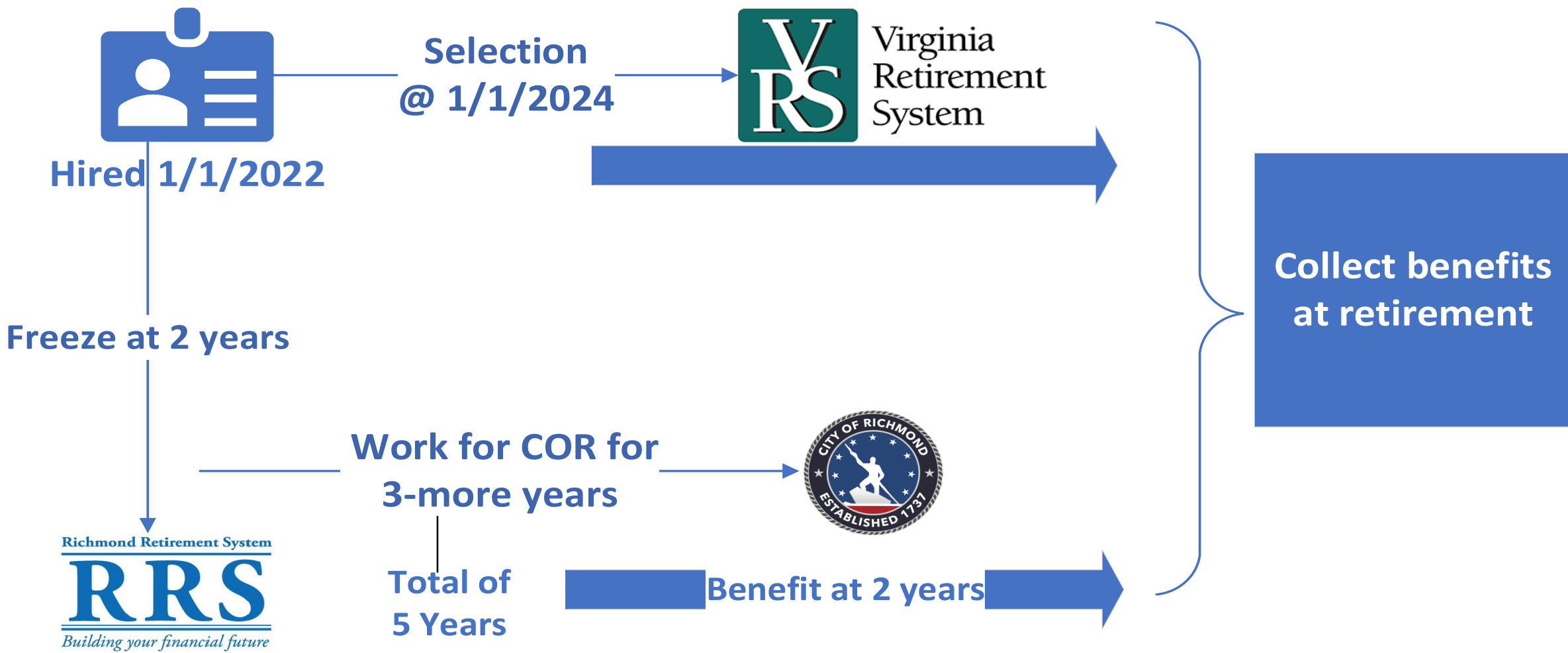
ADDRESSING THE NON-VESTED DC PLAN MEMBERS CHOOSING TO MOVE TO VRS

- **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

Illustration Only



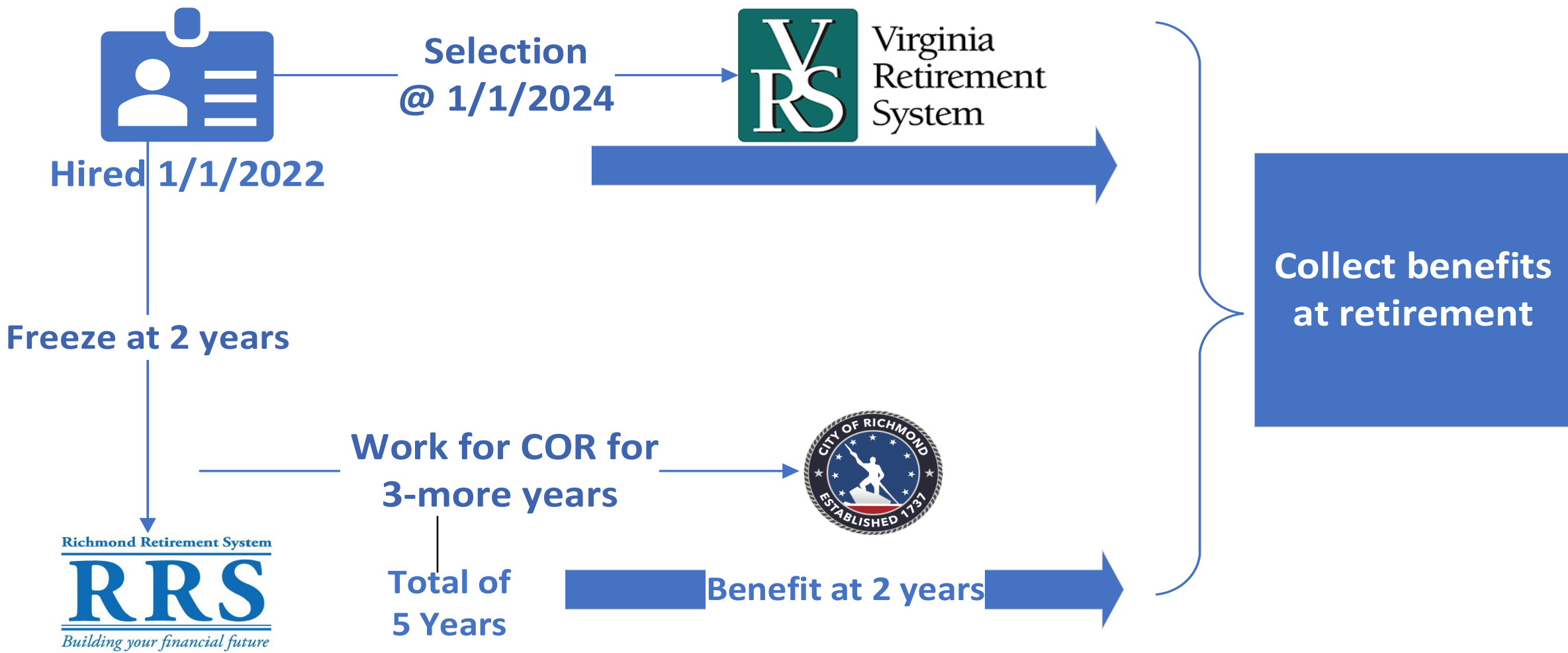
ADDRESSING THE CURRENT NON-VESTED DB PLAN MEMBERS CHOOSING TO MOVE TO VRS

- A trustee-to-trustee transfer will be made for **DB plan** non-vested **RRS** members
- 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



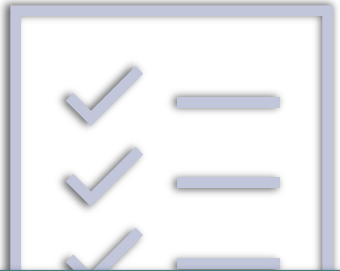
OR NON-VESTED DB PLAN MEMBERS CAN CHOSE THE FREEZE OPTION

Illustration Only



Part 5: Conclusion

TIMELINE OF TRANSITIONING TO VRS



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



2. VRS Begins January 1, 2024



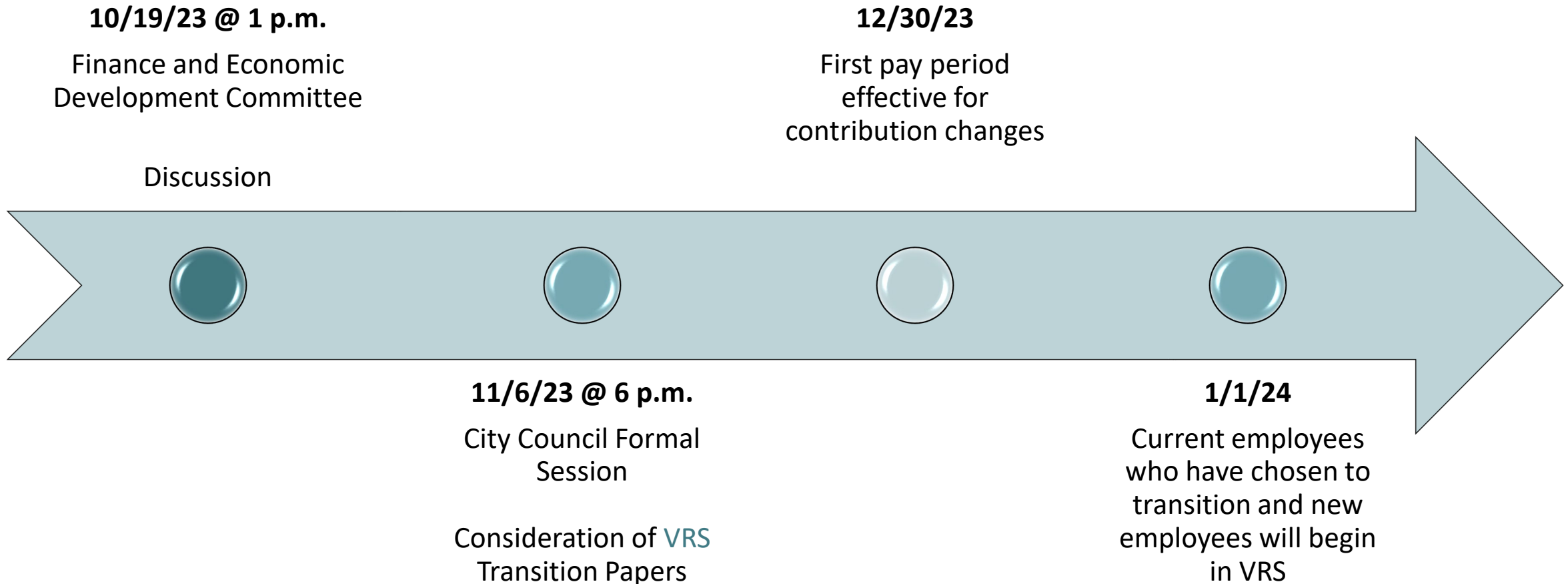
3. Current employees have until December 31, 2024, to choose

INFORMATION SESSIONS BEFORE JANUARY 1

- Pre-transition informational sessions held with:
 - City Council Members, Mayor, and Chief Administrative Officer Department directors, deputies, and select staff
 - Nine information sessions for over **1,100 employees**
 - Representatives from council appointee offices
- Post-transition informational sessions:
 - 18 VRS/RRS educational sessions scheduled
 - Begins October 19 - December 31, 2023
- One-on-one counseling sessions will be offered by VRS, RRS, and Mission Square.



TIMELINE FOR IMPLEMENTATION



DISCUSSION