

PENSION & OTHER POST EMPLOYMENT BENEFITS AUDIT



BACKGROUND RICHMOND RETIREMENT SYSTEM (RRS)

- Established in 1945. One of several in the state that are not part of VRS.
- The Defined Benefit (DB) and Enhanced Defined Benefit (EDB) Plans cover all full-time permanent sworn public safety employees (unless they select the Defined Contribution Plan), general employees hired prior to July 1, 2006, and a select group of Senior Executives. Both plans are closed to general employees hired on or after July 1, 2006.
- General employees are eligible for regular retirement at age 65 or at any age with 30 years of service. Public safety employees are eligible at age 60 or 25 years of service. Public safety employees participating in the EDB Plan are eligible at 20 years of service.

BACKGROUND RICHMOND RETIREMENT SYSTEM (RRS)

- Chapter 22 of the City Code requires that City contributions to the RRS consist of a normal contribution (actuarially calculated ratio of the normal cost of all benefits and the gross annual payroll of all active members included in the valuation) plus an accrued liability contribution, which combined, equal the actuarially determined contribution.
- Governed by GASB 67 & 68.
- Other employees are in a Defined Contribution Plan 401(a) Plan.

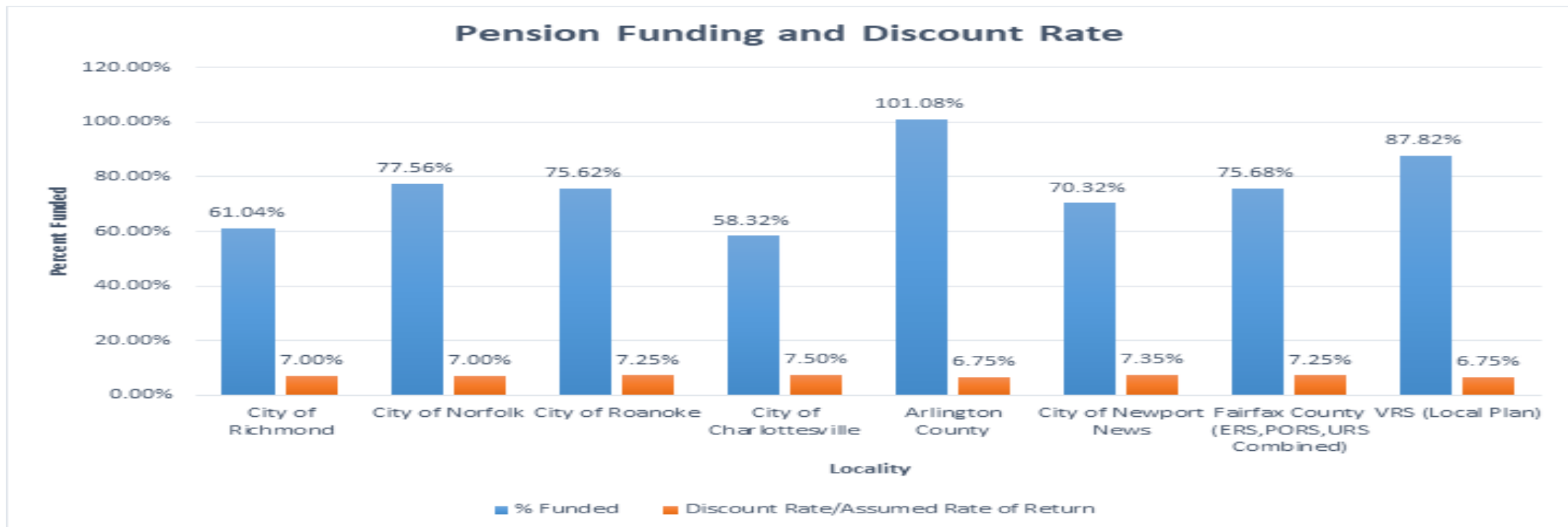
FINDINGS – RRS FUNDING & CONTRIBUTIONS

- Over the last ten years the City has funded the required contributions and deposited an additional \$493,529 and \$2 million in the RRS.

FY Ending June 30,	Plan Fiduciary Net Position-Ending*	Total Pension Liability*	Funded Percentage	Actuarially Determined Contributions	Contributions Paid by City	Covered Payroll	Difference	Contributions as a % of Covered Payroll
2010	\$ 459,436,000	\$ 787,931,000	58%	\$ 32,130,000	\$ 32,130,000	\$ 137,473,000		23%
2011	\$ 493,375,000	\$ 841,362,000	59%	\$ 39,770,000	\$ 39,770,000	\$ 130,971,000		30%
2012	\$ 476,123,000	\$ 846,442,000	56%	\$ 38,421,000	\$ 38,914,529	\$ 125,060,000	\$ 493,529	31%
2013	\$ 475,451,000	\$ 850,867,000	56%	\$ 40,446,000	\$ 40,446,000	\$ 116,666,000		35%
2014	\$ 544,904,299	\$ 854,284,141	64%	\$ 42,342,620	\$ 42,342,620	\$ 110,748,076		38%
2015	\$ 540,060,865	\$ 850,911,445	63%	\$ 46,684,500	\$ 46,684,500	\$ 111,738,352		42%
2016	\$ 515,253,793	\$ 854,875,197	60%	\$ 44,926,043	\$ 44,926,043	\$ 108,015,367		42%
2017	\$ 552,712,561	\$ 863,992,966	64%	\$ 42,911,076	\$ 42,911,076	\$ 107,363,266		40%
2018	\$ 569,085,310	\$ 874,789,363	65%	\$ 46,548,902	\$ 46,548,902	\$ 107,814,490		43%
2019	\$ 572,635,105	\$ 938,077,477	61%	\$ 46,539,647	\$ 48,539,647	\$ 108,326,347	\$ 2,000,000	45%

FINDINGS – RRS FUNDING & CONTRIBUTIONS

RRS funded position as of 6/30/19 is not as strong as peer localities. It is below the National Conference of Public Employee Retirement Systems' (NCPERS) average funded status of 72.6% (2018)



FINDINGS – RRS FUNDING & CONTRIBUTIONS

- VRIP Programs from 2019 and 2014 added approximately \$20 million to the liability and impacted the funded percentage by approximately 1.3%.
- Approximately \$9.4 million is needed to improve the funding by one percent.
- In FY2019 the RRS reduced that rate of return from 7.5% to 7%, which reduced the funded ratio by approximately 2.75%.

Schedule of Funding Status *As of June 30, 2019*



The funded status from 2000 to 2013 is calculated using methodology prior to the implementation of GASB 67.

FINDINGS – RRS FUNDING & CONTRIBUTIONS

- Based on a June 30, 2019 actuarial evaluation provided to a City Council committee in November 2019, the funded status was projected to improve gradually over the next ten years to over 80% if:
 - 7% investment return is realized,
 - The City continues to fund actuarially determined contributions, and
 - The City does not do Ad-hoc Cost of Living Adjustments (COLA) or other benefit enhancements.
- The City also allows DC Plan participants to receive a disability pension from the DB Plan; yet those participants have not paid into the DB Plan for the pension they receive. Per the RRS Executive Director this is a potential hidden cost to the DB plan, representing a bigger population of employees and corresponding disability payments in the future.

FINDINGS – RRS BENEFITS

Retirement Provisions for General Employees/Non-Public Safety Employees (New Members)

Locality	General Employee Contribution Rate	Normal Retirement Age	Average Comp- New Hires	Retirement Factors	<u>DROP Years</u>
City of Richmond - Defined Benefit	1.00%	Age 65 or 30 years of service	3 years	1.75%	N/A
City of Richmond - Enhanced Defined	4.57%	Age 65 or 30 years of service	3 years	2%	N/A
City of Charlottesville	5%	Age 65 with 5 years of service	5 years	1.60%	N/A
City of Norfolk	5%	Normal Social Security Age with 5 years OR Age + Service = 90 with 5 years of service	5 years	1.75%	N/A
City of Roanoke	5%	Age 65 with 5 years OR Age 55 with 30 years	5 years	2%	N/A
City of Newport News	5%	N/A New Employees - members of VRS Current members - Age 60 with 5 years or 30	3 years	N/A (Members of VRS)	N/A
Arlington County	4%	Age 62 with 5 years OR 30 years of service OR Age + Service = 80	3 years	1.70%	Up to 3 years
Fairfax County - General Employees Retirement	5.33%	Age 65 with 5 years OR Age 55 with 30 years (Service + Age = 85, min age 55)	3 years	2%	Up to 3 years
Virginia Retirement System	5%	Normal Social Security Age with 5 years OR Age + Service = 90	5 years	1% (Hybrid Plan)	N/A

FINDINGS – RRS BENEFITS

Retirement Provisions for Public Safety Employees (New Members)

Locality	Public Safety Employee Contrib Rate	Normal Retirement Age	Average Comp- New Hires	Retirement Factors	DROP Years
City of Richmond - Defined Benefit	1.50%	Age 60 or 25 years	3 years	1.65% + 0.75% to age 65	Up to 6 years
City of Richmond - Enhanced Defined Benefit	5.45%	Age 60 or 20 years	3 years	1.65% + 0.75% to age 65	Up to 6 years
City of Charlottesville	5%	Age 60 with 5 years	5 years	1.60%	N/A
City of Norfolk	5%	Age 60 with 5 years OR age 50 with 25 years, whichever occurs first	5 years	2.50%	Up to 4 years
City of Roanoke	5%	Age 65 with 5 years OR Age 50 with 25 years	5 years	2.00%	N/A
City of Newport News	5%	N/A New Employees - members of VRS Current members - Age 50 with 5 years or 25 years of service	3 years	N/A (Members of VRS)	N/A
Arlington County	7.50%	Age 52 with 5 years or 25 years or Age + Service = 80	3 years	2.5% and 2.7% until SS eligible	Up to 3 years
Fairfax County- Police Officers Retirement System	8.65%	Age 55 or 25 years of service	3 years	2.80%	Up to 3 years
Fairfax County- Uniformed Retirement System	7.08%	Age 55 with 6 years or 25 years of service	3 years	2.50%	Up to 3 years
Virginia Retirement System	5%	Age 60 with 5 years OR age 50 with 25 years	5 years	1.7% or 1.85%	N/A

FINDINGS – RRS BENEFITS

Based on the comparisons,

- City's employee contribution rates are lower (Impacts competitive appearance of gross salaries).
- The average years to calculate the Average Final Compensation (AFC) is three instead of five years.
- Deferred Retirement Option Plan (DROP) is longer.
- Many local governments in Virginia are members of the VRS, and VRS changed the mandatory 5% member contribution on local governments and school systems starting in July 2012 for employers who were paying all or part of the 5% member contribution. For new hires, the change started July 1, 2012. For existing employees, local governments and school systems had the option to phase in the 5% member contribution by 1% per year through July 1, 2016. The 2012 VRS legislation also provided offsetting salary increases to match the amounts existing employees began to pay.

RRS RECOMMENDATIONS

- We recommend the Chief Administrative Officer:
 - Set aside additional funding for the pension liability in future budgets presented to City Council.
 - Work with Human Resources to determine if an insured approach for disability benefits for Defined Contribution plan participants is a more efficient and cost-effective alternative.
 - Create a cross functional team comprised of Human Resources, Finance, Budget, Public Safety and RRS staff to review the Pensions system as it pertains to member contributions, DROP, AFC and other factors, as appropriate to improve comparability in the marketplace with peer localities and improve long term funding of the Defined Benefit Plan. This review could also evaluate using VRS for new hires.

BACKGROUND OTHER POST EMPLOYMENT BENEFITS (OPEB)

- OPEB refers to non-pension benefits that U.S. state and local governments provide to their retired employees. These benefits principally involve health care benefits, but may also include other benefits such as life insurance.
- The City provides continuous medical insurance for defined benefit (DB) members. To be eligible, a retiree must have been enrolled in the City's health plan for five years immediately prior to retirement and have at least ten years of creditable service prior to retirement
- The City pays a portion of premiums based on length of active service. For those with 10 to 15 years of service, the City contributes 50%; 75% for retirees with 15 to 25 years of service; and 100% of coverage for those retirees with 25+ years of creditable service at the time of retirement. The City also pays full coverage for Line-of-Service retirees for life.

BACKGROUND OTHER POST EMPLOYMENT BENEFITS (OPEB)

- Recent financial reporting standards now require disclosure of not only the OPEB liability but also reporting the liability in the financial statements along with required supplementary information.
- Governed by GASB 75 (Effective fiscal years after June 15, 2017).
- Once the retiree becomes eligible for Medicare, they are no longer eligible to participate in the City's Plan, with the exception of Line-of-Service retirees.
- New hires and other non public safety employees not part of the Defined Benefit plans are not eligible.

FINDINGS – OPEB FUNDING & CONTRIBUTIONS

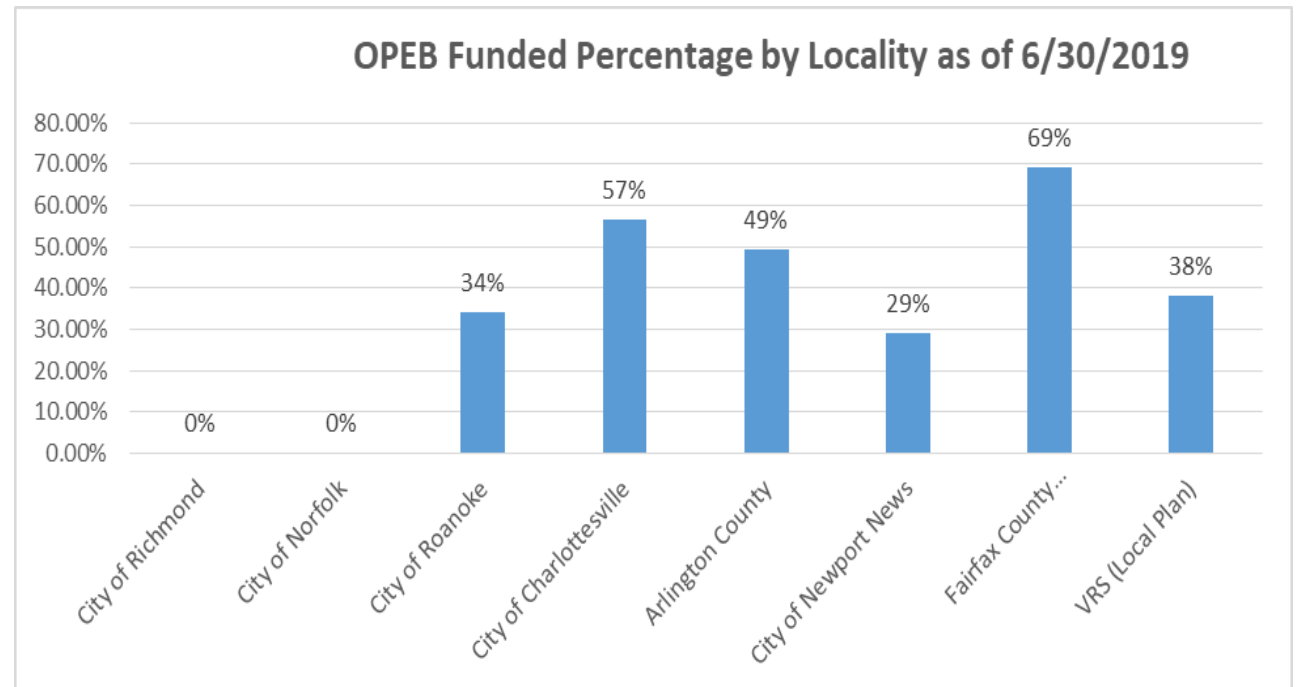
- The City has not been funding the annual contributions calculated for this liability. The City joined the Virginia Pooled OPEB Trust Fund in July 2018, which is managed by VML/VACO and has made three deposits totaling \$750,000 (\$250,000 each) in 2019 and 2020 to start reducing the liability. However these amounts are not sufficient to address this liability.

FY Ending June 30,	Total OPEB Liability	Annual Required Contributions	Contributions Paid by City	Difference
2010	\$ 62,685,140	\$ 9,538,680	\$ 1,499,574	\$ (8,039,106)
2011	\$ 62,132,479	\$ 6,413,437	\$ 1,427,898	\$ (4,985,539)
2012	\$ 60,403,567	\$ 5,292,027	\$ 5,779,471	\$ 487,444
2013	\$ 57,808,421	\$ 5,840,887	\$ 5,558,153	\$ (282,734)
2014	\$ 68,014,890	\$ 5,668,526	\$ 5,422,850	\$ (245,676)
2015	\$ 68,014,890	\$ 8,687,683	\$ 3,607,535	\$ (5,080,148)
2016	\$ 69,995,667	\$ 9,246,427	\$ 3,585,780	\$ (5,660,647)
2017	\$ 72,394,963	\$ 9,614,693	\$ 3,854,714	\$ (5,759,979)
2018	\$ 80,416,926	\$ 9,228,017	\$ 2,958,026	\$ (6,269,991)
2019	\$ 83,978,162	\$ 8,371,014	\$ 3,397,610	\$ (4,973,404)

FINDINGS – OPEB FUNDING & CONTRIBUTIONS

The City's OPEB funded position as of 6/30/19 is not as strong as peer localities.

Liability amounts can vary based on size and type of retiree benefit offered.



FINDINGS – OPEB BENEFITS

In comparison to some Virginia localities that also manage their own pension plans, and VRS (State Plan), the City's OPEB benefits have not been limited to reduce this liability.

- City has variable subsidy amounts.
- Some localities have eliminated retiree health care or provide access only benefit for new hires.
- Some localities offer fixed subsidy amounts for cost control.
- Chesterfield County provides an access benefit only for retiree health care for new hires after July 1, 2006. Henrico County provides a monthly supplement of \$3 for each full year of service towards health care effective January 1, 2006.

OPEB Benefits Provisions Locality	Provisions	New Employees	Retirees / Current Members of Pension System
Richmond	<p>Only available for members of the Defined Benefit Plans- Under age 65 and has worked for COR for more than 15 years OR has worked for COR for more than 10 years with 5 years of continuous health insurance coverage to their effective retirement date.</p> <p><10 years of service - 0% City Contribution 10-15 years- 50% City Contribution 15-25 year - 75% City Contribution 25 years or more - 100% City Contribution</p>	<p>Variable Amount - Public Safety / Executives None- Regular General Employees</p>	Variable Amount
Charlottesville	<p>Pension plan members hired before 12/3/02, received 100% of the City contributions towards the cost of medical and dental insurance. For pension plan members hired on or after 12/3/2002, the City contribution toward the cost of medical and dental is pro-rated based on vesting requirements and years of creditable service.</p> <p>Retired Before 7/1/2012 Must have 5 years of creditable service. Under Age 65: Can continue to participate in Health Care Program Over Age 65: Participates in program that provides Medicare Supplementary Insurance and certain wellness benefits.</p> <p>Retired After 7/1/2012 Must have 10 years of creditable service. Under Age 65: Can continue to participate in Health Care Program. Health and Dental coverage end at Medicare eligibility age.</p>	Variable Amount	Variable Amount
Norfolk	<p>Per City CAFR- "City committed to a set contribution amount as an explicit subsidy if \$25 or \$35 per month for the City...". Effective 1/1/2014 eliminated post 65 healthcare coverage. Under age 65 with 15 years of continuous service with the City or retired from the City with accidental disability. Must have been enrolled as of their last day as an Active employee. Pre-65 retirees will continue to receive subsidy and will participate on the consortium with the active employees.</p>	Fixed Subsidy	Fixed Subsidy
Roanoke	<p>Retiree health insurance information was not available online. Per City CAFR- an additional monthly supplement equal to the greater of (a) \$159 or (b) 75% of the amount the City contributes toward the cost of the a single active employee's health insurance shall be paid for eligible retirees terminating in the month in which the retiree attains age 65. Any member of the pension plan (excluding school board) and who retired with 20 or more years of service and prior to age 65 are eligible for this supplement. Employees hired after 6/30/2013 are not eligible for this supplement.</p> <p>Employees with 15 continuous years of active service and under the age of 65 may participate in the Employee's Post-Retirement Health Plan.</p>	Access Only	Variable Amount (75%) or Fixed Subsidy (\$159 supplement)

	<p>City retirees may continue only health/dental coverage, if any, that is in effect as of the date of retirement. When reaching age 65, city retirees and/or spouses are required to obtain Part A and B of Medicare, and the post-retirement benefit will consist of the Medicare carve-out plan.</p> <p>-Qualified city employees who are not eligible to retire based on age or service before 7/1/2005 are entitled to receive a graduated percentage of the premium paid by the fund, depending on years of city employment as follows: <10 years - 0%; 10, 11 - 5%; 12 - 10%; 13 - 15%; 14 - 20%; 15 - 25%; 16 - 31%; 17 - 37%; 18 - 43%; 19 - 49%; 20 - 55%; 21 - 64%; 22- 73%; 23 - 82%; 24 - 91%; 25+ - 100%</p> <p>-The dollar amount of the premium paid by the fund will be called 6/30/2005 with an annual COLA thereafter.</p> <p>-Employees hired on or after 3/1/2010 will participate in a Health Reimbursement Arrangement. The City will contribute 3% of the average city employee's salary. There will not be any city premium contribution at retirement. Funds are invested in the employee's name.</p>		
Arlington	<p>County pays a share of retiree health benefits based on retirement date.</p> <p>Retired Before January 15, 2012 6 Groups: Max Subsidy ranges from \$192 to \$960 based on retirement chapter and years of service Hired Before July 1, 2008 and Retired On or After January 15, 2012 6 Groups: Max Subsidy ranges from \$120 to \$600 based on retirement chapter and years of service Hired On or After July 1, 2008 6 Groups: Max Subsidy ranges from \$60 to \$300 based on retirement chapter and years of service</p>	Fixed Subsidy	Fixed Subsidy
Fairfax	<p>All Fairfax Retirement Systems - Retirees pay the full cost of health and/or dental insurance. Retirees age 55 or older, or those retired on a service-connected disability, receive a monthly subsidy from the county toward the cost of a county health plan.</p> <p>5-9 years at retirement- \$40 10-14 years- \$75 15-19 years- \$165 20-24 years- \$200 25+ years- \$230</p>	Fixed Subsidy	Fixed Subsidy
VRS	<p>Retired state employees with at least 15 years of service credit are eligible for a tax-free reimbursement against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering a spouse or dependents. The credit cannot exceed the amount of premiums and ends upon the retiree's death. Amount per year of service is dependent upon type of employee: State employees/ teachers/ professional school employees - \$4 per year of service credit w/ no max credit per month; General registrars & their employees/ constitutional officers & their employees/ local social service employees - \$1.50 per year w/ a \$45 monthly cap OR \$2.50 per year w/ a \$75 monthly cap; Other political subdivision employees as elected by the employer - \$1.50 per year w/ \$45 monthly cap.</p>	Fixed Subsidy	Fixed Subsidy

FINDINGS – OPEB BENEFITS

- There are two basic ways to manage the unfunded liability. One way is by allocating financial resources to fund the OPEB obligations, and another is to look at benefits offered and reduce liabilities for future benefits.
- The OPEB liability can be reduced by limiting future benefit payment costs either through only providing an access only benefit, fixed subsidy or controlling the amount of growth in the benefit costs with an inflation cap. OPEB liabilities can also be reduced by limiting the age an employee can begin to receive retiree healthcare (55 years). Some localities have eliminated retiree health care or provide access only benefit for new hires.
- It is easier to change benefits for new hires than existing staff. A combination of funding and benefit changes over time is needed to manage this liability.
- At some point negative bond rating agency impacts may occur if the City does not address this matter.

OPEB RECOMMENDATIONS

- We recommend the Chief Administrative Officer:
 - Fully fund the OPEB Annual Required Contributions in future Budgets presented to City Council and set aside additional funding for the OPEB Trust.
 - Create a cross functional team comprised of Human Resources, Finance, Budget and Public Safety staff to reduce the OPEB liability in future years to address OPEB benefits for health care for existing personnel and/or for new hires that can be proposed to the City.

CONCLUSION

- Recommendations
 - Issued five recommendations
 - Concurred with all five
 - Implementation dates through FY2022 Budget Year
- Time Spent
 - Scheduled FY2021 audit plan at 500 hours
 - Actual time spent 450 hours

QUESTIONS

