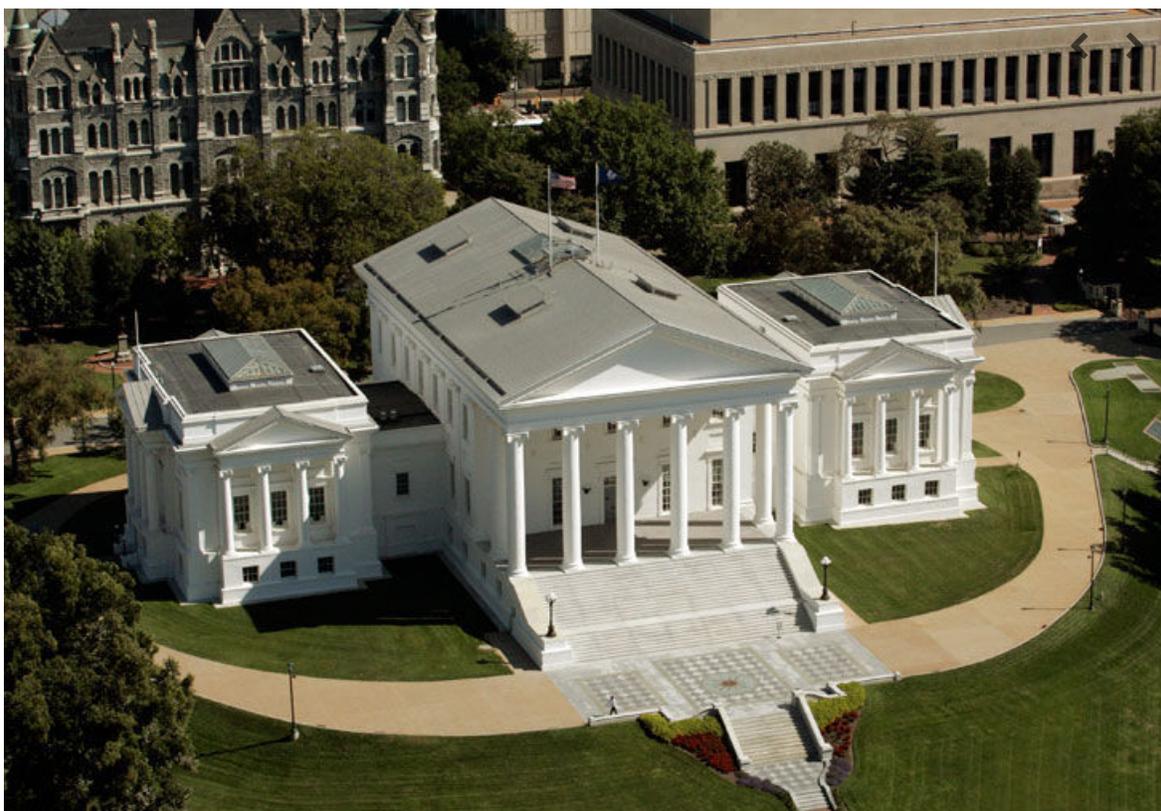


http://www.richmond.com/news/virginia/virginia-retirement-system-hits-historic-high-of-billion-at-the/article_d601feca-60b6-50c9-854c-00144dc4e49e.html

Virginia Retirement System hits historic high of \$74 billion at the right time for lawmakers

By MICHAEL MARTZ Richmond Times-Dispatch 11 hrs ago



Virginia State Capitol building photographed from the roof of the SunTrust Bank building.

JAM

Timing is everything for the Virginia Retirement System, which reached a historic high of \$74 billion just as state lawmakers are preparing a new two-year budget and another look at potential reform of the pension system to reduce its long-term liabilities.

The VRS earned an 11.8 percent return on investments for the fiscal year that ended June 30. That exceeded the annual assumed return of 7 percent that the system will use to determine contribution rates later this year for state employee and teacher pension plans in the next two-year budget.

After two years of disappointing investment performances that fell well below the assumed rate of return, the retirement system goes into the rate-making year with a boost in income in addition to money the state included in the current budget to make up for past failures to fully fund its pension obligations.

"The ship is no longer sinking," said Del. Robert D. Orrock Sr., R-Caroline, chairman of the Joint Legislative Audit and Review Commission, after its semiannual review of the retirement system on Monday. "It's coming out of the water."

But a commission led by Speaker of the House William J. Howell, R-Stafford, also convened Monday at the Capitol to consider further reforms of the pension system, either by creating a voluntary 401(k)-style retirement plan for new state employees, as he favors, or tweaking the current hybrid plan to increase employee savings.

"I'm going to give it one last shot," Howell said last week, as he himself prepares to retire in January after 30 years in the House of Delegates and 15 as speaker.

The Virginia Commission on Employee Retirement Security & Pension Reform began its work last year, but efforts to reduce the state's long-term pension obligations were overshadowed by the need to boost employee compensation in the face of major turnover in an aging workforce.

So the legislature focused its budget investment on a 3 percent raise for state workers, as well as additional pay for teachers, state-supported local employees, state police and Capitol police.

This year, legislators will wait on a major study by JLARC to measure how Virginia's public workforce compares with other states and private employees in total compensation — including retirement and health benefits, as well as pay — before deciding what to do about pension reforms that would require additional money in the budget.

"I don't think we're at the level of compensation we need to be equitable," said former Sen. John Watkins, R-Powhatan, one of the architects of pension reforms in 2012 that included creation of a hybrid plan for employees hired after 2013 that featured a traditional pension and an individual savings plan.

The hybrid has helped lower the state's long-term retirement costs for its employees and teachers. Critics say its structure does not do enough to help employees save for their retirement in addition to pension benefits that are more limited than those of employees hired before the new plan took effect.

"The bones of the plan are good, but the details have problems," said Greg Mennis, director of public sector retirement policy for The Pew Charitable Trusts, which is aiding the Howell commission's work.

Fundamental to the debate is how well-prepared the state is to absorb higher pension contribution costs if investment returns lag, as they did in fiscal 2016 at 1.9 percent and fiscal 2015 at 4.7 percent.

Investment income covers most of the costs of a system that pays out more in benefits than it receives in contributions from government employers and employees, but VRS lowered its expectation of annual returns in the stock market from 7.5 to 7 percent in 2010.

"VRS, at 7 percent, is well ahead of other states as far as realistic planning for investment returns," Mennis said.

So the bullish investment performance in the fiscal year that just ended was good news for VRS and lawmakers.

"It's fun to be here when the returns are good," Chief Investment Officer Ronald D. Schmitz told JLARC.

The system's \$74 billion in assets represent a historic high for VRS, which is the 20th-largest public pension system in the country and the 44th in the world, with about 676,414 active, retired or inactive members in state and local government.

The performance also gave VRS officials ammunition in an ongoing political debate over big incentive payouts each year for the system's internal investment staff members, who handle about 30 percent of the portfolio and routinely place among the highest-paid state employees.

"I think a lot of state employees are very concerned that the people who are managing their money for their retirement are doing extremely well," said Del. R. Steven Landes, R-Augusta, vice chairman of the House Appropriations Committee. "These dollars we're paying out could go into the retirement fund."

But VRS Chairman Mitchell L. Nason said the internal investment team has generated \$289 million more a year in investment returns for the system, while saving more than \$22 million in fees that it would pay external fund managers on Wall Street.

"They've generated more than what's needed to cover their incentive pay," he said.

Nason is a lieutenant in the Prince William County Fire and Rescue Department, so he said, "I've got the bluest collar in the room."

VRS officials say the system still has big unfunded liabilities for its defined benefit pensions, but credit state lawmakers for accelerating their commitment to fully funding the rates certified by the board of trustees in this biennium.

"We're moving to 100 percent funding, so we're not adding to those costs," VRS Director Patricia S. "Trish" Bishop told JLARC.

mmartz@timesdispatch.com

(804) 649-6964

Michael Martz
