

**REPORT OF THE
VIRGINIA RETIREMENT SYSTEM ON**

**THE PORTABILITY OF
RETIREMENT BENEFITS
BETWEEN THE COMMONWEALTH
AND ITS POLITICAL SUBDIVISIONS**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



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PREFACE

The following study was conducted under the authority of House Joint Resolution 104 which was approved by the 1994 Session of the General Assembly.

The study was conducted by a task force consisting of representatives from the Association of Municipal Retirement Systems of Virginia and the staff of the Virginia Retirement System (VRS). Information in the **DEFINITIONS** section of this report borrows from and freely quotes a 1989 study by the Government Finance Officers Association (GFOA) and the National Association of State Retirement Administrators (NASRA) titled, Pension Portability and Preservation for State and Local Governments.

The task force acknowledges the cooperation received from the 11 municipal public retirement plans of Virginia in responding to the survey conducted as part of this study. The task force acknowledges the assistance from the States of California, Illinois and Minnesota for information provided on intrastate portability. The task force acknowledges the research assistance from the Congressional Research Institute; the American Association for Retired Persons (AARP); the Government Finance Officers Association (GFOA); and the U.S. Department of Labor. The task force also acknowledges the actuarial assistance provided by Buck Consultants, and Williams, Thacher & Rand.

TABLE OF CONTENTS

REPORT COMPONENT	Page
Executive Summary	1
Introduction	4
Definitions of Portability	4
Pension Portability	
Pension Preservation	
Portability of Benefits	
Portability of Assets	
Portability of Service	
Consolidated (Multi-Employer) Plans	
Reciprocity	
Need for Portability	6
Attract a Quality Work Force	
Encourage Greater Regional Cooperation	
Encourage Job Opportunity/Mobility	
Improve Employer/Employee Relations	
Ensure Adequate Retirement Income	
Reduce Record Maintenance and Costs	
Portability Models	8
Consolidated Model	
Reciprocity Models	
Purchase of Service	
Findings of Study	11
Goals of Task Force	
Task Force Portability Guidelines	
Average Final Compensation (AFC)	
Implementation of Portability	
Comparison of Benefits	
Conclusion	18
Appendices	
Appendix A: House Joint Resolution 104	
Appendix B: Intrastate Reciprocal Agreements from other States and Responses from Actuaries	
Appendix C: Employers Participating in VRS	
Appendix D: Summary of Local Plans	
Appendix E: Recommended Legislation	

EXECUTIVE SUMMARY

This study of the portability of retirement benefits between the Commonwealth and its political subdivisions was conducted in response to House Joint Resolution 104, approved during the 1994 Session of the General Assembly. A copy of HJR 104 may be found in Appendix A. The study was performed by a task force of representatives from the Association of Municipal Retirement Systems and the staff of the Virginia Retirement System (VRS).

The Association and VRS recognize the need for portability to enhance the employer's ability to attract a quality work force; encourage greater regional cooperation; improve employer/employee relations; improve job opportunities and mobility; reduce retirement income loss due to job mobility for a greater number of Virginia workers; and reduce administrative costs.

Portability is a complex issue. There are two central components of portability: pension portability and pension preservation. Generally, pension portability means the ability of workers to take their pensions with them when they leave an employer. Pension preservation means that the value of benefits received after retirement is not reduced as a result of changes in employment. The difficulty in implementing portability lies in determining a mechanism that is equitable to the employee and the retirement plans, and reasonable to administer.

The task force's study of portability included: determining the scope of the study; defining portability; identifying the need for portability; determining the level of interest in intrastate portability; establishing eligibility requirements for portability; identifying the potential movement of benefits among the retirement plans involved in the study; reviewing current purchase of service statutes; determining the level of portability occurring in other states; investigating different portability models and the associated costs; and identifying administrative requirements.

Portability may be accomplished by consolidation of retirement plans or through reciprocity. Reciprocity is an arrangement among two or more plans which allows the transfer of benefits, service or assets among plans upon job changes. The trend among state and local retirement plans to consolidate the many plans within a state into one or a few plans has been significant in terms of increasing portability. The VRS is an example of a consolidated plan. **There is 100% portability of retirement benefits and 100% income preservation for VRS members employed by the 853 public employers participating in VRS.** A change in employment among employers participating in VRS does not affect the plan participant's benefits. 100% portability is possible because VRS benefits are uniformly applied, and participating employers have agreed to pay the costs associated with portability. The costs are the result of the benefit being calculated on combined service and the highest average final compensation, wherever it may occur during

employment. The costs are shared among the specific employers, are prorated on the basis of service and are reflected in the employer's contribution rate.

There is reciprocity among public plans on an intrastate basis in several other states. In general, the transfer of service and/or assets from one plan to another is rare because of the diversity of plan designs and because of the costs associated with crediting employees with service performed for another, earlier employer. The preferred model of intrastate portability in other states, with some variation, appears to be that in which each employer pays a benefit to the retiree, taking into consideration service and salary earned in other plans covered by the reciprocal agreement. There are significant differences in the benefit structures of the VRS and retirement plans included in this study. Information on intrastate reciprocal agreements may be found in Appendix B. A summary of the plan differences may be found in Appendix D.

The task force acknowledges the complexity of preserving the pension income through portability, the high costs to achieve portability, and the difficulty in achieving portability in a manner that is equitable to the employee and retirement plans. However, the task force agrees that the need for workers to consolidate retirement benefits does exist. Therefore, the question seems to be not if portability of retirement benefits is needed and desirable, but: 1) to what degree will retirement income be preserved; 2) who will pay the cost of that preservation; and 3) is that cost justified?

Any degree of portability of pensions and preservation of retirement income can be accomplished by incorporating different features in the reciprocal agreements. Each step toward achieving 100% portability (and 100% income preservation) adds to the cost, with the cost of 100% portability being very high. The task force studied several portability models and identified the associated costs. The change in the retirement benefit(s) under the different models may be found in the "Comparison of Benefits" section of this document.

Based on the findings of the study, the task force suggests that portability may be accomplished in the following manner: 1) the municipal plans, on an optional basis, amend plan provisions to accept the direct transfer of funds for conversion to service; 2) the present value of a vested, terminated plan participant's accrued retirement benefits be transferred directly, if allowed by the Internal Revenue Service (IRS) regulations, to assist in funding the conversion of such service; and 3) the employee be permitted to pay any difference in funds, as determined by the receiving plan, in order to receive credit for equal service in the receiving plan if the transferred funds are insufficient. The transfer of the present value of the accrued benefits terminates the plan participant's membership and all rights and benefits in

the transferring plan. The present value of accrued benefits is the actuarial equivalent of the total of the retirement annuity paid from the date of retirement up to the person's actuarial life expectancy. The dollar amount representing the present value of the accrued benefits will not be the same for all plans because each plan has its own earnings assumption, actuarial assumptions and benefit design. The task force also suggests that municipal plan regulations be amended to allow the purchase of prior service in order to provide the means for non-vested members, not eligible for portability as discussed in this document, to achieve some degree of portability.

The task force requests the passage of enabling legislation to permit portability among plans during the 1995 Session of the General Assembly to be effective July 1, 1996. A delay in the effective date is requested in order to obtain a private letter ruling from the IRS regarding the tax deferred, direct transfer of the present value of accrued benefits on behalf of a vested, terminated participant from one defined benefit plan to another. Draft legislation to allow portability is set out in Appendix E.

INTRODUCTION

House Joint Resolution Number 104, approved during the 1994 Session of the General Assembly, requested the Virginia Retirement System, in cooperation with the Association of Municipal Retirement Systems, to study the portability of retirement benefits between the Commonwealth and its political subdivisions. The study was performed by a task force of representatives from the Association of Municipal Retirement Systems and the staff of the Virginia Retirement System (VRS).

Section 51.1-800 of the Code of Virginia requires every county, city and town having a population of 5,000 or more to provide a retirement system for certain officers and employees by: (1) establishing and maintaining a local retirement system which provides a service retirement allowance to each employee who retires at age 65 or older which equals or exceeds two-thirds of the allowance to which the employee would have been entitled under VRS provisions or (2) participating directly in the VRS. All but eleven of the political subdivisions required to comply with Section 51.1-800 have elected to satisfy the service retirement standard by participating in the VRS.

The Association is comprised of the eleven political subdivisions that have established local retirement plans in lieu of participating in the VRS. The eleven localities are: the Counties of Arlington, Fairfax and Powhatan; the Cities of Charlottesville, Danville, Falls Church, Newport News, Norfolk, Richmond and Roanoke; and the Town of Farmville. Powhatan and Farmville have defined contribution plans. The other nine political subdivisions, as well as VRS, have defined benefit plans. This study is limited to portability among defined benefit plans.

DEFINITIONS OF PORTABILITY

Pension portability is a complex issue. Generally, pension portability means the ability of workers to take their pensions with them when they leave an employer. How portability is accomplished directly affects the value of the pension benefit. The level to which the pension benefit will be preserved must be considered in the pension portability design. Pension preservation means that the value of benefits received after retirement is not reduced as a result of changes in employment. There are three types of portability--portability of benefits, portability of assets, and portability of service. Pension preservation is affected by how the three types of portability are addressed in plan designs or reciprocal agreements. The difficulty in implementing portability lies in determining an optimum combination of the three factors to achieve equity for the plan participant and retirement plans.

Portability of Benefits

The portability of benefits usually refers to vesting. Vesting can occur immediately upon employment, gradually (step rate vesting) or after a certain period of employment. Vested members are entitled to a benefit upon attaining retirement age. Vested members retain the right to the benefit even if they terminate employment. Non-vested members lose all rights to employer-paid benefits upon termination of employment. Portability of benefits may be enhanced by eliminating or lowering vesting requirements, or combining service under several plans to meet vesting requirements under each plan.

Portability of Assets

The portability of assets refers to the payment or transfer of retirement assets from the plan to the member or another qualified plan. Contributory plans already provided a degree of portability by permitting a terminating member, upon request, to receive a cash payment of accumulated member contributions and interest (refund), subject to taxation. The before-tax refund may be directly rolled over to another qualified plan such as a defined contribution plan or IRA. The member may receive a lump sum payment equal to the present value of his or her pension benefit at the time of termination (cash-out), subject to IRS taxation and plan regulations. The present value of the accrued retirement benefits is actuarially determined. The present value of accrued benefits is the actuarial equivalent of the total of the retirement annuity paid from the date of retirement up to the person's actuarial life expectancy. The dollar amount representing the present value of the accrued benefits will not be the same for all plans because each plan has its own earnings assumption, actuarial assumptions and benefit design.

The assets may also be rolled over to another qualified retirement plan in accordance with IRS regulations. A rollover is the tax-deferred transfer of retirement assets. IRS permits the direct rollover of assets from defined benefit to defined contribution plans but does not allow a direct rollover from one defined benefit plan to another. Funds may be distributed to the plan participant after taxes and then rolled over within 60 days of the distribution date by the plan participant to a defined benefit plan. Most employers do not accept rollovers. None of the plans involved in this study accept rollovers.

Portability of Service

The portability of service refers to the crediting of service from one plan to another. The service may be transferred for vesting purposes only; solely for the calculation of benefits; or both. If service is not portable, non-vested members lose all benefits for those years of service, and the benefits for vested members are frozen. Future earnings and service are not considered in the frozen benefit. The frozen benefits of vested members are greatly eroded by: inflation; and failure to reflect salary increases due to merit or promotion.

Portability of service may also be accomplished by the purchase of service credits by the member in the subsequent plan. Generally, the burden of the cost of purchase falls solely on the member because the employer portion of the contributions is not available to fund the purchase. VRS and one local plan involved in this study allow the purchase of service credits.

Consolidated (Multi-Employer) Plans

The trend among state and local retirement systems to consolidate the many plans within a state into one or a few plans as been significant in terms of increasing portability. Virginia was cited in the publication entitled "Pension Portability and Preservation for State and Local Governments" prepared by the Government Finance Officers Association and National Association of State Retirement Administrators for its consolidation of many retirement plans into a unified system, the Virginia Retirement System (VRS). The consolidated structure of the Virginia Retirement System, implemented in 1952, provides a very high degree of portability of retirement benefits between the Commonwealth and its political subdivisions. 136 of the 147 political subdivisions (counties, cities or towns) mandated by Section 51.1-800 of the Code of Virginia to provide retirement benefits participate in the Virginia Retirement System (VRS). Additionally, 76 political subdivisions not required to comply with Section 51.1-800, as well as 222 State Agencies; 133 political entities, and 144 School Boards participate in VRS. Participation in VRS provides 100% portability with other participating employers. A complete list of employers participating in VRS may be found in Appendix C.

Reciprocity

Reciprocity is the agreement between two or more plans to allow portability of benefits, assets, service, or a combination of the three. Reciprocal agreements are necessary because of the differences in plan designs. Differences may occur in: vesting requirements; retirement eligibility requirements; benefit formulas; calculation of average final compensation (AFC) which is a component of the benefit formula; Social Security coverage; contribution requirements; allowance of refunds; mandatory refunds; the ability to purchase service; and the restrictions placed on purchased service.

NEED FOR PORTABILITY

The task force recognizes that pension portability and pension preservation are needed to: enhance the employer's ability to attract a quality work force; encourage greater regional cooperation; improve employer/employee relations; improve job opportunities and mobility; and reduce retirement income loss due to job mobility for a greater number of Virginia workers.

Attract a Quality Work Force

Employees who change jobs several times during their careers generally receive a lower retirement income than those who spend their entire career with one employer or with the same pension plan. Employees may be reluctant to change employment because of the detrimental effect on pension benefits, which is an impediment to attracting a quality work force.

Encourage Greater Regional Cooperation

Portability will encourage employees to remain within the region, resulting in an increase in sharing the pool of employees. Greater familiarity among the political subdivisions and their employees will encourage greater regional cooperation. The regions that will particularly benefit are: Northern Virginia (plans of Arlington, Falls Church and Fairfax and the VRS); the Tidewater Area (Newport News, Norfolk and the VRS), Richmond (Richmond, Henrico, Chesterfield and the VRS) and Roanoke (City and County of Roanoke and VRS). The patterns of employment among the local plans and VRS are shown in Appendix D. The information was provided by the local plans surveying active members to determine the amount of service members had in other retirement plans.

Encourage Job Opportunity/Mobility

The work force is less responsive to market-related pressures or career opportunities if an impediment to changes in employment is perceived. Both the employer and employee suffer from the loss of job mobility. Employers are less able to attract the employees they need and employees feel constrained from taking advantage of available job opportunities. Traditionally, mobility has been viewed negatively. Pension plans, particularly defined benefit plans, reflect that view and have been designed to encourage workers to stay with an employer throughout their careers.

Improve Employer/Employee Relations

Portability can improve employee morale by allowing employees: to pursue job opportunities without loss of retirement income; and consolidate retirement service, thereby increasing retirement benefits. An employer can attract and retain a quality work force. Employees are able to work where they wish to be employed, not where they must stay to safeguard retirement benefits.

Ensure Adequate Retirement Income

National studies have found that employees who change jobs several times during their career generally receive a lower retirement income than those who remain with a single employer or pension plan for the same length of service. The retirement income loss is inherent with most defined benefit plan designs. A study commissioned by the U.S. Department of Labor and conducted by the Hay/Huggins Company found that the amount of pension income lost is closely related to the number of job changes. According to research conducted by Stanford University, the average American worker today holds 10 or 11 jobs in his or her career.

Reduce Record Maintenance and Costs

Several plans wish to reduce the number of inactive, vested records in their plan. Portability may encourage inactive, vested members to transfer benefits to their current employer, thereby eliminating their retirement records at the transferring plan.

PORTABILITY MODELS

The task force contacted other states to determine the level of intrastate portability and obtain information on portability models. The following section summarizes the models implemented by other public retirement plans to achieve portability.

Consolidated Model

The trend among state and local retirement systems to consolidate the many plans within a state into one or a few plans has been significant in terms of increasing portability. As of 1986, Delaware, Florida, Hawaii, Maine, Oregon, Tennessee, Virginia and Wisconsin had one system for all state employees. Florida, Maine, Oregon, Tennessee, Virginia and Wisconsin have taken consolidation further to include most local public employees. This kind of consolidation offers complete portability for those employees who change employment among employers participating in the consolidated retirement plan. Most of Virginia's public employees enjoy 100% portability of retirement benefits as a result of membership in VRS.

The Virginia Retirement System (VRS) is an example of a consolidated retirement plan. Active VRS members include 88,877 state employees; 100,640 teachers; 67,628 political subdivision employees; 1,590 state police officers; and 351 judges employed by 222 state agencies; 40 city school systems; 94 county school systems; 12 vocational/technical schools; and 353 political subdivisions. Since benefits are uniformly applied, employees may change employment among employers participating in VRS with 100% portability. Each employer pays a portion of the retirement benefit based on the employee's service with that employer, and absorbs the additional cost of benefits due to the increase in compensation.

Reciprocity Models

In some states where plans have not consolidated, portability has been achieved through reciprocity. States with intrastate portability through reciprocity include: Illinois, Minnesota, and California.

Under the Illinois Reciprocal Agreement, each plan pays its proportional annuity after exchanging information on service credits, earnings and other pertinent data. The use of reciprocity

is optional. The member may elect reciprocity or retire independently under each plan. There is no transfer of funds or actuarial equivalent as the individual receives separate checks from each plan. The member's combined service must meet service requirements of a plan in order for that plan to participate in the payment of benefits under reciprocity. The combined service credits and earnings in all plans are considered by each plan in computing its proportionate share of the benefit. The resulting benefit is higher than if benefits were calculated without reciprocity. Each plan shares proportionally in the additional costs associated with the higher benefit. The maximum combined benefit payable under reciprocity is the highest monthly benefit that would have been payable if all service credit had been established in one system. Annual increases to the pension benefits are in accordance with provisions of the law of each individual plan. 13 plans participate in the reciprocal agreement. Further information may be found in Appendix B.

The Minnesota Reciprocal Agreement has allowed for portability of pension benefits among state and local public pension plan since 1975. The intent of the provisions of portability is to allow an individual who may move from state to local government employment or teaching service, or any combination thereof, to combine all years of service to meet the eligibility for a benefit from each pension plan in which six months or more service was accrued. Each plan applies its benefit formula to the years of service accrued by the individual in that plan, but all plans involved use an average of the five highest consecutive years of salary reported to the plan. When an individual retires, the last plan in which the person had coverage contacts the other plans and notifies them of the salary to be used to determine benefits. If the last plan has less than five years of salary, the next previous plan determines the AFC. There is no actuarial purchase cost for this benefit. Plans where the member accrued benefits based on a lower salary will subsidize the cost of the higher benefit based on the higher AFC. The Minnesota reciprocal agreement does not provide for the transfer of funds between plans. However, Minnesota is exploring the idea of actually transferring funds so that administrative costs can be reduced. Further information may be found in Appendix B.

The California Reciprocal Agreement has provided portability of pension benefits among state and local public plans since 1957 to allow an employee to move from one plan to another without losing retirement benefits. The employee maintains membership with each plan in which he has participated. Each plan pays a benefit upon retirement. The highest earned compensation and combined service are used by each plan to calculate the benefit. The California Public Employees' Retirement System, twenty county retirement plans, seven city retirement plans, the University of California Retirement System and several districts and authorities are covered by the agreement. Further information may be found in Appendix B.

Purchase of Service

Portability of service may also be accomplished by the purchase of service credits by the plan participant in the subsequent plan. Generally, the burden of the cost of purchase falls solely on the plan participant because the employer portion of the contributions is not available to fund the purchase. Contributory plans allow for a refund of member contributions that may be used toward the purchase. However, refunded contributions are taxable. The refund is on an after-tax basis, thus resulting in some purchasing loss due to taxes. Three plans involved in this study are contributory. VRS and one local plan involved in this study allow the purchase of service credits.

The VRS provisions to purchase service are set out in Section 51.1-142 and 143 of the Code of Virginia. VRS members must be vested (5 years of service) to purchase prior service from another bona fide public retirement plan, the federal civil service plan and certain military service. The cost to purchase is 15% of the higher of creditable compensation at the time of purchase or average final compensation. Service that is used in the calculation of any retirement benefit by another retirement plan can not be purchased. Legislation to permit the purchase of prior service in a retirement system with another state or political subdivision was enacted on July 1, 1976. The cost to purchase the service has remained constant at 15% since the legislation was enacted. The VRS vesting requirement was lowered from 10 to 5 years at the same time. Service purchased at 15% may not be used for the 30 year service requirement for an unreduced benefit prior to age 65. This restriction was included to protect the system against anti-selection in cases of early retirement or death in service.

The 15% cost to purchase certain prior service was actuarially determined. Because there is no way to predict the actual value to an individual member of an additional year of service credit until the benefits become payable, it is necessary to invoke the law of averages and make actuarial assumptions as to future experience. This approach would be expected to produce different costs depending on the age and sex of the member at the time of purchase. The long period of deferment for younger members would produce a low current value. However, the difference between younger members' current compensation and their ultimate average final compensation would likely be greater. The opposite considerations apply in the case of older members. The closer to retirement that the purchase occurs the higher the current value and the less difference in current and average final compensation. At the time the cost to purchase was established, the actuarial findings were that the value of an additional year of service credit for male members was about 15% of current annual compensation and about 18% for female members. Because a single purchase rate was easier to administer than one that varied by age and sex, the rate was established at 15%. The 15% cost also considered the lost earnings over time that invested funds for such service would normally

generate. On an individual basis the cost may be significantly above or below the 15% rate, but based on system experience, the 15% rate is adequate.

Under current VRS provisions, service purchased at 15% may not be used to satisfy the 30 years of service requirement for an unreduced benefit prior to age 65. The purchased service does enhance the benefit in that the service factor in the benefit formula is increased resulting in a higher benefit. If the purchased service could be used to satisfy the 30 years requirement for unreduced benefits prior to age 65, the cost to purchase would double to 30%. Again, on an individual basis the cost might be significantly above or below the 30% rate, which would be based on system experience. The cost to purchase service for unreduced benefits is higher because the pay-out of benefits begins sooner and the lost earnings effect is accelerated.

The Task force recognizes the need for changes in all local plan designs to allow the purchase of prior service in order to provide the means to accomplish portability under the task force proposal and to provide an avenue for non-vested members to achieve some degree of portability.

FINDINGS OF STUDY

The task force identified the goals and guidelines for portability and discussed the portability models used by other states as well as those suggested by several of the plans' actuaries to broaden the scope of the study. The models were studied in terms of: 1) cost allocation for increased benefits; 2) the transfer of plan assets; 3) pension preservation and 4) administrative requirements.

Goals of Task Force

1. To facilitate and enhance the recruitment and retention of qualified personnel.
2. To allow a plan participant to consolidate retirement benefits with one plan.
3. To incur no additional benefit costs related to portability by the transferring or receiving plans.
4. To reduce administrative maintenance of inactive, vested member records.

Task Force Portability Guidelines

After a great deal of discussion, the task force formulated tentative, general guidelines that could be included in a reciprocal agreement for portability. These guidelines would require further study, if used as the basis for portability.

1. Portability of benefits will be limited to defined benefit plans. Portability is limited to defined benefit plans because of the similar benefit design of the plans.

2. The plan participant must be vested in the transferring plan for service to be eligible for portability. Vesting is required because the plan participant is not entitled to a benefit until vesting has occurred.
3. Service credited under the transferring plan will be eligible for conversion by the receiving plan, if it is considered "eligible" in the transferring plan. There is some variance in the definition of "creditable service" among the plans. Receiving plans will not make a determination of what is "creditable".
4. The plan participant is not required to be vested in the receiving plan. Two plans have a vesting requirement of ten years. Seven plans have a vesting requirement of five years.
5. Service is not portable if a benefit is being paid based on such service.
6. No actuarial loss shall be incurred by either plan. The present value of the accrued benefits of the vested member will be transferred to the receiving plan.
7. The present value of the accrued retirement benefit will be determined by the transferring plan and that cash amount transferred to the receiving plan. The formula to determine present value of the accrued benefits considers the earnings assumption, estimated age at retirement, and actuarial life expectancy of the plan participant. Since the exact retirement date of an individual cannot be predicted, certain assumptions are made by each plan to determine the present value. Each plan has its own assumptions that are applied to ensure that the present value is equivalent to the future benefits, and that the plan participant does not have an increase or loss in benefits that is not experienced by all other participants of that plan. One set of assumptions to determine present value have not been used by all of the plans because of differences in benefit design; plan earnings and actuarial assumptions; and investment strategies. The cash amounts that a plan may transfer can be substantial depending on the amount of service and number of employees involved.
8. The cash amount of the present value will be transferred to the receiving plan and, based on the actuarial assumptions of the receiving plan, converted to service. Unless the plans are identical in all respects, (investment assumptions, benefits structure, eligibility requirements, etc.), the service credited will not necessarily be equal to service in the transferring plan prior to portability. All plan participants involved in portability will have already met vesting requirements because only vested service will be portable. However, the employee may not be vested in the receiving plan after portability occurs and the service is converted. The employee may be allowed to purchase the difference between the service credited and earned, if less than full service is credited, at a cost determined by the receiving plan.

9. Converted service will be included in the service used by the receiving retirement plan to calculate the retirement benefit.
10. The retirement benefit will be calculated based on the benefit formula of the plan last crediting the service.
11. The portability decision will be optional, and made by the employee.
12. Maximum time limits to "transfer and/or receive" shall be established for portability.

Average Final Compensation (AFC)

The AFC is an important issue in portability for two reasons: it is a key component of the benefit formula of all the plans involved in this study; and it has the greatest impact on accrued retirement benefits of inactive, vested members.

VRS and eight of the local plans calculate the AFC on the highest three consecutive years of salary. One plan bases the AFC on the highest 5 consecutive years of salary. Generally, the longer the period of time used to calculate the AFC, the lower the AFC, resulting in a lower benefit.

The pension benefit of an inactive, vested member is greatly affected by the AFC. Generally, the benefit is frozen at the time the employee terminates employment. The benefit erodes over time because of the effects of inflation and the fact that salary increases due to promotion or merit are not reflected.

Under the task force guidelines, the employee receives the benefit of increases in the AFC on the converted service when the benefit is calculated at retirement. The increase in the AFC over time is considered actuarially at the time of service conversion.

Implementation of Portability

The effective date for portability is an important issue. Should portability be prospectively or retroactively applied? Which group of employees should have the option of portability of retirement benefits?

Prospective Portability

If portability is implemented on a prospective basis, only vested plan participants changing employers on or after the effective date of portability may transfer the present value of accrued benefits. Accrued benefits for an inactive plan participant (the employee is no longer accumulating benefits and service with the plan) would be ineligible for portability. Prospective portability would be the easiest method for plans to administer. Most likely, it would result in a more equitable crediting of service in the receiving plan because of the shorter time period between leaving a plan and transferring the present value of the accrued benefits.

Retroactive Portability

If portability is implemented on a retroactive basis, inactive vested members may move the present value of their accrued benefits. Generally, time erodes the amount of converted service credited by the receiving plan that is based on the present value of accrued benefits in the transferring plan because: 1) the employee's AFC has significantly increased over time (due to inflation, merit raises and promotions) resulting in an increase in the value, and therefore the cost of a year of benefit in the receiving plan. Conversely, the AFC that is a factor in the formula to calculate the present value of the accrued benefit in the transferring plan has eroded over time, due to inflation. With these two factors working in opposite directions, the greater the time period between the employee leaving a plan and assets being transferred, the greater the erosion of the amount of service converted. The end result is the employee may be credited with increasingly less service as time passes in the receiving plan. In plans where actuarial equivalency of benefits is mandated, the employee cannot receive a present value amount or service credit that is greater or lesser than the actuarial assumptions and benefit formula permitted. Benefit calculations showing the impact of time on the conversion of service are available upon request from VRS.

Refunded Service

Another issue that must be considered in determining how to implement portability is refunded service. When an employee terminates employment from a position covered by a contributory retirement plan, there are generally two options available: withdraw accumulated employee contributions and interest, or leave the retirement account intact. If the employee withdraws contributions:

1. Membership is terminated.
2. The employee loses all rights and benefits for the earned service being refunded.
3. The refunded service generally may be purchased upon return to a covered position. However, the cost is usually significantly higher.

Many non-vested employees request a refund of contributions and interest upon termination of employment. Some vested employees with low service and no expectation of returning to covered service request a refund. Employees who obtained refunds may have decided otherwise if portability had been available. Refunded service can be addressed by: 1) allowing a one-time opportunity for reinstatement, with the employee repaying the refunded amount plus lost earnings based on the plan's earnings assumption in place at the time of the reinstatement; or 2) allowing the decision to obtain a refund to stand with no recourse, a decision that will be unpopular with individuals who would have exercised the option of portability had it been available.

Comparison of Benefits Under Different Models

This section compares retirement benefits under: no portability; the task force guidelines; and models prepared by actuaries of task force plans to broaden the scope of the study. The benefit comparisons involve employees changing employment from VRS to a local plan, and from a local plan to VRS. The benefits are calculated for retirement at age 65. The following assumptions are made in the computation of benefits: 1) AFC equals \$25,000 at the time of the change in employment; 2) service is continuous from change in employment to retirement; and 3) the AFC of the receiving plan is projected to the date of retirement based on plan assumptions. The benefit comparisons are shown for one particular local plan. The comparisons would differ for portability between VRS and any of the other eight local plans, as well as for portability among the nine local plans. Information regarding the detailed calculations for the benefits compared below, are available from VRS upon request.

Task Force Guidelines

The transferring plan determines the present value of the accrued benefit. The receiving plan determines the amount of converted service based on the plan's actuarial assumptions and the amount of funds transferred. A benefit is calculated using the benefit formula of the receiving plan, including the amount of service credited for transferred funds.

In theory, portability under the task force guidelines should be cost neutral--the employee does not lose any retirement income as a result of portability, and the plans do not incur any additional expenses. In fact, the employee may receive less value from the converted service in the form of future benefits from the receiving plan than the present value of accrued benefits in the transferring plan because: 1) the plans have different actuarial assumptions, 2) the plans may assume the most costly set of assumptions in determining present value of the accrued benefit and cost of benefit per year of service in determining the converted amount of service since the exact date of actual retirement is unknown; and 3) the benefit formula varies from plan to plan resulting in a significant difference in the cost of benefit per year of service. The plans may assume the most costly set of assumptions to protect the financial soundness of the plans.

Depending on administrative decisions, the receiving plan may pay the cost of: 1) the increase in the retirement benefit that would have been actuarially reduced for early retirement without the converted service; and 2) the increase in benefits that result from the member qualifying for an enhanced benefit formula based on high service. The VRS actuarially reduces the benefit if retirement occurs prior to age 65 or 30 years of service, and uses an enhanced formula for members with 35 or more years of service. The comparisons below assume retirement at age 65 so that the cost associated with the use of converted service to lessen or eliminate the actuarial reduction for early retirement is not addressed.

Combined Service, AFC with 3% Cap

Each plan calculates a benefit based on its own benefit formula using combined service from both plans. The receiving plan uses actual AFC and the transferring plan uses its own AFC adjusted by an annual salary cap of 3%. The benefits are then prorated based on actual service with each plan.

The plans share the costs associated with portability. The transferring plan subsidizes the increase in the benefit due to future salary increases (or a designated percentage of increase) with the receiving plan. Both plans pay the cost, on a prorated basis, of increased benefits that result from an enhanced formula based on high service or in meeting conditions for full retirement.

Wrap-around Model

The retirement plan from which the member retires (last plan) provides a benefit based on all service and salary under both plans. The benefit paid by the last plan in which the employee participates is offset by the benefit the member earned at the first plan. The plan that calculates the retirement benefit absorbs the increased costs for portability.

**ANNUAL RETIREMENT BENEFIT(S)
CONTINUOUS SERVICE, RETIRE AT AGE 65**

LOCAL TO VRS

At time of Portability		Svc. w/ 2nd Plan	Total Svc.	No Portability			Task Force VRS	Combined Svc. 3% Cap on AFC			Wrap Around Local Offset	
Age	Years of Svc.			Local	VRS	Total		Local	+	VRS	Total	VRS
35	5	30	35	1,651.08	+ 52,890.00	= 54,541.08	53,077.80	4,148.70	+ 53,484.00*	= 57,632.70	62,398.04*	(1,651.08)
45	10	20	30	3,302.04	+ 21,493.60	= 24,795.64	22,110.57	6,123.40	+ 21,493.60	= 27,617.00	32,240.70	(3,302.04)
55	20	10	30	6,603.95	+ 6,521.20	= 13,125.15	8,571.19	9,011.42	+ 6,521.20	= 15,532.62	19,563.60	(6,603.95)

VRS TO LOCAL

At time of Portability		Svc. w/ 2nd Plan	Total Svc.	No Portability			Task Force Local	Comb. Svc./Prorated			Wrap Around VRS Offset	
Age	Years of Svc.			VRS	Local	Total		VRS	+	Local	Total	Local
35	5	30	35	1,963.50	+ 44,786.39	= 46,749.89	45,070.05	*5,006.25	+ 44,786.39	= 49,792.64	52,250.79	(1,963.50)
45	10	20	30	3,927.00	+ 18,177.08	= 22,104.08	19,133.35	7,252.20	+ 18,177.08	= 25,429.28	27,265.63	(3,927.00)
55	20	10	30	7,854.00	+ 5,503.14	= 13,357.14	8,556.54	10,691.40	+ 5,503.14	= 16,194.54	16,509.40	(7,854.00)

The task force model produced a lower benefit in these comparisons because of the difference in actuarial assumptions between the plans. Comparisons will vary among the plans. 3% increase on VRS service benefit as provided for in SB 2008 is not reflected in above VRS benefits.

* using 35 year benefit formula

CONCLUSION

The retirement benefits of most public employees in the Commonwealth of Virginia are administered by the Virginia Retirement System. **There is 100% portability of retirement benefits and 100% income preservation for VRS members employed by the 853 public employers participating in VRS.** A change in employment among employers participating in VRS does not affect the plan participant's benefits. 100% portability is possible because VRS benefits are uniformly applied, and participating employers have agreed to pay the costs associated with portability.

The 853 public employers participating in the VRS range in size from very small (one covered employee) to very large. The large employer may absorb the cost of portability readily, while the small employer may experience a significant rise in the employer contribution rate as a result of portability. Employers only pay the prorated cost of portability for their employees. Employers agree to pay the costs of portability as a condition of participation in the VRS.

Portability is an important issue for the remainder of public employees who are not employed by employers participating in VRS, or employees with retirement benefits outside of VRS. These employees comprise a small percentage of public employees in the Commonwealth.

Portability is a complex issue. There are two central components of portability: pension portability and pension preservation. Generally, pension portability means the ability of workers to take their pensions with them when they leave an employer. Pension preservation means that the value of benefits received after retirement is not reduced as a result of changes in employment.

The difficulty in implementing portability lies in determining a mechanism that is equitable to the employee and the retirement plans, and reasonable to administer. The employee's main concern will be pension preservation. The retirement plans' main concerns will be to protect the financial soundness of the plans and to comply with plan statutes or regulations that mandate actuarial equivalency.

Any degree of portability of benefits and preservation of retirement income can be accomplished by incorporating different features in the reciprocal agreements. Each step toward achieving 100% preservation of retirement income adds to the cost, with the cost of 100% preservation being very high. The questions to be addressed concerning portability are: 1) to what degree should retirement income be preserved; 2) who should pay the cost of that preservation; and 3) is that cost justified?

There is reciprocity among public plans on an intrastate basis in several states. In general, the transfer of service and/or assets from one plan to another is rare because of the diversity of plan designs and because of the costs associated with crediting employees with service performed for another, earlier employer. The preferred model of intrastate portability in other states, with some variation, appears to be that in which each employer pays a benefit to the retiree, taking into consideration service and salary earned in other plans covered by the reciprocal agreement. There is significant difference in the benefit structures of the VRS and retirement plans included in this study.

The task force studied several portability models and identified the associated costs. Based on the findings of the study, the task force suggests that portability may be accomplished in the following manner: 1) the municipal plans, on an optional basis, amend plan provisions to accept the direct transfer of funds for conversion to service; 2) the present value of a vested, terminated plan participant's accrued benefits be transferred directly, if allowed by the Internal Revenue Service (IRS) regulations, to assist in funding the conversion of such service; and 3) the employee be permitted to pay any difference in funds, as determined by the receiving plan, in order to receive credit for equal service in the receiving plan if the transferred funds are insufficient. The transfer of the present value of the accrued benefits terminates the plan participant's membership and all rights and benefits in the transferring plan. The present value of accrued benefits is the actuarial equivalent of the total of the retirement annuity paid from the date of retirement up to the person's actuarial life expectancy. The dollar amount representing the present value of the accrued benefits will not be the same for all plans because each plan has its own earnings assumption, actuarial assumptions and benefit design. The task force also suggests that municipal plan regulations be amended to allow the purchase of prior service in order to provide the means for non-vested members, not eligible for portability as discussed in this document, to achieve some degree of portability.

The task force requests the passage of enabling legislation to permit portability among plans during the 1995 Session of the General Assembly to be effective July 1, 1996. A delay in the effective date is requested in order to obtain a private letter ruling from the IRS regarding the direct transfer of the present value of accrued benefits on behalf of a vested, terminated plan participant from one defined benefit plan to another. Draft legislation to allow portability is set out in Appendix E.

APPENDIX A

House Joint Resolution 104

GENERAL ASSEMBLY OF VIRGINIA -- 1994 SESSION

HOUSE JOINT RESOLUTION NO. 104

Requesting the Virginia Retirement System, in cooperation with the Association for Municipal Retirement Systems of Virginia, to study the portability of retirement benefits between the Commonwealth and its political subdivisions.

Agreed to by the House of Delegates, February 2, 1994

Agreed to by the Senate, March 8, 1994

WHEREAS, the recruitment and retention of qualified personnel is critical to maintaining and improving the quality of public service in the Commonwealth; and

WHEREAS, intrastate mobility of public service professionals would facilitate and enhance the recruitment of qualified personnel; and

WHEREAS, some political subdivisions of the Commonwealth do not participate in the Virginia Retirement System and provide a local retirement system whose benefits are not portable on an actuarially equivalent basis from system to system; and

WHEREAS, former members of retirement systems of political subdivisions may purchase service in the Virginia Retirement System pursuant to § 51.1-143 of the Code of Virginia; and

WHEREAS, Title 51.1 of the Code of Virginia does not provide for portability between local retirement systems or local retirement systems and the Virginia Retirement System; and

WHEREAS, such portability may enhance the retention and recruitment of qualified personnel by the Commonwealth and its political subdivisions; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Virginia Retirement System, in cooperation with the Association for Municipal Retirement Systems of Virginia, be requested to study the portability of retirement benefits between the Commonwealth and its political subdivisions.

The Virginia Retirement System shall complete its work in time to submit its findings and recommendations to the Governor and the 1995 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

APPENDIX B

**Intrastate Reciprocal Agreements from other States
and Responses from Actuaries**



**STATE
RETIREMENT
SYSTEMS**

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255
Phone (217)785-7016 Fax (217)785-7019

September 2, 1994

Mrs. Rolly S. Butts, Policy Analyst
Commonwealth of Virginia
Virginia Retirement System
Post Office Box 2500
Richmond, Virginia 23207-2500

Dear Ms. Butts:

Enclosed is a copy of the Illinois Retirement System's Reciprocal Statutes, the Principles adopted at the Reciprocal Conference, a comparison chart of the Public Funds, a Reciprocal brochure, and a booklet for the State Employees' Retirement System which also explains reciprocity.

Under the Illinois plan, each System pays their proportional annuity after an exchange of information, and uses the highest maximum and the best salary for the individual. There is no transfer of funds or actuarial equivalent as the individual receives separate checks from each system. Our actuary is the Wyatt Company in Chicago if you need additional information.

If you wish to discuss this further after you have had a chance to review the material, please contact me.

Very truly yours,

Robert V. Knox
Associate Executive Secretary

RVK:cb
Enclosure

P/PA

September 21, 1994

Mrs. Rolly S. Butts
VIRGINIA RETIREMENT SYSTEM
POST OFFICE BOX 2500
RICHMOND VA 23207-2500

Dear Mrs. Butts:

We have enclosed the information you requested in your letter of August 26 concerning pension portability. As you will note from the enclosed information, Minnesota allows for portability of pension coverage among state and local public pension plans here in Minnesota. We do not, however, provide any type of portability or purchase of service outside the state.

What we refer to as our combined service laws were enacted in 1975. The intent of these provisions is to allow an individual who may move from state to local government employment or regular public employment to teaching service, or any combination thereof, to combine all years of service to meet the eligibility for a benefit from each pension plan in which six months or more service was accrued. Each plan would apply its benefit formula to the years of service accrued by the individual in that fund, but all funds involved would use the same average salary when calculating the benefit. The Minnesota plans use an average of the five highest consecutive years of salary reported to the plan.

When an individual who has service accrued in more than one plan retires, the last plan in which the person had coverage contacts the other affected plans and notifies them of the salary to be used to determine benefits. If the last plan has less than five years of salary, the other most recent plan is contacted and the average "high five" consecutive years' salary is determined.

There is no actuarial purchase cost for this benefit. The downside of this is that if an individual has accrued years of service in one plan based upon a lower paying public position, and then goes on to a position which pays a much higher salary and is covered by a different plan, the first plan subsidizes the pension paid by it at retirement since the earnings on which they would have otherwise paid a benefit (according to the person's original participation) would have much lower. Since we each make a payment from our respective plans to the individual who has the combined service, there is no transfer of funds between plans.

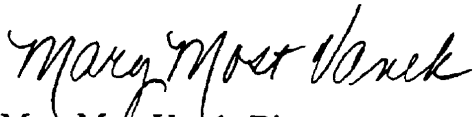
We are exploring the idea of actually transferring funds to one of the affected plans in the future so that administrative costs can be reduced. We are seeing more and more public employees in Minnesota change levels of employment and thus become eligible for the combined service provisions.

Mrs. Rolly S. Butts
Page 2
September 21, 1994

Once you have had an opportunity to review the enclosed material, call me with any questions you may have. You'll find the requirements of our combined service provisions under Section 356.30. We've also included a copy of the benefits handbook for each of our three defined benefit plans.

I've enclosed my card for your convenience and look forward to receiving your summary document.

Sincerely,

A handwritten signature in cursive script that reads "Mary Most Vaneck".

Mary Most Vaneck, Director
Legislative & Member Services

Enclosure



Executive Office

P.O. Box 942701

Sacramento, CA 94229-2701

Telecommunications Device for the Deaf - (916) 326-3240

(916) 326-3822

October 28, 1994

Mrs. Rolly S. Butts
Commonwealth of Virginia Retirement System
P.O. Box 2500
Richmond, VA 23207-2500

Dear Mrs. Butts:

Your letter to Mr. Dale M. Hanson dated September 7, 1994 requesting information on behalf of the Virginia Retirement System regarding reciprocity/reportability. In response to that request, we have enclosed several documents: our December 1993 pamphlet entitled "When You Change Retirement Systems"; a copy of the relevant subsections of the Public Employees' Retirement Law (PERL) and samples of various letters, attachments and forms sent to our membership. We have also provided a listing of the public agencies maintaining reciprocal retirement systems here in California.

Our new Chief Actuary is Mr. Ron Seeling, who will be reporting to PERS on November 1st. Mr. Seeling can be reached at (916) 326-3430. I hope this information will be helpful to you. Should you have any further questions, please feel free to contact me at (916) 326-3822.

Sincerely,

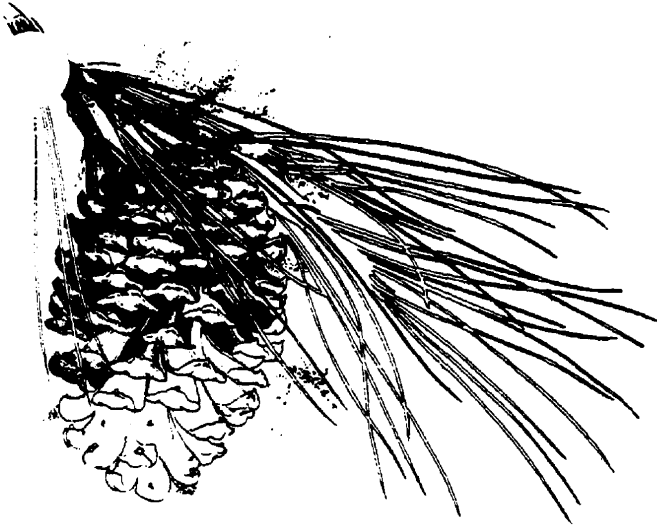
Sandra C. Lund
Assistant Executive Officer
Member and Benefit Services

cc: Mr. Richard Koppes
General Counsel

What is Reciprocity?

Reciprocity is an agreement between CalPERS and certain other public retirement systems that allows an employee to move from one system to the other without losing retirement and related benefits.

The information in this booklet is for CalPERS members who go to a reciprocal system. Questions regarding the rights, benefits, and obligations under any other retirement system should be directed to that system.



Jeffery Pine
Pinus jeffreyi

Also called the Bull Pine, this tree prefers the dry, granite slopes of California's high Sierra. The bark and twigs of this pine, when crushed, smell of lemon and vanilla.

How Does it Work?

When you leave your CalPERS-covered employment and join a reciprocal system, you become a member of both systems. You are subject to the membership and benefit rights and obligations of each system, except as modified by the reciprocity agreement.

As you build a new retirement account, your CalPERS contributions and service credit stay with CalPERS. You must apply for retirement from each system separately. You will receive separate retirement allowances from each system.

If you qualify for reciprocity, the final compensation used to compute your benefits will be the highest earnable under either system.

Other rights, benefits and obligations apply:

- You must retire from both systems on the same date;
- You must leave your contributions on deposit with CalPERS regardless of minimum service requirements;
- Your service under both systems will be used to determine eligibility for benefits under both systems.
- Your service in CalPERS is recognized when calculating disability benefits and the basic or special death benefit.

September 9, 1994

Mrs. Donna M. Blatecky
 Assistant Director for Benefit Programs
 and Services
 Virginia Retirement System
 Post Office Box 2500
 Richmond, Virginia 23207-2500

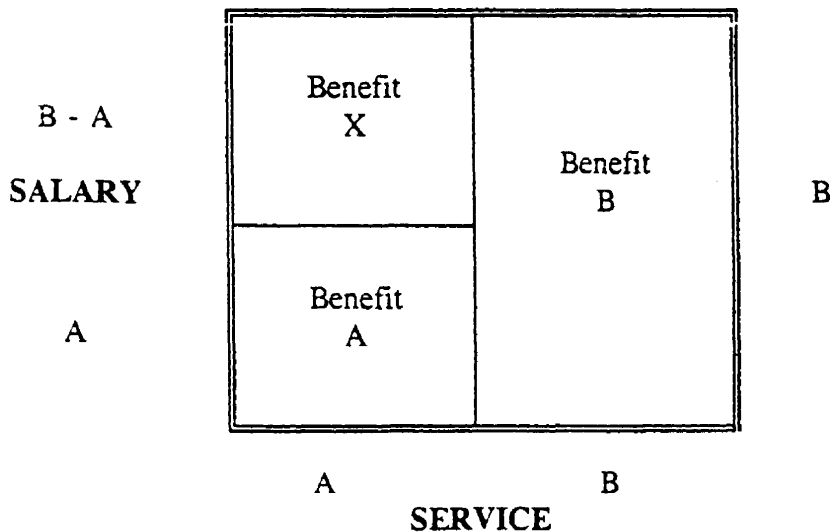
Dear Donna:

You have asked for my thoughts about benefit portability among VRS and the local retirement systems that do not participate in VRS.

The basic issues to be considered are the calculation of benefits and allocation of costs as a result of:

- combining eligibility
- application of different benefit formulas
- salary increases from employer to employer

Consider the usual case of an employee who moves from System A to System B and earns a higher salary under System B.



Eligibility

Without portability, the member will be entitled to benefit A based on his salary and service under System A and benefit B based on his salary and service under System B. He must satisfy the vesting requirements under each System based on his service under that System.

With portability, the total service credit under both Systems would be used for vesting eligibility under each System. The same principle could be extended to eligibility for special benefits such as 30 year retirement under VRS.

For both purposes, a minimum service period such as one or two years could be required before the portability provisions would be applicable.

Benefit Formula

The benefit formula for each System should be used to calculate the benefit based on service under that System. This would not happen if service (and money) are transferred from System A to System B and the System B formula is used for all service. For this and other reasons of equity and simplicity (such as keeping actuarial calculations out of the process), I don't believe that money should be moved from one System to another. Rather, benefits based on service with a System should be paid from that System.

Some of the systems have different benefit formulas after a certain period of service (i.e., VRS and Richmond - 35 years; Arlington - 20 years; Charlottesville - 20 and 30 years). When service under different systems may be taken into account there are different ways that benefits may be calculated.

- service with predecessor systems applies toward first service period (Illinois method)
- service with predecessors not applied
- all service used to calculate benefit, and result prorated based on service with unit.

I believe the last method, though a bit more complex, is most equitable to both employee and employer.

Mrs. Donna M. Blatecky
September 9, 1994
Page 3

Salary Increases

This is the hard part. Since all of the systems considering portability base benefits on average final compensation, the employee may feel entitled to benefits for all service based on the highest AFC with any System. Benefit X in the diagram represents the extra part of benefit that is based on service with System A and salary in System B. Certainly System B feels no obligation to pay for this benefit, and System A is unlikely to want to pay benefits based on what may be very large salary increases for services rendered to another employer. A possible compromise to the Benefit X dilemma is to have System A provide benefits based on the higher AFC with all employers, but subject to a cap. Such an AFC cap might be equal to the System A AFC increased by perhaps 3% for each year of future service with another Virginia public employer.

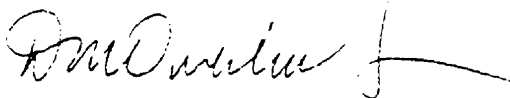
An alternative would be to follow the VRS approach and have System A provide the full amount of Benefit X.

In summary, I believe a portability program could work and could be administered by the participating systems without too much hassle. I also recommend that the basic features of such a program should be:

- use of combined service for eligibility
- benefits for service with each employer based on that employer's benefit formula
- no transfers of money between systems (but transfers of necessary member information)
- some provision for the benefit based on service with one employer and salary with another.

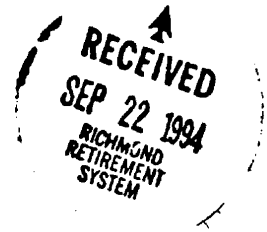
Please let me know if you would like me to meet with the task force to discuss this subject in more detail.

Sincerely,



Donald M. Overholser
Consulting Actuary

DMO:dw
184-94



September 22, 1994

Ms. Clara L. Lee
Executive Director
Richmond Retirement System
P.O. Box 10252
Richmond, Va. 23240

Dear Clara:

I have reviewed the information on retirement benefit portability that you obtained at your meeting on September 13, which included the survey information, the letter from Buck Consultants to the VRS, and the information on the Illinois Retirement Systems Reciprocal Act. My observations, keeping in mind your desire to address the portability issue on a no-fault (i.e. no-cost) basis, are as follows:

1. Vesting

With 5-year vesting provided by all but two of the systems surveyed, I would not recommend allowing portability to apply to anyone with less than 5 years of service. It might be desirable for the transferee system to grant vesting credit for service with another system, but I do not believe it is in the best interest of the transferor system to be required to provide benefits to individuals who would not ordinarily be vested.

2. Contributory vs. Non-Contributory Systems

Several issues arise in the situation where the transferor system is contributory and the transferee system is non-contributory, as follows:

- a. Should the transferee system be required to accept employee contributions? This would be a burden to the extent that the transferee system would not have in place the administrative capabilities to administer a contributory benefit with respect to accounting for employee contributions and the taxation of distributions. Since the taxable portion of a refund of employee contributions could be rolled over into an IRA, I do not believe that the transferee system should be required to accept employee contributions.

- b. Should an employee who transfers to a system after having received a refund of contributions plus interest from another system be allowed to purchase prior service in the new system? This question should be left up to the transferee system. In any event, care should be taken to eliminate the possibility that a transferring employee might purchase more service than they would ordinarily be entitled to had they been continuously covered under one system. In addition, the transferee system would need to be careful that a provision for employees to buy-back service in this regard not be utilized by highly compensated employees to a greater extent than other employees. Such utilization could result in the system running afoul of IRS non-discrimination rules.
- c. How should the transferee system determine the amount of service to be credited for the employee contributions transferred? Since each system has its own benefit provisions and actuarial assumptions used to value benefits, it should be left up to each system to assign service credit for a transfer of contributions.

3. Average Final Compensation

If the highest AFC (usually the last years') is used to compute the ultimate benefit, the employee will gain at the expense of the transferor system. I do not believe that this would be in the best interests of the transferor system.

4. Service

I do not believe that counting service for a period of time in which no services are performed under a particular system is in the best interest of that system. Each system should be responsible for providing benefits for services rendered. The only exception to this would be in the case where transferred assets were to provide for the additional benefits.

Quite frankly, all of the above lead me to believe that there is really no way to transfer service and benefit credits between systems without all systems experiencing an increase in costs, both for funding and administration. The fact of the matter is that any portability strategy that provides additional benefits to employees is going to result in additional costs.

Ms. Clara L. Lee
September 22, 1994
Page 3.

We have discussed an alternative strategy that would provide for no-fault portability, but would not provide additional benefits or increased costs. This would involve the following steps:

1. When a person terminates coverage under one system and indicates a desire to transfer to another system, a calculation of vested accrued benefits would be performed by the transferor system.
2. The vested accrued benefit determined in (1), if any, would be assigned a lump-sum value based on a prescribed interest rate assumption agreed upon by all participating systems and reviewed annually.
3. The employee would advise the transferee system of the lump sum value to be transferred along with a request for a determination as to the service credit that could be purchased under the transferee system. Upon receipt of this determination, the employee would decide whether or not to transfer the lump sum value of their benefit to the new system.

Although the above scenario would not provide a benefit at retirement based on the employees highest years of earnings regardless of where they were earned (an arguable windfall to the employee), it would at least provide for the benefits to be paid from one source at retirement.

It appears as if there is still a long way to go in this decision making process. Please let me know if I can provide additional assistance.

Sincerely,



William M. Dowd

SENT BY:Milliman&Robertson DC : 9-26 94 : 7:46PM ;

M & R DC-

7032739185:# 2/ 8



MILLIMAN & ROBERTSON, INC.

Actuaries and Consultants

Suite 400
2445 M Street N.W.
Washington, D.C. 20037-1485
Telephone: 202/424-4780
Fax: 202/831-3347

September 26, 1994

PERSONAL & CONFIDENTIAL

Mr. Don A. McCorry
Retirement Administrator
Fairfax County Retirement Agency
10680 Main Street, Suite 280
Fairfax, Virginia 22030-3805

Re: Portability Proposal

Dear Don:

As requested, I have reviewed the portability proposal from Buck Consultants to the VRS.

On the attached pages are my initial thoughts and a brief overview of some other methods used to provide portability. The sample calculations have not been checked so I sent them along in DRAFT form so as not to slow down our response.

Please let me know where you want me to go with this. I will be attending the Uniformed Board meeting this Wednesday if you would care to discuss this before or after, please let me know.

Sincerely,

MILLIMAN & ROBERTSON, INC.

Fiona E. Liston, F.S.A.
Consulting Actuary

Attachments

cc: Gene Kalwarski

Albany • Atlanta • Boston • Chicago • Cincinnati • Dallas • Denver • Hartford • Houston
Indianapolis • Irvine • Los Angeles • Milwaukee • Minneapolis • New York • Omaha • Philadelphia • Phoenix
Portland • St. Louis • Salt Lake City • San Diego • San Francisco • Seattle • Tokyo • Washington, D.C.

INTERNATIONALLY WOODROW MILLIMAN

Argentina • Australia • Austria • Belgium • Bermuda • Canada • Channel Islands • Denmark
France • Germany • Iceland • Italy • Japan • Mexico • Netherlands • New Zealand

SENT BY: MILLIMAN ROBERTSON DC : 9-26-94 : 7:47PM : M & R DC- 7032733185: # 9 / 6

Goals of a Portability Program

- 1. To provide a benefit to employees who move between participating systems that is equivalent to benefits provided to an employee who spends his/her entire career at one location

This is hard to define if participating system offer vastly different benefits

- 2. To provide an equitable division of costs between the participating systems and the employee

If one system is a net importer of employees they should not bear the full cost of providing portability. Similarly, a net exporter of employees should not pay the full cost. There may be an agreement that the employee should share in a portion of the cost a well.

- 3. It should be possible for each system to value it own liability where former and current employees are concerned, i.e. no surprises at retirement date

- 4. Administrative burden should be kept to a minimum.

If each transfer involves myriad actuarial calculations by both the former employer and the new employer the system may not be feasible.

35

Portability Methods

The Illinois Method

Combined Service is used for determining retirement eligibility and break points if accrual rate changes on service. Final Average Pay from the last employer is used in calculating the benefit payable from each employer.

Employee receives full career benefit, may be more or less than if full career was worked at one location depending on whether former or final employer offers higher benefits.
Former employer must carry unmeasurable liability until former participant retires or leaves the portability group.
New employer needs to know whether portable service exists in order to properly fund for eligibility.

Buck Proposal

Combined Service is used for determining retirement eligibility and break points if accrual rate changes on service in each plan, the benefit paid from each plan is then based on service worked at each employer/total service. Final average salary increases are capped resulting in an indexed termination benefit.

Former employer must carry unmeasurable liability until former participant retires or leaves the portability group.
New employer needs to know whether portable service exists in order to properly fund for eligibility.

Rhode Island Method

Rhode Island offers to make compacts with other states to provide reciprocal portability between states. At transfer the former employer pays the new employer a lump sum equal to the accumulated contributions (with interest) made by both the employee and the employer. The employer contribution is based on the lower of the former plan or the new plan contribution rate.

Employee receives full benefit based on the new plan formula.
Former employer has no future liability once transfer is made, but \$ transfer is higher than accrued benefit.
New employer must pay for part of future salary increases on past service benefit.
Involves actuarial calculations each time a transfer is made.
Must be some agreement on actuarial assumptions/methods to avoid "gaming" the system.

Traditional Buy-in

All plans make lumpsum rollover to new plan, or cashout to employee at time of transfer. Lumpsum is based on the benefit accrued at former employer. The employee then uses this cash to purchase whatever benefit he/she can at new employer.

Cost/benefit will vary according to service purchase procedures at each system.
Employee may have to pay additional money for full service purchase.
No need for former employer to track employee after transfer.
Each system can structure its buy-in procedures to grant a level of portability which it can afford.
Could develop a unified method/assumptions for all participating systems.

Portability Methods

Gross-Up Method

Calculate benefit payable both with and without full service/pay at both locations.
Employee to receive the lesser of these two amounts in total.
Allocates total benefit back to each employer based on the amount of benefit payable in the absence of portability

Both the former and the future employer will have a hard time valuing their liabilities
Only works with relatively uniform benefit formulas across systems
Former employer pays part of cost for salary increases on old service

Indexing Vested Benefits

This is similar to the Illinois method but instead of using actual final average pay at retirement the former employer benefit is increased by a published index of wage inflation from the point of transfer to the retirement date.

Avoids excessive pay raises granted by future employer from impacting former employer
Allows some measurement of on-going liability in former plan
Only goes part way towards making the participant whole
May need to address portability of eligibility service into new plan

Indexed Vested Benefit with Transfer

At the point of transfer, Employer A calculates an accrued benefit based on service to date but average final salary projected to a future retirement date. A lumpsum is calculated to measure the value today of this benefit and that amount is transferred to the future plan. All benefits are then paid out of the future plan. Projected salary increases and lumpsum factors must be uniform for this to work.

Future employer takes risk that salary will be higher than projected
Former employer pays most of the increase amount

Wrap-Around (Offset)

New employer grants full prior service in calculating benefits but offsets the result by the benefit that will be paid by former employer

Employee is made whole
Former employer has no obligation outside the current one
New employer pays entire amount of salary increase on past service

Examples of Portability Calculations under the different methods

	Employee A	Employee B	Basic	Block Method	Block Method	Buy-In	Spouse-Dr	Including Inheritor Transfer	With Accrued
Years of Service	10	10							
Final Pay	25,000	35,000							
Formula	2% per Year	1.5% per Year							
	All Years	2% (1st year) 10							
Accr. Ben. @ Transfer	5,000	0							
Accr. Ben. @ Ret.	5,000	6,250							
Retirement Benefits Paid from									
Employer A				7,000	0	0	5,000	6,750	5,000
Employer B			14,000	6,185	12,250	12,250	8,274	5,360	7,250
Total			14,000	13,185	12,250	12,250	12,250	11,970	12,250
Cash Payments at Transfer Date									
From A to B	0	0	0	0	EEC + EPIC	Maybe	0	0	0
From A to EE	0	0	0	0	0	Maybe	0	0	0
From EE to B	0	0	0	0	0	Maybe	0	0	0
Who pays for benefit if Does B pay more than 5.0% career?	NA	NA	Employer A Yes	Employer A Yes	Emp A & B No	Depends on Formulas of B	Emp A & B Yes	Employer A No	Employer B Yes

**BUCK
CONSULTANTS**
55 West Monroe Street Suite 1700
Chicago, Illinois 60603

October 21, 1994

Ms. Doris Peters
Retirement Administrator
City of Roanoke
P.O. Drawer 1220
Roanoke, Virginia 24006

Dear Doris:

The purpose of this letter is to discuss the issues surrounding benefit portability among the Retirement Systems in Virginia and to provide alternative methods of calculating benefits under a portability program.

BACKGROUND

The Retirement Systems in Virginia do not currently provide benefits which are portable. If a member transfers from one System to another, he is treated as a terminated member at the first System and a new member at the second System.

A committee of representatives from Retirement Systems in Virginia has been formed to study the issue of portability and to recommend a course of action. Benefit portability does not require that assets equal to the value of benefits earned at one System transfer with the member to another System. The goal of portability is to keep the transferred member "whole" in that his total retirement benefit will be based on all service and his final average salary at retirement.

BENEFITS OF PORTABILITY

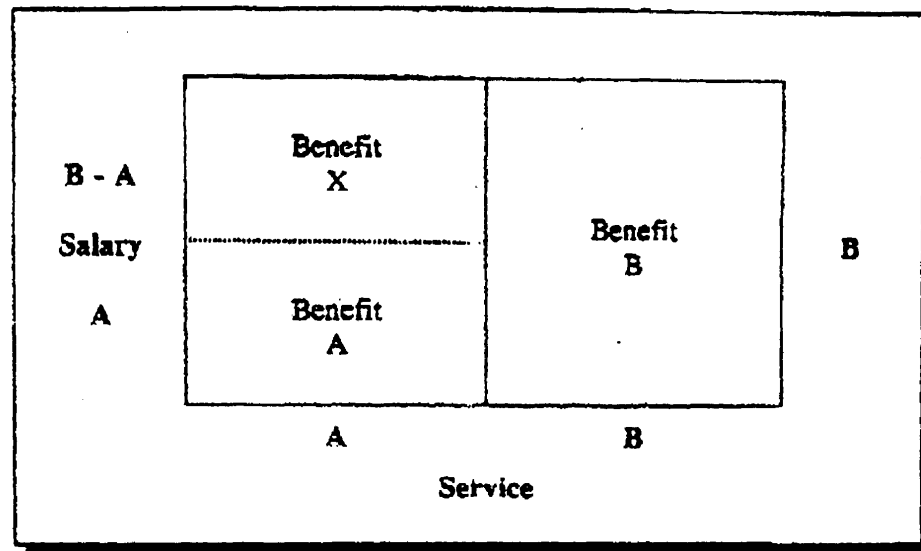
Portability would benefit employers and members. Employers' ability to recruit members from other Systems may be enhanced since the members' total retirement benefits would be based on all service and salary earned at all Retirement Systems. A total retirement benefit based on all service and salary throughout a member's career would be greater than a total retirement benefit based on service and salary earned solely at each System.

Members would benefit from portability because they could transfer from System to System without a potential loss in retirement benefits. The ability to transfer without a loss in retirement benefits could enhance a member's career.

Ms. Doris Peters
 October 21, 1994
 Page 2

Portability would address the issue of fairness in that a member who spends his career in governmental service in Virginia can retire with a benefit which reflects all his service and final average salary.

The following diagram, included in Buck's September 9, 1994 letter to the Virginia Retirement System, illustrates the benefit components of a member who transfers from System A to System B.



Without portability, at retirement the member will receive Benefit A from System A which is based solely on service and salary earned at System A plus Benefit B from System B based on service and salary earned solely at System B. Service from System A is not credited at System B for purposes of determining eligibility for retirement benefits, disability benefits or death benefits. Increases in salary at System B are not recognized when calculating the benefit from System A. By transferring, the member has forfeited a potential benefit illustrated as Benefit X. Benefit X represents the forfeited benefit due to salary increases at System B which are not included in the calculation of Benefit A, and service earned at System A which is not credited toward eligibility for benefits at System B. With benefit portability, the member will receive the sum of Benefit A, Benefit B and Benefit X.

This illustration also shows that portability has a cost since a transferred member's benefit will increase by Benefit X. The cost of Benefit X must be funded by System A, System B or the member.

Ms. Doris Peters
October 21, 1994
Page 3

BENEFIT PORTABILITY ALTERNATIVES

A portability program which meets the needs of members would have the following characteristics:

- Combined service at all Systems would count for benefit eligibility at all Systems;
- Final average salary would be based on salary earned at all Systems; and
- The calculation of the benefit would be understandable.

The employers have conflicting needs. While the employers may want portability in order to improve the benefit of transferring members and therefore improve recruiting ability, the employer may not want to increase its cost. Increases in cost would be due to additional funding requirements and administrative costs. The ideal portability program, from the members' viewpoint may be too costly from the employers' viewpoint.

The following pages describe three alternative benefit structures that have the above characteristics. The merits of each alternative are discussed. The benefits under each alternative are illustrated based on a member transferring from System A to System B with the following assumptions:

Member Data	System A	System B
Service	15 Years	10 Years
Final Average Salary	\$ 30,000	\$ 45,000
Benefit Formula	2% of final average salary for years of service up to 30.	1.5% of final average salary for the first 20 years. <i>plus</i> 2% of final average salary for service over 20 years.

Ms. Doris Peters
October 21, 1994
Page 4

ALTERNATIVE 1 (Individual Formula/Final Pay)

Each System recognizes service earned at other Systems for purposes of determining benefit eligibility. The benefit paid from each System is based on service earned while employed at that System and includes salary over the entire career. In the case of a tiered benefit formula (System B) service earned while at System A would apply toward the first tier. The benefit paid from each System would be determined as follows:

System A:	15 years x 2% x \$45,000	=	\$ 13,500
System B:	5 years x 1.5% x \$45,000		
	<i>plus</i>		
	5 years x 2% x \$45,000	=	<u>7,875</u>
Total:			\$ 21,375

This alternative would keep the member "whole" in that he will receive retirement income based on his final average salary of \$45,000 from both System A and System B. However, System A would probably not want to fund the increase in benefit due to the increase in final average salary from \$30,000 to \$45,000 due to salary increases the member received while employed at System B.

ALTERNATIVE 2 (Greatest Service System Pays)

The Retirement System in which a member earned the most service would determine and pay the entire benefit based on total service and salary earned at both Systems. The Retirement System which pays the benefit would receive assets from the other System which would cover all or a portion of the cost of the member's benefit earned at that System.

To illustrate, since the member had the most service at System A, the benefit would be paid from System A. The benefit would be calculated as follows:

System A: 2% x 25 years x \$45,000 = \$ 22,500

System B would transfer assets to System A which would represent the value of the benefit earned at System B. The value of the benefit earned at System B would be based on the following benefit:

System B: 1.5% x 10 years x \$45,000 = \$ 6,750

Ms. Doris Peters
October 21, 1994
Page 5

This alternative would also keep the member "whole." However, it has the same problem as Alternative 1 in that the System A is providing a benefit based on salary increases the member received at System B. Also, determining the value of assets to be transferred involves an actuarial calculation which will increase administrative costs.

ALTERNATIVE 3 (Wraparound)

The Retirement System from which the member retires (System B) provides a benefit based on all service and salary offset by the benefit the member earned while employed at System A. System A will provide a benefit based on service and salary earned while the member was employed at System A.

The benefit earned from System A is determined as follows:

System A: 2% x 15 years x \$30,000 = \$ 9,000

The benefit earned from System B is:

System B:	1.5% x 20 years x \$45,000	
	<i>plus</i>	
	2% x 5 years x \$45,000	= \$ 18,000
	<i>less</i>	
	System A benefit	= <u>9,000</u>
		\$ 9,000

System A will provide the member a benefit of \$9,000 and System B will provide a benefit of \$9,000 for total a retirement benefit of \$18,000. Under this alternative, the member is kept "whole" and System A is not funding a benefit based on salary the member earned while at System B. System B is funding for the increase in System A's benefit due to salary increases earned at System B.

Alternative 3 (Wraparound) is the approach that we recommend because:

- a) the member is kept whole,
- b) the System from which a member retires funds increases in benefits due to salary increases, and
- c) assets need not be transferred from System to System.

Ms. Doris Peters
October 21, 1994
Page 6

COST OF PORTABILITY

Portability will result in an increase in cost to employers. The cost to each System will depend upon the structure of the benefits provided and the number of members who transfer between Systems.

Benefit portability may result in an increase in administrative expenses. For example, under Alternative 1 (Individual Formula/Final Pay), System A will include salary earned at System B in calculating a member's benefit. Thus, System A must maintain additional information on a member who transfers. Under Alternative 2 (Greatest Service System Pays), the assets to be transferred to the System which pays the benefit will have to be calculated. This will require an actuarial calculation and increase administrative costs to the System. Alternative 3 (Wraparound) requires an offset and therefore an additional calculation step in the determination of the transferred member's retirement benefit. Under all alternatives, information at transferred members must be communicated from System to System.

CONCLUSION

We can further assist the committee in its study by:

- demonstrating how the alternative methods would operate based on the actual benefit formulas of the Systems,
- developing estimated costs of implementing portability, and
- drafting legislative language.

Please call me after you have had a chance to review the information so we can discuss this further.

Sincerely yours,



Kim M. Nicholl
Consulting Actuary

KMN:mak

0734\A1600.A33

APPENDIX C

Employers Participating in VRS

Employers as of June 30, 1994

Political Subdivisions (357)

Accomack County	Rockingham County	Town of Christiansburg	Alexandria Redevelopment & Housing Authority
Albemarle County	Russell County	Town of Clarksville	Alexandria Sanitation Authority
Alleghany County	Scott County	Town of Coeburn	Alleghany Highlands Community Services Board
Amelia County	Shenandoah County	Town of Colonial Beach	Anherst County Service Authority
Amherst County	Smyth County	Town of Courtland	Anchor Commission
Appomattox County	Southampton County	Town of Craigsville	Appomattox Regional Library
Augusta County	Spotsylvania County	Town of Crewe	Appomattox River Water Authority
Bath County	Stafford County	Town of Culpeper	Augusta County Service Authority
Bedford County	Surry County	Town of Dayton	Bedford County Public Service Authority
Bland County	Sussex County	Town of Dublin	Bedford Public Library
Botetourt County	Tazewell County	Town of Dumfries	Blacksburg-Christianburg-VPI Water Authority
Brunswick County	Warren County	Town of Edinburg	Blacksburg-VPI Sanitation Authority
Buchanan County	Washington County	Town of Elkton	Bristol Redevelopment & Housing Authority
Buckingham County	Westmoreland County	Town of Front Royal	Campbell County Utilities & Service Authority
Campbell County	Wise County	Town of Gate City	Capital Regional Airport Commission
Caroline County	Wythe County	Town of Gate City	Central Rappahannock Regional Library
Carroll County	York County	Town of Glasgow	Central Virginia Community Services Board
Charles City County	City of Alexandria	Town of Gretna	Central Virginia Regional Jail
Charlotte County	City of Bedford	Town of Grundy	Central Virginia Waste Management Authority
Chesterfield County	City of Bristol	Town of Halifax	Charles Pinckney Jones Memorial Library
Clarke County	City of Buena Vista	Town of Hamilton	Charlottesville Redevelopment & Housing Authority
Craig County	City of Chesapeake	Town of Herndon	Chesapeake Bay Bridge and Tunnel District
Culpeper County	City of Clifton Forge	Town of Hillsville	Chesapeake Redevelopment & Housing Authority
Cumberland County	City of Colonial Heights	Town of Hurt	Chesterfield County Health Center Commission
Dickenson County	City of Covington	Town of Independence	Coeburn-Norton-Wise Regional Water Treatment Authority
Dinwiddie County	City of Covington	Town of Iron Gate	Colonial Services Board
Essex County	City of Danville	Town of Jarratt	Colonial Soil and Water Conservation District
Fauquier County	City of Emporia	Town of Jonesville	Crater Juvenile Detention Home
Floyd County	City of Fairfax	Town of Kenbridge	Cumberland Mountain Community Services
Fluvanna County	City of Falls Church	Town of Kilmarnock	Cumberland Plateau Regional Housing Authority
Franklin County	City of Franklin	Town of Lawrenceville	Danville-Pittsylvania Mental Health Services Board
Frederick County	City of Fredericksburg	Town of Leesburg	Danville Redevelopment & Housing Authority
Giles County	City of Galax	Town of Louisa	Dinwiddie County Water Authority
Gloucester County	City of Hampton	Town of Luray	District Home Waynesboro
Goochland County	City of Harrisonburg	Town of Marion	District 19 Mental Health & Mental Retardation Services Board
Grayson County	City of Hopewell	Town of McKenney	Eastern Shore Community Services Board
Greene County	City of Lexington	Town of Middleburg	Eastern Shore Public Library
Greensville County	City of Lynchburg	Town of Middleburg	Fauquier County Water & Sanitation Authority
Halifax County	City of Manassas	Town of Montross	Franklin Redevelopment & Housing Authority
Hanover County	City of Manassas Park	Town of Mt. Jackson	Frederick County Sanitation Authority
Henrico County	City of Martinsville	Town of Narrows	Fredericksburg-Stafford Park Authority
Henry County	City of Norfolk	Town of New Market	Goochland-Powhatan Community Services Board
Highland County	City of Norfolk	Town of Onancock	Greensville County Water & Sewer Authority
Isle of Wight County	City of Norton	Town of Orange	Greensville-Emporia Department of Social Services
James City County	City of Petersburg	Town of Parksley	Hampton-Newport News Community Services Board
King George County	City of Poquoson	Town of Pearisburg	Hampton Redevelopment & Housing Authority
King & Queen County	City of Portsmouth	Town of Pembroke	
King William County	City of Radford	Town of Pulaski	
Lancaster County	City of Richmond	Town of Purcellville	
Lee County	City of Roanoke	Town of Quantico	
Loudoun County	City of Salem	Town of Remington	
Louisa County	City of South Boston	Town of Rocky Mount	
Lunenburg County	City of Staunton	Town of Round Hill	
Madison County	City of Suffolk	Town of Saltville	
Mathews County	City of Virginia Beach	Town of Shenandoah	
Mecklenburg County	City of Waynesboro	Town of Smithfield	
Middlesex County	City of Williamsburg	Town of St. Paul	
Montgomery County	City of Winchester	Town of Stanley	
Nelson County	Town of Abingdon	Town of Strasburg	
New Kent County	Town of Altavista	Town of Tappahannock	
Northampton County	Town of Amherst	Town of Tazewell	
Northumberland County	Town of Appomattox	Town of Timberville	
Nottoway County	Town of Ashland	Town of Urbanna	
Orange County	Town of Berryville	Town of Victoria	
Page County	Town of Big Stone Gap	Town of Vienna	
Patrick County	Town of Blacksburg	Town of Vinton	
Pittsylvania County	Town of Blackstone	Town of Wakefield	
Prince Edward County	Town of Bluefield	Town of Warrenton	
Prince George County	Town of Bowling Green	Town of Warsaw	
Prince William County	Town of Boyce	Town of Warsaw	
Pulaski County	Town of Boydton	Town of Weber City	
Rappahannock County	Town of Bridgewater	Town of Wise	
Richmond County	Town of Broadway	Town of Woodstock	
Roanoke County	Town of Brookneal	Town of Wytheville	
Rockbridge County	Town of Cape Charles	Accomack-Northampton Planning District Commission	
	Town of Chase City	Albemarle County Service Authority	
	Town of Chatham		
	Town of Chincoteague		

Hampton Roads
 Planning District Commission
 Hampton Roads Sanitation District
 Handley Library Board
 Harrisonburg-Rockingham
 Community Services Board
 Harrisonburg-Rockingham
 Regional Sewer Authority
 Henry County Public Service Authority
 Highlands Juvenile Detention
 Center Commission
 Hopewell Redevelopment &
 Housing Authority
 Industrial Development Authority
 of Henrico County
 Isle of Wight County Public
 Recreational Facilities Authority
 James City Service Authority
 Lee County Redevelopment
 and Housing
 Lenwisco Planning
 District Commission
 Lonesome Pine Regional Library
 Loudoun County Sanitation Authority
 Meherrin Regional Library
 Middle Peninsula-Northern Neck
 Community Services
 Middle Peninsula
 Regional Security Center
 Moccasin Gap Sanitation District
 Monacan Soil and
 Water Conservation District
 Mt. Rogers
 Planning District Commission
 Natural Tunnel Soil and
 Water Conservation District
 Nelson County Service Authority
 New River
 Planning District Commission
 New River Resource Authority
 New River Valley Juvenile Detention
 Home Commission
 Norfolk Airport Authority
 Norfolk Redevelopment &
 Housing Authority
 Northern Neck-Essex
 County Group Home Commission
 Northern Neck
 Planning District Commission
 Northern Virginia
 Health Care Center Commission
 Northern Virginia
 Juvenile Detention Home
 Northwestern Community
 Services Board
 Peninsula Ports Authority of Virginia
 Pepper's Ferry Regional Wastewater
 Petersburg Redevelopment &
 Housing Authority
 Piedmont
 Planning District Commission
 Piedmont Regional Jail
 Pittsylvania County Service Authority
 Planning District One Community
 Services Board
 Portsmouth Redevelopment &
 Housing Authority
 Potomac River Fisheries Commission
 Rappahannock Area Community
 Services Board
 Rappahannock Juvenile Center
 Rappahannock-Rapidan
 Community Services Board
 Rappahannock-Rapidan
 Planning District Commission
 Rappahannock Security Center

Region Ten Community Services Board
 Richmond Metropolitan Authority
 Richmond Redevelopment &
 Housing Authority
 Rivanna Solid Waste Authority
 Rivanna Water & Sewer Authority
 Robert E. Lee Soil &
 Water Conservation District
 Rockbridge Area
 Community Services Board
 Rockbridge Area
 Social Services Department
 Rockbridge County
 Public Service Authority
 Rockbridge Regional Library
 Shenandoah Valley
 Juvenile Detention Home
 Commission
 Smyth County Public Service Authority
 Southeastern Tidewater
 Manpower Authority
 Southeastern Virginia
 Public Services Authority
 Southside
 Planning District Commission
 Southside Regional Juvenile Group
 Home Commission
 Southside Regional Library Board
 State Education Assistance Authority
 Staunton Redevelopment &
 Housing Authority
 Suffolk Redevelopment &
 Housing Authority
 The Peninsula Airport Commission
 Thomas Jefferson
 Planning District Commission
 Thomas Jefferson Soil and Water
 Conservation District
 Tidewater Regional Group Home
 Tidewater Transportation
 District Commission
 Tri-County/City Soil &
 Water Conservation District
 Upper Occoquan Sewage Authority
 Valley Community Services Board
 Virginia Coalfield Economic
 Development Authority
 Virginia Education Loan Authority
 Virginia Highlands Airport Commission
 Virginia Peninsulas
 Public Service Authority
 Virginia Small Business
 Financing Authority
 Washington County Service Authority
 Waynesboro Redevelopment &
 Housing Authority
 Western Tidewater
 Community Services
 Western Tidewater Regional Jail
 Wythe-Grayson Regional Library
 Wytheville Redevelopment &
 Housing Authority

*Public School Boards –
 Professional Employees*

City Schools (40)
 Alexandria City Schools*
 Bristol Schools*
 Buena Vista City Schools*
 Charlottesville Schools*
 Chesapeake Public Schools*
 Colonial Beach Schools
 Colonial Heights City Schools*
 Covington Schools*
 Danville Schools*

Fairfax City Schools
 Falls Church Schools
 Franklin City Schools*
 Fredericksburg City Schools*
 Galax City Schools*
 Hampton City Schools*
 Harrisonburg City Schools*
 Hopewell Schools*
 Lexington City Schools*
 Lynchburg Schools*
 Manassas City Schools*
 Manassas Park City Schools*
 Martinsville City Schools*
 Newport News Schools
 Norfolk Schools*
 Norton City Schools*
 Petersburg Public Schools*
 Poquoson City Schools*
 Portsmouth Schools*
 Radford City Schools*
 Richmond Public Schools*
 Roanoke City Schools
 Salem City Schools*
 South Boston-Halifax Schools*
 Staunton City Schools*
 Suffolk City Schools*
 Virginia Beach City Schools*
 Waynesboro City Schools*
 West Point Schools
 Williamsburg-James City Schools*
 Winchester Schools*

County Schools (94)

Accomack County Schools*
 Albemarle County Schools*
 Alleghany Highlands County Schools*
 Amelia County Schools*
 Amherst County Schools*
 Appomattox County Schools*
 Arlington County Schools
 Augusta County Schools*
 Bath County Schools*
 Bedford County Schools*
 Bland County Schools
 Botetourt County Schools*
 Brunswick County Schools*
 Buchanan County Schools*
 Buckingham County Schools*
 Campbell County Schools*
 Caroline County Schools*
 Carroll County Schools*
 Charles City County Schools*
 Charlotte County Schools*
 Chesterfield County Schools*
 Clarke County Schools*
 Craig County Schools*
 Culpeper County Schools*
 Cumberland County Schools*
 Dickenson County Schools*
 Dinwiddie County Schools*
 Essex County Schools*
 Fairfax County Schools
 Fauquier County Schools*
 Floyd County Schools*
 Fluvanna County Schools*
 Franklin County Schools*
 Frederick County Schools*
 Giles County Schools*
 Gloucester County Schools*
 Goochland County Schools*
 Grayson County Schools*
 Greene County Schools*
 Greensville County Schools*
 Halifax-South Boston County Schools*
 Hanover County Schools*
 Henrico County Schools*

Henry County Schools*
 Highland County Schools*
 Isle of Wight County Schools*
 King George County Schools*
 King & Queen County Schools*
 King William County Schools*
 Lancaster County Schools*
 Lee County Schools
 Loudoun County Schools*
 Louisa County Schools*
 Lunenburg County Schools*
 Madison County Schools*
 Mathews County Schools*
 Mecklenburg County Schools*
 Middlesex County Schools*
 Montgomery County Schools*
 Nelson County Schools*
 New Kent County Schools*
 Northampton County Schools*
 Northumberland County Schools*
 Nottoway County Schools*
 Orange County Schools*
 Page County Schools*
 Patrick County Schools*
 Pittsylvania County Schools*
 Powhatan County Schools*
 Prince Edward County Schools*
 Prince George County Schools*
 Prince William County Schools*
 Pulaski County Schools*
 Rappahannock County Schools*
 Richmond County Public Schools*
 Roanoke County Schools*
 Rockbridge County Schools*
 Rockingham County Schools*
 Russell County Schools*
 Scott County Schools*
 Shenandoah County Schools*
 Smyth County Schools*
 Southampton County Schools*
 Spotsylvania County Schools*
 Stafford County Schools*
 Surry County Schools*
 Sussex County Schools
 Tazewell County Schools*
 Warren County Schools*
 Washington County Schools*
 Westmoreland County Schools*
 Wise County Schools*
 Wythe County Schools*
 York County Schools*

Other Schools (12)

Amelia-Nottoway Vocational Center
 Charlottesville-Albermarle
 Vocational Technical Center
 Dowell J. Howard Vocational Center*
 Joint Committee for Control Halifax &
 South Boston Schools*
 Jackson River Vocational Center*
 Massanutten Vocational
 Technical Center
 New Horizons Technical Center*
 Northern Neck Regional
 Vocational Center*
 P.D. Pruden Vocational
 Technical Center*
 Regional Control Board of Culpeper,
 Madison, Orange and Rappahannock
 Counties*
 Rowanty Vocational Technical Center
 Valley Vocational Technical Center*

*Non-Professional employees also
 covered (131 School Boards)

*Agencies of the Commonwealth of
 Virginia (228)*

APPENDIX D
Summary of Local Plans

LOCAL RETIREMENT SYSTEMS DEFINED BENEFIT PLANS

System	Vesting	AFC	Benefit Formula	Contributions
Arlington	5 yrs.	3 26-consecutive pay periods during which member received highest pay	¹ .0250 x AFC x service (up to 20 yrs.)	Yes
			² .0200 x AFC x Exc. service (Beyond 20 yrs.) ² .0150 x AFC x service	Yes
Charlottesville	5 yrs.	highest 3 consecutive yrs.	³ .0200 x AFC x service - .0250 of estimated Soc. Sec. at age 65 x service (max of 20 yrs.) ⁴ .0120 x AFC x service (30 yrs. max) + AFC in excess of 1/2 Soc. Sec. wage base x .005 x service (30 max) + AFC x .005 x service in excess of 30 yrs.	No
Danville	5 yrs.	highest 5 yrs.	.0142 x \$9500 of AFC + AFC in excess of \$9500 x .0182 x service	No
Fairfax	5 yrs.	highest salary over 78 consecutive pay periods or 36 months	⁵ .0180 x AFC x service ⁶ .0200 x AFC x service	Yes
Falls Church	5 yrs.	Average monthly compensation received during 36 consecutive months prior to retirement which produces the highest average	⁷ .0200 x AFC x service ⁸ .0160 x AFC x service	Yes
Newport News	5 yrs.	36 highest consecutive months of salary in last 10 years	.01833 x AFC x service	No
Norfolk	10 yrs.	highest 3 years	⁹ .0200 x AFC x service ¹⁰ .0167 x AFC x service	No
Richmond	5 yrs.	last 3 years	.0125 x AFC x service + .0015 x (AFC - \$13,200.00) x service up to 35 yrs.	No
Roanoke	10 yrs.	last 36 months	.0200 x AFC x service	No

¹ formula if hired prior to 2/8/91

² formula if hired after 2/8/81

³ formula if hired prior to 1/1/84

⁴ formula if hired after 1/1/84

⁵ Plan A: employee contribution 4%

⁶ Plan B: employee contribution 5.333%

⁷ formula if hired on or before 12/8/86

⁸ formula if hired after 12/8/80

⁹ formula if member prior to 7/1/80

¹⁰ formula if member after 7/1/80

General Employees

	Arl	Char	Danv	FC	Fx	NN	Norf	Rich	Roan
Soc.Sec.	Yes		Yes	Yes	Yes	Yes	No	Yes	Yes
Dir.Intgr	No		No	No	Yes	No	No	No	No
Indir.Intgr	No		No	Yes	No	No	No	Yes	No
Vest/yrs	5	5	5	5	5	5	10	5	10
Change	No	No	No	No	No	No	No	No	Yes (5yrs)
Contributory	Yes	No	No	Yes	Yes	No	No	No	No
Withdrawal	Yes	No	No	Yes	Yes	No	No	No	--
Mand. W/D (nonvested)	No	--	--	Yes	Yes	--	--	--	--
Rollover-out	Yes		Yes	Yes*	Yes	No	Yes*	No	No
Rollover-in	No		No	No	Yes*	No	No	No	No
Purchase of prior Serv.	No		No	No	Yes*	No	No	No	No
Cost	--		--	--	15%	--	--	--	--
Vested	--		--	--	No	--	--	--	--
For Vesting	--		--	--	Yes	--	--	--	--
Restrictions	--		--	--	None	--	--	--	--

Active Members with Portable Service

#/ser.yrs.		12/123	52	56/367	66/402	142/1144	59/420
VRS		5/49		48/307	59/361	110/753	53/378
Arl		6/60					1/2
Char	No Response					1/15	2/5
Danv				1/8			
Fx		1/14			2/4	2/13	2/10
FC1/3							
NN						3/12	1/17
Norf				5/41	3/25	1/1.5	2/8
Rich				2/11	2/25	23/352	
Roan						1/3.5	

Inactive, Vested Member with Portable Service

#	74	7	535	579	1421	94
Ser/yrs.	858	44	5,280		15,200	1,242

Rollover out of system: Falls Church allows a direct rollover to an IRA, but not to another pension plan. Norfolk allows a rollover to another qualified plan or IRA of only interest received on employee contributions.

Rollover into system: Fairfax accepts a rollover only from VRS

Purchase of Prior Service: Fairfax accepts only VRS prior service

APPENDIX E
Recommended Legislation

51.1-143.1 Portability of prior service under system of a political subdivision of the Commonwealth.--Notwithstanding the provisions of 51.1-143, the retirement system may enter into an agreement with a political subdivision of the Commonwealth having a defined benefit plan which is not supplemental to the Virginia Retirement System, whereby any vested member may be granted creditable service, as defined by the political subdivision and rendered with the political subdivision, upon the transfer of assets as determined by the agreement.

51.1-801.1 Portability of prior service under system of a political subdivision of the Commonwealth or the VRS.--Any political subdivision having a defined benefit plan which is not supplemental to the Virginia Retirement System may enter into an agreement with another political subdivision or the Virginia Retirement System, whereby any vested member may be granted creditable service, as defined by the political subdivision or the Virginia Retirement System and rendered with the political subdivision or the Virginia Retirement System, upon the transfer of assets as determined by the agreement.