

**REPORT OF THE  
VIRGINIA RETIREMENT SYSTEM**

**Reporting of Creditable  
Compensation and Service by  
Institutions of Higher Education  
Who Are Employed Under  
Non-Scholastic Year Contracts**

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



**SENATE DOCUMENT NO. 26**

**COMMONWEALTH OF VIRGINIA  
RICHMOND  
2005**

November 1, 2005

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, VA 23219

The Honorable John H. Chichester  
Chairman  
Senate Finance Committee  
General Assembly Building  
Richmond, VA 23219

The Honorable Vincent F. Callahan, Jr.  
Chairman  
House Appropriations Committee  
General Assembly Building  
Richmond, VA 23219

Gentlemen:

This report is submitted in accordance with Chapter 945 of the *Acts of Assembly*, 2005, which required the Virginia Retirement System (VRS) to complete an actuarial analysis of the potential impact on the VRS and the state's group life insurance programs for state employees if public institutions of higher education were permitted to offer optional retirement and life insurance plans to their employees who are covered under the State Personnel Act. The VRS was directed to provide this analysis to the Governor, the Chairman of Senate Finance and the Chairman of House Appropriations no later than November 1, 2005.

Palmer and Cay, the VRS actuaries, performed this analysis. An overview of the methodology and conclusions on the effects on the VRS if the institutions of higher education were permitted to offer alternative retirement and life insurance plans are included in the enclosed report for your review.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Robert P. Schultze  
Director

Enclosure



October 31, 2005

Donna M. Blatecky  
 Deputy Director for Customer Relationships  
 Virginia Retirement System  
 PO Box 2500  
 Richmond VA 23218-2500

Re: SB1327 Higher Education Act Bill

Dear Donna:

We have reviewed the impact of SB1327, the Higher Education Act Bill on the Virginia Retirement System. The result of our analysis follows.

**Summary**

The Higher Education Act Bill allows the colleges and universities that participate in the VRS to withdraw from the System and establish defined contribution plans to cover their employees. The Bill also allows these entities to withdraw from the Group Life Insurance Plan. The table below summarizes our findings.

(\$000)	State		VaLORS	
	Current	After SB1327	Current	After SB1327
<b>Retirement</b>				
1. Covered Payroll	\$3,100,479	\$2,457,499	\$306,574	\$291,048
2. Normal Cost	241,813	189,919	40,038	37,937
3. Employer Normal Cost Rate	2.80%	2.73%	8.06%	8.03%
4. Actuarial Accrued Liability	14,007,274	12,762,660	980,097	946,369
5. Actuarial Value of Assets	12,018,175	11,404,259	575,327	560,146
6. Unfunded Actuarial Accrued Liability	1,989,099	1,358,401	404,770	386,223
7. UAAL Amortization Payment as a % of pay	4.53%	3.90%	9.33%	9.37%
8. Employer contribution requirement	7.33%	6.63%	17.39%	17.40%
<b>Group Life- Post-retirement Advance Funding</b>	<b>Total</b>			
9. Covered Payroll	12,986,515	12,328,009		
10. Present Value of Future Pay	109,366,423	103,953,159		
11. Present Value of Future Benefits	1,672,350	1,626,308		
12. Actuarial Value of Assets	746,806	712,579		
13. Present Value of Future Contributions	925,544	913,729		
14. Level Contribution Rate as a % of pay	.85%	.88%		
15. Annual Cost	110,385	108,486		
16. Annual Active Life Amount	25,973,030	24,656,018		
17. Monthly Rate per \$1,000 of coverage	35.42%	36.67%		

Our analysis indicates that the effect on the VRS of SB1327 results in a decrease in the Employer contribution requirement in the State Employees Plan and results in a minimal increase in the employer contribution requirement in the VaLORS Plan. The cost for the Group Life Insurance Plan is not calculated separately for each Plan. The provisions in SB1327 increase the contribution rate for the Group Life Plan by approximately 1 cent per \$1,000 of coverage. This analysis assumes that all the affected employees choose to leave VRS. Actual elections will likely result in longer service employees remaining in the System and will produce smaller savings or a modest increase in the VaLORS Plan.

### **Methodology**

We received data from the System that identified the affected employees. We matched this information with the data that was used to prepare the July 1, 2005 actuarial valuation of the System. The demographics of the group are shown below:

	<b>State</b>	<b>VaLORS</b>
Number of Participants	18,951	441
Covered Payroll	\$642,980,184	\$15,525,313
Average Pay	33,929	35,205
Average Age	45.06	40.93
Average Service	10.71	8.44
Present Value of Accrued Benefit	\$613,915,871	\$15,180,888

Next, we calculated the actuarial accrued liability and normal cost for the Plans excluding the affected participants. (Note: We assumed that retirees and vested terminated participants would remain covered by the System). Then we calculated the present value of the benefit that these participants have earned in the System to date. We used the valuation interest rate (7.50%) to calculate the present values and we assumed that the benefit was payable at normal retirement date. This present value was assumed to be transferred from the respective plan to the new defined contribution plan. Therefore, the actuarial value of assets was reduced by this present value. We used the adjusted actuarial value of assets to calculate the unfunded actuarial accrued liability and then calculated the total employer contribution rate. This methodology is consistent with the methodology used by the System to evaluate previous similar events.

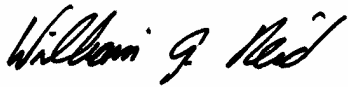
We employed a similar technique for the Group Life Insurance Plan. The amount of assets to transfer to a new plan is based on the present value of the death benefit based on the current life insurance amount (2 times current salary) and payable under the terms of the Group Life Plan. Our values do not include an adjustment to the active life rate.



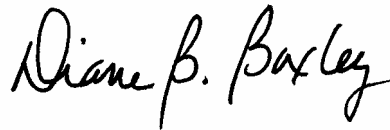
**Conclusion**

Our calculations are based on the data and assumptions used to prepare the July 1, 2000 valuation of the System adjusted as noted previously. We are available to answer any questions you have regarding this analysis.

Sincerely,



William J. Reid, EA  
Senior Consultant



Diane B. Boxley, FSA, MAAA  
Senior Consultant



September 30, 2005

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, VA 23219

The Honorable John H. Chichester  
Chairman  
Senate Finance Committee  
General Assembly Building  
Richmond, VA 23219

The Honorable Vincent F. Callahan, Jr.  
Chairman  
House Appropriations Committee  
General Assembly Building  
Richmond, VA 23219

Gentlemen:

This report is submitted in accordance with Chapter 945 of the *Acts of Assembly*, 2005, which required the Virginia Retirement System (VRS) to work with representatives of Virginia's public institutions of higher education and other interested persons to develop procedures for the reporting of creditable compensation and creditable service for state employees of institutions of higher education. Specifically, the VRS was to establish procedures for payroll reporting to address issues associated with those contract employees whose term of employment does not coincide with the normal scholastic year. The VRS was directed to provide these procedures to the Governor, the Chairman of Senate Finance and the Chairman of House Appropriations no later than October 1, 2005.

In order to identify these reporting issues, a survey was sent to each public college, university and to the Central Office of the Virginia Community College System. Neither the colleges, universities nor the Central Office of the Virginia Community College System identified any issues with payroll reporting. Since there were no issues reported, the VRS is submitting the enclosed report that provides you with information about the survey itself and the responses from the survey.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Robert P. Schultze  
Director

Enclosure

**Report to the Virginia General Assembly  
Reporting of Creditable Compensation and Service by Institutions of Higher  
Education Who Are Employed Under Non-Scholastic Year Contracts**

*Introduction:*

The 2005 Session of the General Assembly, through House Bill 2866 and Senate Bill 1327, established the Restructured Higher Education and Financial Operations Act. The Act provides for more independence in several important areas such as capital building projects, procurement and personnel. In addition, it directed the Virginia Retirement System to work with representatives of Virginia's public institutions of higher education and other interested persons to develop procedures for the reporting of creditable compensation and creditable service for state employees of institutions of higher education. Specifically, the VRS was to establish procedures for payroll reporting to address issues associated with those contract employees whose term of employment does not coincide with the normal scholastic year.

*Identifying the Problem:*

The Virginia Retirement System payroll reporting system is responsible for tracking an employee's creditable compensation and service retirement record. Currently, VRS offers alternative reporting schedules to specifically accommodate the normal scholastic year. VRS works with employers to ensure all members receive the full retirement credit that they have earned regardless of the reporting schedule used by the participating employer.

In drafting this legislation, one of the institutions for higher education identified certain payroll reporting issues for their employees who were under non-scholastic year contracts. In order to fully identify these reporting issues, staff of the Virginia Retirement System developed a survey tool (Attachment A). A survey was sent to each public college, university and to the Central Office of the Virginia Community College System.

*Results:*

Of the 19 surveys sent to the colleges and universities in the Commonwealth, the Virginia Retirement System received a total of 17 responses (Attachment B). Of the responses received, only one university reported current employees who are employed under a non-scholastic year contract. They cited no difficulties in reporting the members to VRS. No college or university reported that they had experienced or were currently experiencing any Virginia Retirement System payroll reporting problems.

As a result of the findings of the survey, staff of the Virginia Retirement System contacted the respondents to the survey to ensure that the colleges and universities clearly understood what specific issue the survey was addressing. Additionally, staff canvassed the respondents as to whether there was a need for the colleges and universities to meet with staff from the Virginia Retirement System to discuss reporting issues. No respondent expressed interest in a face-to-face meeting.

*Conclusions:*

Based on the findings of the survey and the follow up discussions with the respondents, the Virginia Retirement System believes that there may have been confusion about the reporting procedures, not a problem with the process itself.

The Virginia Retirement System stands ready to work closely with the public colleges and universities in the Commonwealth to resolve any payroll reporting issues or address any issues that these institutions may experience in the future.

*Recommendations:*

The VRS would ask that consideration be given to deleting references to employment for non-scholastic year found in Section 51.1-124.3 under the definition of "Creditable compensation". Allowing this language to remain in the statute, for which there is no identified need or purpose, may result in interpretation outside the scope of the original legislative intent.



**MEMORANDUM**

TO: Chief Financial Officers  
Virginia Institutions of Higher Education

FROM: Patty Atkins-Smith  
Legislative Liaison

DATE: June 3, 2005

RE: Restructured Higher Education and Financial Operations Act  
(House Bill 2866/Senate Bill 1327)

The Virginia Retirement System (VRS), in cooperation with representatives of Virginia's colleges and universities, is required under the Restructured Higher Education and Financial Operations Act (House Bill 2866/Senate Bill 1327) to develop procedures for the reporting of full time employees who are employed under contracts whose start and end dates are outside the normal scholastic year. In order to develop some solutions to these issues, we need to know the number of employees hired under non-scholastic year contracts, the types of positions that these employees hold and what problems the colleges and universities are experiencing in reporting these individuals to the VRS.

In addition, this legislation also provides a retirement benefit for part time faculty beginning July 1, 2005. Part time faculty are defined as those who work at least 20 hours, but less than 40 hours per week or who work the equivalent of one half of a faculty position and are engaged in teaching, research or administrative duties. In order to efficiently serve the colleges and universities as these positions are added, we need to know the number of part time faculty that are currently employed by your institution and how they are paid. Also, we would like to know if you have information concerning any part time faculty who are currently receiving a service retirement benefit from the VRS or from an Optional Retirement Plan.

In order to obtain this information, we are requesting that you provide the following information:

College or University: \_\_\_\_\_

**Full Time Positions**

Number of full time positions with non-scholastic year contracts: \_\_\_\_\_

Types of positions with non-scholastic year contracts and the number of employees in each position:

Positions Description:	Number of Employees:
_____	_____
_____	_____
_____	_____
_____	_____

(If additional space is needed, please add this information to the bottom of the survey.)

Actual beginning and ending dates for non-scholastic contracts:

Begin Date:

End Date:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Are these contracts continuous: Yes \_\_\_\_\_ No \_\_\_\_\_

Do you expect future utilization of non-scholastic year contracts to increase? Yes \_\_\_\_\_ No \_\_\_\_\_

If so, please describe what positions you expect to cover with these contracts.

Describe the reporting issues that your institution has encountered with the non-scholastic year contracts:

**Part Time Positions:**

Number of part time faculty currently employed by your institution: \_\_\_\_\_

Number of part time faculty positions with non-scholastic year contracts: \_\_\_\_\_

Number of part time faculty that are receiving a benefit from the VRS or from an Optional Retirement Plan: \_\_\_\_\_

Types of positions with non-scholastic year contracts and the number of employees in each position:

Positions Description:	Number of Employees:
_____	_____
_____	_____
_____	_____
_____	_____

**Adjunct Faculty:**

How do you define adjunct faculty?

**Wage employees whose teaching load is between 3-6 hours per academic semester.**

Do you anticipate an increase in the number of adjunct faculty? Yes \_\_\_\_\_ No \_\_\_\_\_

Do you anticipate any changes in your adjunct faculty, including any changes from adjunct to part time faculty? Yes \_\_\_\_\_

Name of person completing survey:

\_\_\_\_\_

Title: \_\_\_\_\_

Phone Number: \_\_\_\_\_

Upon completion, please e-mail your response to me at [psmith@vrs.state.va.us](mailto:psmith@vrs.state.va.us) or fax your response at your earliest convenience to: Patty Atkins-Smith, VRS Legislative Liaison at 804-786-1541.

If you have any questions, please call me at 804-344-3123. Thank you so much for helping VRS obtain this information.

## Survey Results – Restructured Higher Education and Financial Operations Act

<b>Name of College or University</b>	<b>Number of Non-Scholastic Year Employees</b>	<b>Expect Use Of Non-Scholastic Year Contracts to Increase</b>	<b>Reporting Issues</b>
Christopher Newport University	0	No	None
George Mason University	0	No	None
James Madison University	40	Yes	None
Longwood University	0	No	None
Richard Bland College	0	No	None
Mary Washington University	10	No	None
Old Dominion University	0?	No	None
Radford University	0	No	None
University of Virginia	0	No	None
University of Virginia/Wise	0	No	
Virginia Commonwealth University/Academic Campus	1	No	None
Virginia Commonwealth University/MCV Campus	0	No	None
Virginia Community College System	0	No	None
Virginia Military Institute	0	No	None
Virginia State University	0	No	None
Virginia Tech	0	Yes	None