

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 25, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER^S

SUBJECT: BUDGET MEMO # 36: VIRGINIA RETIREMENT SYSTEM (VRS) RATE ADJUSTMENTS FOR FY 2002 (MAYOR DONLEY'S REQUEST)

In response to Mayor Donley's questions on VRS, the following information is provided:

- VRS employer rates have been changed for FY 2002 (the 5% employees' share which is paid by the City and the Schools remains unchanged), and for nearly all local governments and local school divisions, the rates have been decreased. The decrease in the employer's share primarily relates to the fact that in recent years VRS's earnings on stocks, bonds and other investments have substantially exceeded VRS's actuarial assumptions that had been used to calculate the employer's contribution rates prior to and including FY 2001.
- In setting the VRS employer share rates for FY 2002, the VRS actuary used generally accepted (i.e., conservative) actuarial assumptions. Localities have been told by VRS that VRS has tested the actuarial assumptions against various VRS investment fund earnings or loss scenarios and that there is a 95% probability that the decreased VRS employer share rates will not increase and should remain constant beyond FY 2002. While the VRS actuary states that it is unlikely that VRS employer rates will increase in FY 2003 and beyond, that is not assured. How rates will change will be primarily impacted by VRS investment earnings over the long term, as well as benefit enhancements or policy changes that may be approved in the future by the General Assembly, such as the shift of health insurance costs for retirees to local governments. The Governor recommended this change for FY 2002 but it was not approved. This change alone would have added 0.68% to the employer's rate and would have cost the Alexandria School system \$0.5 million per year.
- For the City government budget, the reduction in VRS employer rates means a drop from a 4.43% City employer share in FY 2001 to 1% in FY 2002. This rate reduction will save the City some \$2.3 million in FY 2002. Of these savings, \$0.4 million is reflected in individual departmental FY 2002 proposed budgets and \$1.9 million is reflected in the Non-departmental section of the FY 2002 proposed budget. This bifurcation of the savings in the budget was caused by the fact that when the City budget was prepared the City's VRS rate

was not known, so the rate staff used in preparing each department's budget was an estimate of the rate reduction. It was not until after most of the City departmental budgets were prepared and submitted for OMB and City Manager consideration that the final 1% employer rate for FY 2002 was provided by VRS. As a result, the additional savings was put in the Non-departmental section of the City budget.

- It should be noted that while VRS rates for each jurisdiction are different and individually calculated by VRS due to local experience and other local factors, school teacher rates are set uniformly across the state, with statewide experience and other factors all pooled to get a single rate for school teaching staff.
- For the schools teaching staff statewide (including the Alexandria City Public Schools), VRS has announced that the VRS employer's rate will drop from 7.54% in FY 2001 to 4.24% for FY 2002. In the Superintendent's proposed budget and the School Board approved budget, a VRS employer's share of 5.87% was used, which produced savings of \$1.2 million. With the 4.24% rate, there will be an additional \$1.1 million retirement savings to the Schools for FY 2002. While it has remained possible that the General Assembly could have changed the new 4.24% rate during its special session debates with the Governor or make other budget changes that will affect State aid to public schools, it appears at this late stage that this is highly unlikely. However, the State Department of Education has not provided local school districts with specific instructions for FY 2002 on retirement rates. Nevertheless, there is a high degree of certainty that these additional savings of \$1.1 million will be realized in the Schools FY 2002 requested budget.

cc: Mark Jinks, Assistant City Manager
Herbert Berg, Superintendent, Alexandria City Public Schools
Bruce Venter, Assistant Superintendent, Alexandria City Public Schools