

## NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

MEMORANDUM

**TO:** Chairman Martin E. Nohe and Members  
Northern Virginia Transportation Authority

**FROM:** Mayor Parrish, Chairman – NVTA Finance Committee

**DATE:** June 2, 2016

**SUBJECT:** VRS Alternative Rate for FY2017 and FY2018

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1. **Purpose.** Presentment of the option to adopt a lower Virginia Retirement System (VRS) annual contribution rate or remain with the budgeted FY2017 employer contribution rate certified by the VRS Board of Trustees.
2. **Suggested motion.** *I move the Authority take no action to adopt the Alternate Employer Contribution Rate provided for in the 2016 Appropriation Act, Item 475(I), as recommended by the NVTA Finance Committee.*
3. **Background.**
  - a. As part of the FY2017 Operating Budget Adoption, the Authority budgeted the VRS employer contribution rate (ECR) certified by the VRS Board of Trustees for fiscal years 2017 and 2018.
  - b. The NVTA ECR for FY2017 and FY2018 is 9.48%.
  - c. After the Authority adopted the FY2017 Operating Budget an alternative ECR for FY2017/18 was made available through the 2016 Appropriation Act, Item (I). This alternative rate is 8.53%.
  - d. If the lower alternative rate is selected the following will occur:
    - i. The FY2017 Operating Budget VRS contribution cost will be reduced by \$8,959.70.
    - ii. Reduced contributions will reduce investment earnings, thus further reducing assets in the VRS Plan for NVTA.
    - iii. Due to lower funding in FY2017 and FY2018, the Authority will have a lower funding ratio and thus a higher future year ECR.
    - iv. Government Accounting Standards Board (GASB) required supplementary information in the Authority's financial statements will need to include disclosure of the contribution deficiency of \$8,959.70 for FY2017 and doubling to \$17,919.40 in FY2018.
  - e. Currently the Authority has a near 100% funded pension liability. The only variance taking the NVTA below 100% are routine adjustments between actuarial study periods.

- f. The decision to adopt (or not) the alternative ECR rests with the Authority governing body.
  - g. The Authority has the option to adopt the alternative ECR through a resolution approved by July 1, 2016 and mailed to VRS with a postmark no later than July 5, 2016.
- 4. Staff Recommendation.** NVTA staff recommends the Authority not adopt the VRS Alternative Rate for FY2017 and FY2018 for the reasons noted in 3.d. i. through iv above.
- 5. Next Steps.** No action is required if the Authority does not wish to adopt the alternative rate for FY2017 and FY2018.

**Attachment:**

VRS Notice dated March 24, 2016, Received March 31, 2016



P.O. Box 2500, Richmond, Virginia 23211  
Toll free: 1-888-VARETIR (827-3827)  
Web site: www.varetire.org  
E-mail: vrs@varetire.org



March 24, 2016

### **Northern Virginia Transportation Authority – 55868**

As you are aware, the Appropriation Act from prior years allowed political subdivisions to elect to pay either the employer contribution rate certified by the Virginia Retirement System (“VRS”) or to pay an alternate rate. However, the language was slightly modified in the **2016 Appropriation Act, Item 475(I)**. Let me take this opportunity to share information regarding this modification.

The modified 2016 Appropriation Act language establishes the certified rate as the default employer contribution rate. Political subdivisions may still make an election between the certified employer contribution rate and the alternate employer contribution rate for the next biennium beginning July 1, 2016. If your political subdivision wishes to pay the certified rate, no further action is needed and you are not required to send VRS any documents affirming this decision. Your rate will be the new certified rate, effective July 1, 2016.

If your political subdivision wishes to pay the alternate rate, your governing body must pass the attached resolution stating that it elects the alternate rate, beginning July 1, 2016. In addition, the Appropriation Act requires school divisions to obtain the concurrence of the local governing body if electing to pay the alternate contribution rate. Such concurrence must be documented by the attached resolution from the local governing body and sent to VRS.

Please note, the Appropriation Act will not be finalized until signed by the Governor, which occurs after the reconvened session of the General Assembly. VRS does not anticipate any further changes to this language modification; however, we will keep you apprised of any amendments that would change these options.

To assist you in your decision, please find below the certified and alternate contribution rates. Again, you only need to send VRS a resolution if your political subdivision elects the alternate employer contribution rate.

### **Employer Retirement Contribution Rate Election**

- 9.48% – The employer contribution rate certified by the VRS Board of Trustees for the fiscal years 2017-2018.
- 8.53% – The alternate employer contribution rate, which is the higher of the rate certified by the VRS Board for fiscal year 2012 or 90 percent of the VRS Board-certified rate for fiscal years 2017-2018.

### **Considerations in Electing Your Contribution Rate**

The 2016 Appropriation Act, Item 475(I) offers political subdivisions and schools the opportunity to elect an alternate lower employer contribution rate for budget considerations. However, this does not change the Board-certified employer contribution rate. Therefore, if you are considering using the alternate rate, please be aware that doing so will:

- Reduce contributions to your employer account and the investment earnings they would have generated, which will mean there will be fewer assets available for benefits.
- Result in a lower funded ratio when the next actuarial valuation is performed and, thus, a higher certified contribution rate at that time.
- GASB required supplementary information will need to include disclosure of contribution deficiency for the amount by which the alternate contributions are less than the actuarially determined contribution.

### **Deadline for Alternate Rate Resolutions**

If your governing body elects to pay the alternate rate, the resolution must be passed on or before July 1, 2016 and mailed to VRS **postmarked no later than July 5, 2016**. The resolutions received by VRS must be the certified original document. Please send all resolutions to Ms. ZaeAnne Allen, employer coverage coordinator, at P.O. Box 2500, Richmond, VA 23218-2500.

If you have any questions about the information in this packet, please contact Ms. ZaeAnne Allen, employer coverage coordinator, at [zallen@varetire.org](mailto:zallen@varetire.org) or (804) 775-3514.

Sincerely,



Patricia S. Bishop  
VRS Director

(Enclosure)



Virginia  
Retirement  
System

VIRGINIA RETIREMENT SYSTEM  
P.O. Box 2500  
Richmond, VA 23218-2500

Employer Contribution Rates for Counties, Cities,  
Towns, School Divisions and Other Political Subdivisions  
(In accordance with the 2016 Appropriation Act Item 475(I))

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**Resolution to Elect the Alternate Rate**

WHEREAS, the 2016 Appropriation Act Item 475(I)(1) requires that an employer pay the contribution rate certified by the VRS Board of Trustees ("Certified Rate"), unless the employer elects to pay an alternate rate as described in Item 475(I)(2) ("Alternate Rate"); and

WHEREAS, if an employer wishes to pay the Certified Rate, then the employer need not take action on this resolution; and

WHEREAS, if an employer wishes to pay the Alternate Rate established in the 2016 Appropriation Act, then the employer must pass this resolution on or before July 1, 2016, to elect the Alternate Rate; and

WHEREAS, any local public school division that elects to pay the Alternate Rate must receive a concurrence of its local governing body documented by a resolution of the governing body on or before July 1, 2016;

NOW, THEREFORE, BE IT RESOLVED, that the [insert Locality, School Division, or Other Political Subdivision Name] \_\_\_\_\_ ("the Employer") [insert employer code] \_\_\_\_\_, does hereby elect to pay the Alternate Rate and acknowledges that its contribution rate effective July 1, 2016 shall be based on the higher of a) the contribution rate in effect for FY 2012, or b) ninety percent of the results of the June 30, 2015 actuarial valuation of assets and liabilities as approved by the Virginia Retirement System Board of Trustees for the 2016-18 biennium; and

BE IT FURTHER RESOLVED, that the Employer does hereby certify to the Virginia Retirement System Board of Trustees that it agrees to pay the Alternate Rate of [insert Alternate Rate provided in the attached cover letter] \_\_\_\_\_% effective July 1, 2016; and

BE IT FURTHER RESOLVED, that the Employer does hereby acknowledge that, if it is a school division, this resolution shall not become effective unless the Virginia Retirement System receives a concurrence of its local governing body documented by a resolution of the local governing body dated on or before July 1, 2016; and

BE IT FURTHER RESOLVED, that the Employer does hereby certify to the Virginia Retirement System Board of Trustees that it has reviewed and understands the information provided by the Virginia Retirement System outlining the potential future fiscal implications of any election made under the provisions of this resolution.

## **Item 475(I) of the Proposed 2016 Appropriation Act**

I.1. Except as authorized in Paragraph I.2. of this Item, rates paid to the Virginia Retirement System on behalf of employees of participating (i) counties, (ii) cities, (iii) towns, (iv) local public school divisions (only to the extent that the employer contribution rate is not otherwise specified in this act), and (v) other political subdivisions shall be based on the employer contribution rates certified by the Virginia Retirement System Board of Trustees pursuant to § 51.1-145(I), Code of Virginia.

2. Rates paid to the VRS on behalf of employees of participating (i) counties, (ii) cities, (iii) towns, (iv) local public school divisions (only to the extent that the employer contribution rate is not otherwise specified in this act), and (v) other political subdivisions shall be based on the employer contribution rates certified by the Virginia Retirement System Board of Trustees pursuant to § 51.1-145(I), Code of Virginia, unless the participating employer notifies VRS that it has opted to base the employer contribution rate on the higher of: a) the contribution rate in effect for FY 2012, or b) seventy percent of the results of the June 30, 2011 actuarial valuation of assets and liabilities as approved by the Virginia Retirement System Board of Trustees for the 2012-14 biennium, eighty percent of the results of the June 30, 2013 actuarial valuation of assets and liabilities as approved by the Virginia Retirement System Board of Trustees for the 2014-16 biennium, ninety percent of the results of the June 30, 2015 actuarial valuation of assets and liabilities as approved by the Virginia Retirement System Board of Trustees for the 2016-18 biennium, and one-hundred percent of the results of the June 30, 2017 actuarial valuation of assets and liabilities as approved by the Virginia Retirement System Board of Trustees for the 2018-20 biennium.

3. Every participating employer that opts not to use the employer contribution rates certified by the Virginia Retirement System Board of Trustees pursuant to § 51.1-145(I), Code of Virginia, must certify to the board of the Virginia Retirement System by resolution adopted by its local governing body that it: has reviewed and understands the information provided by the Virginia Retirement System outlining the potential future fiscal implications of electing or not electing to utilize the employer contribution rates certified by the Virginia Retirement System Board of Trustees, as provided for in paragraph I.1.

4. Local public school divisions must receive the concurrence of the local governing body if electing to pay the alternate contribution rate set out in paragraph I.2. Such concurrence must be documented by a resolution of the governing body.

5. The board of the Virginia Retirement System shall provide all employers participating in the Virginia Retirement System with a summary of the implications inherent in the use of the employer contribution rates certified by the Virginia Retirement System (VRS) Board of Trustees set out in paragraph I.1, and the alternate employer contribution rates set out in paragraph I.2.