ARTICLES OF INTEREST

Richmond Times-Dispatch

Published: March 16, 2012
Updated: March 16, 2012 - 12:09 AM

Localities await particulars of GA's retirement-system law

By Randy Hallman

For Henrico County Manager Virgil R. Hazelett, legislation passed by the General Assembly on Saturday fell well short of clearing up uncertainty about Henrico's contribution to the Virginia Retirement System for county employees.

And the legislature's failure to craft a state budget before adjourning until March 21 left more questions unanswered as Henrico presses forward with its own budget-making process.

Henrico's quandary is shared by other Richmond-area localities as they wait for more information from the state.

Hazelett presented his proposed budget to the Henrico Board of Supervisors on Tuesday, without knowing what the state's share will be. The state contributed $281.3 million to last year's Henrico budget of $1.04 billion to help fund education and other areas.

With state legislators at a budget impasse that could take weeks to resolve after their return, Hazelett was asked if Henrico would stick to its own budget schedule.

"We have to," he said, noting that the county has its own deadlines for department briefings, a public hearing and action by supervisors.

Hazelett said county staff members are waiting to get the particulars of the law affecting the Virginia Retirement System and 10,400 Henrico employees with a total payroll of $524 million.

If the bill as described gets the governor's signature, it requires teachers and local government employees served by the VRS to contribute 5 percent of their earnings to the retirement system, while requiring localities to offset those contributions with 5 percent raises to employees.

Henrico, like most localities, currently pays the 5 percent directly to the VRS. Shifting from direct payment to the VRS to a pay raise for employees would cost the county more because some benefits — Social Security, group life insurance and retirement contributions — are pegged to employee pay.

According to the VRS, the shift would cost the county 0.71 percent more to cover the increased benefits. Hazelett said the best estimate so far is that the change would cost Henrico about $8 million — depending on details not yet available.

VRS calculates that an employee served by VRS and earning $50,000 currently gets average total compensation, including benefits, of $61,265. After the new law takes effect, total compensation would be $61,703.

"We need to see what has been passed," Hazelett said. "Can the General Assembly require local governments to give employees a raise? ... Is it optional, not optional? We just don't know."

Hazelett said the fiscal 2013 budget he proposed is already tightly trimmed and that if the county has further issues with the General Assembly and with VRS, "we may have to revisit our budget."

Chesterfield County Senior Budget Analyst Matt Harris said the county has received no communication from the state about what the changes to VRS will require of localities.

"It's really tough to say what the impact will be," Harris said. He said he has called friends from other localities "trying to understand what they've heard. Everybody is pretty much in the same boat waiting for some more information to come out."

Richmond has its own retirement systems for many city employees, including police and firefighters, said Suzette P. Denslow, chief of staff for Mayor Dwight C. Jones. While the city contributes money for VRS-covered employees in the offices of elected officers, such as the sheriff, commonwealth's attorney, Circuit Court clerk and treasurer, the bill will have the largest impact on the city's school system.

Most of the city's 3,800 school employees are covered by the VRS, said Felicia Cosby, a spokeswoman for Richmond Public Schools.

Denslow pointed out that the city pays a large proportion of the school budget, "so that's where it's going to hit the city the most."

The Richmond school system has estimated that the retirement changes could cost an additional $8.2 million, part of the $23.8 million gap in the budget the school system faces this year.

"I am hopeful that before the budget is finalized, the General Assembly makes some changes to what they've proposed," Denslow said, "because I can't imagine how all the local governments in the state are going to deal with this. The numbers are too significant."

Hanover County Administrator Cecil R. "Rhu" Harris Jr. echoed Henrico, Chesterfield and Richmond leaders.

"We need to study the legislation," he said. "We're not sure what the impact is going to be."

---

http://www2.timesdispatch.com/news/2012/mar/05/tdmain01-localities-split-on-state-pension-proposa-ar-1740171/

Richmond Times-Dispatch

Published: March 05, 2012

Localities split on state pension proposals

By Michael Martz

Local governments are divided over the competing approaches to pension reform in the Virginia General Assembly, especially the two-year state budget that has come to a standstill because of political stalemate in the Senate.

The House of Delegates adopted a budget that would reduce contributions to the Virginia Retirement System by more than $500 million in the next two years, primarily from financially strapped local governments that face increases in pension rates for local employees and teachers.

The Senate is pushing in the opposite direction by trying to force the state to pay the even higher contribution rates certified by the VRS for state employees and teachers — but not fully until the 2018-2020 budget.

"There's a real mixed opinion about it" among local governments," said Mary Jo Fields, research director at the Virginia Municipal League.

The difference is clear in the reactions by Henrico and Chesterfield counties.

Henrico County Manager Virgil R. Hazelett welcomes the House proposals as a needed buffer to the $13 million the county faces in higher rates for teacher pensions in the 2012-13 budget he will propose in less than two weeks.

"I don't think it is that important to the (retirement) system, and it is very beneficial to local governments," Hazelett said.

Chesterfield County Administrator James J.L. Stegmaier said local governments would be foolish to accept the House offer to let them reduce the contributions they make to their own retirement plans.

"All they're doing is making a hole deeper for the future," Stegmaier said, "which means someday we're going to have to pay even more."

The budget debate revolves around who sets retirement rates and the assumptions they use in determining how much contributions should be.

The VRS board of trustees certifies rates every two years that local governments must pay for their employees' retirement, but the General Assembly and governor can change the rates for state employee and teacher pensions.

The VRS approved rates last fall that assume a 7 percent annual return on the $54 billion system's investments, but Gov. Bob McDonnell and the assembly's money committees based their rates on an 8 percent annual return.

The difference amounts to hundreds of millions of dollars for the state and localities because a higher investment return reduces the need for contributions.

Both budget proposals assume an 8 percent return, but the Senate wants to require the state to move toward paying the VRS-certified rates for its employees and teachers. Localities pay about two-thirds of employer contributions for teacher pensions, so higher rates would cost them more money.

The House budget moves in the opposite direction by requiring that localities use the higher return assumption in rates for their employees. The requirement would reduce contributions to local retirement plans by $188 million each year, or $376 million for the biennium.

Localities also would be spared in the House plan from helping the state to repay the hundreds of millions in teacher retirement contributions that McDonnell and the legislature deferred to balance the current two-year budget. The House proposal would reduce teacher pension contributions by $69 million a year below the budget proposed by McDonnell.

Del. S. Chris Jones, R-Suffolk, said the proposals are aimed at "helping localities with their cash flow."

"What we have heard, and it's real, is this year local governments are struggling financially," said Jones, a former Suffolk mayor who chairs the House Appropriations subcommittee on compensation and retirement.

Sen. John Watkins, R-Powhatan, called the House proposals a "more of the same" approach that resulted in a $20 billion unfunded liability at the VRS by the end of last year.

"We will never get the unfunded balance paid up," said Watkins, sponsor of legislation that also would take a different tack than the House in reducing employee retirement benefits and making teachers and local employees contribute up to 5 percent of their salaries to retirement.

While the budget proposes to fund pension rates at 67 percent of the level certified by the VRS, Watkins' bill would require the state to increase that level by 10 percentage points over each of the next three budget biennia.

Jones isn't impressed because the Senate didn't propose any additional money in the budget for state employee or teacher retirement.

"On the face of it, what have they accomplished?" he asked.

Jones is willing to amend his budget language in conference committee to give localities the option of using the VRS assumption, as Chesterfield prefers.

Giving localities the option appeals to the municipal league. "It is an awful lot of money," Fields said, "and localities are hurting."
