

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: August 16, 2012

COMMITTEE: Full Board

AGENDA ITEM: Legislative Proposal

Amending the Code of Virginia Pertaining to Employer
Contributions to the Hybrid Defined Benefit and Defined
Contribution Retirement Program

BACKGROUND: The 2012 General Assembly created a new hybrid retirement program to be administered by the Virginia Retirement System (VRS) that contains a defined contribution and a defined benefit component. The implementing legislation could have significant fiscal implications for the University. In an effort to help cover the unfunded liability in the legacy defined benefit program administered by the VRS, the amended Code section allows the state to set the employer contribution rate for employees enrolled in a defined contribution retirement plan at an amount equal to the legacy defined benefit rate established by the General Assembly even when that rate is higher than the University's defined contribution rate. The difference between the legacy defined benefit rate and the optional retirement plan rate is used to cover the unfunded liability in the legacy defined benefit VRS administered retirement program.

This provision would impact all institutions of higher education that have employees enrolled in a defined contribution retirement plan. The provision passes the cost of funding the Commonwealth's VRS defined benefit program to employers of faculty and staff who are not and, for the most part, have never been enrolled in the VRS defined benefit plan. Covering the unfunded liability in the legacy defined benefit plan in this manner will increase the cost of education and health care and have negative effects on future tuition and fee increases and patient billing rates.

The chart below reflects the potential financial impact of the new law on the University of Virginia. Of particular note is that while the UVa Medical Center may be subject to this additional expense, the Virginia Commonwealth University Health System Authority is not included in the provision.

	2012-14		2014-16		2016-18		2018-20
Plan 1 cost ¹	DB < UVa 8.76% < 10.4% no impact		DB < UVa 10.19% < 10.4% no impact		DB > UVa 11.63% > 10.4% \$7.7M impact		DB > UVa 13.07% > 10.4% \$16.7M impact
Plan 2 cost ²	DB < UVa 8.76% < 8.9% no impact		DB > UVa 10.19% > 8.9% \$0.9M impact		DB > UVa 11.63% > 8.9% \$1.8M impact		DB > UVa 13.07% > 8.9% \$2.8M impact
Medical Center cost ³	DB > MC 8.76% > 4% \$22.9M impact		DB > MC 10.19% > 4% \$29.8M impact		DB > MC 11.63% > 4% \$36.7M impact		DB > MC 13.07% > 4% \$43.6M impact
Total	\$22.9M		\$30.7M		\$46.2M		\$63.1M

DB = VRS Defined Benefit Plan

¹ Plan 1 covers employees hired before July 1, 2010 who are members of the University's defined contribution retirement plan (UVa) and are grandfathered at the higher 10.4% employer contribution rate.

² Plan 2 covers employees hired after July 1, 2010 who are members of the University's defined contribution retirement plan (UVa) with an 8.9% employer contribution rate.

³ The Medical Center's (MC) employer contribution rate to its plan is 4%.

Paragraph N of § 51.1-145 of the *Code of Virginia* sets out the provision that would permit the higher retirement rates to be charged.

DISCUSSION: The University proposes to amend § 51.1-145 of the *Code of Virginia* relating to employer contributions to employee retirement plans. The University proposes the deletion of these provisions as they relate to the following employee populations, 1) University Staff who elected to join the University's defined contribution retirement plan; 2) teaching and research faculty and administrative and professional faculty who are members of the University's defined contribution retirement plan; and 3) Medical Center employees who are members of the Medical Center's defined contribution retirement plan.

Proposed legislation for the 2013 Session must be submitted to the Governor's Office before the next regular Board of Visitors meeting in September, and is therefore being brought before the Board for consideration at this time.

ACTION REQUIRED: Approval by the Board of Visitors

APPROVAL OF LEGISLATIVE PROPOSAL TO AMEND CODE OF VIRGINIA
SECTION 51.1-145

RESOLVED, the Board of Visitors approves and endorses amending the *Code of Virginia* as it pertains to the hybrid defined benefit and defined contribution retirement program.

The proposed amendments to § 51.1-145 of the *Code of Virginia* are as follows:

§ 51.1-145. Employer contributions.

N. Notwithstanding the foregoing, the total employer contribution for each employer, expressed as a percentage of the employer's payroll for such period, shall be established as the contribution rate payable by such employer with respect to its employees enrolled in the defined benefit plan established under this chapter. The employer's contribution shall be first applied to the defined contribution component of the hybrid retirement program described in § 51.1-169, and the remainder shall be deposited in the employer's retirement allowance account. ~~Institutions of higher education shall also pay contributions to the employer's retirement allowance account in amounts representing the difference between the contribution rate payable with respect to employees enrolled in the defined benefit plan under this chapter and the employer contributions paid to any optional retirement plan it offers on behalf of any of its nonfaculty Covered Employees, as described in Article 6 (§ 23-38.114 et seq.) of Chapter 4.10 of Title 23. The employer contribution rate established for each employer may include the annual rate of contribution payable to such employer with respect to employees enrolled in the optional defined contribution retirement plans established under §§ 51.1-126, 51.1-126.1, 51.1-126.3, and 51.1-126.4.~~