

VGFOA Newsletter

VRS Alternate Local Retirement Contribution Rates

As local governments in Virginia have faced difficult fiscal challenges associated with the creation of their FY10 budgets, the Governor and the General Assembly have provided counties, cities, towns, and local public school divisions with a temporary option to utilize an alternate VRS contribution rate for FY10. To select this option local governing boards must be approved by VRS and concur with the selection of the alternate rate by approving a resolution. The Education Committee has participated in discussions with representatives from VRS, VACO, VML, and VLGMA to develop information about this alternative to share with each organization's members.

Following is a summary of some issues which should be considered before recommending the alternate method to your governing body:

- 1. The alternate rate is only available for FY10.** Therefore, the funding in FY11 and subsequent years will not only return to the previous assumptions and higher rates but the rates will be even higher as the unfunded amount and loss of earnings from FY10 is amortized. VRS is already anticipating substantially higher contributions rates for FY 2011 and beyond due to the impact of expected negative returns for FY 2009. With slightly more than one quarter remaining in the fiscal year, VRS is presently estimating a negative return of 24 percent in its models. As a result, selection of the alternate contribution rates will only exacerbate future rate increases.
- 2. GASB 27 will require the reporting of an unfunded liability.** Because the rates are not recommended by the VRS board or VRS's actuary the difference between the required annual contribution from the initial actuarial report and the alternate contribution amount is required to be recorded in the financial statements.

- 3. Potential impact on bond ratings from creating a new unfunded liability.** You may want to consider what the impact of not funding the annual required contribution will be on your jurisdiction's bond rating.
- 4. Additional administrative effort and expanded external audit involvement could increase audit fees.** By not funding the required annual contribution based on the approved rates included in the initial VRS report, your accounting staff will be required to report the unfunded liability in the financial statements as well as expand the financial statement note disclosure which will require the external auditors to perform additional procedures to verify the expanded disclosures.

If you should have any questions please contact Vivian McGettigan (804-365-6012) or James McReynolds (757-890-3320).