

**Legislative Priority # 7: The City of Norfolk supports legislation to equitably distribute the apportionment of outstanding teacher retirement plan liability. (Council Priorities: *Economic Vitality and Workforce Development; and Well-Managed Government*).**

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As a result of new Government Accounting Standards Board (GASB), the Virginia Retirement System (VRS) must recognize its unfunded liabilities for the teacher retirement plans. These unfunded teacher retirement liabilities will first appear on local financial statements in FY 15 and will be based on VRS's FY 14 valuation.

GASB requires that the unfunded liability must be apportioned among the participating employers that pay the retirement contributions to the pension plan. In Virginia, teachers are considered employees of the school board, which send retirement contributions to VRS. However, the Commonwealth, through the VA Department of Education, only reimburses the school boards based on the number of Standards of Quality-authorized positions and the locality's composite index. Thus, the Commonwealth is actually not considered a direct payor and the outstanding teacher retirement costs will be apportioned among the school divisions by VRS based on each division's percent of payroll.

Regardless of the fact teacher retirement contributions are funded by the state and school board, under the new GASB rules, the unfunded liability falls solely on the school boards. This means that each division's liability will now be shown on each city, county, or town's financial statements as an unfunded liability. These liabilities will not be reflected on the Commonwealth's financial statements.

There are a number of reasons these unfunded teacher retirement liabilities should not be considered in determining local government bond ratings and creditworthiness:

1. The Commonwealth sets a minimum number of teachers and significantly shares in the costs of teacher salaries.
2. For more than 20 years, the Commonwealth has chosen to fund its teacher retirements plan at rates below those recommended by the VRS Board of Trustees.
3. Over the years, the Commonwealth has expanded retirement benefits by decreasing age and service requirements.
4. The General Assembly sets many of the retirement benefits, including requirements that retirement, group life insurance, and health insurance credits are offered.
5. Similar to teacher salaries, the unfunded teacher retirement liability should be a shared responsibility.

In summary, the consistent underfunding, benefit increases and investment losses are directly attributable to the magnitude of the current shortfall of the teacher retirement plan, which only has 60% of the assets needed to pay retirement liabilities. The unfunded liability associated with teacher retirement plans should be an equitably shared responsibility of both state and local government. The Norfolk City Council supports the General Assembly

fully funding the actuarial rates of the Commonwealth's share of teacher retirement costs going forward.