

Virginia State Conference of the
American Association of
University Professors and the
Faculty Senates of Virginia

Virginia Retirement System and Prescription Drugs: Recommendations

Retirement and health care benefits are critical to keeping Virginia competitive in its recruitment and retention of our best faculty at Virginia institutions. The AAUP and the Faculty Senates of Virginia are in favor of raising state contributions to the Virginia Retirement System at the rate certified by the VRS Board of Trustees in order to assure future benefits. Board recommendations took into account several factors:

- Rates are catching up from the effects of deferred recognition or “smoothing” of previous weak investment returns in FY 2001-03;
- Past employer contribution rates have been significantly underfunded;
- Estimated future investment returns are now projected at more realistic levels; and
- Retirees are living longer than expected.

The status of our retirement plans is worsening and must be turned around. Otherwise the retirement security of our members will be in jeopardy, and a sizeable debt will be left for future taxpayers. Corrective action is required this legislative session to assure that the VRS is properly funded.

The first corrective action required must address last year’s adoption and application of rates that were lower than **Board certified rates**. The Virginia Retirement System’s Board of Trustees has indicated that unfunded liabilities for state employee and teacher plans combined are now estimated at \$7.6 billion, up from \$1.3 billion just two years ago. Present assets in the respective reserves are estimated to be sufficient to meet only 85.8 percent of future state employee liabilities and 77.9 percent of future teacher liabilities. According to the VRS Board, if these liabilities continue growing unabated, future state and local budgets will be unable to afford these plans at their current benefit levels. The AAUP and Faculty Senates of Virginia support the VRS Board of Trustees in urging the funding of the new contribution rates. The actuary recommended the higher Board certified rates due to market factors. Unfortunately, the Board’s concern about market stability was ignored last year in a way that can threaten our ability to meet future obligations. The Virginia Retirement System must be built on sound accounting procedures, and the best way to assure that we are on solid footing is to follow the recommendations of the Board of Trustees that administers the Virginia Retirement System. We strongly urge our legislators to fund the Virginia Retirement System at the rates recommended by the Board of Trustees.

A second corrective action is to provide **summer retirement contributions for 9-month college faculty** on a par with summer retirement funding provided to 12-month faculty. Twelve-month faculty receive retirement benefits based on salary earned both in the summer and in the academic year, while summer salary earned by 9-month faculty who teach or do funded research and service in the summer receive no summer retirement contributions. An appropriate correction would be to provide retirement benefits to faculty for all salary earned such that 12-month faculty and 9-month faculty are treated equitably.

A third corrective action is to allow for **prescription drug coverage** to be included among the expenses that count toward the \$1500 catastrophic limit. At present, an employee or retiree pays an out-of-pocket limit of \$1500 for individuals and \$3000 for families for medical expenses, but she or he can pay thousands of dollars for prescription drugs without having any of those dollars count toward the out-of-pocket limit. As employee and retiree prescription drug copays have increased many times over the past five years, prescription drug costs place a burden not only on low-income employees and retirees but even on middle income and higher income individuals and families. A single out-of-pocket limit that includes prescriptions is essential to assure that individuals purchase the medications that will help them to avoid more serious and more expensive complications that can result if they find they cannot afford their medicines.