



# Virginia Retirement System Oversight Report

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# JLARC oversight of VRS

- Virginia Retirement System (VRS) Oversight Act\* requires JLARC to
  - Oversee VRS on a continuing basis
  - Report on investments and other topics
  - Conduct actuarial analysis every four years
  - Publish a guide for legislators

\*Code of Virginia, Title 30, Chapter 10.

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## In this presentation

Trust fund investments

Defined contribution plans

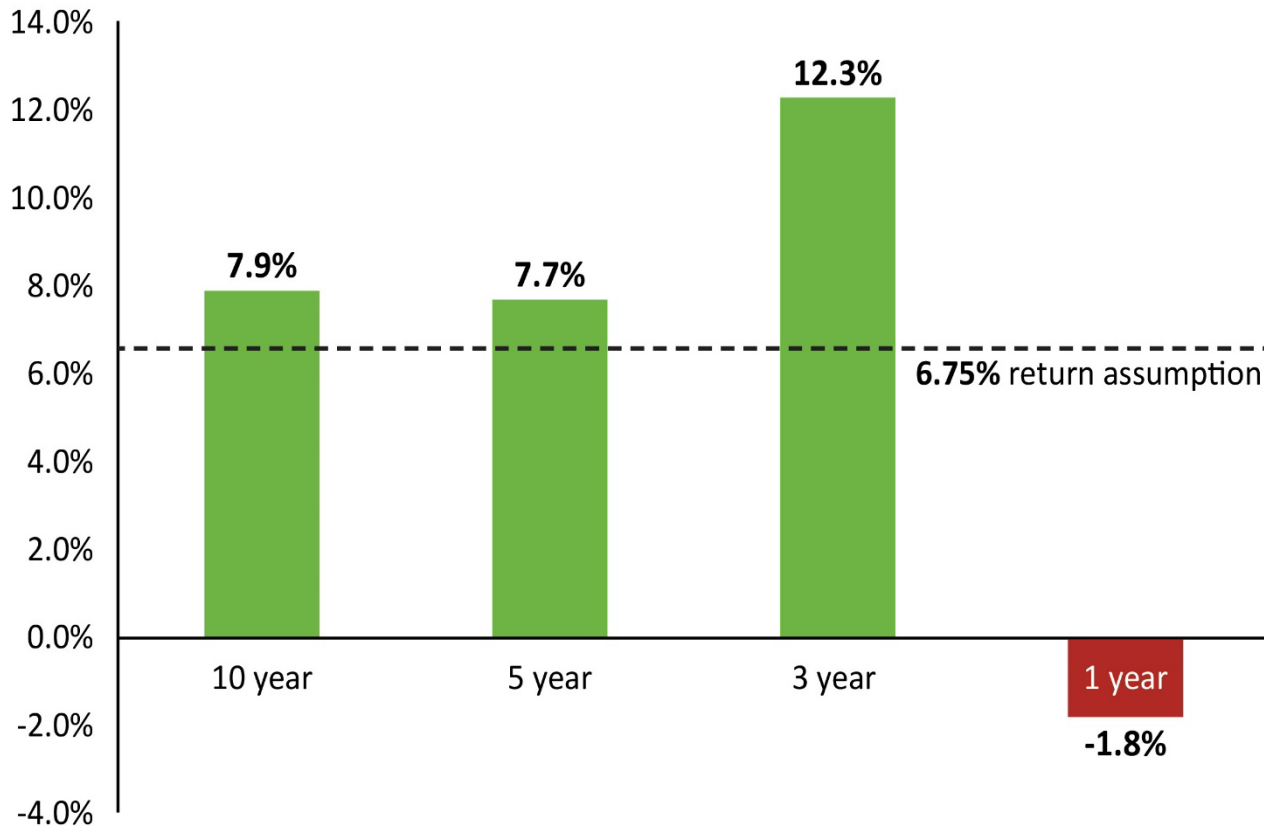
Recent legislation

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# VRS manages investment of trust fund assets

- Assets used to pay VRS benefits are pooled in the trust fund
  - Retirement plans for state employees, teachers, local government employees, judges, state police, and other law enforcement officers
  - Other benefits programs

# Trust fund had **-1.8%** return for **1-year** period, but exceeded return assumption for most periods (March 2023)



Assets = \$102.6 billion

# Returns for asset classes met or exceeded nearly all benchmarks

| Asset class                          | 1-year | 3-year | 5-year | 10-year |
|--------------------------------------|--------|--------|--------|---------|
| Public equity (32%)                  | ✓      | ✓      | ✗      | ✓       |
| Private equity (18%)                 | ✓      | ✓      | ✓      | ✓       |
| Credit strategies (14%)              | ✗      | ✓      | ✓      | ✓       |
| Real assets (14%)                    | ✓      | ✓      | ✓      | ✓       |
| Fixed income (13%)                   | ✓      | ✓      | ✓      | ✓       |
| Multi-asset public strategies (3%)   | ✓      | ✓      | N/A    | N/A     |
| Private investment partnerships (3%) | ✓      | ✓      | ✓      | N/A     |
| <b>Total Fund</b>                    | ✓      | ✓      | ✓      | ✓       |

✓ = Return met or exceeded benchmark    ✗ = Return below benchmark

N/A = Not yet applicable

Performance as of March 31, 2023. Asset allocation includes 2% in cash and 1% in exposure management portfolio.

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# VRS manages defined contribution plans for state and local employees

- Similar to a 401(k) or IRA
- Intended to provide
  - Primary income: Hybrid defined contribution component and optional plans (including higher education plan)
  - Supplemental income: Deferred compensation and cash match plans
- Aggregate assets = \$7.5 billion\*

\*As of March 31, 2023.



# Defined contribution investment options outperformed benchmarks

| Plan   | 1-year | 3-year | 5-year | 10-year |
|--|--------|--------|--------|---------|
| Target date retirement portfolios              | ✓      | ✓      | ✓      | ✓       |
| Customized individual options                  | ✓      | ✓      | ✓      | ✓       |
| Additional options under higher education plan | ✓      | ✓      | ✓      | ✓       |

✓ = Returns for majority of options exceeded benchmarks

✗ = Returns for majority of options did not exceed benchmarks

Performance as of March 31, 2023. Participants in higher education plan may select from additional investment options offered by TIAA.

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# Appropriation Act provided additional \$250M to reduce unfunded liabilities of state & local plans

- Total of \$1 billion provided for the FY22–23 biennium
  - \$750 million provided in FY22
  - \$250 million provided in FY23
- Estimated to result in \$2 billion in savings over next 20 years

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# Return to Work and Retiree Health Insurance Credit

- Reduce break in service for return to work (after retirement) from 12 to 6 months for some K-12 positions
  - School security officers, critical shortage positions, student support personnel, school bus drivers (HB 1630, SB 1289, SB 1479)
- Analyze return to work options for law enforcement officers (SB 1411)
- Increase Retiree Health Insurance Credit
  - HB 1789 – Constitutional officers
  - HB 2314 – Retirees on long-term disability

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## JLARC staff for this report

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# Appendix: Trust fund performance

| Asset class (% of total fund)               | 1-year      | 3-year      | 5-year      | 10-year     |
|---|-------------|-------------|-------------|-------------|
| <b>Public equity (32%)</b>                  | <b>-4.7</b> | <b>16.1</b> | <b>6.5</b>  | <b>8.2</b>  |
| Benchmark                                   | -7.3        | 16.1        | 7.0         | 8.2         |
| <b>Private equity (18%)</b>                 | <b>-3.3</b> | <b>19.7</b> | <b>17.4</b> | <b>16.2</b> |
| Benchmark                                   | -18.1       | 5.3         | 7.8         | 11.6        |
| <b>Credit strategies (14%)</b>              | <b>0.1</b>  | <b>9.4</b>  | <b>5.8</b>  | <b>5.8</b>  |
| Benchmark                                   | 0.4         | 6.8         | 3.9         | 4.5         |
| <b>Real assets (14%)</b>                    | <b>5.8</b>  | <b>11.2</b> | <b>9.3</b>  | <b>10.3</b> |
| Benchmark                                   | 4.2         | 8.8         | 7.3         | 8.3         |
| <b>Fixed income (13%)</b>                   | <b>-4.3</b> | <b>-0.6</b> | <b>2.0</b>  | <b>2.1</b>  |
| Benchmark                                   | -4.8        | -2.2        | 0.9         | 1.4         |
| <b>Multi-asset public strategies (3%)</b>   | <b>-2.9</b> | <b>8.5</b>  | <b>n/a</b>  | <b>n/a</b>  |
| Benchmark                                   | -3.5        | 6.6         | n/a         | n/a         |
| <b>Private investment partnerships (3%)</b> | <b>2.5</b>  | <b>10.9</b> | <b>9.5</b>  | <b>n/a</b>  |
| Benchmark                                   | -3.5        | 7.2         | 7.2         | n/a         |
| <b>Total fund</b>                           | <b>-1.8</b> | <b>12.3</b> | <b>7.7</b>  | <b>7.9</b>  |
| Benchmark                                   | -5.5        | 9.0         | 5.8         | 6.8         |

Performance as of March 31, 2023; net of fees.