



VRS Overview

Presented to the Joint Legislative Audit
and Review Commission

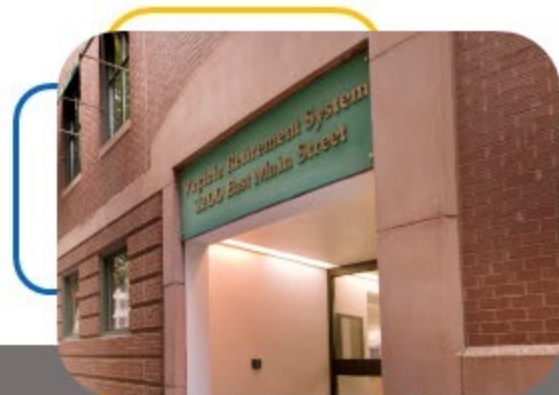
July 10, 2023

Presenters:

A. Scott Andrews, Chair, VRS Board of Trustees

Andrew H. Junkin, Chief Investment Officer

Patricia S. Bishop, Director



Agenda



VRS Overview

A. Scott Andrews

Chair, VRS Board of Trustees

Investments Overview

Andrew H. Junkin

Chief Investment Officer

Administration Overview

Patricia S. Bishop

Director





Virginia
Retirement
System

VRS Overview



Board Members



A. Scott Andrews, Chair

Northern Contours & Harvest Equity Investments



Joseph W. Montgomery, Vice Chair

The Optimal Service Group, Wells Fargo Advisors



The Hon. J. Brandon Bell II, CRPC

Brandon Bell Financial Partners



John M. Bennett

VCU (Retired)



Michael P. Disharoon

Palladium Registered Investment Advisors



Susan T. Gooden, Ph.D.

L. Douglas Wilder School
of Government and Public Affairs, VCU



W. Brett Hayes

Wells Fargo Advisors
Financial Network



Jessica L. Hood

Wise County and City of Norton
Commonwealth's Attorney's Office



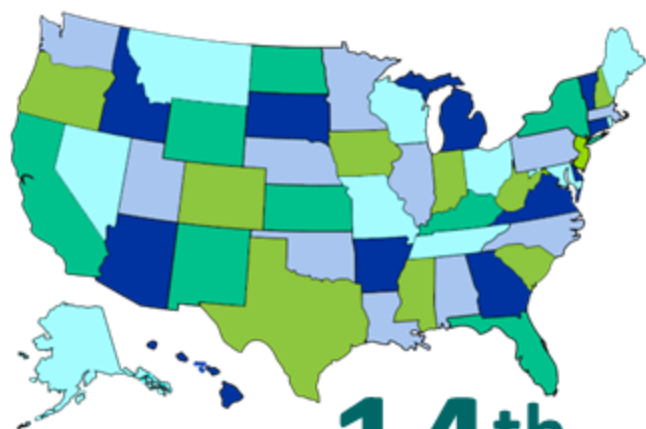
Lindsey K. Pantele

Henrico County
Public Schools



799,948
active and retired members

As of May 30, 2023



14th largest

public or private pension system
in the United States*

42nd largest

public or private pension system
in the world**



* As ranked by *Pensions & Investments* in 2023

** As ranked by *Pensions & Investments* in 2022

Partnership Improves Plan Funding

COMMIT

\$1 billion within the 2022 Appropriation Act to **reduce unfunded liabilities**

SAVE

an estimated **\$2 billion** over the next 20 years



MAINTAIN

the **VRS board-certified rates** for the state and teacher plans

LOWER

VRS' unfunded liability by **more than \$415 million** over two years



CONTRIBUTE

to the overall **health of the retirement plans**

ASSIST

in maintaining **Virginia's bond rating**



Investments Overview



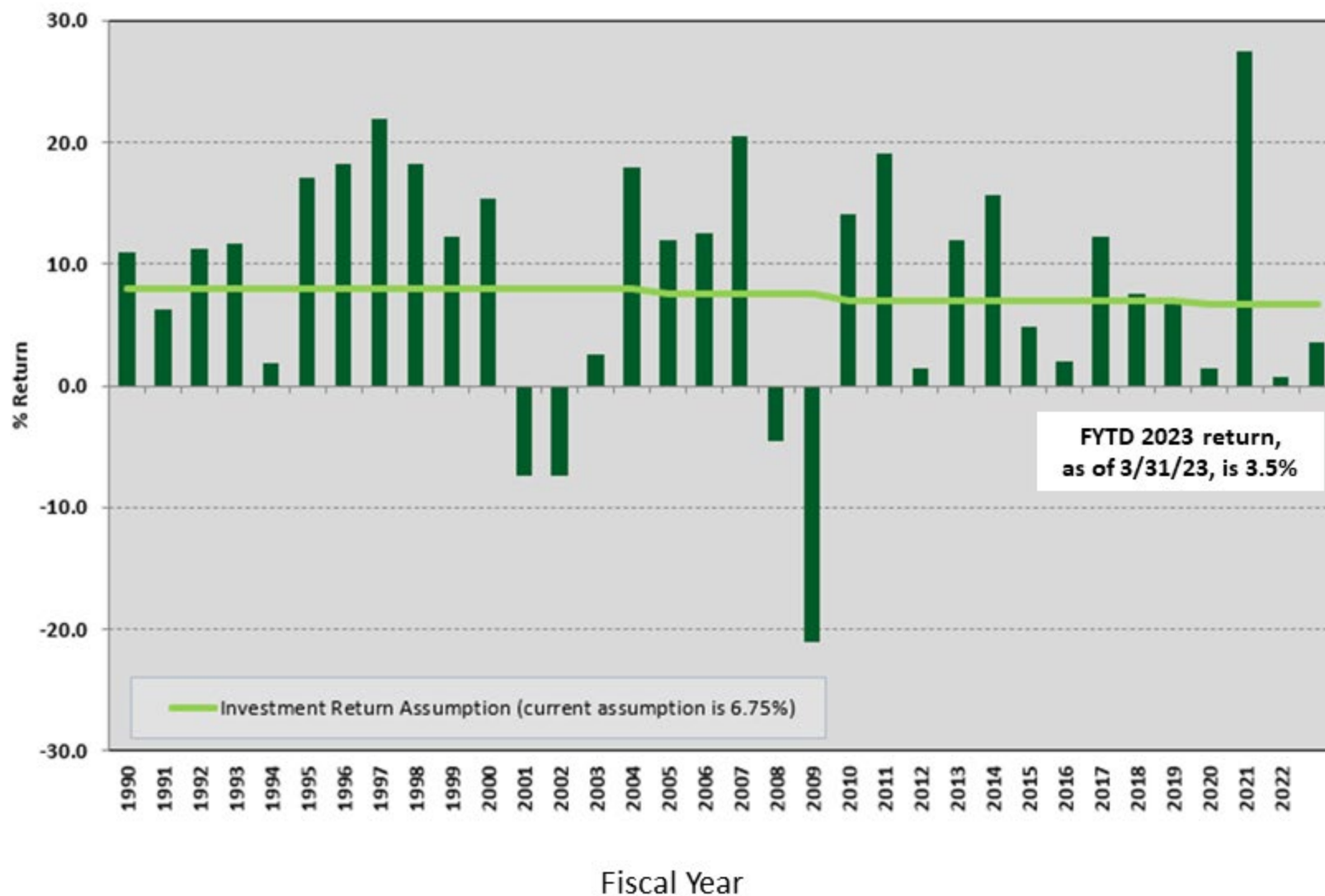
Investments Agenda



- Performance
- Asset Allocation as of 3/31/23
- Board Policy Changes
- Staff Value Add
 - Internal management
 - Cost-effective implementation
- Markets & Economy



VRS Fiscal Year Returns



Total Fund Performance* as of March 31, 2023



	VRS Return	Benchmark	
1-year	-1.8	-5.5	+
3-year	12.3	9.0	+
5-year	7.7	5.8	+
10-year	7.9	6.8	+
15-year	6.5	5.6	+
20-year	8.3	7.4	+
25-year	6.7	5.9	+

* Percent; net of fees

Source: Bank of New York Mellon

Total Fund Performance* as of March 31, 2023



	10 Year	5 Year	3 Year	1 Year	Market Value (\$MM)
Total Public Equity Strategies	8.2	6.5	16.1	-4.7	33,171
<i>Benchmark</i>	8.2	7.0	16.1	-7.3	
Total Investment-Grade Fixed Income	2.1	2.0	-0.6	-4.3	13,274
<i>Benchmark</i>	1.4	0.9	-2.2	-4.8	
Total Credit Strategies	5.8	5.8	9.4	0.1	14,192
<i>Benchmark</i>	4.5	3.9	6.8	0.4	
Total Real Assets	10.3	9.3	11.2	5.8	14,131
<i>Benchmark</i>	8.3	7.3	8.8	4.2	
Total Private Equity	16.2	17.4	19.7	-3.3	18,629
<i>Benchmark</i>	11.6	7.8	5.3	-18.1	
Total Private Investment Partnerships	n/a	9.5	10.9	2.5	2,671
<i>Benchmark</i>	n/a	7.2	7.2	-3.5	
Total Multi-Asset Public Strategies	n/a	n/a	8.5	-2.9	3,511
<i>Benchmark</i>	n/a	n/a	6.6	-3.5	
Total Fund	7.9	7.7	12.3	-1.8	102,597
<i>VRS Custom Benchmark</i>	6.8	5.8	9.0	-5.5	

*Percent; net of fees

Source: Bank of New York Mellon

Total Fund Performance* as of April 30, 2023



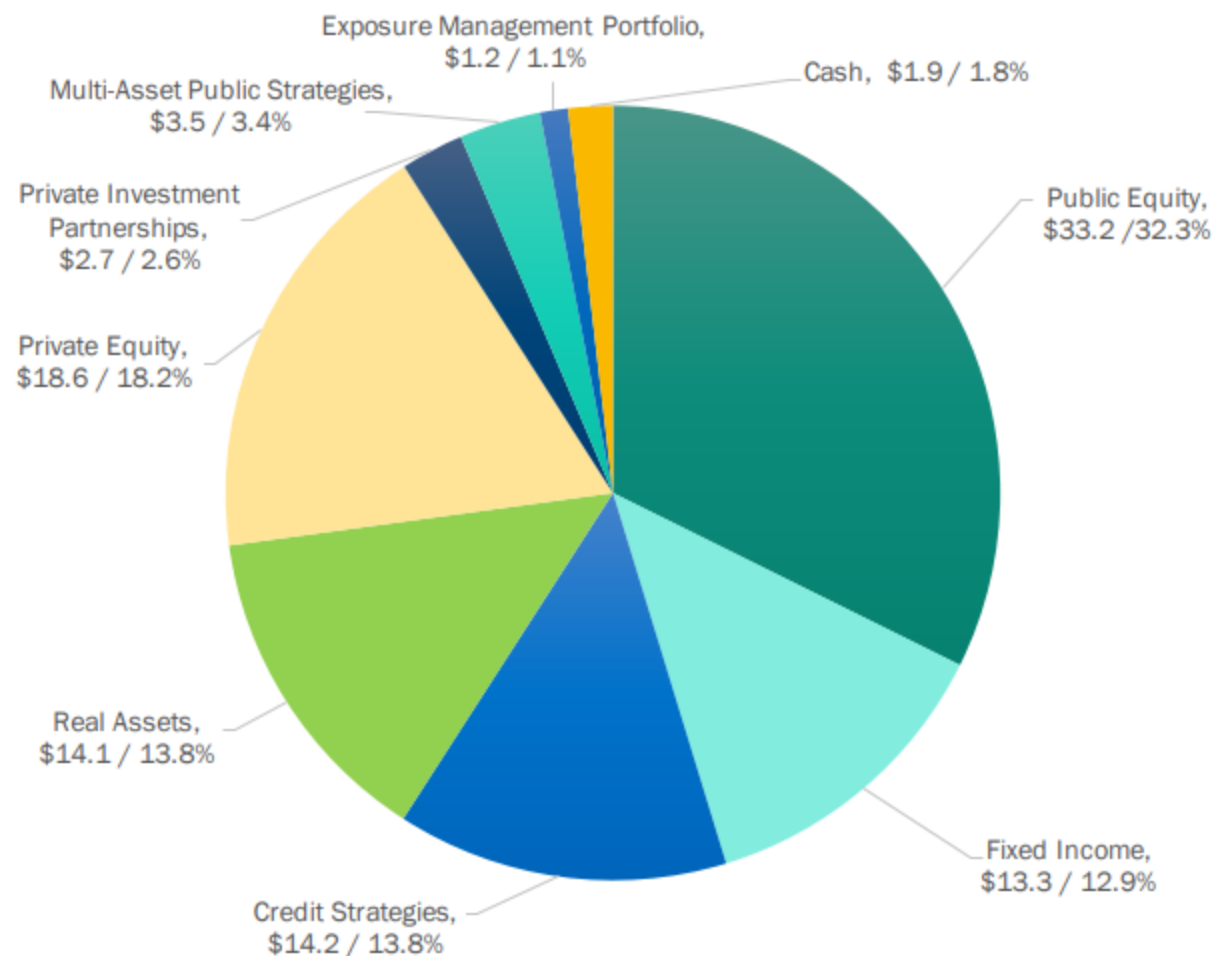
	10 Year	5 Year	3 Year	1 Year	Fiscal YTD	Market Value (\$MM)
Total Public Equity Strategies	8.1	6.5	12.7	2.7	11.4	33,443
<i>Benchmark</i>	8.1	7.0	12.6	2.0	11.5	
Total Investment-Grade Fixed Income	2.1	2.3	-1.2	0.0	1.6	13,352
<i>Benchmark</i>	1.3	1.2	-2.7	-0.3	1.2	
Total Credit Strategies	5.7	6.0	8.5	1.7	3.5	14,190
<i>Benchmark</i>	4.4	4.2	5.5	2.7	7.8	
Total Real Assets	10.1	9.3	10.8	6.6	2.3	14,200
<i>Benchmark</i>	8.1	7.0	8.2	2.6	0.3	
Total Private Equity	16.2	17.5	19.8	-2.7	-3.3	18,659
<i>Benchmark</i>	11.7	8.5	8.1	-7.2	-7.0	
Total Private Investment Partnerships	n/a	9.5	10.9	2.5	0.9	2,695
<i>Benchmark</i>	n/a	7.4	7.8	0.6	1.2	
Total Multi-Asset Public Strategies	n/a	n/a	7.4	0.6	5.0	3,544
<i>Benchmark</i>	n/a	n/a	5.6	1.2	5.4	
Total Fund	7.8	7.8	10.8	1.7	4.2	103,609
<i>VRS Custom Benchmark</i>	6.7	6.0	7.8	0.7	4.7	

*Percent; net of fees

Source: Bank of New York Mellon

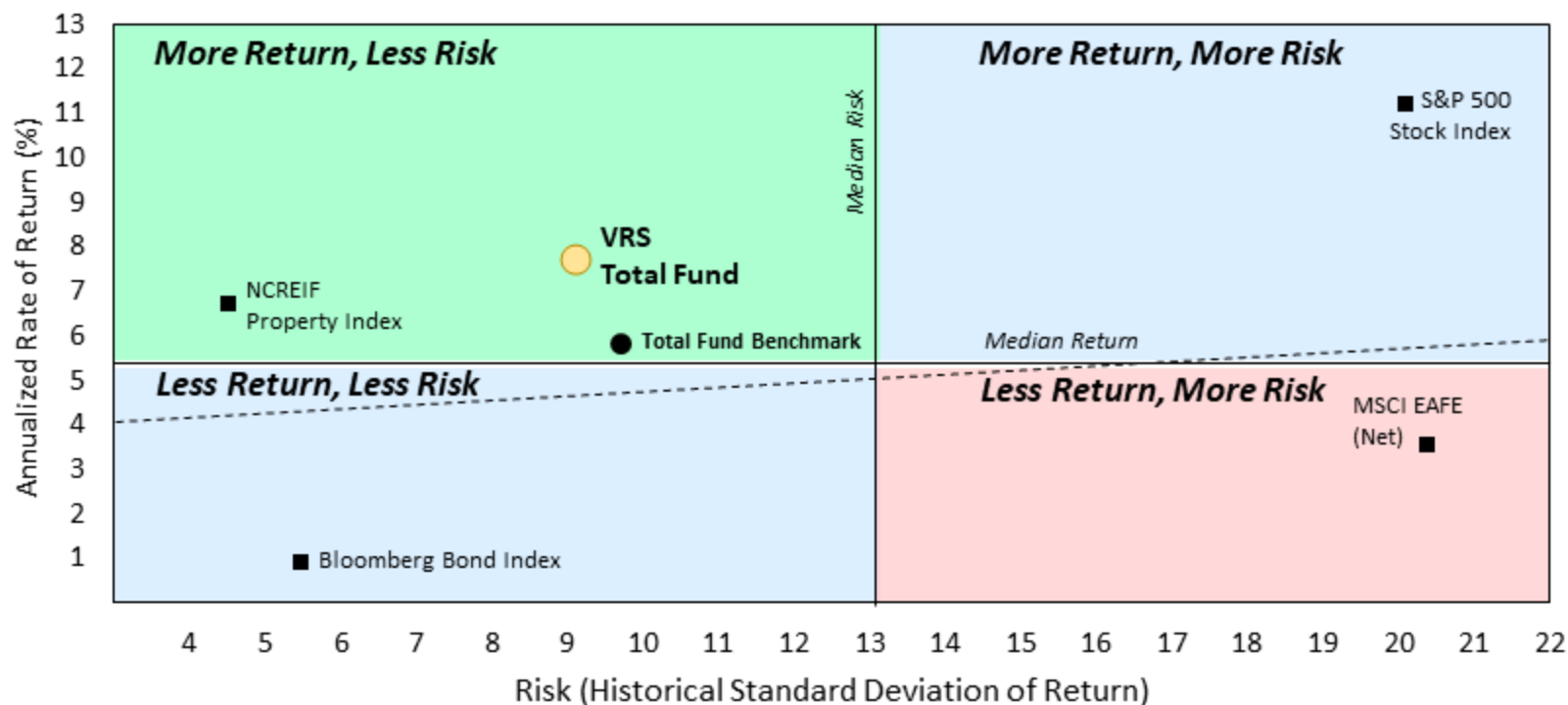
Asset Allocation as of March 31, 2023

Total Fund Market Value = \$102.6 billion (Dollar Amounts in Billions/Percent of Total Fund)



Difference in totals are due to rounding
Source: Bank of New York Mellon

Risk vs Total Return 5 Years Ending March 31, 2023



Source: Staff Analysis of Wilshire Trust Universe Comparison Service® (TUCS®)

Asset Liability Study

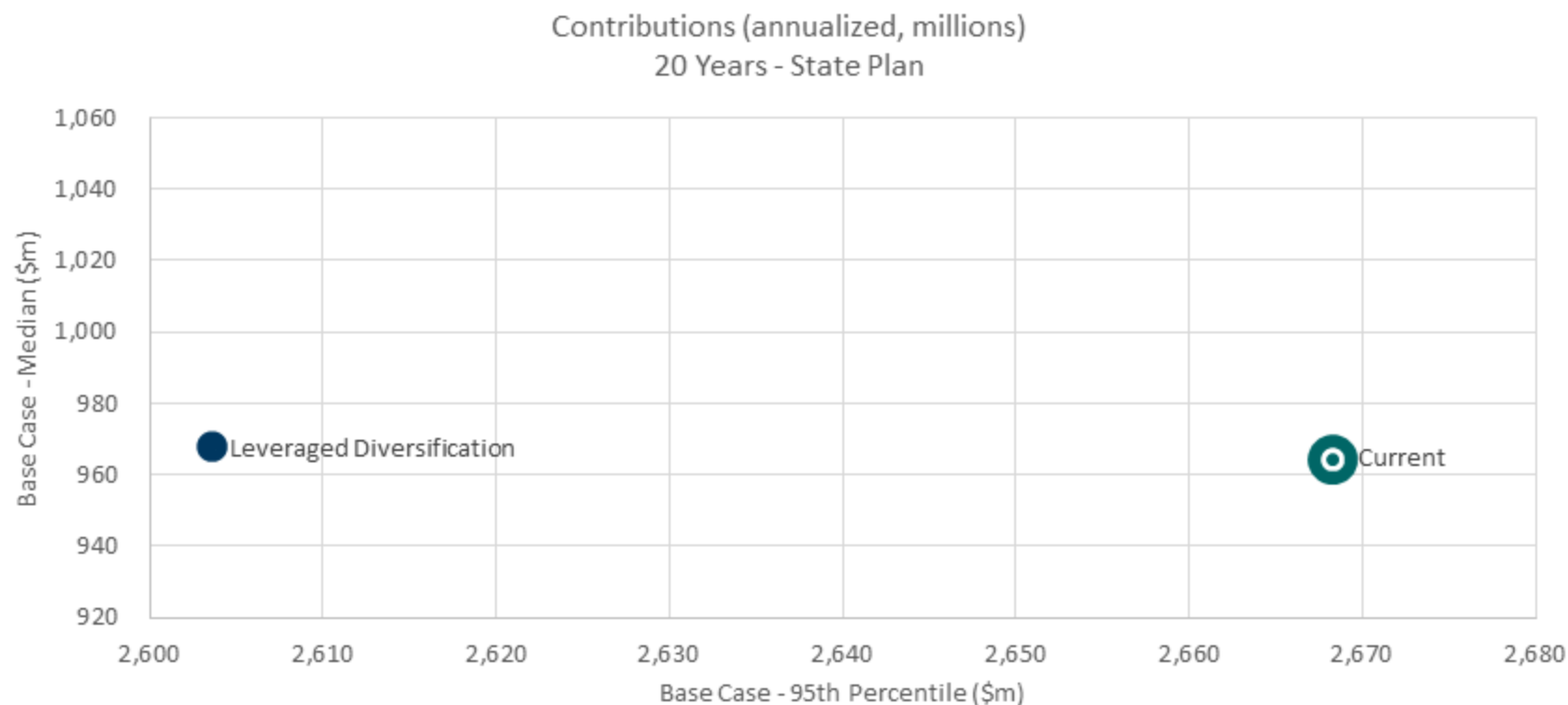
- After a comprehensive Asset Liability Management study, the VRS Board adopted a new long-term asset allocation which increases the overall diversification of the portfolio without sacrificing expected returns in the future.
- Implementation is expected to begin in calendar year 2024 and will be phased in prudently over time.

	Current	New Target
Public Equity	34%	32%
Fixed Income	15%	16%
Credit Strategies	14%	16%
Real Assets	14%	15%
Private Equity	16%	15%
PIP	2%	1%
MAPS	4%	6%
Cash	1%	2%
Total	100%	103%
<i>Leverage included in the Total</i>	0%	3%

	Current	New Target
Expected Annualized Return	7.14%	7.14%
Expected Annualized Volatility	12.63%	12.00%
Return Greater Than 6.75% - 10 Years	53%	55%
Return Greater Than 6.75% - 20 Years	55%	61%

New Asset Allocation

Actuarially expected contributions remain stable, but the new allocation better protects against negative outcomes



Internal Asset Management (IAM)

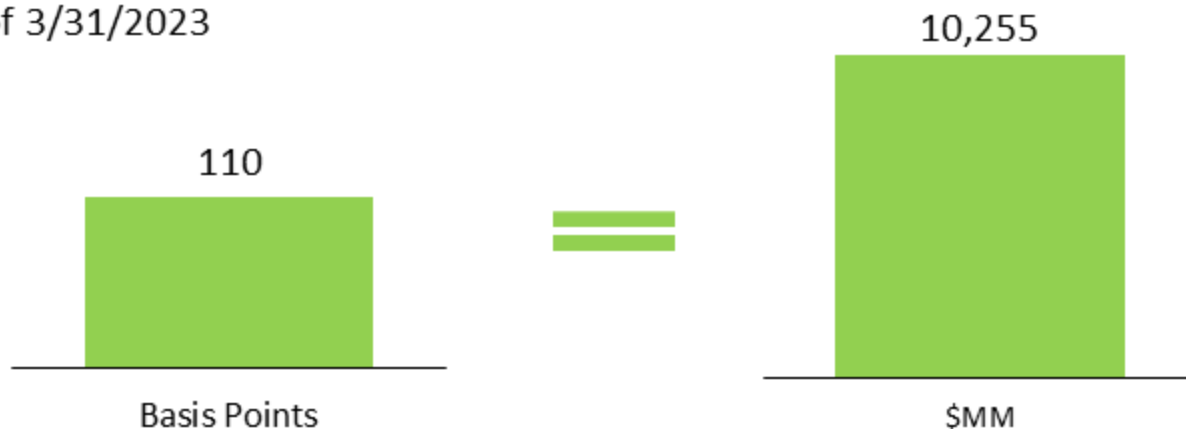
Asset Class	Objective	\$MM
Fixed Income	Core	11,941.1
	Core Plus	629.5
	Subtotal	12,570.6
Equity	Low Tracking Error	10,821.8
	Low Volatility	4,529.1
	Other	2.4
	Subtotal	15,353.3
Other	Other	2,933.1
	Total	30,857.0

as of March 31, 2023

Adding Value Multiple Ways

Total Fund 10-Year Value Add

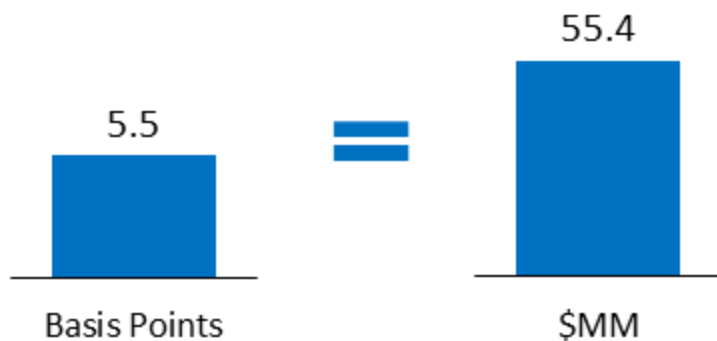
As of 3/31/2023



Source: BNY Mellon Data, 3/31/23

Effective Cost Management

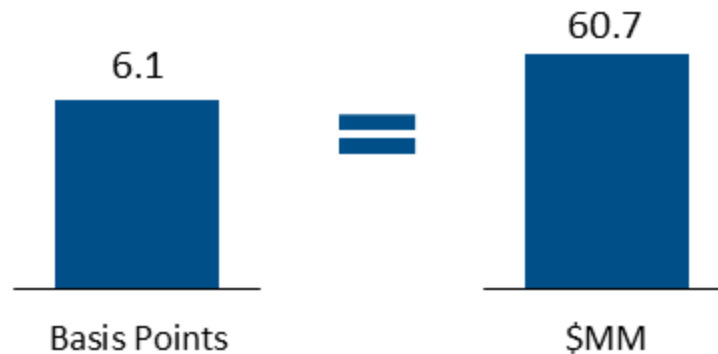
As of 12/31/2021



Source: CEM, CY2021

In-House Management Fee Savings

As of 12/31/2021



Source: CEM, CY2021



Federal Reserve has continued to raise interest rates to fight inflation. Inflation has declined from its peak a year ago but continues to be higher than policymakers prefer.



Analysts still forecasting positive earnings growth and reported earnings have been better than expected; both have provided support for the stock market.



Labor market is strong and balance sheets are healthy.



- VRS portfolio has outperformed its benchmark and the 6.75% assumed rate of return over longer (3-, 5-, 10-year) periods. Over the past year, diversification has proved its worth.



- Uncertainty in the investment environment has increased, given the historic pace of interest rate hikes in 2022. The VRS portfolio is positioned relatively neutrally – neither overly conservative nor aggressive – given the current environment.



- The Board has continued its measured pace of evolution in its long-term risk/reward policy.



- Staff continues to add value through strong performance and by cost-effective implementation practices.



Virginia
Retirement
System

Administration Overview



Legislative Changes effective July 1, 2023



- Changes break-in-service requirements for critical shortage positions and retiree school security officers from 12 months to six months.



- Adds specialized student support critical shortage positions.



- Requires employers to report critical shortage employees to VRS annually and make contributions to cover the cost of these positions.



Retirees can return to work in a part-time position not covered by VRS benefits.

- No more than 80% of the hours of a full-time position
- One-month break-in-service if employee returns to same employer



Retirees can return to work in critical shortage positions.

- Full-time and temporary
- Designated by the Department of Education



Retired law enforcement officers can return to work full time as school security officers and continue to receive a monthly retirement benefit.

VRS has a fiduciary responsibility to:



- Ensure funds are available to pay future benefits.



- Comply with the *Code of Virginia*.



- Follow IRS rules such as prohibiting prearranged employment and requiring a break-in-service, along with other rules.



SB 1411, Norment:

VRS and DCJS, with JLARC, to review and analyze options for allowing law enforcement officers to return to work after retirement while continuing to receive a retirement benefit.

Due November 1, 2023



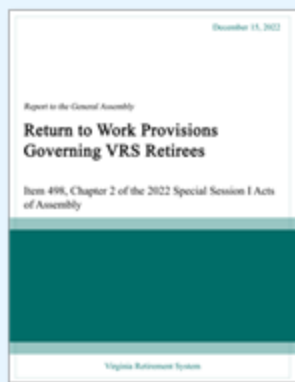
HB 1630, Coyner;

SB 1289, Deeds;

SB 1479, Lucas:

Requires VRS to study options to allow certain retirees with at least 25 years of service to return to work earlier than six months after retirement while continuing to receive a retirement benefit.*

Due November 1, 2023



The 2022 Appropriation Act:

The full report is available at [RD856 \(Published 2022\) - Return to Work Provisions Governing Virginia Retirement System \(VRS\) Retirees – December 15, 2022.](#)

** HB 1630, critical shortage; SB 1289 and SB 1479, critical shortage and RSSOs.*

VRS Total Membership as of May 30, 2023



	Plan 1	Plan 2	Hybrid	Total
Teachers	57,528	27,571	74,225	159,324
Political Subdivision Employees	32,188	31,090	50,455	113,733
State Employees	24,913	12,656	39,060	76,629
State Police Officers' Retirement System (SPORS)	917	954	—	1,871
Virginia Law Officers' Retirement System (VaLORS)	1,874	5,517	—	7,391
Judicial Retirement System (JRS)	141	43	276	460
Total Active Members	117,561	77,831	164,016	359,408

Total
Active Members
359,408

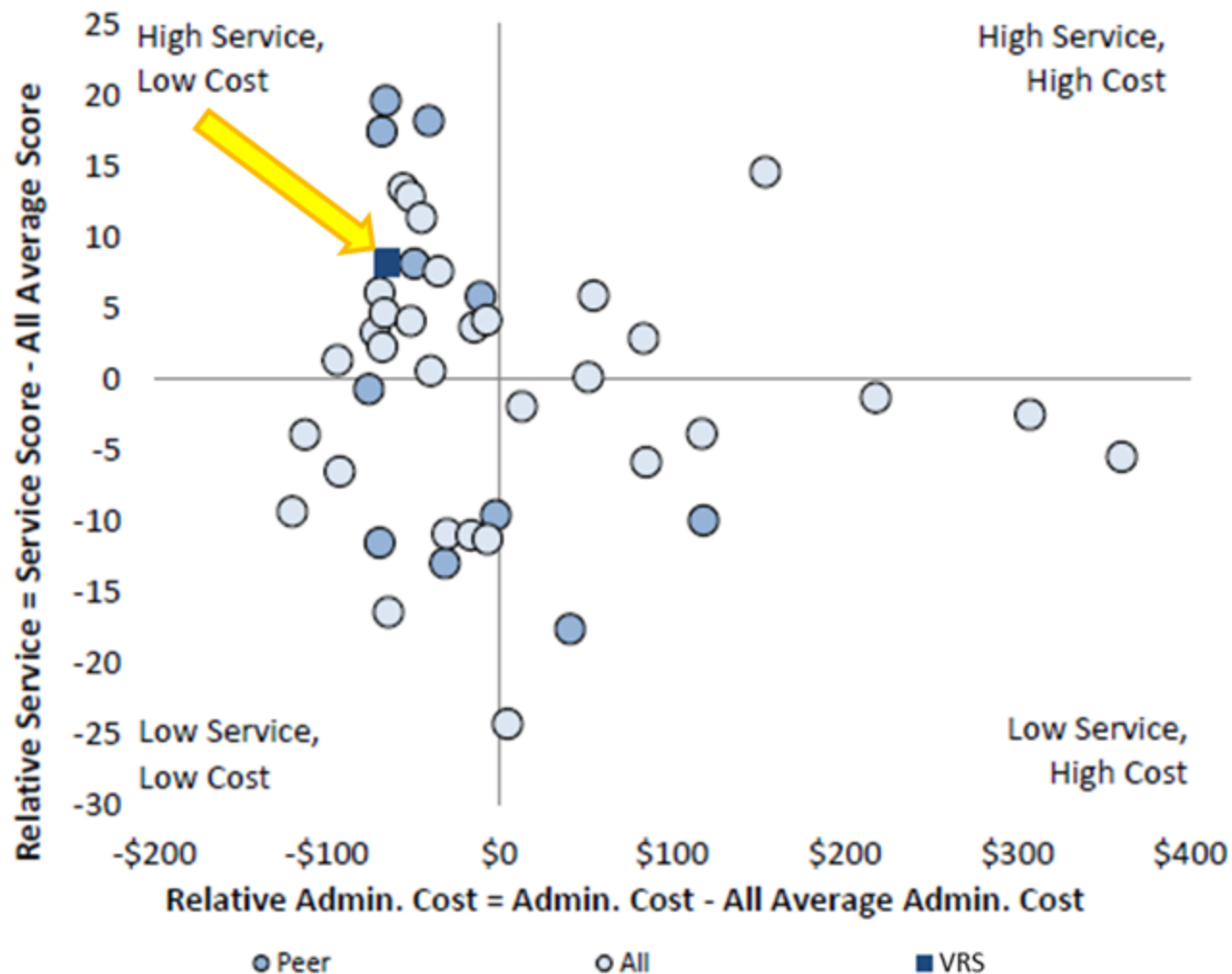
Retirees/
Beneficiaries
239,383

Inactive/Deferred
Members
201,157

VRS Total
Population
799,948

Service-Cost Relationship

Relationship between VRS service and pension administration cost



Pension Administration Cost

\$74
VRS
SCORE

\$113
PEER
AVERAGE
COST

Total Service Score

83
VRS
SCORE

78
PEER
MEDIAN
SCORE

Cash infusions and maintaining contribution rates have improved plan health by increasing funded status and generating savings over time.



- Cash infusions resulted in an estimated \$2 billion in savings.



- Maintaining board-certified rates from the prior biennium provides an estimated \$548 million in savings.



- While funded status improved, legacy unfunded liabilities remain.



The Hybrid Retirement Plan is now the dominant plan.

- Reduces employer risk and costs
- Opportunities exist to improve outcomes for members



VRS offers flexibility in allowing retirees to return to work while retaining their pensions. Upcoming studies:

- Will analyze return-to-work options
- Must support compliance and fiduciary responsibility



The cash infusions and additional contributions you provided to the plans achieved progress in plan stability.

- Decreased unfunded liabilities
- Moderated contribution rates
- Produced future savings
- Improved overall plan health



**Serving those who serve others.
Helping members plan for tomorrow, today.**



Virginia
Retirement
System

Appendix



Constitutional Duties and U.S. Code: Exclusive Benefit Rule



Constitution of Virginia, Article X, Section 11:

“The funds of the retirement system shall be deemed separate and independent trust funds, shall be segregated from all other funds of the Commonwealth, and shall be **invested and administered solely in the interests of the members and beneficiaries thereof.**” [Emphasis added.]

26 United States Code § 401(a):

“A trust ... shall constitute a qualified trust under this section ... if under the trust instrument it is impossible ... for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than **for the exclusive benefit of his employees or their beneficiaries....**” [Emphasis added.]



Administer the trust fund solely in the interests of VRS members, retirees and beneficiaries

- *Constitution of Virginia*
- *Code of Virginia*
- *Internal Revenue Code*



Manage assets with care, skill, prudence and diligence

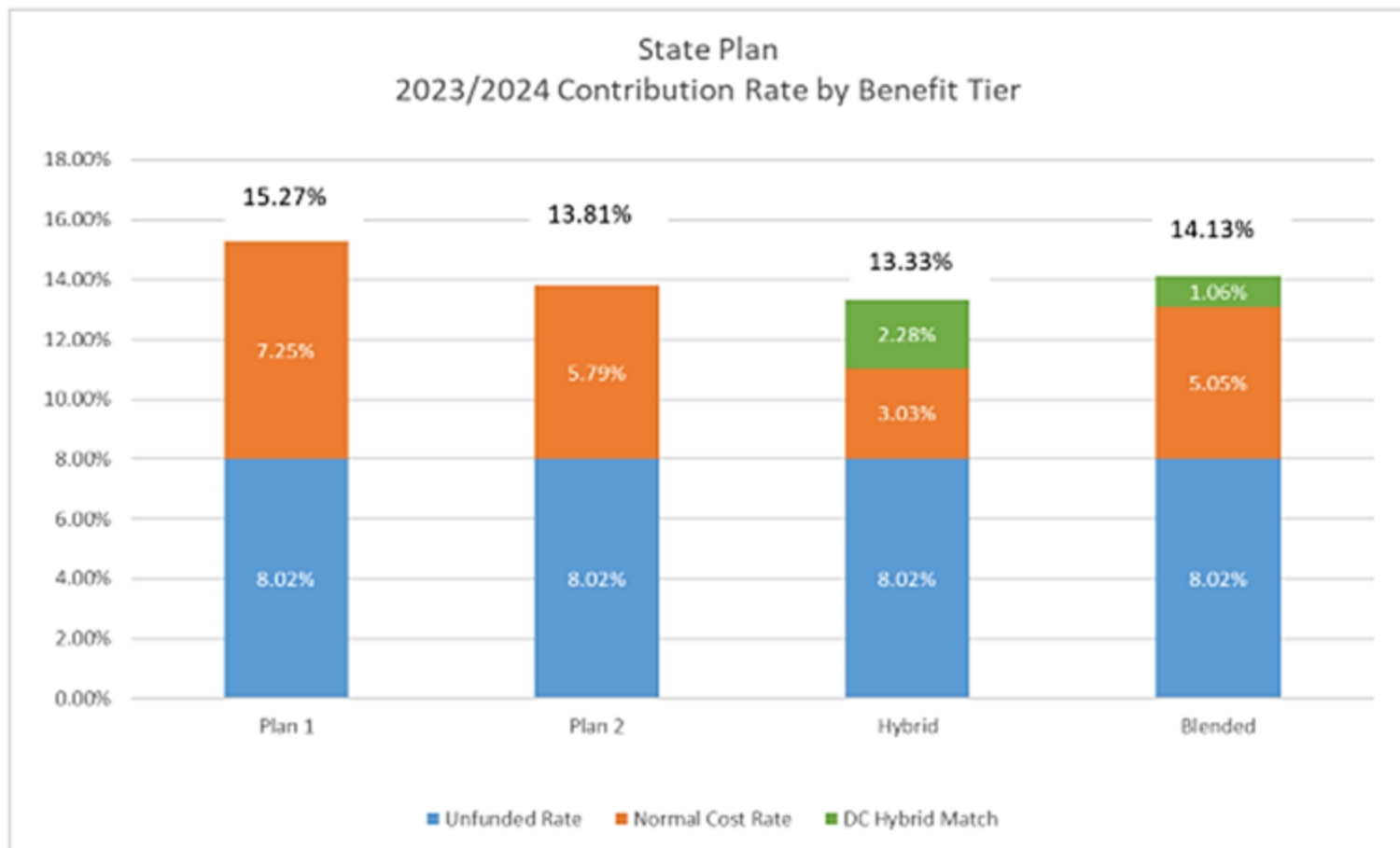
- Trustees carry out the Board's fiduciary duties and responsibilities
- Protect long-term value of investment portfolio
- Provide benefit security to members and rate stability for employers



Maintain broadest possible opportunity set in the investment portfolio

- Divesting from/not investing in certain sectors may contradict fiduciary requirements
- Investment income has historically funded two-thirds of benefit payments

State Plan — Blended Employer Rate Impact of Pension Reforms



State rate funded for fiscal years 2023/2024 was maintained at higher rate developed for fiscal years 2021/2022 of 14.46%.

Employer Contribution Rates and Funding Requirements for Statewide Plans



Plan	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2023 Appropriation Act
State	14.46%	14.46%	14.13%	14.46%
SPORS	26.33%	26.33%	29.98%	29.98%
VaLORS	21.90%	21.90%	24.60%	24.60%
JRS	29.84%	29.84%	30.67%	30.67%
Teachers	16.62%	16.62%	14.76%	16.62%
Total Estimated Employer Contributions	\$2,238,472,000	\$2,351,408,000	\$2,233,507,000	\$2,426,173,000
General Fund	\$977,577,000	\$1,027,328,000	\$990,033,000	\$1,067,437,000
Non-General Fund	\$1,260,895,000	\$1,324,080,000	\$1,243,474,000	\$1,358,736,000

- Estimated funding for FY 2022 is based on actual FY 2021 payroll with increases as outlined in the 2022 Appropriation Act. Estimated funding for FY 2023 is based on estimated FY 2022 payroll projected forward with plan assumptions. Actual funding will be based on payrolls in effect at time of billing.
- Maintaining higher rates would collect an additional \$345 million for the Teacher plan over the biennium which could increase funded status by nearly 70 basis points and lower unfunded liabilities by nearly \$382 million without increasing budget.
- Maintaining higher rates would collect an additional \$32 million for the State plan over the biennium which could increase funded status by nearly 15 basis points and lower unfunded liabilities by nearly \$34 million without increasing budget.

Unfunded Pension Liabilities and Funded Status by Plan (Dollars in Thousands)



System	2021		2022	
	UAAL based on AVA (Dollars in Thousands)	Funded Status	UAAL based on AVA (Dollars in Thousands)	Funded Status
State	\$ 6,112,670	77.1%	\$ 5,861,321	78.9%
Teachers	\$ 12,021,814	77.2%	\$ 11,792,090	78.9%
SPORS	\$ 389,314	70.7%	\$ 416,642	70.6%
VaLORS	\$ 738,351	69.3%	\$ 718,017	71.4%
Judicial	\$ 132,738	81.9%	\$ 110,861	85.2%
Total State-wide systems	\$ 19,394,887	76.9%	\$ 18,898,932	78.6%
Political Subdivisions	\$ 3,480,933	87.2%	\$ 3,205,143	88.8%
Total Fund	\$ 22,875,820	79.4%	\$ 22,104,075	81.1%

System	2021		2022	
	UAAL based on MVA (Dollars in Thousands)	Funded Status	UAAL based on MVA (Dollars in Thousands)	Funded Status
State	\$ 3,615,554	86.5%	\$ 5,199,844	81.3%
Teachers	\$ 7,129,718	86.5%	\$ 10,550,802	81.1%
SPORS	\$ 276,498	79.2%	\$ 387,081	72.7%
VaLORS	\$ 538,229	77.6%	\$ 666,103	73.4%
Judicial	\$ 60,256	91.8%	\$ 91,593	87.8%
Total State-wide systems	\$ 11,620,255	86.2%	\$ 16,895,423	80.8%
Political Subdivisions	\$ 609,465	97.8%	\$ 2,448,840	91.4%
Total Fund	\$ 12,229,720	89.0%	\$ 19,344,262	83.4%

OPEB Contribution Rates

System	2019 Actuarial Fiscal Years 2021/2022	2021 Actuarial Fiscal Years 2023/2024	Appropriation Act Fiscal Year 2023
Group Life	1.34%	1.19%	1.34%
HIC State	1.12%	1.04%	1.12%
HIC Teachers	1.21%	1.21%	1.21%
VSDP	0.61%	0.56%	0.61%
HIC Locals in Aggregate	0.59%	0.72%	0.72%
HIC Constitutional Officers	0.36%	0.36%	0.36%
HIC Social Services	0.38%	0.37%	0.37%
HIC Registrars	0.39%	0.32%	0.32%
VLDP Teachers	0.47%	0.47%	0.47%
VLDP Political Subdivisions	0.83%	0.85%	0.85%

Unfunded OPEB Liabilities and Funded Status by Plan (Dollars in Thousands)



System	2021		2022	
	UAAL based on AVA (Dollars in Thousands)	Funded Status	UAAL based on AVA (Dollars in Thousands)	Funded Status
Group Life	\$ 1,389,277	60.6%	\$ 1,349,005	63.9%
HIC State	\$ 852,834	18.4%	\$ 802,184	21.8%
HIC Teachers	\$ 1,294,093	12.1%	\$ 1,237,047	15.1%
VSDP	\$ (297,276)	218.9%	\$ (291,190)	198.6%
HIC Locals in Aggregate				
HIC Locals in Aggregate	\$ 49,490	40.2%	\$ 39,742	47.2%
HIC Constitutional Officers	\$ 26,572	20.1%	\$ 25,605	22.9%
HIC Social Services	\$ 12,488	15.8%	\$ 12,329	17.2%
HIC Registrars	\$ 421	28.6%	\$ 345	37.0%
VLDP Teachers	\$ 74	98.5%	\$ 1,689	81.2%
VLDP Political Subdivisions	\$ (599)	112.0%	\$ (508)	106.8%
Total OPEBS	\$ 3,327,374	48.3%	\$ 3,176,247	52.3%

System	2021		2022	
	UAAL based on MVA (Dollars in Thousands)	Funded Status	UAAL based on MVA (Dollars in Thousands)	Funded Status
Group Life	\$ 1,111,390	68.5%	\$ 1,273,766	66.0%
HIC State	\$ 836,808	19.9%	\$ 801,741	21.9%
HIC Teachers	\$ 1,277,187	13.2%	\$ 1,235,793	15.2%
VSDP	\$ (361,816)	244.7%	\$ (307,488)	204.1%
HIC Locals in Aggregate				
HIC Locals in Aggregate	\$ 49,490	40.2%	\$ 39,742	47.2%
HIC Constitutional Officers	\$ 26,572	20.1%	\$ 25,605	22.9%
HIC Social Services	\$ 12,488	15.8%	\$ 12,329	17.2%
HIC Registrars	\$ 421	28.6%	\$ 345	37.0%
VLDP Teachers	\$ (486)	109.5%	\$ 1,656	81.5%
VLDP Political Subdivisions	\$ (1,163)	123.2%	\$ (510)	106.9%
Total OPEBS	\$ 2,950,891	54.1%	\$ 3,082,979	53.7%

Recent VRS Awards



**First Place, Eddy Awards
Pensions & Investments
2019 and 2021**



**Communicator Awards of Distinction
Academy of Interactive & Visual Arts (AIVA)
2020, 2021, 2022 and 2023**



**NAGDCA Leadership Recognition Awards
Art Caple President's Award
National Association of Government Defined
Contribution Administrators Inc. (NAGDCA)
2022**

— 2019 —
**PLAN SPONSOR
OF THE YEAR
FINALIST**

**Finalist,
Plan Sponsor of the Year
PLANSPONSOR
2019**



**Virginia Public Relations Awards
Commonwealth Award of Excellence, 2019
Capital Award of Excellence, 2021
Capital Awards of Merit, 2019, 2020, 2021 and 2022**