Virginia Retirement System

October 16, 2023

**MEMORANDUM**

**TO:** VRS Board of Trustees

**FROM:** Patricia S. Bishop
Director

**RE:** Agenda Materials for October 19th Board Meeting

We are looking forward to the October 19th Board meeting beginning at 1:00 p.m. in the VRS Boardroom located at 1111 East Main Street, Bank of America - Pavilion Building, 3rd floor. Enclosed are the agenda and meeting materials. Boxed lunches will be available beginning at 12:00 p.m.

Listed below is a recap of the meetings scheduled for next week:

| Meeting | Date | Location |
|---|---|---|
| Benefits and Actuarial Committee | Wednesday, October 18th, 1:00 p.m. | Bank of America Pavilion, 1111 E. Main St., 3rd floor conference room |
| Board of Trustees | Thursday, October 19th, 1:00 p.m. | Bank of America Pavilion, 1111 E. Main St., 3rd floor conference room |

Again, we look forward to seeing you next week. If you have any questions, please feel free to contact me.

Attachments

cc: The Honorable Stephen E. Cummings, Secretary of Finance
Craig Burns, Department of Taxation
Michael Jay, House Appropriations Committee
April Kees, Senate Finance Committee
Mike Tweedy, Senate Finance Committee
Zack Borgerding, Auditor of Public of Accounts
Jon Howe, Department of Planning and Budget
Dean Lynch, VA Association of Counties
Katie Boyle, VA Association of Counties
Bea Snidow, VA Education Association
Jamie Bitz, Joint Legislative Audit & Review Commission
Kimberly Sarte, Joint Legislative Audit & Review Commission
Hal Greer, Joint Legislative Audit & Review Commission
Elizabeth B. Myers, Office of the Attorney General
Josette Bulova, VA Municipal League
Lawrence Kochard, VRS Investment Advisory Committee
Bonnie Atwood, VA Retired Teachers Association

**Board of Trustees Meeting**
**VRS, 1111 E. Main St., 3rd Floor Board Room**
**Thursday, 10/19/2023**
**1:00 - 3:30 PM ET**

# Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on September 21, 2023, in Richmond, Virginia with the following members participating:

Board members:
A. Scott Andrews, Chair
Joseph W. Montgomery, Vice Chair
Hon. J. Brandon Bell, II
John M. Bennett
Michael P. Disharoon
Susan T. Gooden, Ph.D.
Jessica L. Hood
Lindsey K. Pantele

Investment Advisory Committee:
Lawrence E. Kochard, Ph.D., Chair *(attended remotely)*

VRS Staff:

Patricia Bishop, Jennifer Schreck, Andrew Junkin, Rory Badura, Sara Denson, Parham Behrooz, Jeanne Chenault, Michael Cooper, Juanita Cribbs, Pam Elam, Jonathan Farmer, Jay Gentry, JT Grier, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Matt Lacy, Chung Ma, Curt Mattson, Walker Noland, Greg Oliff, Paula Reid, Mark Rein, Emily Trent, Leslie Weldon, Dan Whitlock, Cindy Wilkinson, Steve Woodall, and Dane Honrado.

Guests:

Chris Doll, CEM Benchmarking; Chau Nguyen, Westlake Capital Partners; Justin Flores, Private Equity Stakeholder Project; Jim Flaherty, Office of the Attorney General; and Jeremy Bennett, Virginia Association of Counties.

The meeting convened at 1:09 p.m.

**Opening Remarks**

Mr. Andrews called the meeting to order and welcomed everyone to the September 22, 2023, meeting of the Virginia Retirement System Board of Trustees.

**Approval of Minutes**

Following a motion by Dr. Gooden, and a second by Mr. Montgomery, the VRS Board of Trustees unanimously approved the minutes from its June 15, 2023, meeting and September 21, 2023, Brown Bag Lunch meeting.

**Report of the Investment Advisory Committee**

Lawrence Kochard, Chair of the Investment Advisory Committee (IAC), began his report by noting the IAC met on August 23, 2023, and approved the minutes from its April 12, 2023, meeting. The Committee received the Chief Investment Officer's (CIO) report that included an overview of market conditions, asset allocation, tracking error and total fund performance as of June 30, 2023. The Committee then received the Portfolio Solutions Group program review. Last, the Committee participated in the forward returns and stress test scenarios discussion which included four prospective recovery scenario simulations and their potential implications for the long-term assumed rate of return, funded status, contribution rates and liquidity.

Mr. Andrews thanked Mr. Kochard for his report.

**Report of the Chief Investment Officer**

Andrew Junkin, Chief Investment Officer, began his report with a market overview and discussed asset allocation, total fund performance and tracking error, concluding that risk measures are within Board-approved levels. Mr. Junkin then discussed the New Investments and Terminations report, the Diverse Investment Manager Engagement (DIME) report and the Quarterly External Investment Manager Referral report.

Mr. Andrews thanked Mr. Junkin for his report.

**Annual CEM Benchmarking Report on Administration**

Chris Doll of CEM Benchmarking, Inc., provided the annual Pension Administration Benchmarking Report for FY 2022 to the Board. CEM measures cost, and service levels and provides an analysis of performance relative to peer agencies, as well as comparative data and insights from a broader group of CEM-participating plans. The presentation focused on VRS compared to a peer group of other U.S.-based retirement systems with similar membership size. Areas of service reviewed and measured included the call center, VRS website (including myVRS), one-on-one membership counseling and presentations, pension inceptions and member statements.

With a cost of $74 per active member and annuitant, VRS' total pension administration cost per active member and annuitant is $39 below the peer group average of $113. Mr. Doll provided a summary of the trend in total pension administration costs from 2015 to 2022. He noted that VRS' total pension administration cost per active member was lower due to fewer front office FTE per 10,000 active members and annuitants and lower support costs per member.

Mr. Doll advised that VRS achieved a total service score of 83, which is above the peer group median of 78. VRS' service score has increased from 79 to 83 between 2015 and 2022. Further, the service score increased by 2 from 2021 to 2022 as one-on-one and group counseling returned post pandemic.

Mr. Doll concluded by reiterating that VRS provides a relatively high level of service at a cost comparatively lower than its peers.

Mr. Andrews thanked Mr. Doll for his presentation and commended the VRS staff for achieving these exceptional results. Mr. Andrews noted that providing a high level of service at a lower cost when compared to U.S. peers is a testament to staff's commitment to exceptional service and continuous improvement.

**Report of the Defined Contribution Plans Advisory Committee**

The VRS Board of Trustees received the report of the Defined Contribution Plans Advisory Committee following its meeting on September 7, 2023, and placed it on file.

**ADMINISTRATION**

Administrative Reports & Communications
Staff provided an overview of the DC plans, as well as an update on administrative reports for the second quarter of 2023. An overview of assets and accounts across the various defined contribution plans, as well as account trends was also provided. Staff shared that assets and accounts have increased slightly since last quarter.

Staff provided an update on the age-based catch-up contributions of the SECURE 2.0 provision. VRS made the decision to pause age-based catch-up contributions for 2024 due to implementation challenges. However, the IRS has granted an administration transition period of two years for plans to come into compliance with this provision, Section 603. Staff further presented various optional provisions from SECURE 2.0 which are under consideration.

Staff remined the Committee that the FOCUS newsletter is one of the primary mediums to communicate to participants and members. These newsletters are included with the quarterly statements. There are multiple versions with varied and timely topics.

Highlights from Hybrid 2023 Automatic Escalation were shared, which included the number of participants who used auto-escalation and the results of those who remained, increased or decreased their voluntary percentages. Staff also shared an overview of ORPHE assets, including participant counts and balances with DCP (MissionSquare) and TIAA.

DC Plans Record Keeper Transition Update
Staff provided an update on the DC Plans Record Keeper Project. We are in full planning mode with Voya. Discovery meetings are in progress with various teams. Project plan is forthcoming.

**INVESTMENTS**

Annual Investment Review
Staff reviewed investment duties and responsibilities of the DCPAC. Staff provided the Committee with its annual investments review as of June 30, 2023, which included investments for the unbundled DC plans and the TIAA ORPHE. Staff highlighted the participant fee savings due to moving to lower share classes for various funds and informed the Committee of ongoing monitoring of DC investment trends

and developments such as default investment options, investment menu structure, behavioral finance, investment advice and retirement income. Staff also included Vanguard's How America Saves 2023 Report in the Appendix to serve as a reference.

**OTHER BUSINESS**

Discussion of New Ideas
A discussion was held about thoughts on next steps regarding the SECURE 2.0 optional provisions. Staff stated conversations will be had with employers along with additional research in order to make final decisions on the optional provisions. Further discussions were held about behavioral finance and participant behavior along with the possibility of educational sessions.

**2023 MEETINGS**
Senator Bell confirmed the following DCPAC meeting date for 2023:

- November 30th at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 19, 2023. This is not a DCPAC Committee meeting; however, members may attend if interested.

Mr. Andrews thanked Senator Bell for his report.

**Report of the Audit and Compliance Committee**

The VRS Board of Trustees received the report of the Audit and Compliance Committee following its meeting on September 20, 2023, and placed it on file.

APPROVAL OF MINUTES

Mr. Montgomery began his report by noting the Committee approved the minutes of its June 13, 2023, meeting.

EXIT ON THE 2022 EMPLOYER ASSURANCES REVIEW AND UPDATE ON THE 2023 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The Auditor of Public Accounts (APA) reported the Employer Assurances Review, covering GASB Statements No. 68 and 75, has concluded. The APA has issued their related opinions for the Pension and Other Post-Employment Benefit (OPEB) plans.

The APA also reported the 2023 VRS ACFR Audit is progressing as planned and is on scheduled to be finished in advance of December 15, 2023.

INTERNAL AUDIT ASSURANCE REVIEWS

The Committee received the results for the following reviews completed by the Internal Audit Department:

Agency Performance Outcomes and Agency Operational Measures
The principal auditor for investments and operations discussed Internal Audit's review of management's representations regarding the agency performance outcomes and operational measures for the fiscal year ended June 30, 2023, noting nothing came to Internal Audit's attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

VRS' Investment Incentive Compensation
The principal auditor for investments and operations noted Internal Audit completed its review of the Investment Department's proposed incentive compensation amounts and determined they were accurately calculated in accordance with the authorized pay plan and related eligibility requirements were met.

INTERNAL AUDIT DEPARTMENT'S ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2023

The Committee received the following updates:

Internal Audit Department's Annual Report
The audit director provided the Committee with a summary of Internal Audit's accomplishments over the past year as well as an overview of the department's initiatives for the coming fiscal year. She recognized the contributions of the internal audit team, highlighting their internal and external service during the year.

The audit director explicitly confirmed the department and its staff are organizationally independent of the activities they examine. The audit director also discussed the augmentation the department's information technology audit resources to meet the needs of the proposed audit plan. Finally, she discussed the Institute of Internal Auditors' *Standards* including review of the relevant charters and planned response to *The Standards* update expected in 2024.

Annual Report on the Audit Recommendation Follow-Up System (ARFUS)
The annual ARFUS report as of June 30, 2023 was presented. The audit director noted ARFUS contained eleven recommendations, four were represented as implemented, one which was issued by the APA. Three recommendations were released, one with comment, leaving eight outstanding as of June 30, 2023.

Annual Plan and Long-Range Plan Progress
The audit director discussed the annual plan results for the fiscal year ended June 30, 2023, along with the status of the long-range plan for the four years ending June 30, 2024.

PROPOSED FY2024 ANNUAL AUDIT PLAN

The audit director discussed the proposed annual audit plan for fiscal year 2024, which is derived from the approved long-range audit plan.

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the VRS Board of Trustees approved the following action:

**RBA: Approve FY 2024 Audit Plan**

***Request for Board Action 2023-09-14:*** *The VRS Board of Trustees approves the proposed FY2024 Annual Audit Plan.*

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

The audit director shared there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General or other sources during the period of May 1, 2023, through July 31, 2023.

Management's Quarterly Travel Expense and Per Diem Report

The Committee received Management's Quarterly Travel Expense and Per Diem report.

Committee Meeting Schedule for Calendar Year 2024

The Committee received an update on the progress of determining the 2024 Committee meeting dates.

Next Committee Meeting Date

The Committee's final 2023 Committee meeting is scheduled for Thursday, December 7, 2023, at 10 a.m.

AUDIT REPORT

The Committee received a report on Internal Audit's review of *Human Resources and Employee Payroll* which determined sufficient controls are in place to support human resources and employee payroll processes and the associated controls are operating as intended. There were no formal recommendations as a result of this review.

AUDIT REPORT AND AUDIT DIRECTOR'S PERFORMANCE EVALUATION (CLOSED SESSION)

The Committee went into closed session to receive the *Logical and Physical Access* audit report and review the audit director's performance for the fiscal year ended June 30, 2023.

Upon a motion by Mr. Montgomery, with a second by Ms. Pantele, the VRS Board of Trustees approved the following action:

**RBA: Internal Audit Director's Performance Review**

***Request for Board Action 2023-09-15:*** *The VRS Board of Trustees approves a 7% performance bonus for the audit director.*

Mr. Andrews thanked Mr. Montgomery for his report.

**Report of the Administration, Finance and Talent Management Committee**

The VRS Board of Trustees received the report of the Administration, Finance, and Talent Management Committee following its meeting on September20, 2023 and placed it on file.

APPROVAL OF MINUTES

Mr. Andrews began his report by noting the Committee approved the minutes of its June 13, 2023, meeting.

REVIEW ATTAINMENT OF FY2023 AGENCY PERFORMANCE OUTCOMES (APOS) AND OPERATIONAL MEASURES

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2023 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had six APOs for the fiscal year, with a target of completing at least five. Staff met this goal by successfully completing all six APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the call abandonment rate. Mr. Cooper noted that while not meeting the call abandonment rate target for the year, the agency's recent SMS surveying data indicates an overwhelmingly positive customer experience for those communicating with the customer contact center.

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the VRS Board of Trustees approved the following action:

**RBA: Attainment of FY 2023 APOs and Operational Measures (and corresponding lump-sum bonus)**

***Request for Board Action 2023-09-16:*** *The VRS Board of Trustees approves (i) the attainment of FY 2023 APOs and Operational Measures and (ii) a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

REVIEW PERFORMANCE BONUSES FOR ELIGIBLE ADMINISTRATIVE AND INVESTMENT OPERATIONS AND ADMINISTRATION EMPLOYEES

Paula Reid, Human Resources Director, presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an "exceptional" rating on their performance evaluation qualify for a 4% bonus. Employees who earn an "exceeds" rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2023.

Upon a motion by Mr. Montgomery, with a second by Mr. Disharoon, the VRS Board of Trustees approved the following action:

**RBA: Performance Bonuses for Eligible Administrative and Investment Operations and Administration Employees**

***Request for Board Action 2023-09-17:*** *The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.*

BUDGET UPDATE (YEAR END RESULTS AND BIENNIUM BUDGET PROPOSAL)

Mr. Cooper presented the FY 2023 year-end budget results, explaining that VRS finished with an unexpended appropriation of $9.94 million, which will be returned to the Fund. Mr. Cooper next provided an update on the agency's FY 2024 budget, noting that expenses to date are in line with budgeted amounts. Next, Mr. Cooper provided a detailed review of the agency's FY 2025-2026 biennium budget proposal. Following discussion on the proposals with the Committee members, a request for board action was considered.

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the VRS Board of Trustees approved the following action:

**RBA: Authorize Budget Request to the Department of Planning and Budget**

***Request for Board Action 2023-09-18:*** *The VRS Board of Trustees authorizes staff to request spending authority from the Department of Planning and Budget and legislature, as applicable, to execute planned initiatives for the next two fiscal years.*

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE (IAC) MEMBERS

Mr. Junkin informed the Committee of two IAC members due for reappointment. Mr. Junkin indicated that Hance West and Nan Leake have been active and engaged participants of the IAC and each are willing to continue their service on the IAC.

Upon a motion by Mr. Montgomery, with a second by Ms. Pantele, the VRS Board of Trustees approved the following action:

**RBA: Reappointment of Investment Advisory Committee (IAC) Members**

***Request for Board Action 2023-09-19:*** *The Board reappoints William "Hance" West and Nancy G. Leake to the Investment Advisory Committee, each for a two-year term ending December 31, 2025.*

APPROVE REVISED PAY PLANS

Paula Reid advised the Committee that the Governor has approved the 2023 Appropriation Act, which includes a 2% salary increase for eligible employees of the Commonwealth, as well as related changes to the pay bands of the Commonwealth's pay plan. In keeping with these changes, Ms. Reid advised that VRS is proposing to amend the pay bands of its three pay plans as well.

Upon a motion by Mr. Montgomery, with a second by Dr. Gooden, the VRS Board of Trustees approved the following action:

**RBA: Approve Revised Pay Plans**

***Request for Board Action 2023-09-20:*** *The Board approves an amended Administrative Pay Plan, Investment Operations and Administration Staff Pay Plan and Investment Professionals' Pay Plan, effective December 10, 2023.*

INFORMATIONAL ITEM (INTERNAL AUDIT DIRECTOR'S PERFORMANCE REVIEW)

Mr. Andrews informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director's performance at its September 20, 2023, meeting. Each year, the A&C Committee reviews the Internal Audit Director's performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the Committee for informational purposes.

COMPENSATION AND BENEFITS (CLOSED SESSION)

The Committee went into closed session to discuss benefits and compensation related to specific individuals.

Upon a motion by Mr. Montgomery, with a second by Ms. Hood, the VRS Board of Trustees approved the following action:

**RBA: FY 2023 Incentive Pay for Investment Professionals**

***Request for Board Action 2023-09-21:*** *The VRS Board of Trustees approves payment of an incentive amount of approximately $9,164,370.33 for FY 2023 to VRS investment professionals as authorized by the Investment Professionals' Pay Plan.*

Upon a motion by Mr. Montgomery, with a second by Ms. Pantele, the VRS Board of Trustees approved the following action:

**RBA: VRS Director's Performance Review**

***Request for Board Action 2023-09-22:*** *The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 16, 2023 and supplemental payment of $89,250.00 made on December 1, 2023 as authorized in the 2023 Appropriation Act.*

**Report of the Director**

Ms. Bishop, Director, began her report with an update on the agency road map for FY 2024, noting all projects are progressing as planned, as well as a review of New Coverage Elections.

Lastly, Ms. Bishop recognized Kelly Hiers, Defined Contribution Plans Administrator, as the incoming president of the National Association of Government Defined Contribution Administrators (NAGDCA). Ms. Hiers joined NAGDCA's executive board in 2019 as a member-at-large, and she'll begin her new leadership role in October. NAGDCA is a well-respected source of data and best practices for public-sector defined contribution plans.

Ms. Bishop provided updates on operational and ongoing activities.

Mr. Andrews thanked Ms. Bishop for her report.

**Securities Litigation (Closed Session)**

Upon a motion by Mr. Montgomery, with a second by Ms. Hood, that the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act for the purpose of consultation with legal counsel about actual litigation pursuant to the exemption contained in *Code of Virginia* § 2.2-3711(A)(7).

Upon return to open meeting, Mr. Montgomery moved, with a second by Mr. Disharoon, the following resolution:

WHEREAS, the Virginia Retirement System Board of Trustees convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, § 2.2-3712 of the *Code of Virginia* requires a certification by the Board that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, the Board certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Board.

The Board approved the resolution upon the following roll call vote:

Senator Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye

Dr. Gooden: Aye
Ms. Hood: Aye
Mr. Montgomery: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

**Other Business**

Lastly, Mr. Andrews reviewed the following meeting schedule:

- Benefits and Actuarial Committee – October 18 at 1:00 p.m.
- Board of Trustees – October 19 at 1:00 p.m.

**Adjournment**

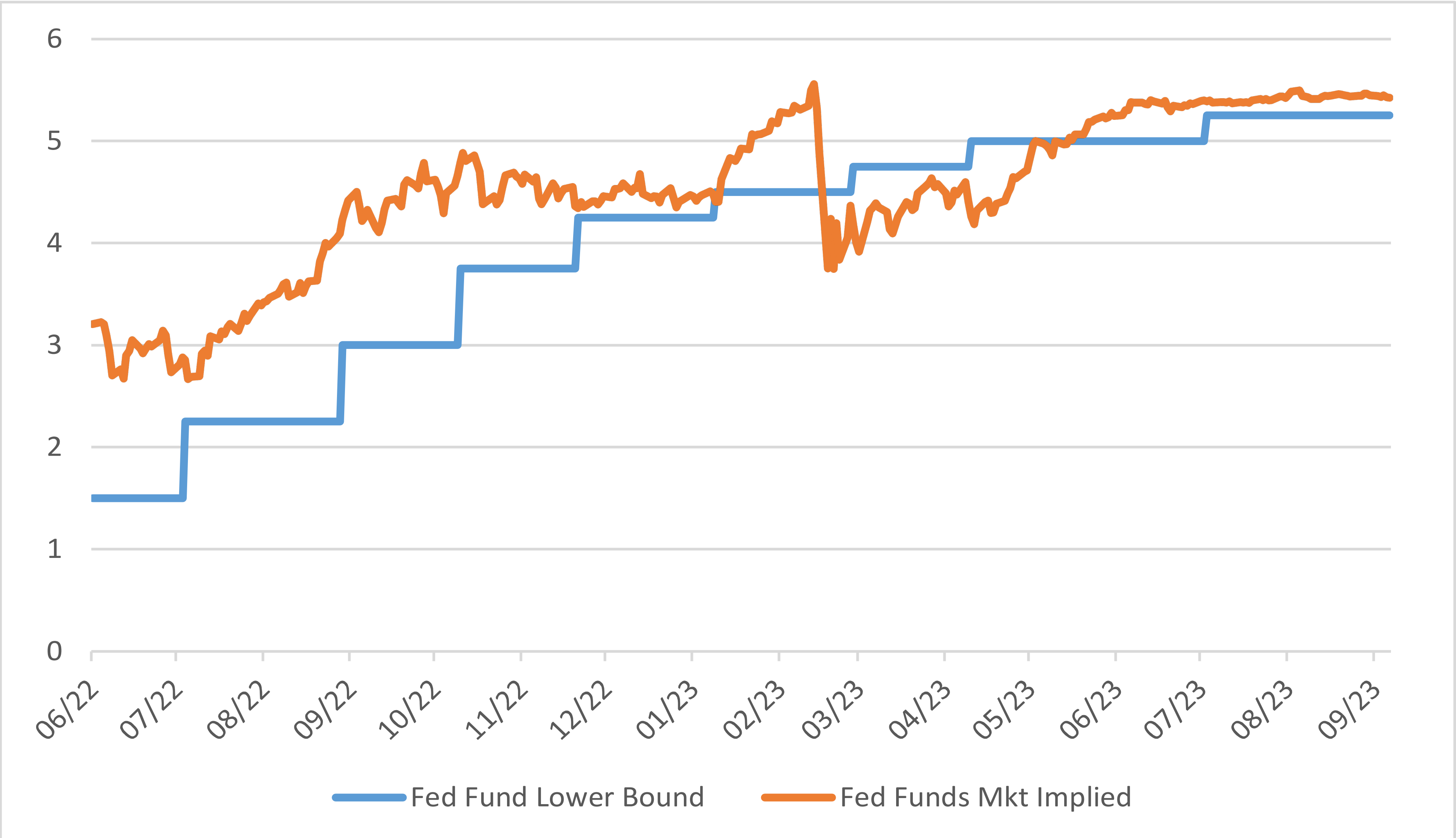
There being no further business and following a motion by Mr. Montgomery, with a second by Ms. Hood, the VRS Board of Trustees agreed to adjourn the meeting at 2:33 p.m.

_________________________ _________________________
Chair Secretary

Virginia Retirement System

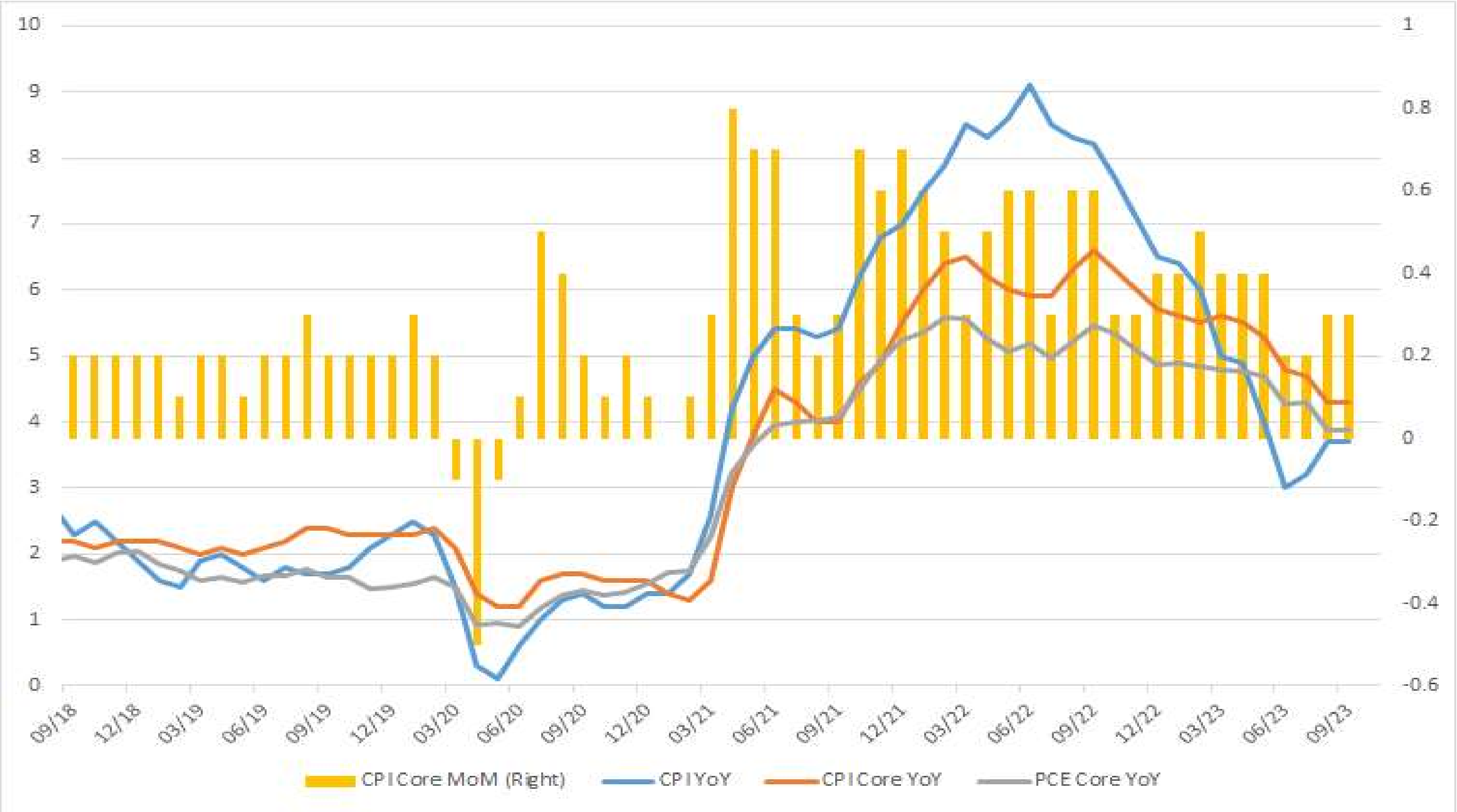
# Chief Investment Officer Report
## Market Review – October 2023
### Andrew Junkin

# Forward (implied) vs Fed Fund (target)



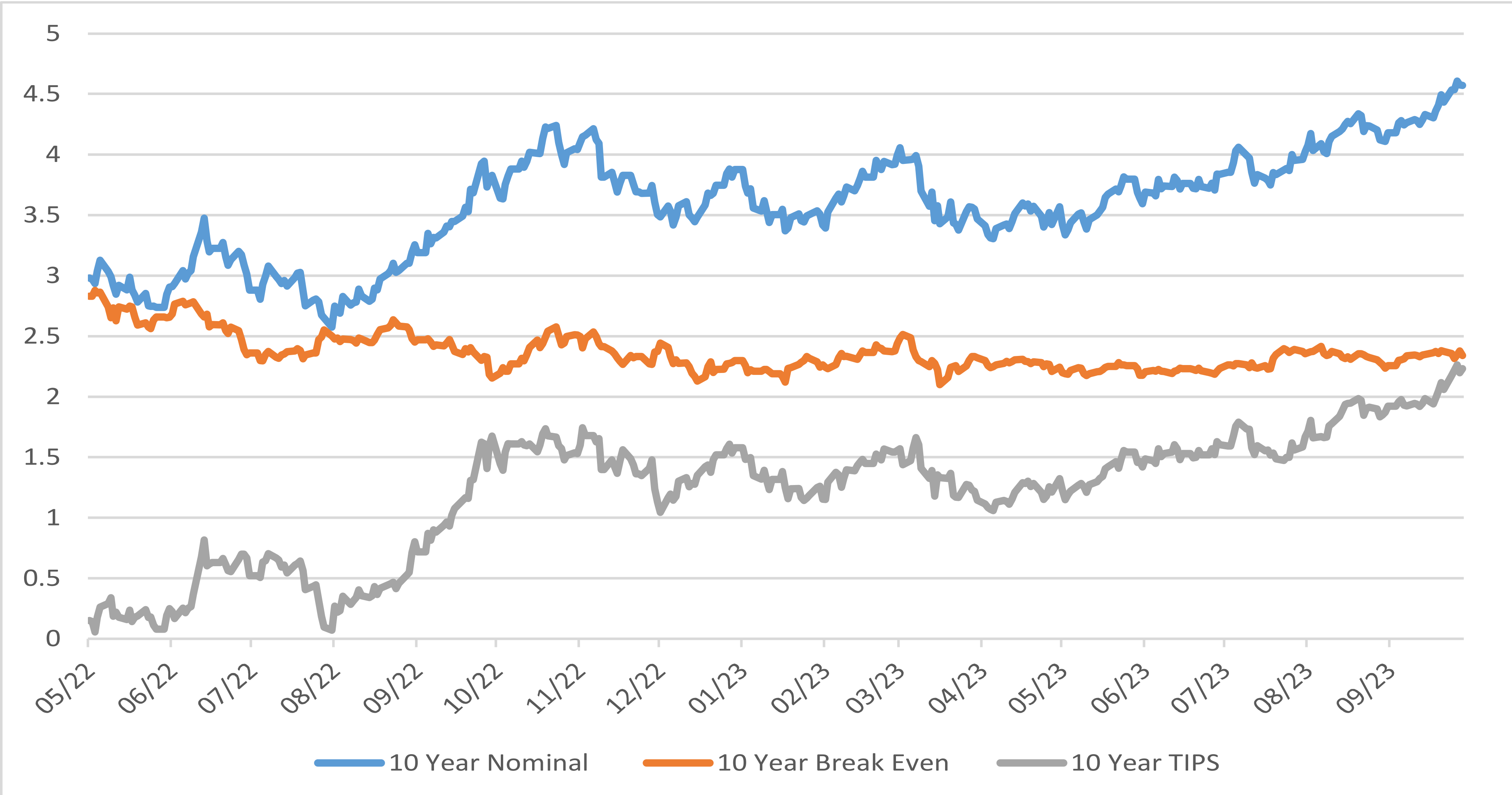

Data Source: Bloomberg

# Inflation Indicators



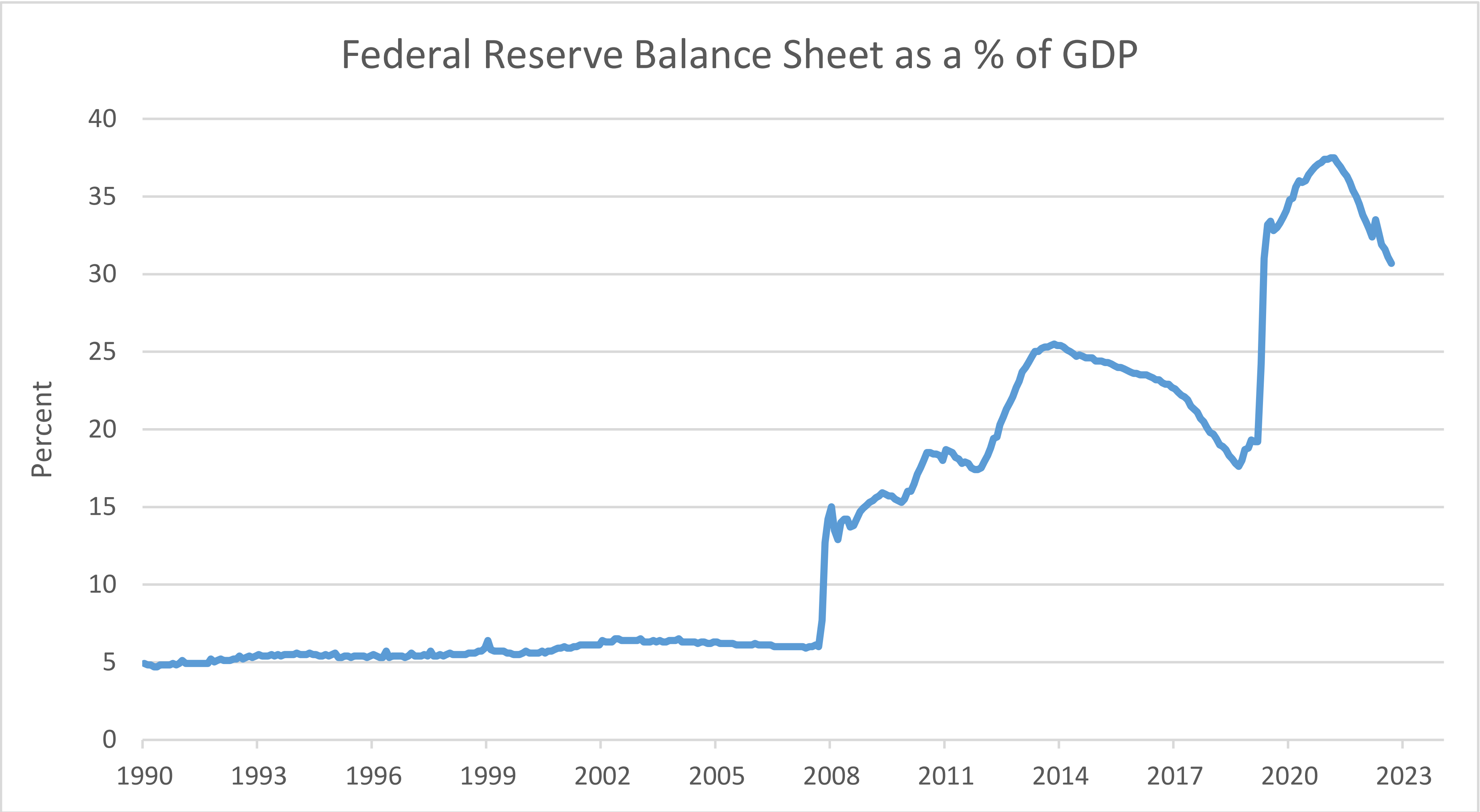

Data Source: Bloomberg

# Rate Moves (10Y Nominal, Real & BEI)



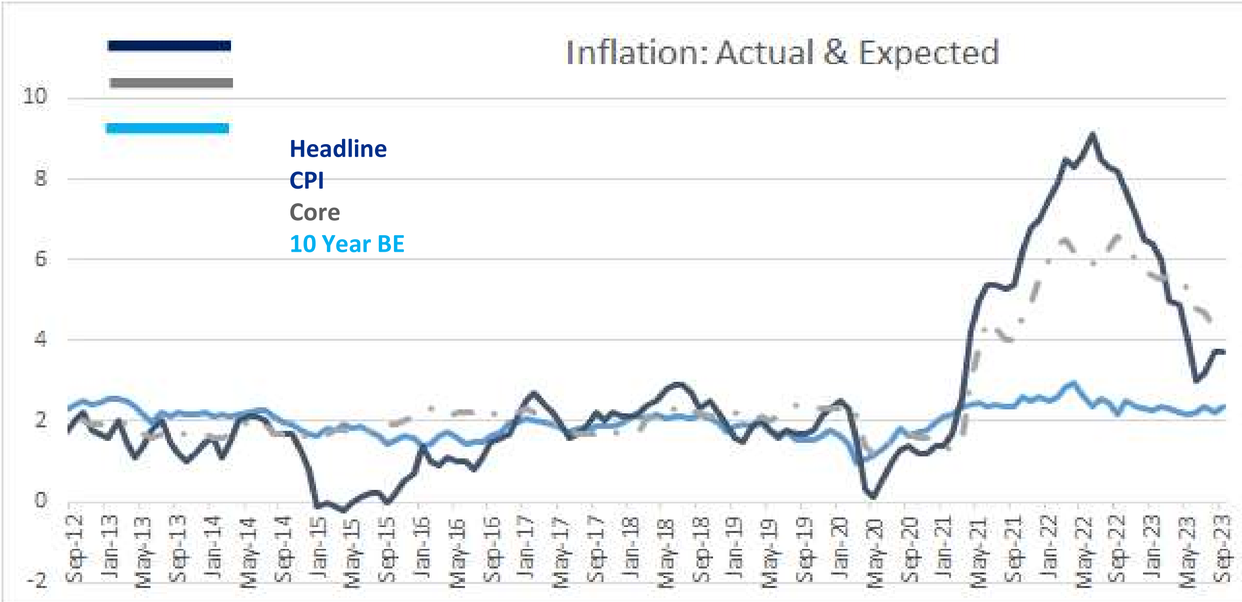

Data Source: Bloomberg

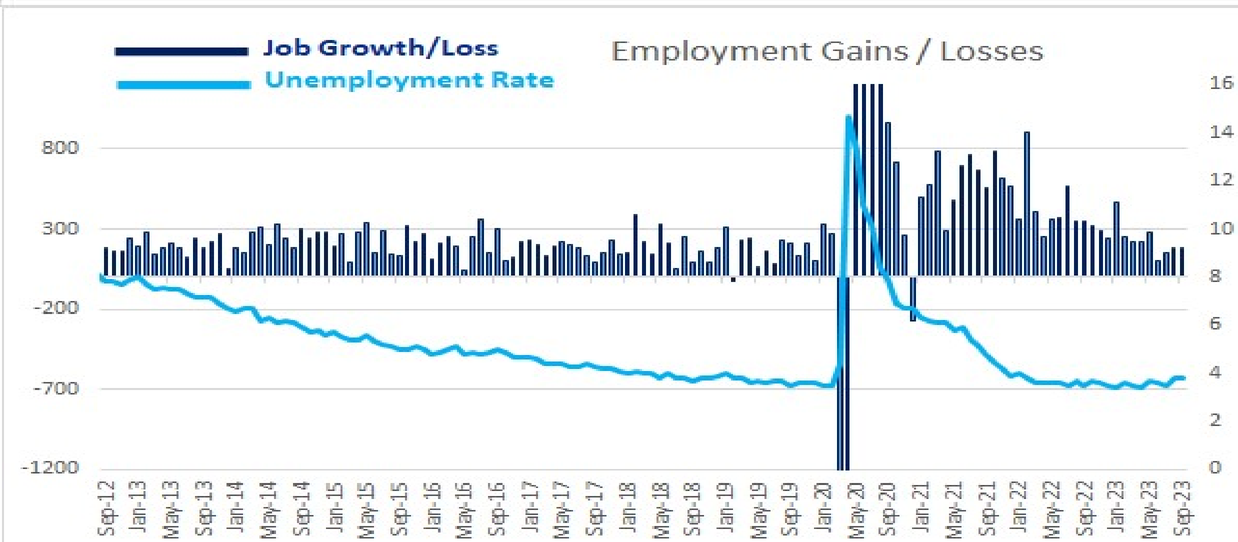
# Federal Reserve




Data Source: Bloomberg

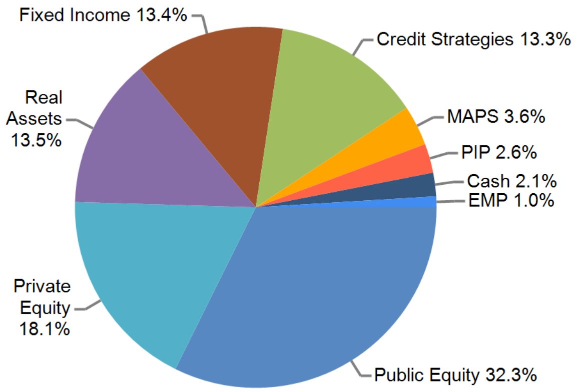
# Inflation and Employment




Data Source: Bloomberg

# Asset Allocation Report
## August 31, 2023
**For Internal Investment Purposes Only**




| Tracking Error | |
|---|---|
| 3Yr-Total Fund: | **2.75%** |
| 3Yr-Total Public: | **1.71%** |
| 5Yr-Total Fund: | **2.28%** |
| 5Yr-Total Public: | **1.50%** |

| | Current $Bil | Current Weight | Policy Weight | Variance | Allowable Range | | Internal % |
|---|---|---|---|---|---|---|---|
| **Total Fund** | **105.5** | | | | | | **28.1%** |
| **Public Equity** | **34.0** | **32.3%** | **34.0%** | **-1.7%** | **-5%** | **+5%** | **47.8%** |
| **Fixed Income** | **14.1** | **13.4%** | **15.0%** | **-1.6%** | **-3%** | **+5%** | **94.9%** |
| **Credit Strategies** | **14.0** | **13.3%** | **14.0%** | **-0.7%** | **-5%** | **+5%** | |
| **Real Assets** | **14.2** | **13.5%** | **14.0%** | **-0.5%** | **-5%** | **+5%** | |
| Private RE | 9.4 | 8.9% | | | | | |
| Other RA | 4.8 | 4.5% | | | | | |
| **Private Equity** | **19.1** | **18.1%** | **16.0%** | **2.1%** | **-5%** | **+5%** | |
| **MAPS** | **3.8** | **3.6%** | **4.0%** | **-0.4%** | **-2%** | **+2%** | |
| DSTRAT | 1.7 | 1.6% | | | | | |
| RBI | 2.1 | 2.0% | | | | | 0.3% |
| **PIP** | **2.7** | **2.6%** | **2.0%** | **0.6%** | **-2%** | **+2%** | |
| **EMP** | **1.0** | **1.0%** | **0.0%** | **1.0%** | | **+3%** | |
| **Cash** | **2.2** | **2.1%** | **1.0%** | **1.1%** | **-1%** | **+4%** | |

| High-Level Exposure | Current $Bil | Current Weight | Policy Weight | Variance | Allowable Range | |
|---|---|---|---|---|---|---|
| **Total Equity** | **53.1** | **50.4%** | **50.0%** | **0.4%** | **-10%** | **10%** |
| **Fixed Income + Cash** | **16.4** | **15.5%** | **16.0%** | **-0.5%** | **-4%** | **9%** |

| | Current $Bil | Current Weight | Policy Limit |
|---|---|---|---|
| **Hedge Funds** | **9.7** | **9.2%** | **15.0%** |

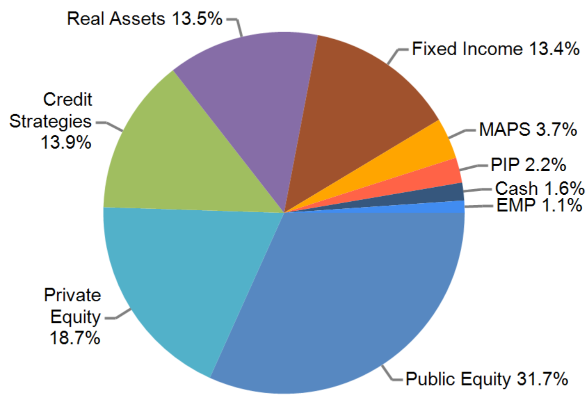
* Total Fund includes the following amt held by the Treasurer of VA: $ 295 million

**• The values shown for each asset class on this report may differ from the VRS Monthly Performance Report due to adjustments related to derivative positions in the Rebalance Account, pending transactions, and certain accruals. The values on this report are a more descriptive representation of the Virginia Retirement System's true economic exposure to each asset class.( 4 adjustments applied )**

***Total Fund and Total Public annualized tracking error is calculated using compounded quarterly returns as of 6/30/2023**

*** Differences in totals are due to rounding.**

# Daily Asset Allocation Report
## October 10, 2023
**For Internal Investment Purposes Only**




| Tracking Error | |
|---|---|
| 3Yr-Total Fund: | **2.54%** |
| 3Yr-Total Public: | **1.68%** |
| 5Yr-Total Fund: | **2.28%** |
| 5Yr-Total Public: | **1.53%** |

| | Current $Bil | Current Weight | Policy Weight | Variance | Allowable Range | | Internal % |
|---|---|---|---|---|---|---|---|
| **Total Fund** | **104.1** | | | | | | **28.2%** |
| **Public Equity** | **33.0** | **31.7%** | **34.0%** | **-2.3%** | **-5%** | **+5%** | **48.4%** |
| **Fixed Income** | **13.9** | **13.4%** | **15.0%** | **-1.6%** | **-3%** | **+5%** | **95.3%** |
| **Credit Strategies** | **14.5** | **13.9%** | **14.0%** | **-0.1%** | **-5%** | **+5%** | |
| **Real Assets** | **14.1** | **13.5%** | **14.0%** | **-0.5%** | **-5%** | **+5%** | |
| Private RE | 9.3 | 8.9% | | | | | |
| Other RA | 4.8 | 4.6% | | | | | |
| **Private Equity** | **19.5** | **18.7%** | **16.0%** | **2.7%** | **-5%** | **+5%** | |
| **MAPS** | **3.8** | **3.7%** | **4.0%** | **-0.3%** | **-2%** | **+2%** | |
| DSTRAT | 1.7 | 1.6% | | | | | 6.5% |
| RBI | 2.1 | 2.1% | | | | | 0.1% |
| **PIP** | **2.3** | **2.2%** | **2.0%** | **0.2%** | **-2%** | **+2%** | |
| **EMP** | **1.1** | **1.1%** | **0.0%** | **1.1%** | | **+3%** | |
| **Cash** | **1.7** | **1.6%** | **1.0%** | **0.6%** | **-1%** | **+4%** | |

| High-Level Exposure | Current $Bil | Current Weight | Policy Weight | Variance | Allowable Range | |
|---|---|---|---|---|---|---|
| **Total Equity** | **52.5** | **50.4%** | **50.0%** | **0.4%** | **-10%** | **10%** |
| **Fixed Income + Cash** | **15.6** | **14.9%** | **16.0%** | **-1.1%** | **-4%** | **9%** |

| | Current $Bil | Current Weight | Policy Limit |
|---|---|---|---|
| **Hedge Funds** | **9.5** | **9.1%** | **15.0%** |

* Total Fund includes the following amt held by the Treasurer of VA: $ 68 million

**• The values shown for each asset class on this report may reflect adjustments related to derivative positions in the Rebalance Account, pending transactions and certain accruals, in order to provide a more descriptive representation of the true economic exposure to each asset class ( 4 adjustments applied )**

***Total Fund and Total Public annualized tracking error is calculated using compounded quarterly returns as of 9/30/2023**

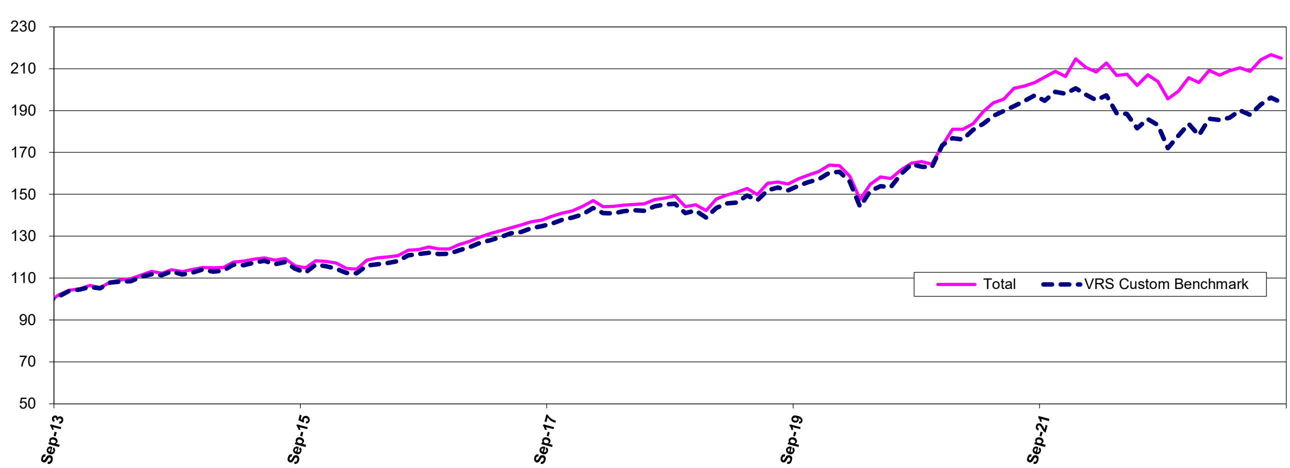
*** Differences in totals are due to rounding.**

***PERFORMANCE SUMMARY***
***Rolling Periods Ending***
***August 31, 2023***

## TOTAL FUND PERFORMANCE

| | 10 Yr | 5 Yr | 3 Yr | 1 Yr | Qtr | Month | Fiscal YTD | Cal YTD | Market Value ($MM) |
|---|---|---|---|---|---|---|---|---|---|
| **Total Public Equity Strategies** | **8.5** | **6.9** | **8.5** | **13.4** | **6.3** | **-2.1** | **0.7** | **12.1** | **34,018** |
| *Benchmark* | 8.6 | 7.4 | 7.7 | 13.8 | 6.8 | -2.8 | 0.9 | 14.6 | |
| **Total Fixed Income** | **2.3** | **1.7** | **-3.2** | **0.1** | **-0.6** | **-0.6** | **-0.5** | **2.0** | **14,139** |
| *Benchmark* | 1.5 | 0.6 | -4.1 | -0.5 | -0.7 | -0.6 | -0.6 | 1.8 | |
| **Total Credit Strategies** | **6.1** | **6.3** | **7.3** | **5.3** | **2.9** | **0.3** | **0.9** | **6.0** | **14,007** |
| *Benchmark* | 5.0 | 4.5 | 3.7 | 7.9 | 3.8 | 0.7 | 2.0 | 7.8 | |
| **Total Real Assets** | **10.0** | **8.4** | **10.9** | **1.3** | **-0.7** | **-0.2** | **-0.1** | **-1.8** | **14,187** |
| *Benchmark* | 7.7 | 6.0 | 7.4 | -4.0 | -1.3 | -0.4 | -0.8 | -5.3 | |
| **Total Private Equity** | **16.1** | **17.5** | **24.7** | **-0.5** | **2.9** | **-0.1** | **0.0** | **4.3** | **19,089** |
| *Benchmark* | 10.7 | 8.8 | 10.7 | 0.7 | 2.7 | -1.1 | 0.2 | 17.9 | |
| **Total Private Investment Partnerships** | **n/a** | **9.3** | **16.0** | **1.9** | **1.1** | **0.0** | **0.0** | **3.2** | **2,744** |
| *Benchmark* | n/a | 7.0 | 8.2 | 1.9 | 1.6 | -0.3 | 0.4 | 6.1 | |
| **Total Multi-Asset Public Strategies** | **n/a** | **4.2** | **5.8** | **6.7** | **3.4** | **0.0** | **0.9** | **6.0** | **3,787** |
| *Benchmark* | n/a | 4.7 | 3.5 | 6.7 | 3.1 | -0.5 | 1.0 | 7.3 | |
| **Total Fund** | **8.1** | **7.7** | **9.3** | **5.5** | **3.1** | **-0.8** | **0.4** | **5.7** | **105,455** |
| *VRS Custom Benchmark* | 7.0 | 5.9 | 5.6 | 5.9 | 3.2 | -1.2 | 0.5 | 8.8 | |

**10-Year Performance**
**Indexed to 100**




Effective July 2013, the VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.

The VRS Cash Account, the Treasurer Short-Term Investment Account, the VRS Rebalancing Account, transition activity and accounts with market values of less than $1 million are included in the Total Fund's market value. Differences in market value totals are due to rounding.

# Total Fund Tracking Error

**Figure 1: Policy Tracking Error Rolling Three Year - Plan (as of 06/30/2023)**

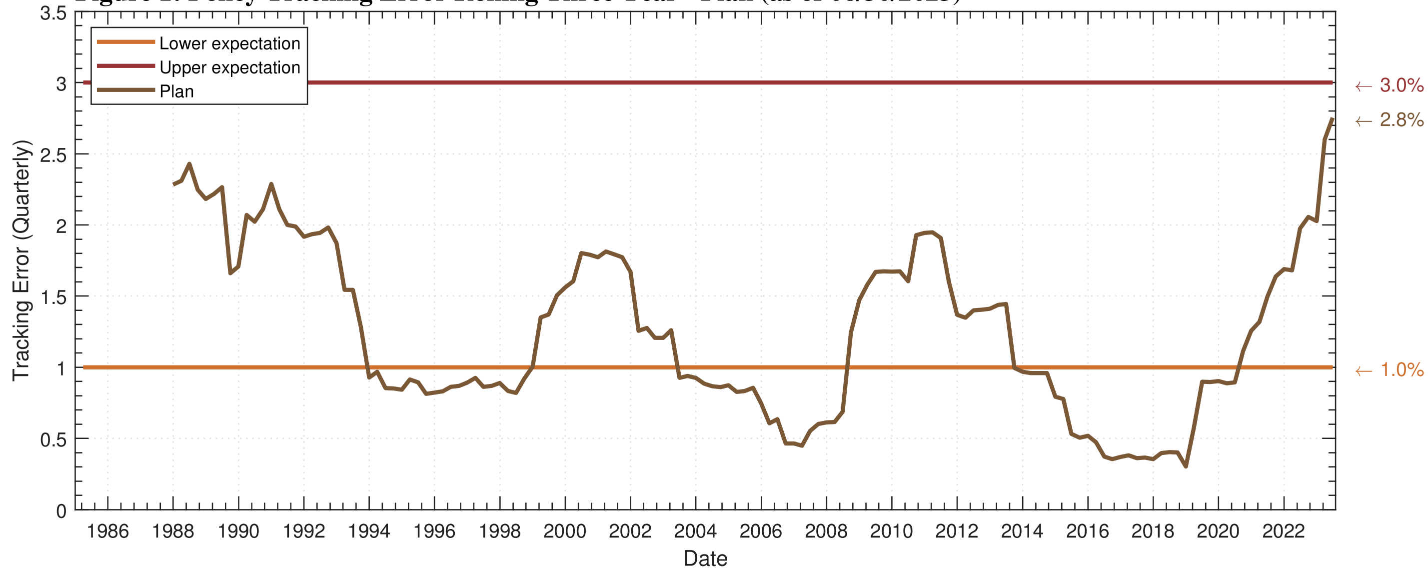
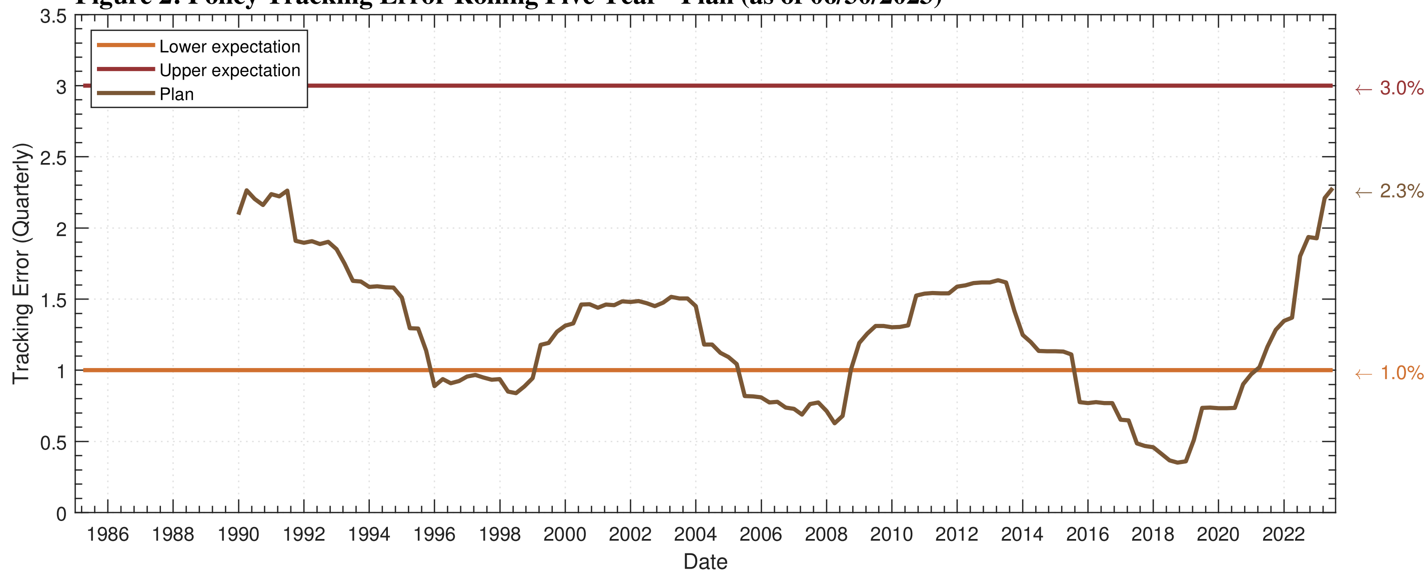



**Figure 2: Policy Tracking Error Rolling Five Year - Plan (as of 06/30/2023)**




Virginia Retirement System

1 The VRS Defined Benefit Plan Investment Policy Statement established the total fund tracking error range as the allowable observed tracking error calculated quarterly using 5 years of history.

**VRS Investment Department**
Recap of New Investments/Terminations
Time Period: 9/22/2023 – 10/19/2023

| Program | Action | Effective Date | Commitment/ Current Value | Funding/ Defunding Period | Description |
|---|---|---|---|---|---|
| Real Assets | Hired | 10/12/2023 | $50 Million | Immediate | **Realterm Logistics Income Fund –** An open-end fund investing in transportation related industrial properties in North America. |
| Credit Strategies | Hired | 09/11/2023 | $230 million | 5 years | **Park Square Capital Partners IV –** A closed-end fund focused on Europe mezzanine debt investments. |

| Investment Program | Activity | Manager Name | Description | VRS Action |
|---|---|---|---|---|
| Public Equity | Virtual Manager Meeting | Avenir Program | Fund-of-funds strategy co-managed by Innocap and New Holland Capital investing in, and seeding, women and minority owned hedge fund managers. | Staff held an introductory meeting with these managers to discuss the program and their strategy. |
| Public Equity | Virtual Manager Meeting | Sahana Capital (minority-owned firm)[1] | Manager runs an ultra-concentrated, long-only public equity fund. | Staff held an introductory meeting with this manager to discuss the firm and their strategy. |
| Public Equity | Virtual Manager Meeting | Sit Investment Associates, Inc. (minority-owned firm)[1] | Manager focused on domestic and international growth equities. | Staff had an update meeting with this manager to discuss the firm and their strategy. |
| Public Equity | Virtual Manager Meeting | Tensile Capital Management (minority-owned firm)[1] | Manager runs a long-only strategy focused on small and mid-cap companies primarily in the U.S. | Staff held a re-introductory meeting with this manager to discuss the firm and their strategy. |
| Public Equity | On-Going Monitoring of Current VRS Manager | Advent Capital Management (minority-owned firm)[1] | Current VRS convertible bond manager. | Staff performed on-going due diligence and monitoring of this current VRS manager during the quarter. |
| Public Equity | On-Going Monitoring of Current VRS Manager | Ariel Global (minority and women-owned firm)[1] | Current VRS global equity manager. | Staff performed on-going due diligence and monitoring of this current VRS manager during the quarter. |
| Public Equity and Credit Strategies | Periodic Update Communication with Consultant | N/A | Aon Hewitt Investment Consulting is the consultant used by these two investment programs. | Periodic communication to review the DIME monitoring activity done on behalf of VRS as well as industry trends. |
| Credit Strategies | Manager Meeting | Advent Capital Management (minority-owned firm)[1] | Manager investing in collateralized loan obligation equity. | Staff reviewed materials and had a meeting with this manager to discuss the firm and strategy. |

| Investment Program | Activity | Manager Name | Description | VRS Action |
|---|---|---|---|---|
| Credit Strategies | Virtual Manager Meeting | The Copia Group (minority-owned firm)[1] | Manager investing in lower-middle market direct lending with an impact focus. | Staff reviewed materials and had a meeting with this manager to discuss the firm and strategy. |
| Credit Strategies and Risk-Based Investments | Periodic Communication with Fund-of-Fund Manager | N/A | Aksia is the consultant used by these two investment programs. | Periodic communication to review DIME and other emerging managers along with other opportunities more broadly. |
| Risk-Based Investments | On-Going Monitoring of Current VRS Manager | Systematica Investments (women-owned firm)[1] | A multi-asset class manager. | Staff performed on-going due diligence and monitoring of this current VRS manager during the quarter. |
| Private Equity | Virtual Manager Meeting | Arkview Capital (minority-owned firm)[2] | Lower market manager that invests in MBEs across high demand sectors. | Staff had a meeting with this manager during the quarter. |
| Private Equity | Virtual Manager Meeting | Clintonview Capital (minority-owned firm)[1] | A private equity firm investing in middle market businesses to drive growth and opportunistically diversify leadership teams. | Staff had a meeting with this manager during the quarter. |
| Private Equity | Virtual Manager Meeting | Demopolis Equity Partners (minority-owned firm)[1] | A firm focused on North American, lower middle market buyout and growth investments in fin-tech and e-commerce. | Staff had a meeting with this manager during the quarter. |
| Private Equity | Virtual Manager Meeting | Goodlight Capital (minority-owned firm)[2] | Venture capital fund that provides capital to early-stage minority businesses. | Staff had a meeting with this manager during the quarter. |
| Private Equity | Virtual Manager Meeting | Muller & Monroe Asset Management (minority-owned firm)[2] | A fund-of-funds manager primarily focused on high performing, lower middle market, private equity managers. | Staff had a meeting with this manager during the quarter. |
| Private Equity | Virtual Manager Meeting | Mpowered Capital (women-owned firm)[1] | A private equity firm seeking investments in women-founded firms. | Staff had a meeting with this manager during the quarter. |

| Investment Program | Activity | Manager Name | Description | VRS Action |
|---|---|---|---|---|
| Private Equity | Virtual Manager Meeting | Reverence Capital (minority-owned firm)[1] | A firm investing in middle-market financial services companies. | Staff had a meeting with this manager during the quarter. |
| Private Equity | Manager Meeting | Steward Asset Management (women-owned firm)[2] | Fund-of-funds manager investing and seeding new emerging and diverse managers in private equity. | Staff had a meeting with this manager during the quarter. |
| Private Equity | Virtual Manager Meeting | Turning Rock Partners (minority and women-owned firm)[1] | An alternative asset manager focused on underserved or capital constrained businesses in North America. | Staff had a meeting with this manager during the quarter. |
| Private Equity | On-Going Monitoring of Current VRS Manager | Asia Alternatives (minority and women-owned firm)[1] | A fund-of-funds manager focusing on alternative investments in Asia. | Staff had a meeting with this manager during the quarter. |
| Private Equity | On-Going Monitoring of Current VRS Manager | Clearlake Capital Partners (minority-owned firm)[1] | A large market buyout fund targeting companies across various industry sectors. | Staff had a meeting with this manager during the quarter. |
| Private Equity | On-Going Monitoring of Current VRS Manager | SIRIS Capital (minority-owned firm)[1] | A middle market buyout firm making control investments in data/telecommunications, technology, and technology-enabled business service companies in North America. | Staff had a call with this manager during the quarter. |
| Private Equity | On-Going Monitoring of Current VRS Manager | Sycamore Partners (minority-owned firm)[1] | Middle market buyout fund targeting consumer and retail companies. | Staff had a call with this manager during the quarter. |
| Private Equity | On-Going Monitoring of Current VRS Manager | Veritas Capital (minority-owned firm)[2] | Middle market buyout fund targeting primarily technology or technology-enabled solutions to government. | Staff had a meeting with this manager during the quarter. |

| Investment Program | Activity | Manager Name | Description | VRS Action |
|---|---|---|---|---|
| Private Equity | On-Going Monitoring of Current VRS Manager | Vista Equity Partners (minority-owned firm)[1] | A large market buyout fund targeting enterprise software companies. | Staff had a call with this manager during the quarter. |
| Real Assets | Virtual Manager Meeting | Armitage Street LLC (minority-owned firm)[1] | Manager focused on alternative real estate credit primarily in the multifamily and hospitality sectors. | Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative. |
| Real Assets | Virtual Manager Meeting | Belay Investment Group (women-owned firm)[1] | Manager focused on investing with local operators and sector specialists across commercial real estate property types. | Staff held an introductory meeting with this manager to discuss their background, company, capabilities and capital raising initiatives. |
| Real Assets | Virtual Manager Meeting | Cadre (minority-owned firm)[1] | U.S. focused value-add real estate manager. | Staff held an update meeting with this manager to discuss updates to their strategy and track record, firm growth, as well as current fundraise initiative. |
| Real Assets | Virtual Manager Meeting | Griffith Properties (women-owned firm)[1] | Value-add real estate manager focused on commercial real estate in New England and Mid-Atlantic U.S. | Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative. |
| Real Assets | Email Correspondence | IRA Capital (minority-owned firm)[1] | Real estate manager focused on core-plus senior living and medical office properties in the U.S. | Staff emailed with a new investors relations member and discussed availability at an upcoming conference. |
| Real Assets | Virtual Manager Meeting | UpShot Capital Advisors (minority-owned firm)[1] | Value-add real estate manager focused primarily on healthcare related properties. | Staff held an update meeting with this manager to discuss changes to their team, strategy and fund focus, as well as current fundraise initiative. |
| Real Assets | Virtual Manager Meeting | S2 Capital (minority-owned firm)[1] | Real estate manager focused on value-add multifamily properties. | Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative. |
| Real Assets | On-Going Monitoring of Current VRS Manager | Artemis Real Estate Partners (women-owned firm)[1] | Current VRS real estate manager. | Staff performed on-going due diligence and monitoring of this current VRS women-owned manager during the quarter. |

| Investment Program | Activity | Manager Name | Description | VRS Action |
|---|---|---|---|---|
| Real Assets | On-Going Monitoring of Current VRS Manager | Capri EGM (minority-owned firm)[1] | Current VRS real estate manager. | Staff performed on-going due diligence and monitoring of this current VRS minority-owned manager during the quarter. |
| Real Assets | On-Going Monitoring of Current VRS Manager | Grain Management (minority-owned firm)[1] | Current VRS infrastructure manager. | Staff performed on-going due diligence and monitoring of this current VRS minority-owned manager during the quarter. |
| Real Assets | On-Going Monitoring of Current VRS Manager | Pantheon Ventures | Current VRS infrastructure and natural resource fund-of-funds manager. | Staff had periodic communication with this manager to discuss potential DIME firms in their market. |
| Real Assets | On-Going Monitoring of Current VRS Manager | Pritzker Realty Group (women-owned firm)[1] | Current VRS real estate manager. | Staff performed on-going due diligence and monitoring of this current VRS women-owned manager during the quarter. |
| Real Assets | Periodic Update Communication with Consultant | N/A | The Townsend Group is the consultant used by Real Assets. | Periodic communication to review the DIME monitoring activity done on behalf of VRS as well as real estate and infrastructure industry trends. |
| Fixed Income | On-Going Monitoring of Current VRS Manager | Payden & Rygel (women-owned firm)[1] | Current VRS emerging market debt manager. | Staff had various interactions with this current VRS women-owned manager during the quarter. |

Index:
1 – The manager is considered Diverse Investment Management Engagement (DIME) under the Commonwealth of Virginia definition, which defines ownership threshold of 51% or more.
2 – The manager is considered DIME under the definition that considers industry best practices and defines an ownership threshold of greater than or equal to 33% and less than 51% of firm ownership or carry.

VRS Investment Department
Quarterly External Investment Manager Referral Report
Activity for Quarter Ending September 30, 2023

| Investment Program | Type of Contact | Investment Manager Name | Official Making Referral | VRS Action |
|---|---|---|---|---|

No activity to report this quarter.

# Request for Board Action
**RBA 2023-10-____**

Virginia Retirement System

## Certify the contribution rates for the Five Statewide Retirement Plans and associated OPEBs effective for FY 2025 and FY 2026.

### Requested Action

After considering the recommendations of its actuary, the Board certifies the rates as presented for: the five statewide Retirement Plans (State Employees, Teachers, JRS, SPORS, and VaLORS) and the associated OPEBs; Group Life Insurance (GLI); Health Insurance Credit (HIC); and the Virginia Sickness and Disability Program (VSDP), including self-funded Long-Term Care, all effective July 1, 2024.

### Rationale for Requested Action

In accordance with *Code of Virginia* § 51.1-145, the VRS Board of Trustees determines the required contribution rate for the various employer groups in the Retirement Program. Based on the June 30, 2023, actuarial valuations conducted by the VRS plan actuary, Gabriel, Roeder, Smith & Company, the Board certifies the full employer contribution rates as follows:

**Retirement Systems**

**Fiscal Year 2025/2026**

| Plan | Board Certified Employer Defined Benefit Contribution Rate |
|---|---|
| **State** | 12.52% |
| **Teachers** | 14.21% |
| **SPORS** | 31.32% |
| **VaLORS** | 22.81% |
| **JRS** | 30.66% |

Contribution rates for retirement systems are net of member contributions and defined contribution hybrid matching contributions.

**Other Post Employment Benefit Plans (OPEBs)**

**Fiscal Year 2025/2026**

| Plan | Board Certified Employer Contribution Rate |
|---|---|
| Group Life | 1.18% |
| HIC State | 0.90% |
| HIC Teachers | 1.03% |
| VSDP | 0.50% |

The certified employer contribution rates for the retirement systems and OPEBs listed above reflect the assumptions and provisions in effect as of June 30, 2023, including: 1) the assumption and method changes from the most recent experience study for the period from July 1, 2016 to June 30, 2020 and 2) the funding principles approved by the Board effective on or after June 30, 2013, as amended, which includes a reset of the unfunded liability as of June 30, 2023, over a closed 20-year period decreasing by one each year until reaching 0 years, and future annual increases or decreases in unfunded liability to be funded over closed 20-year periods beginning on each valuation date.

The certified employer contribution rates for the retirement plans and associated OPEBs will go into effect on July 1, 2024.

### Authority for Requested Action

*Code of Virginia* § 51.1-145 authorizes the Board to determine the required contribution rate for the various employer groups in the Retirement Program.

The above action is approved.

____________________________________________ ________________________________

A. Scott Andrews , Chair Date
VRS Board of Trustees

Virginia Retirement System

# June 30, 2023 Annual Actuarial Valuation Results

Presenters: Becky Stouffer, ASA, MAAA, FCA,
Kurt Dosson, ASA, MAAA & Jim Anderson, FSA, EA, MAAA, FCA

GRS

October 19, 2023

# Agenda


# BIG PICTURE – PENSION/OPEB

GRS

# Big Picture: October Meeting Content

| Pension Valuations | Other Post-Employment Benefits (OPEB) Valuations |
|---|---|
| Virginia Retirement System<br>• State Employees<br>• Teachers | Health Insurance Credit (HIC)<br>• State Employees<br>• Teachers |
| Virginia Law Officers (VaLORS) | Group Life Insurance |
| State Police Officers (SPORS) | Virginia Sickness and Disability Program |
| Judicial (JRS) | |

<u>November Meeting Content</u>: Political Sub. Pension and OPEB; VLDP Results
HIC – Constitutional Officers, Social Service Employees, Registrars;
Line of Duty Act Fund

# Big Picture: Actuarial Valuation Results

- Purposes of Actuarial Valuations of VRS Pension and OPEB plans
  - Measure funding progress as of June 30, 2023
  - Develop contribution rates for FYE 2025 and 2026

Odd year valuations determine contribution rates for 2 years

# Big Picture: General Funding Objectives

- Intergenerational equity with respect to plan costs
- Stable or increasing ratio of assets to liabilities
- Stable pattern of contribution rates

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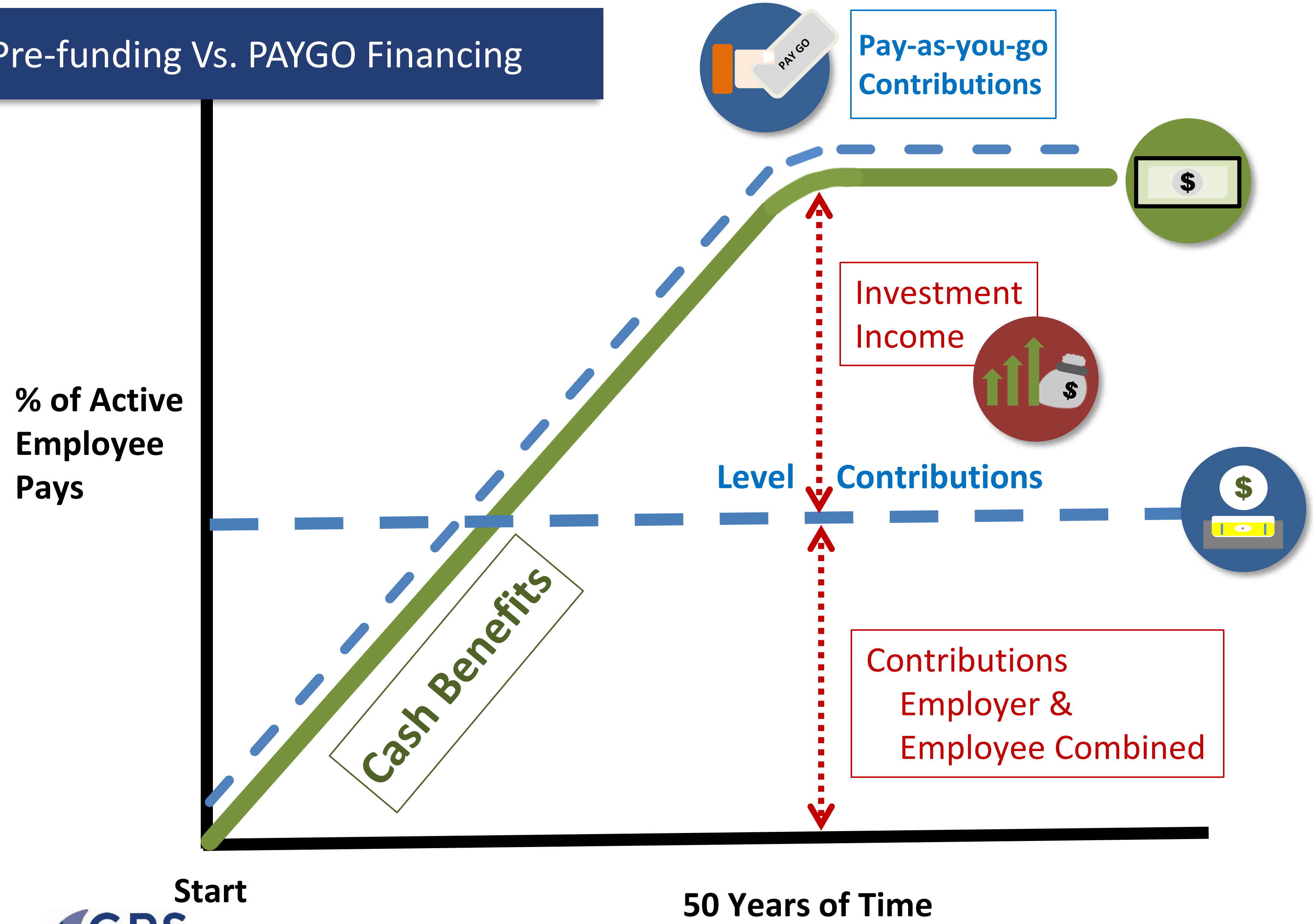
# Pre-funding Vs. PAYGO Financing



# Big Picture: Actuarial Valuation Process – (Statewide Pension Excluding Political Subdivisions)

**Member Data**

**600,237 Members**

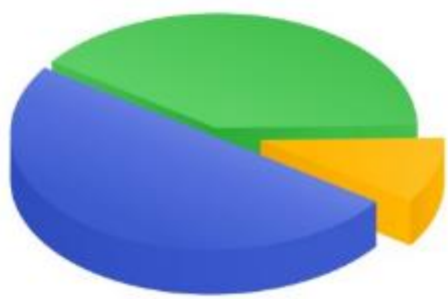
**Financial Data**


**$74.5 Billion Market Value**

**Actuarial Valuation**

**Plan Provisions**


**Actuarial Cost Method**



**Actuarial Assumptions**

# JUNE 30, 2023
# VALUATION RESULTS HIGHLIGHTS

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# Active Participants at June 30, 2023

| System | Plan 1 | Plan 2 | Hybrid | Total 2023 | Total 2022 | Percent Change |
|---|---|---|---|---|---|---|
| State | 24,764 | 12,620 | 39,492 | 76,876 | 74,048 | 3.8% |
| Teachers | 54,810 | 26,797 | 71,500 | 153,107 | 153,356 | -0.2% |
| SPORS | 922 | 960 | - | 1,882 | 1,885 | -0.2% |
| VaLORS | 1,843 | 5,635 | - | 7,478 | 7,289 | 2.6% |
| JRS | 136 | 42 | 280 | 458 | 461 | -0.7% |
| Pol. Sub. | TBD | TBD | TBD | TBD | 109,906 | TBD |
| Total | TBD | TBD | TBD | TBD | 346,945 | TBD |

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# Actives: Changes in Average Salary

| System | 2022 | 2023 | Percent Change |
|---|---|---|---|
| State | $ 66,799 | $ 70,880 | 6.1% |
| Teachers | 60,405 | 63,137 | 4.5% |
| SPORS | 84,463 | 89,591 | 6.1% |
| VaLORS | 51,103 | 53,238 | 4.2% |
| JRS | 175,152 | 192,994 | 10.2% |

Note: Return to Work Payroll for 39 School Security Officers and Teachers = $2 million

# Actuarial Value Assets 2023: 6.1% MVA Return State Employees Pension – $ Millions

| | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| Actual Investment Return | 1438 | | | | |
| Assumed Investment Return | 1502 | | | | |
| Gain/(Loss) to be Phased-in | (64) | | | | |
| Phased-in Recognition<br>-Current year | (13) | ? | ? | ? | ? |
| -1st prior year | (313) | (13) | ? | ? | ? |
| -2nd prior year | 762 | (313) | (13) | ? | ? |
| -3rd prior year | (181) | 762 | (313) | (13) | ? |
| -4th prior year | (13) | (181) | 762 | (313) | (13) |
| Total Recognized Gain/(Loss) | 242 | 255 | 436 | (326) | (13) |

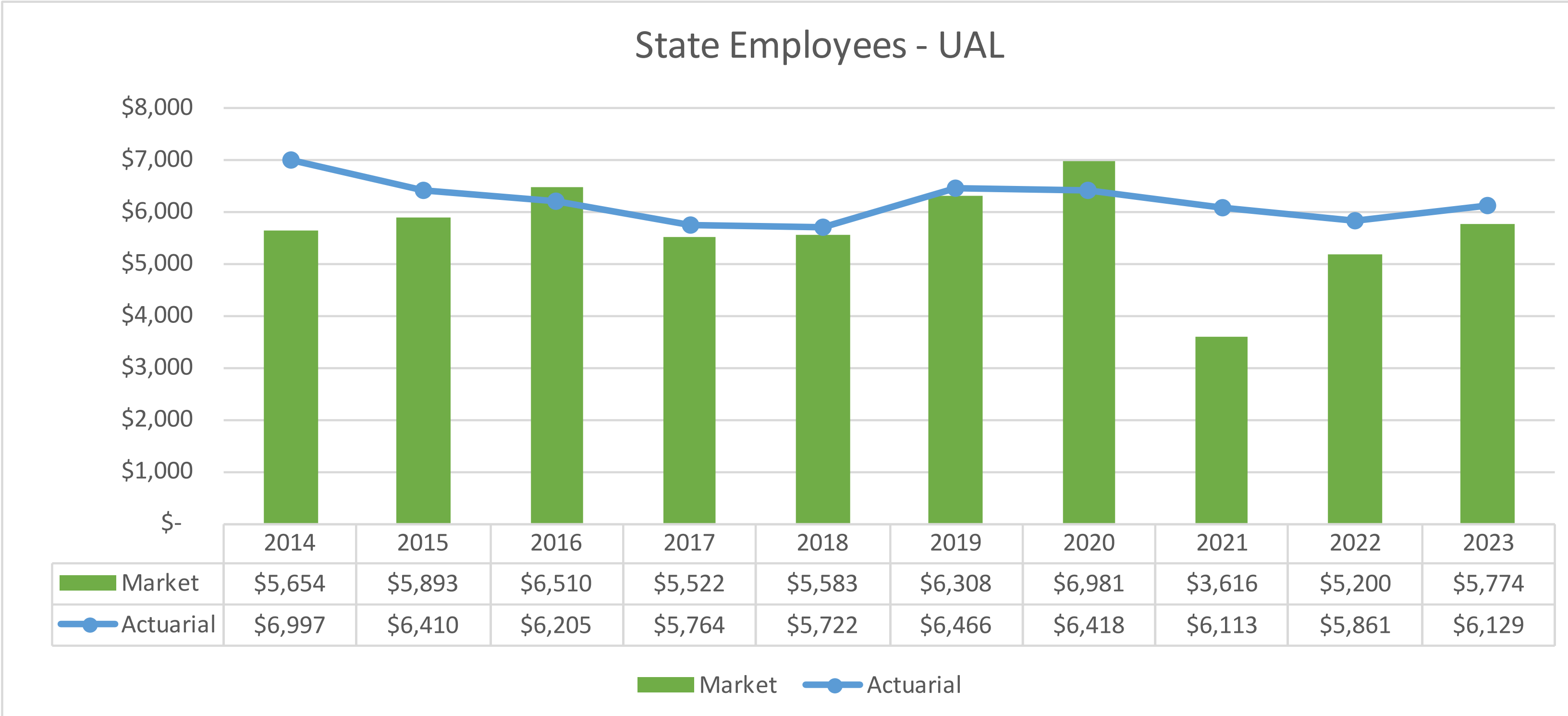
**2024-2027: Expect $352 million in deferred asset *GAINS***
**Other VRS Plans had similar asset experience**

# Why We Smooth Asset Returns

*VRS Code Section 51.1-145:*

- *The total annual defined benefit employer contribution for each employer, expressed as a percentage of the annual membership payroll, shall be determined in a manner so as to remain relatively level from year to year.*

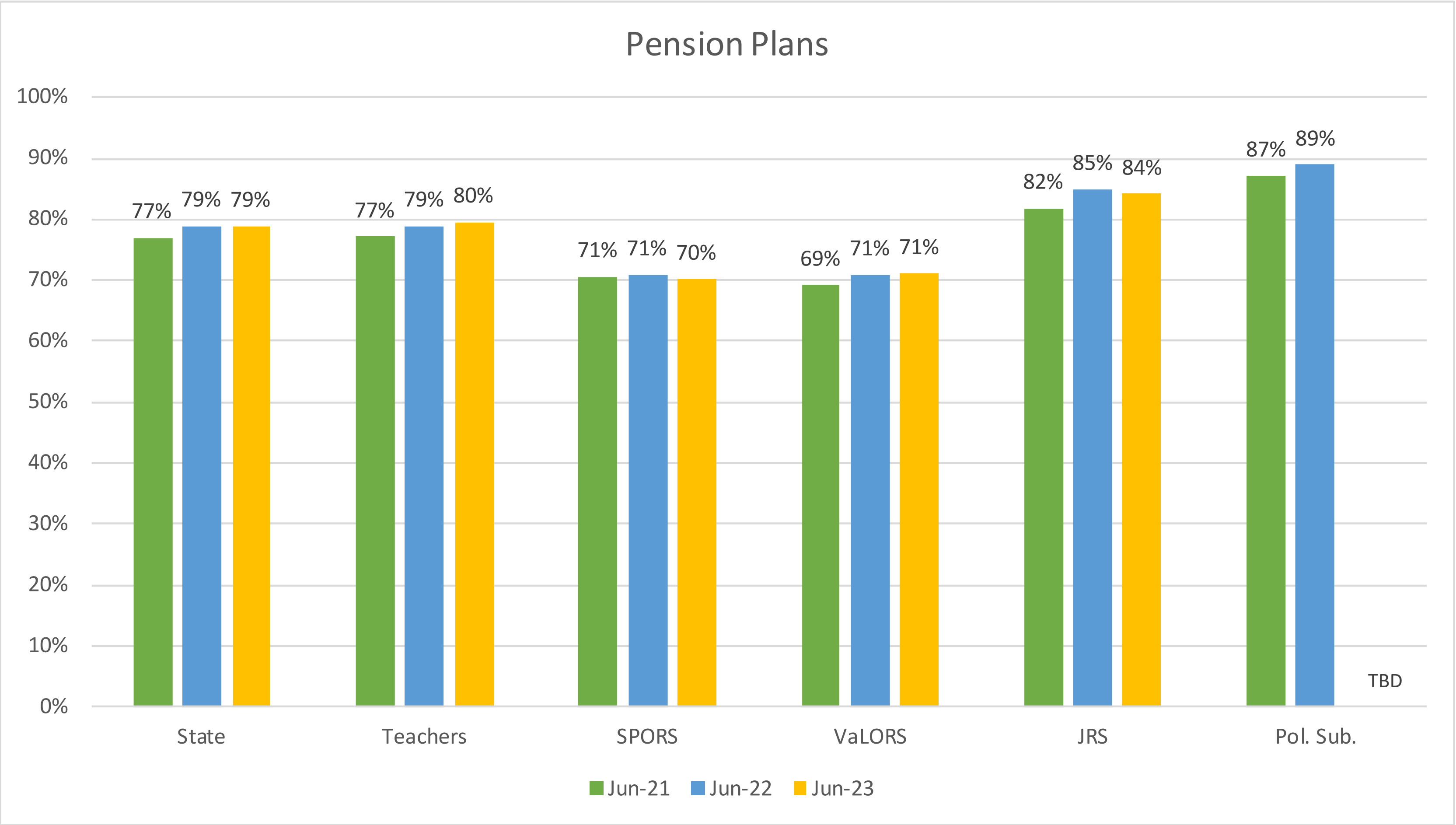
# Why We Smooth Asset Returns




| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Market | $5,654 | $5,893 | $6,510 | $5,522 | $5,583 | $6,308 | $6,981 | $3,616 | $5,200 | $5,774 |
| Actuarial | $6,997 | $6,410 | $6,205 | $5,764 | $5,722 | $6,466 | $6,418 | $6,113 | $5,861 | $6,129 |

Unfunded liabilities will trend to Market Value basis over time. Other VRS Retirement Plans have similar patterns.

# Funded Status (AVA) – Pension Plans



# Calculated Employer Contributions

- Will vary significantly for System, Plan, and Employer based on:

  - Benefit Features
  - Demographics
  - Funded Status

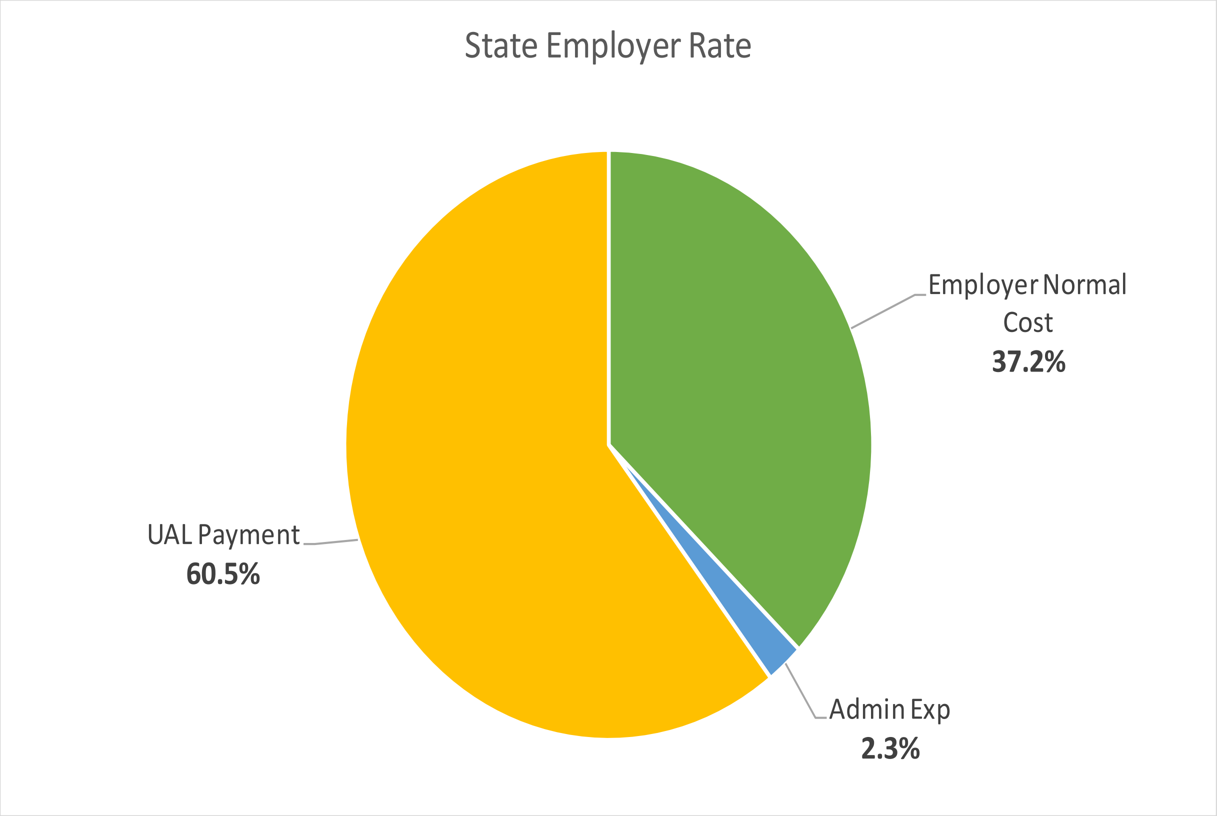
- Two Main Components:

  - Normal Cost – this represents the cost of the current year benefit earned by each active member
  - Amortization of Unfunded Liability – uses a systematic method (funding policy) to pay off the unfunded liability for each employer

# Legislative Updates

- HB 473 and SB 70 separate the employer contribution into Defined Benefit and Defined Contribution components effective for contribution rates beginning July 1, 2024
- HB 1630, SB 1289, SB 1479: Return to work
  - Required break in service reduced from 12 to 6 months for certain teacher groups
  - Specifies that the employer shall include such employees' compensation in membership payroll for purposes of the employer contributions to VRS

# Calculated Defined Benefit Employer Pension Contributions –State Employees




Normal Cost ultimately decreases to Plan 2/Hybrid level

| Component | % of Pay |
|---|---|
| Employer NC | 4.38% |
| Admin Exp | 0.27% |
| UAL Payment | 7.13% |
| Total | 11.78% |

UAL amortization payment = majority of the contribution for pension plans (other than JRS)

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# Contribution Alternative

Managing unfunded accrued liabilities =
Actuarial Value of Assets – Accrued Liability

- VRS uses “Layered amortization”
  - Amortized initial June 30, 2013 unfunded liability over a 30-year closed amortization period, but
  - 2014-2022 annual gains and losses, assumption changes amortized over separate closed 20-year periods
  - This methodology maintains steady progress toward eliminating the unfunded liability

GRS

# Contribution Alternative

## State EEs Pension Amortization Bases (2023)

| Description | | Original Amount | Outstanding Balance as of June 30, 2023 | Years Remaining June 30, 2023 |
|---|---|---|---|---|
| 2013 | Original Unfunded | $ 7,117,727,223 | $ 7,463,278,416 | 20 years |
| 2014 | Experience (Gain)/Loss | (414,716,278) | (346,031,947) | 11 years |
| 2015 | Experience (Gain)/Loss | (637,505,432) | (553,545,959) | 12 years |
| 2016 | Experience (Gain)/Loss | (87,589,562) | (78,605,380) | 13 years |
| 2017 | Assumption Change | 62,300,692 | 57,450,959 | 14 years |
| 2017 | Experience (Gain)/Loss | (570,456,389) | (526,049,801) | 14 years |
| 2018 | Experience (Gain)/Loss | (104,169,714) | (98,215,632) | 15 years |
| 2019 | Experience (Gain)/Loss | 15,231,288 | 14,619,334 | 16 years |
| 2019 | Assumption Change | 671,335,725 | 644,363,164 | 16 years |
| 2020 | Experience (Gain)/Loss | (90,660,484) | (88,327,231) | 17 years |
| 2021 | Experience (Gain)/Loss | (740,623,129) | (729,960,879) | 18 years |
| 2021 | Assumption Change | 401,835,129 | 396,050,180 | 18 years |
| 2022 | Experience (Gain)/Loss | (277,443,138) | (275,806,743) | 19 years |
| 2023 | Experience (Gain)/Loss | 249,375,746 | 249,375,746 | 20 years |
| **Total** | | | **$ 6,128,594,227** | |

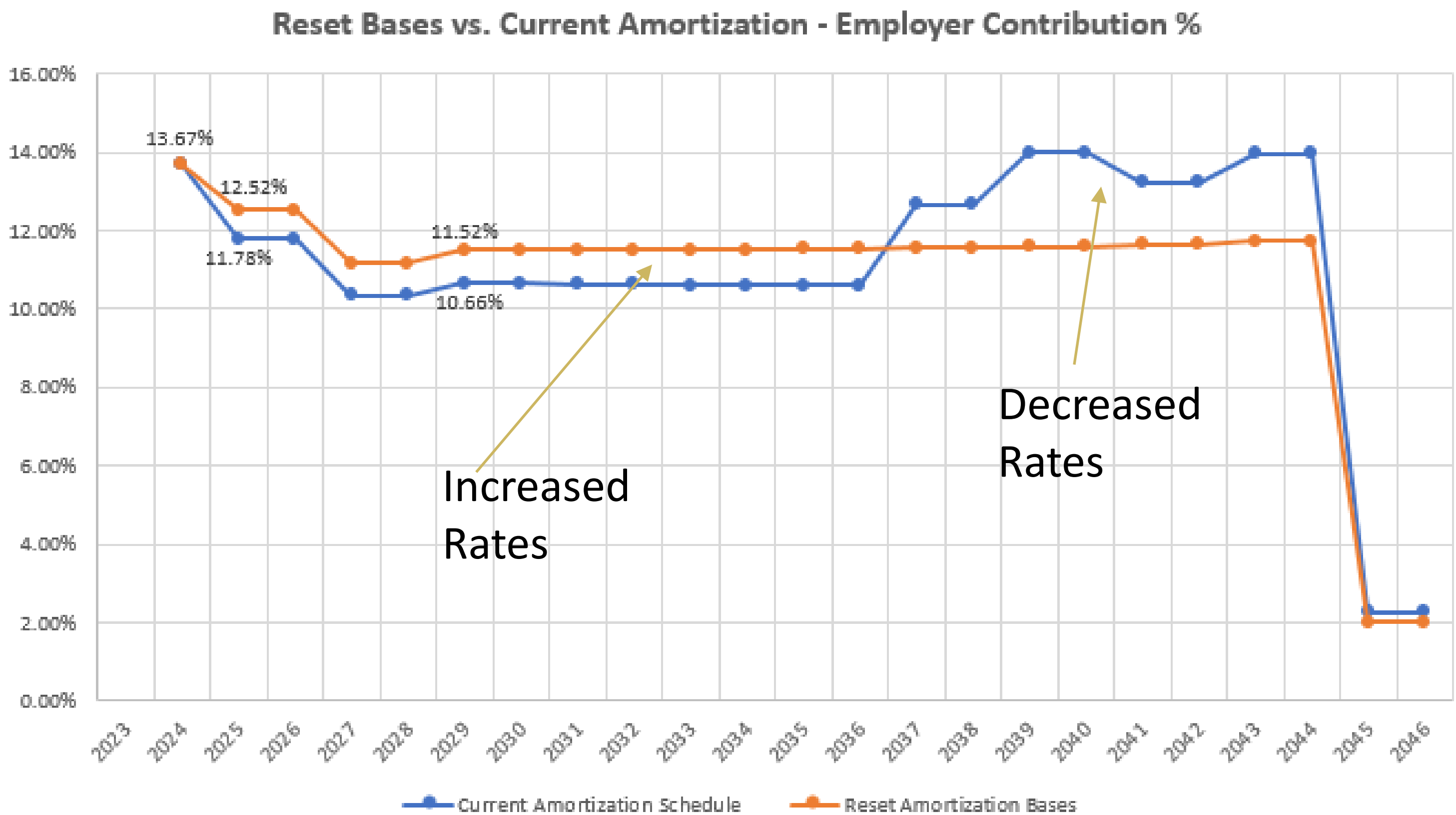
What if VRS "resets" all bases to 20 years?

# Contribution Alternative

- If all assumptions are met
  - Projected contribution rates increase initially
    - But remain below current rates for State Employees and Teachers
    - Remain level, and well below out years projected rates
  - Projected contribution dollar savings of >~$1 billion over 20 years for State Employees and Teachers Systems

# Current and Alternate Projected Employer Contribution Rates (Fiscal Year)

## State Employees

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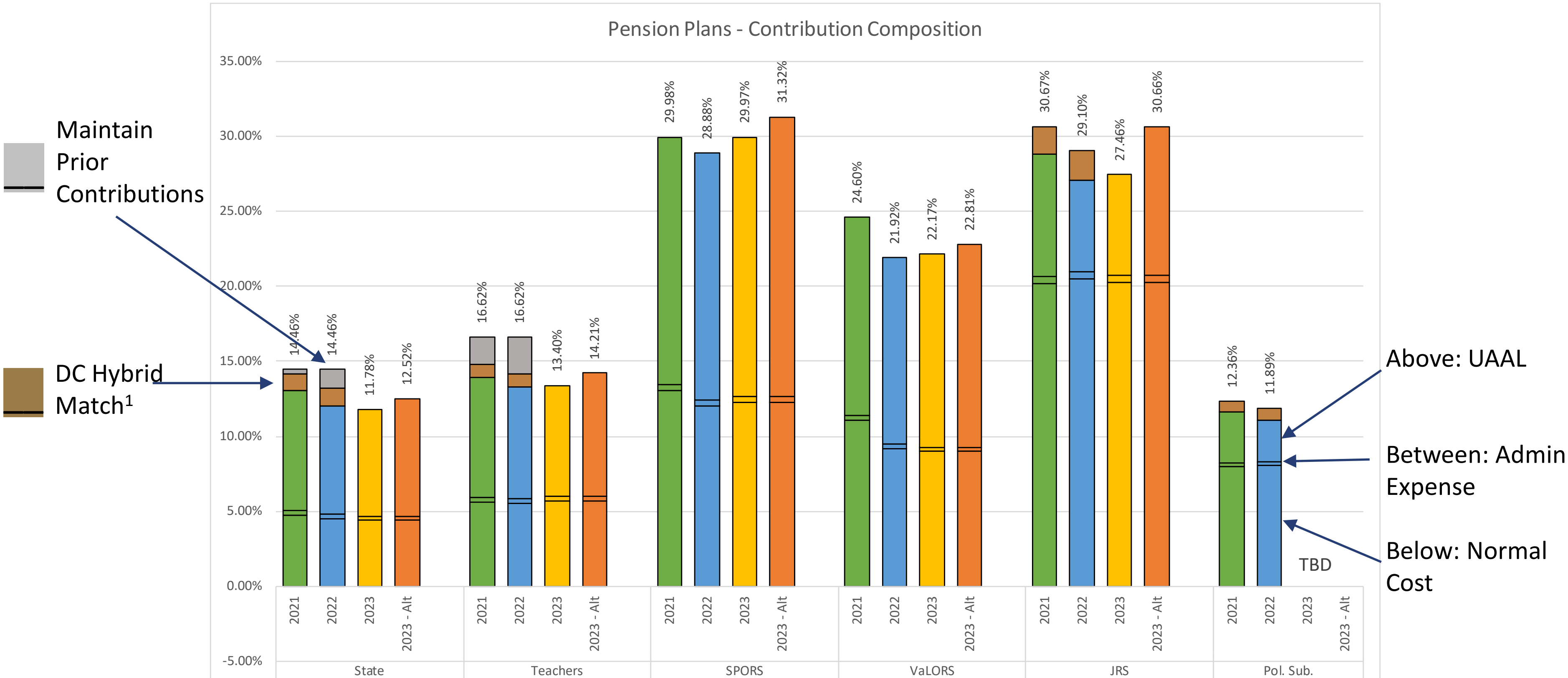
# Actuarially Determined Employer Contribution Rates – Pension Plans



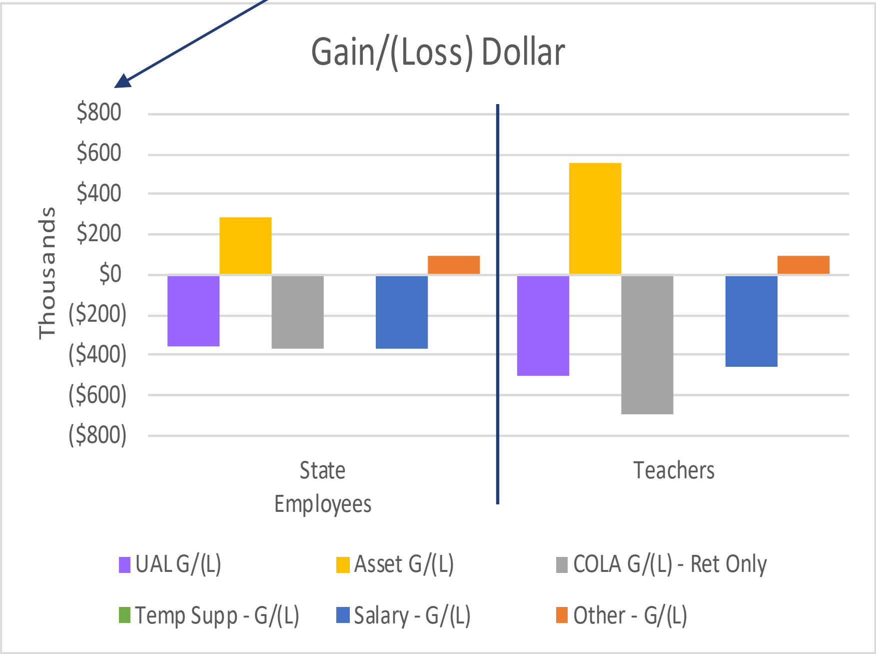

| | State | | | | Teachers | | | | SPORS | | | | VaLORS | | | | JRS | | | | Pol. Sub. | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2023 - Alt | 2021 | 2022 | 2023 | 2023 - Alt | 2021 | 2022 | 2023 | 2023 - Alt | 2021 | 2022 | 2023 | 2023 - Alt | 2021 | 2022 | 2023 | 2023 - Alt | 2021 | 2022 | 2023 | 2023 - Alt |
| **Normal Cost*** | 5.05% | 4.77% | 4.65% | 4.65% | 5.91% | 5.82% | 5.96% | 5.96% | 13.43% | 12.45% | 12.64% | 12.64% | 11.38% | 9.49% | 9.27% | 9.27% | 20.67% | 20.98% | 20.74% | 20.74% | 8.23% | 8.30% | | |
| **Accrued Liability** | 8.02% | 7.28% | 7.13% | 7.87% | 8.04% | 7.45% | 7.44% | 8.25% | 16.55% | 16.43% | 17.33% | 18.68% | 13.22% | 12.43% | 12.90% | 13.54% | 8.14% | 6.13% | 6.72% | 9.92% | 3.39% | 2.77% | | |
| **Total DB Portion** | 13.07% | 12.05% | 11.78% | 12.52% | 13.95% | 13.27% | 13.40% | 14.21% | 29.98% | 28.88% | 29.97% | 31.32% | 24.60% | 21.92% | 22.17% | 22.81% | 28.81% | 27.11% | 27.46% | 30.66% | 11.62% | 11.07% | TBD | TBD |

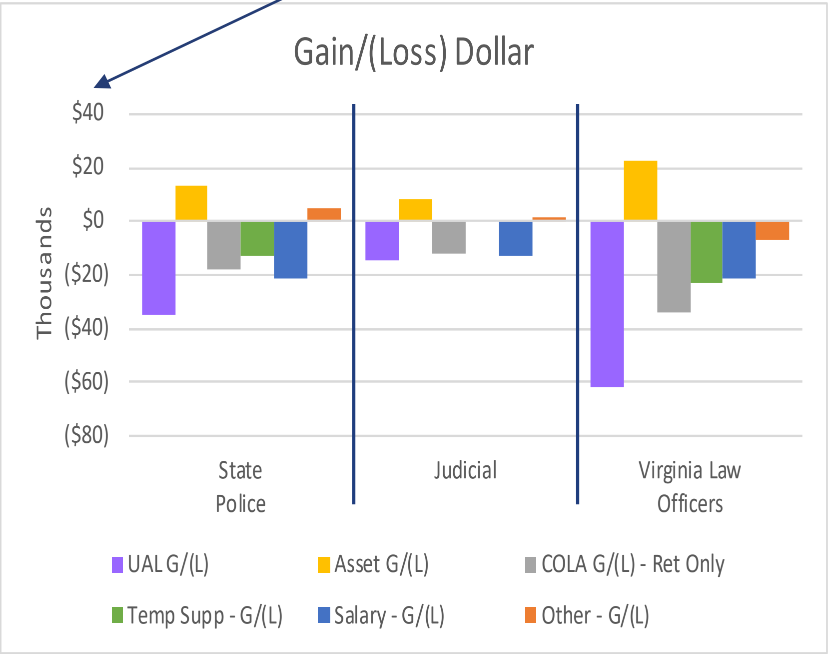
* Includes Administrative Expense

[1] Hybrid DC Match decoupled beginning 2023

# Pension Gain/Loss Commentary ($000)

Scale for large plans is 5X-10X scale for small plans




Actual COLA/Assumption: Plan 1 = 5.0%/2.5%
Plan 2/Hybrid = 3.0%/2.25%
Actual Temp Supp/Assumption: 15.11%/5.1%

GRS

# VRS Additional Funding Provisions – Pension

- Additional $931+ million contributed from the General Fund to the Trust in June 2022 & 2023

| System | Add'l Contrib. 2022 | Add'l Contrib. 2023 | Total Additional 2022-2023 | Funded Status Impact | Contrib. Rate Impact |
|---|---|---|---|---|---|
| State | $219,156,316 | $73,052,105 | **$292,208,421** | **+1.08%** | **-0.4%** |
| Teachers | $442,371,087 | $147,457,029 | **$589,828,116** | **+1.08%** | **-0.4%** |
| SPORS | $10,957,816 | $3,652,605 | **$14,610,421** | **+1.10%** | **-0.7%** |
| VaLORS | $19,886,407 | $6,628,802 | **$26,515,209** | **+1.03%** | **-0.5%** |
| JRS | $6,250,014 | $2,083,338 | **$8,333,352** | **+1.13%** | **-0.7%** |
| TOTAL | **$698,621,640** | **$232,873,879** | **$931,495,519** | **+1.08%** | **-0.4%** |

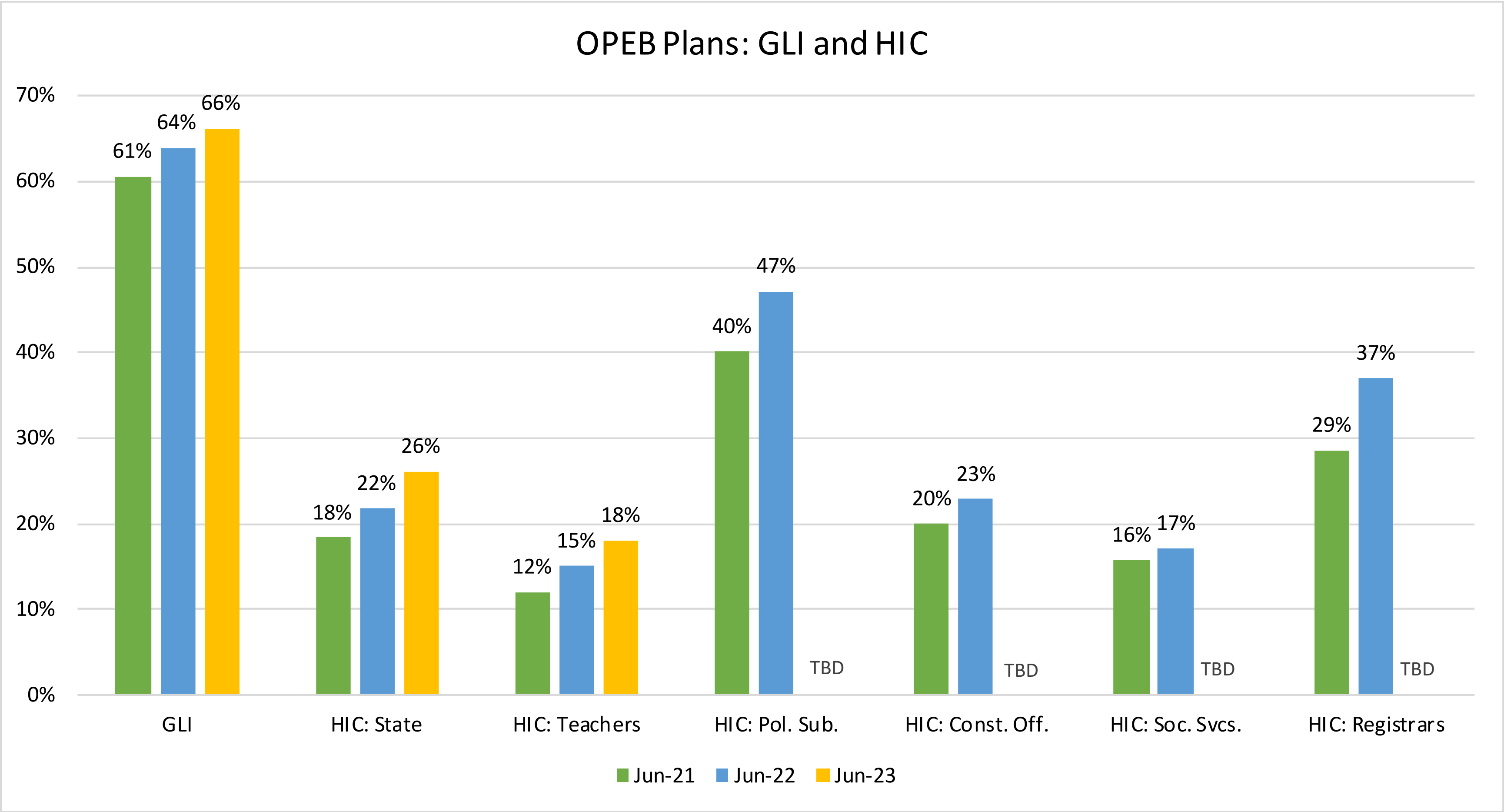
Important to get additional funds into Retirement System when possible

# OPEB: HIC Legislative Changes

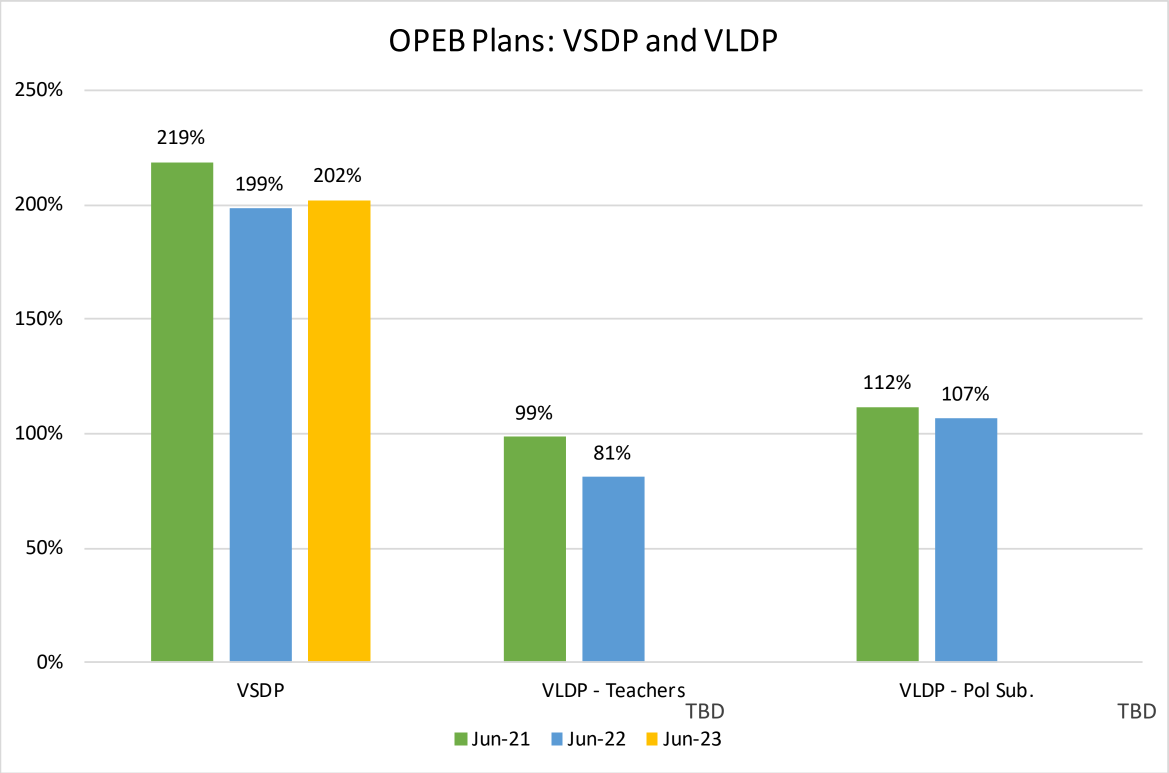
- Increases the amount of monthly health insurance credits for certain retirees beginning July 1, 2024

| Retired Group | Monthly Credit Increase | Maximum |
|---|---|---|
| Constitutional Officers | $1.50 to $1.75 | $52.50 |
| State Employees | $4.00 to $4.25 | No change |

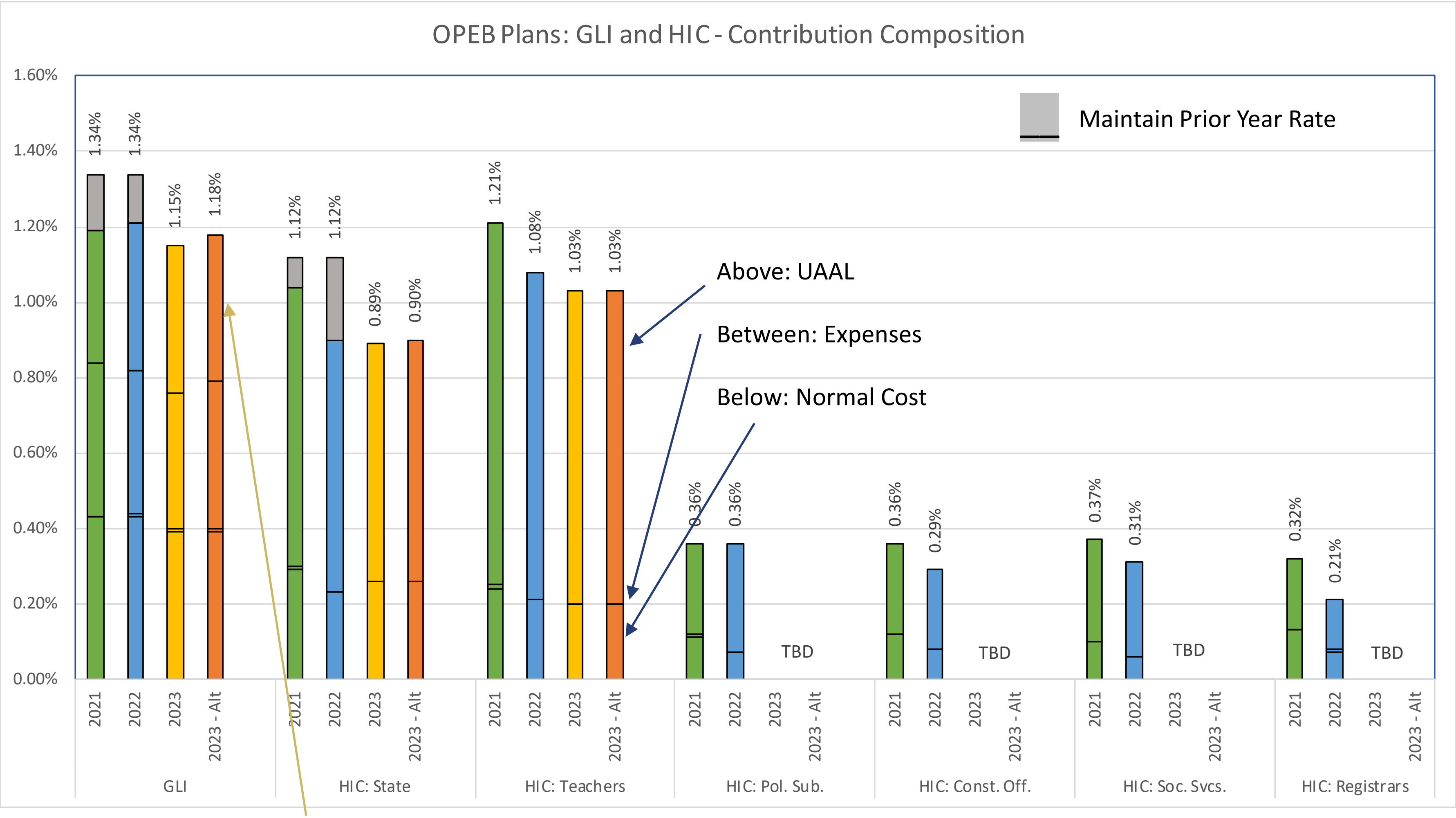
# Funded Status (AVA) – OPEB Plans



# Funded Status (AVA) – OPEB Plans

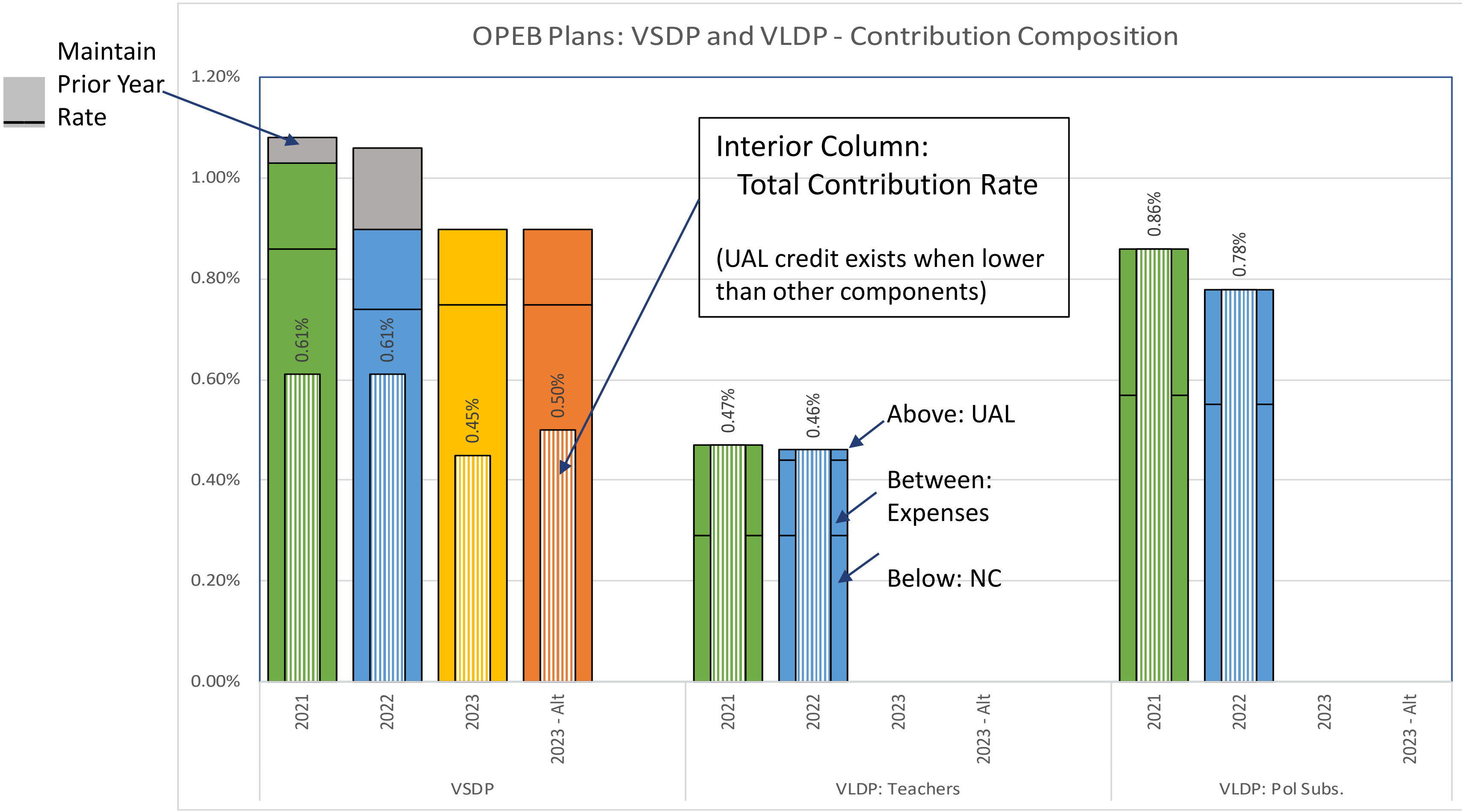


# Actuarially Determined Employer Contribution Rates – OPEB Plans




Note top 1/3 of GLI rate reflects active Life Insurance contribution

# Actuarially Determined Employer Contribution Rates – OPEB Plans



# VRS Additional Funding Provisions – OPEB

- Additional $93+ million contributed from the General Fund to the Trust in June 2022 & 2023

| OPEB Group | Add'l Contrib. 2022 | Add'l Contrib. 2023 | Total Additional 2022-2023 | Funded Status Impact | Contrib. Rate Impact |
|---|---|---|---|---|---|
| HIC: State | $8,522,746 | $27,159,085 | **$35,681,831** | **+3.60%** | **-0.04%** |
| HIC: Teachers | $12,013,013 | $4,004,338 | **$16,017,351** | **+1.14%** | **-0.01%** |
| GLI | $30,438,378 | $10,146,126 | **$40,584,504** | **+1.13%** | **-0.01%** |
| HIC: C. Off. | $275,975 | $91,992 | **$367,967** | **TBD** | **TBD** |
| HIC: S. Svcs. | $121,754 | $1,031,416 | **$1,153,170** | **TBD** | **TBD** |
| HIC: Regis. | $6,494 | $2,165 | **$8,659** | **TBD** | **TBD** |
| TOTAL | **$51,378,360** | **$42,435,122** | **$93,813,482** | **TBD** | **TBD** |

GRS

Important to get additional funds into OPEB Plans when possible

# Pension Projections

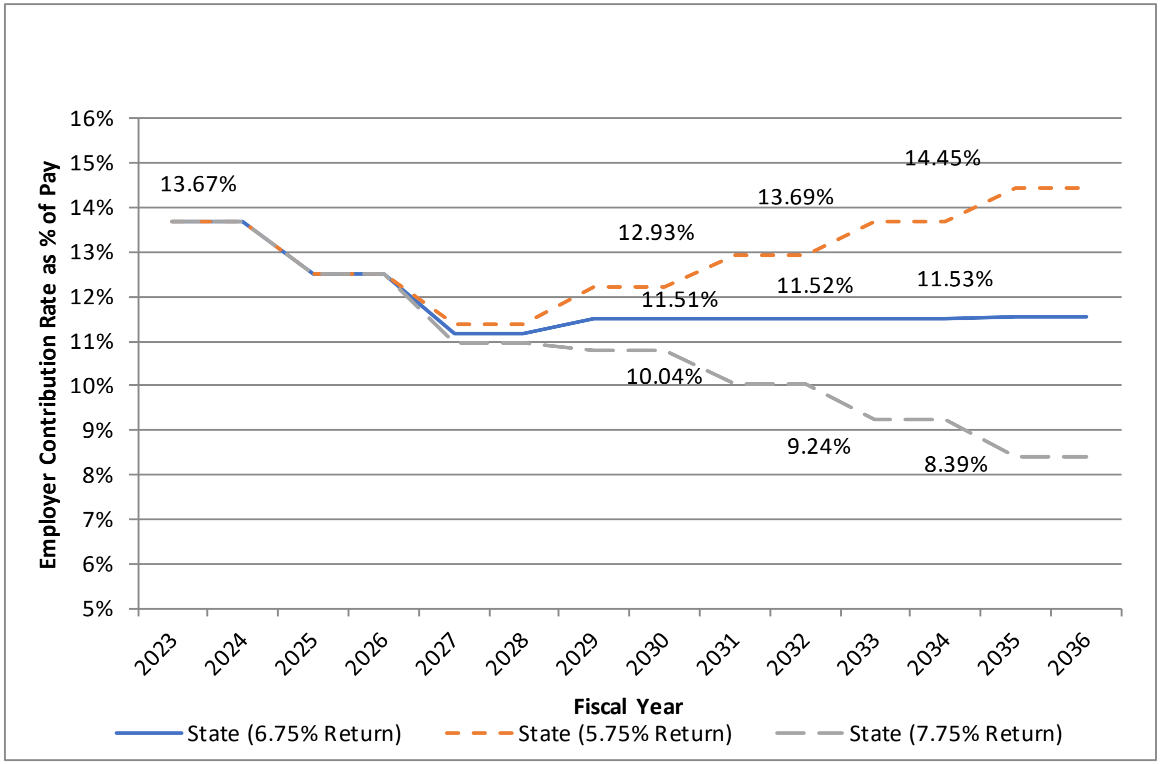
## State Employees and Teachers

The following pages show projected pension contributions & funded status

- Liabilities are calculated at 6.75%
- Investment returns shown at assumed 6.75% rate, and 5.75%/7.75% for sensitivity
- Alternate Contribution rates (resets amortization bases) include Defined Benefit only
  - Defined Contribution decoupled from Employer Rate for 2023 valuation and going forward

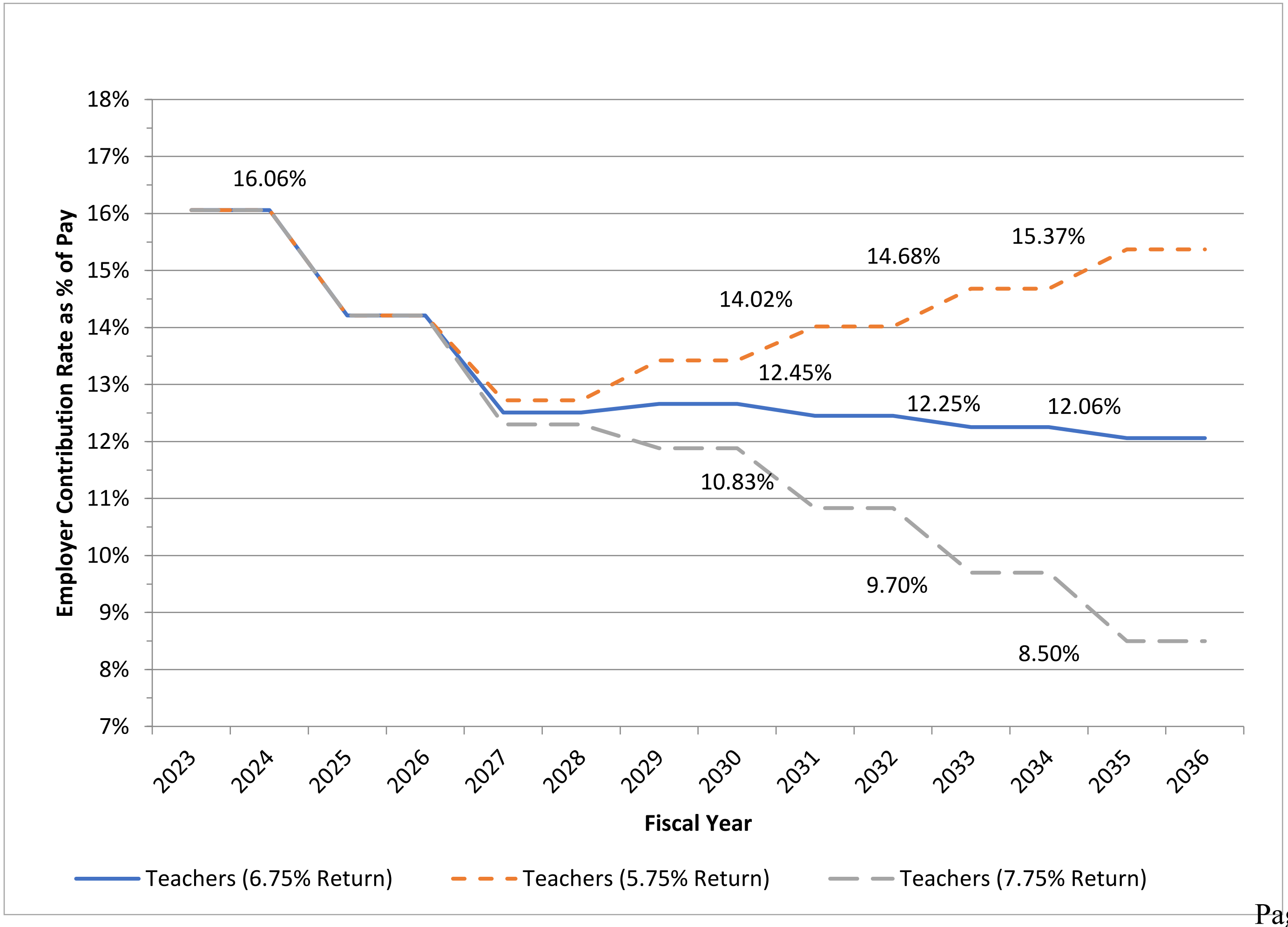
# Projected Employer Contribution Rates (Fiscal Year) – Defined Benefit Portion Only

## State Employees



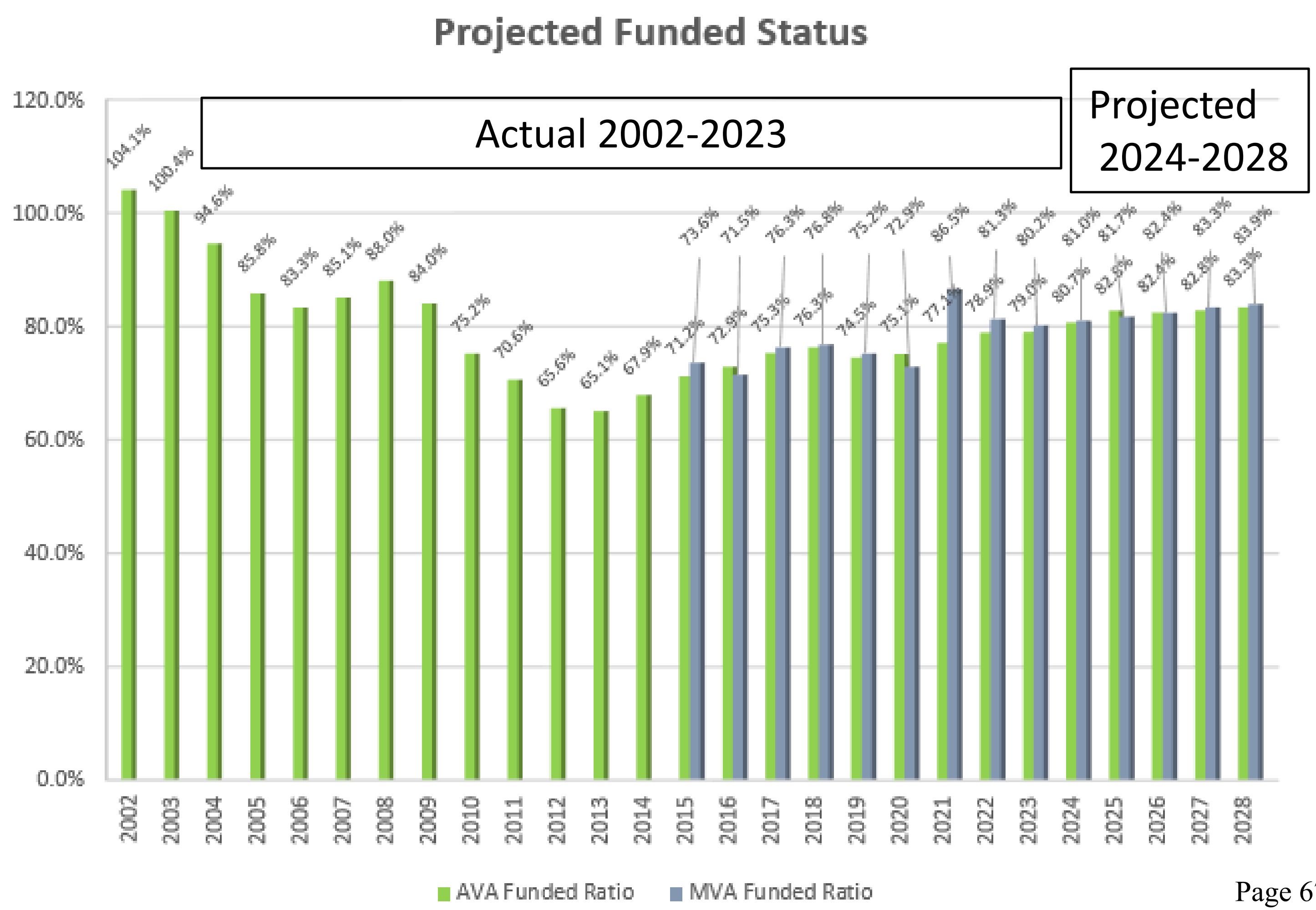
# Projected Employer Contribution Rates (Fiscal Year) – Defined Benefit Portion Only

## Teachers



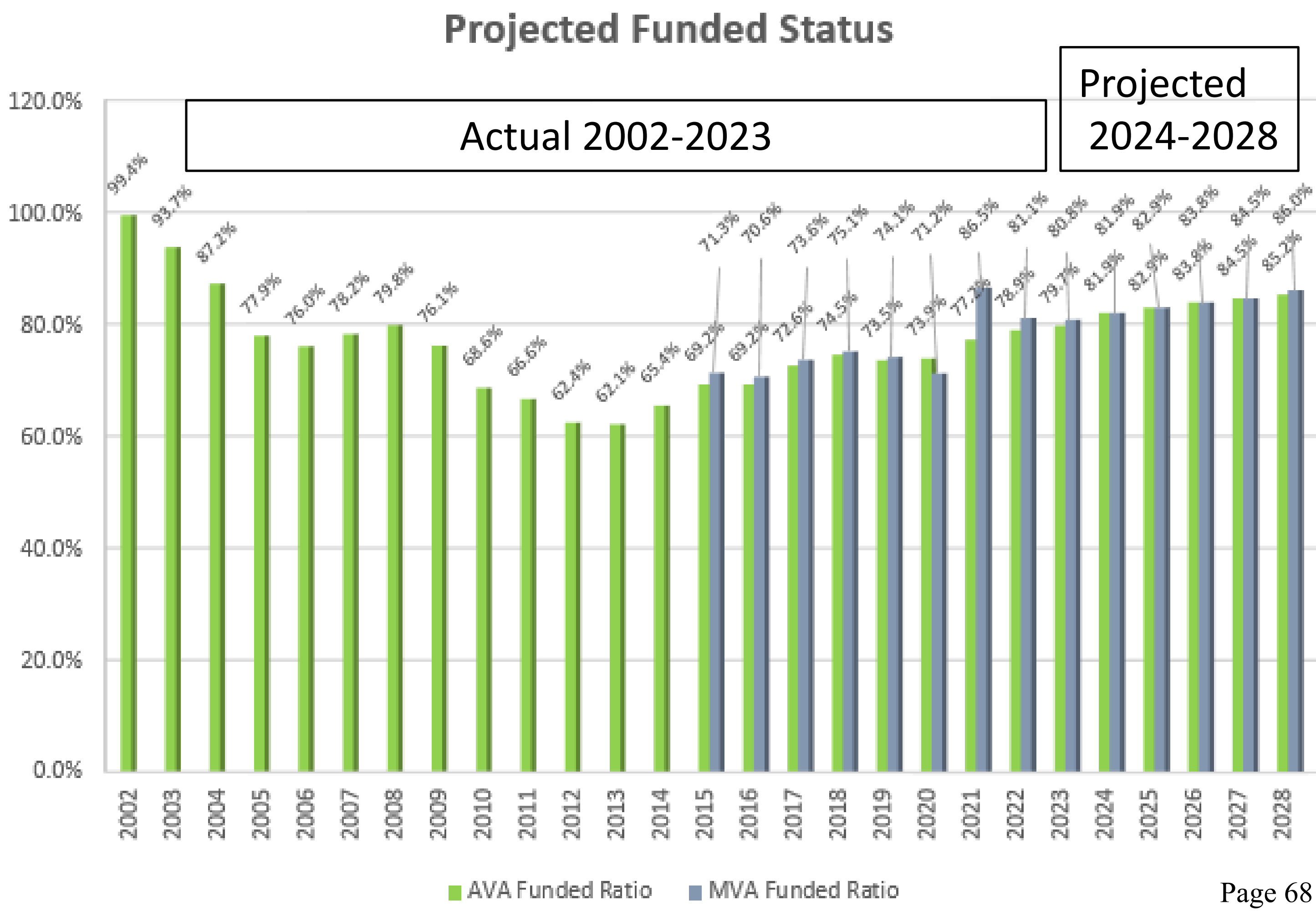
# Projected Pension Funded Status

## State Employees



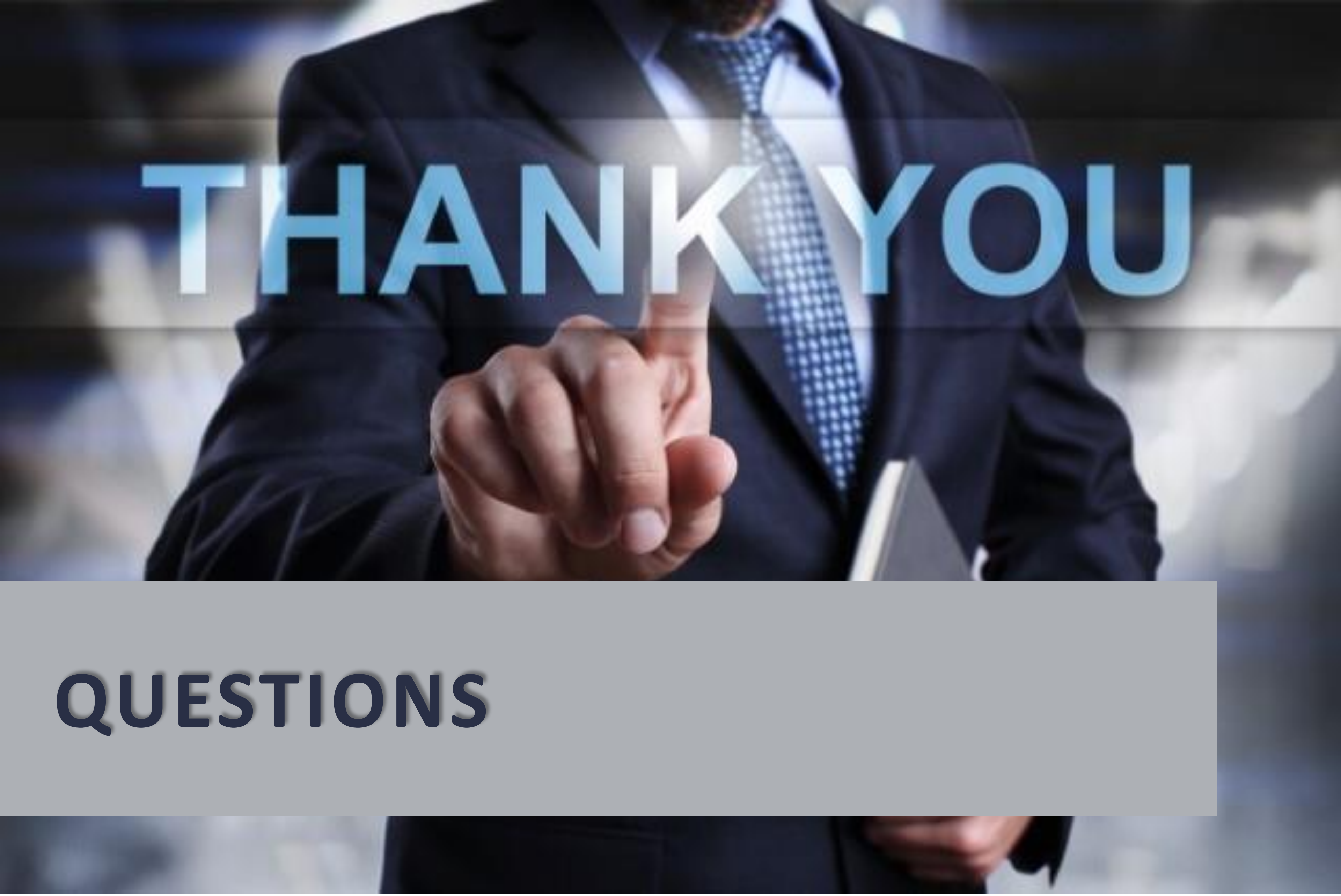
# Projected Pension Funded Status

## Teachers



# Conclusion

1. **Maintained Funded Status on Actuarial Asset Basis**
   - Despite lower than expected returns for fiscal years 2021-2022, recognition of prior asset gains resulted in small gains
2. **Contributions**
   - Pension & OPEB rates are mostly consistent with last year's informational valuation
   - Generally, slightly lower rates than those currently being paid
   - DC Hybrid estimates have been decoupled from the DB rates for State, Teachers, and JRS
   - Alternative amortization schedule slightly increases rates in the short term but moderates rates in the long term and saves money over time




# QUESTIONS

# Disclaimers

- This presentation expresses the views of the authors and does not necessarily express the views of Gabriel, Roeder, Smith & Company.
- Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

GRS

# Disclaimers

- This presentation is intended to be used in conjunction with the forthcoming actuarial valuation reports. This presentation should not be relied on for any purpose other than the purposes described in the valuation reports.
- This presentation shall not be construed to provide tax advice, legal advice, or investment advice.
- Jim Anderson and Becky Stouffer are independent of the plan sponsor, are Members of the American Academy of Actuaries (MAAA), and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Virginia Retirement System

# Amend VRS Funding Policy Statement to Allow for Resetting of Total Unfunded Accrued Liability as of June 30, 2023, Over 20 Years; Establish Employer Funded Status When Modifying the HIC Program, and Confirm that Stress Testing Report is to be issued Regularly Instead of Annually.

## Requested Action

The Board approves the changes to the VRS Funding Policy Statement to allow for resetting of the total unfunded accrued liability as of June 30, 2023, over 20 years and to establish employer funding rules associated with modifications to the health insurance credit program when either enhancing the HIC benefit or adding groups of previously non-covered members to the HIC program, as presented at this meeting and attached to this RBA.

Effective with the June 30, 2023, pension and OPEB valuations - the legacy unfunded liability, which was originally amortized over a 30-year period in 2013, and all subsequent amortization bases established between 2014 and 2023, which were initially amortized over 20 years, will be amortized over a new 20-year period.  New layers will be established in future years according to the parameters of the funding policy. Note that any unfunded liabilities for political subdivisions that were originally amortized over 10 years associated with new coverage or enhancement of coverage will not be reset as part of this change.

The explicit funding requirements associated with modifying the health insurance credit programs will require employers to provide a lump sum payment prior to the enhancement of benefits or coverage based on the funded status of their plan prior to the election.

The Board also confirms that the Sensitivity and Stress Test Analyses required by § 51.1-124.30:1 shall be performed regularly, consistent with the statutory requirement. RBA 2017-06-17 provided that the report be issued annually, but issuing the report less frequently is more consistent with the rate-setting valuation schedule and is compliant with the statutory requirement.

## Description/Background

VRS staff recommends this change to the VRS Funding Policy Statement in order to reset the total unfunded accrued liability to be amortized over 20 years effective June 30, 2023. This change will spread experience since June 30, 2013, which has been mostly gains, out over a longer period of time. The legacy unfunded liability was already scheduled to be amortized over 20 years as of June 30, 2023. This change will slightly increase contribution requirements, get money into the plan quicker, level out the amortization payments in later years, and is expected to provide a savings in contributions over the 20-year period.

The additional change to the funded requirement for employers electing to either enhance HIC benefits or expand coverage will ensure that the funded status of the HIC plans for such employers does not fall below certain thresholds.  This expands the current funded status requirement for employers making the initial election to offer the HIC benefit. The Funding Policy Statement will now require employers wishing to enhance the HIC benefit or expand coverage to non-covered members to potentially pay an initial contribution in order to elect the new coverage. The rules related to the new requirements are as follows:

Any employer (new and existing employers) that wishes to enhance the health insurance credit by electing the extra $1.00 of coverage per year of creditable service or expand coverage to additional non-covered members is required to meet the following requirements:

- If the funded status of the plan is below 50% prior to the change, the employer must make an initial contribution equal to the full increase in the plan's liability associated with enhancing the HIC benefit.
- If the funded status of the plan is greater than 50% but below 75% prior to the change, the employer must make an initial contribution equal to 50% of the increase in the plan's liability associated with enhancing the HIC benefit, with the remaining additional liability to be amortized over 10 years.
- If the funded status of the plan is greater than 75% prior to the change, the employer must make an initial contribution in the amount necessary to keep the funded status at the 75% threshold after the change, with any remaining additional liability to be amortized over 10 years.

Lastly, the Board confirms that the Sensitivity and Stress Test Analyses required by § 51.1-124.30:1 shall be performed regularly, as opposed to annually, consistent with the statutory requirement. This RBA updates the timing for the Sensitivity and Stress Test Analyses previously set out in RBA 2017-06-17.

## Rationale for Requested Action

The VRS Funding Policy Statement memorializes the methods by which the Board has elected to fund each plan, and the proposed amendments to the policy statement allow for the change to the HIC and plan amendment election requirements. The Sensitivity and Stress Test Analyses will be issued regularly, as opposed to annually, to mirror the statutory requirement.

## Authority for Requested Action

Article X, § 11 of the *Constitution of Virginia* requires that VRS benefits be funded using methods that are consistent with generally accepted actuarial principles, and *Code of Virginia* § 51.1-124.22(A)(8) authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1. Section 51.1-124.30:1 requires that Sensitivity and Stress Test Analyses be performed regularly.

The above action is approved.

________________________________________ ____________________________

A. Scott Andrews, Chair — Date
VRS Board of Trustees

## VRS Funding Policy Statement[1]

## 1. Introduction

A plan funding policy determines how much should be contributed each year by employers and participants to provide for the secure funding of benefits in a systematic fashion.

The principal goal of a funding policy is to ensure that future contributions along with current plan assets are sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due. The funding policy should seek to manage and control future contribution volatility to the extent reasonably possible, consistent with other policy goals. The actuarially determined contribution should be calculated in a manner that fully funds the long-term costs of promised benefits, while balancing the goals of 1) keeping contributions relatively stable and 2) equitably allocating the costs over the employees' period of active service.

The current funding policy used by the VRS Board sets contribution rates using the Entry Age Normal cost method, an investment return assumption of 6.75%, an inflation assumption of 2.5%, and a closed 20-year amortization period for unfunded liabilities (Legacy unfunded liabilities as of 6/30/13 are amortized over a closed 30-year amortization period.)

Article X, § 11 of the *Constitution of Virginia* provides that the Virginia Retirement System benefits shall be funded using methods which are consistent with generally accepted actuarial principles. Until 2012, the Annual Required Contribution (ARC) as described in the Governmental Accounting Standards Board's (GASB's) Statements No. 25 and No. 27 was a de facto funding policy for many public- sector retirement systems, including the Virginia Retirement System.

The Board sets contribution rates for all local employers under this policy. However, with respect to the plans for state employees and the teacher plan, while the rates developed under the Board's policy are the certified contribution rates, the Governor and the General Assembly determine the funding that they will provide through the state budget process toward the Board certified contribution rates for the State and Teachers and other statewide OPEB plans. Beginning in FY 2013, § 51.1-145.K1 of the Code of Virginia set out guidelines for the General Assembly to follow for the funding of the contribution rates certified by the VRS Board, phasing in from approximately 67% of Board-certified rate to 100% of the Board-certified rate over the next four biennia. These statutory guidelines do not apply to funding levels for Other Postemployment Benefits (OPEBs) administered by VRS.

[1] Adopted October 17, 2013; amended November 14, 2013, June 7, 2016, November 15, 2017, November 20, 2019, ~~and~~ October 18, 2022, and October 18, 2023.

In June 2012, GASB revised public pension accounting standards and has communicated an important message in the process: accounting standards are no longer funding standards. However, GASB did not address how employers should calculate the annual required contribution (ARC). To assist state and local government employers, several national groups developed policy guidelines for funding standards. This document is the result of an extensive review of the current funding policy, industry standards and best practices, and the development and approval of funding policy assumptions effective with the June 30, 2013 valuation. A copy of Request for Board Action 2013-07-18 adopting the funding policy assumptions is attached. This Funding Policy is intended to provide guidance to future Boards on how to set employer contribution rates and support the plan's primary goals of contribution and budgetary predictability, accumulation of required assets over time to provide for all benefits earned and achievement of intergenerational equity.

In June 2015, GASB adopted two new statements regarding OPEBs. GASB statement 74, *Financial Reporting for Postemployment Benefits Other than Pension Plans*, and GASB statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. These statements replace GASB 43 and GASB 45. As was the case with GASB 67 and 68, these new statements represent a significant change to the methods used to account for postemployment benefits and provide for a clear separation between accounting for and funding of OPEBs. The new standards require the adoption of a new funding policy for OPEB plans. The current VRS funding policy has been modified to accommodate funding requirements for the VRS OPEB plans.

The VRS OPEB plans include the Health Insurance Credit Program, Group Life Insurance Program, the Virginia Sickness and Disability Program (VSDP), the Virginia Local Disability Program (VLDP) and the Long Term Care benefits associated with the VSDP and VLDP. The Line of Duty Act Fund is also a defined benefit OPEB plan, although it is not a benefit exclusively for VRS members.[2]

[2] As of April 2016 all VRS OPEBs already incorporate the actuarial methods outlined in the Funding Policy, with the following exceptions:

- Health Insurance Credit Program for Political Subdivisions will incorporate a five-year asset smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- The Long Term Care valuation will incorporate the Entry-Age Normal cost method and five-year smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- Line of Duty Act Program (LODA) is currently not prefunded and as set forth in the *Code* shall be funded on a current disbursement basis or in other words is considered a "pay-as-you-go" plan. As such, the plan has no unfunded liabilities and uses market value of assets for valuation purposes. In the event that the General Assembly takes action to begin prefunding this program, the Board of Trustees would move to adopt the various funding provisions contained in this document including moving the program to a five-year asset smoothing method for funding valuations effective with any decision to prefund the LODA program.

These changes were approved by the Board of Trustees at its June 7, 2016 meeting, and were incorporated into this amended Funding Policy. Where a particular actuarial method was already in use, the Funding Policy notes that the Board confirms the actuarial methods for OPEBs.

The Funding Policy addresses the following general policy objectives:

- □ Ensure funding of plans is based on actuarially determined contributions;
- □ Build funding discipline into the policy to ensure promised benefits can be paid;
- □ Maintain intergenerational equity so the cost of employee benefits is paid by the generation of individuals who receive services;
- □ Make employer costs a consistent percentage of payroll; and
- □ Require clear reporting to show how and when plans will be adequately funded.

This document serves as the Funding Policy for VRS. It has been prepared by VRS in collaboration with the Board and the VRS Plan Actuary and is effective as of the June 30, 2013 valuation, and modified to accommodate the OPEB plans effective as of the June 30, 2016 valuation.

## 2. Authority

The Virginia Retirement System is administered in accordance with Title 51.1, chapters 1, 2, 2.1, 3 and 4 of the *Code of Virginia*. The contribution to be paid by members of VRS is fixed at a level that covers only part of the cost of accruing benefits. The balance of the cost is paid by employers within the Trust Fund (the "Fund").

The OPEB plans are administered in accordance with Title 51.1, chapters 5, 11, 11.1, and 14 of the *Code of Virginia.* The cost associated with OPEBs is generally borne by the employer and benefits are paid from the various trust funds. An exception to this practice is the Group Life Insurance Program. The Board determines the amount each insured shall contribute for the cost of insurance and by statute this amount is capped at $0.70 per month for each $1,000 of annual salary. Each employer determines whether this cost will be paid by the member or funded by the employer. The balance of the cost is paid by employers within the Fund. The Group Life Insurance plan, however, is a cost-sharing plan so all employers are charged the same rate.

The Funding Policy focuses on the pace at which these liabilities are funded and, in so far as is practical, the measures to ensure that employers pay for their own liabilities.

The Funding Policy is authorized by a framework that includes:

- Article X, § 11 of the *Constitution of Virginia*
- Title 51.1 of the *Code of Virginia*

This is the framework within which the VRS Plan Actuary carries out valuations to set employer contribution rates and provide recommendations to the Board when other funding decisions are required. The Funding Policy applies to all employers participating in the Fund.

The methods and assumptions used in the VRS funding policy are periodically reviewed as part of the quadrennial experience study as required under § 51.1-124.22(A)(4). As such, the content of this document may be updated to reflect changes approved by the VRS Board of Trustees.

## 3. Contributions

The Funding Policy provides for periodic employer contributions set at actuarially determined rates in accordance with recognized actuarial principles (§51.1-145(A)). Originally based on parameters set out in GASB 25/27 and GASB 43/45, the contribution should include the employer's normal cost and provisions for amortizing any unfunded actuarial accrued liability (UAAL) in accordance with the requirements originally defined in GASB 25/27 and GASB 43/45.

Member and employer contributions for retirement are required by §§ 51.1-144 and -145 of the *Code of Virginia*. Chapters 5, 11, 11.1, and 14 of Title 51.1 of the *Code of Virginia* and the applicable provisions in each year's Appropriation Act relate to contribution requirements for OPEB plans administered by VRS.

Employer contributions are normally made up of two main elements[3]:

a) the estimated cost of future benefits being accrued, referred to as the "normal cost"; and

b) an adjustment for the funding position of accrued benefits relative to the Fund's actuarially adjusted assets, or the "amortization payment UAAL." If there is a surplus there may be a contribution reduction; if there is a deficit, there will be a contribution addition, with the amount of surplus or deficit being spread over a number of years.

Items a) and b) above are then combined and expressed as a percentage of covered payroll. Employer contribution rates are set each biennium and are in effect for the entire biennium. Valuations in the "off" years are for informational purposes only. Generally, employers with well-funded pension plans consistently pay their annual required contribution in full.

Where this process as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the VRS staff, working with the Plan Actuary, may determine alternative funding requirements that would maintain the political subdivision's solvency while also meeting the other objectives of this Funding Policy Statement.

With respect to statewide plans, if unfunded liabilities exist in a plan, the Board may recommend alternative contribution rates in excess of the actuarially determined rates if opportunities exist to accelerate paydown of unfunded liabilities. Examples of alternative rates could potentially include approaches such as maintaining rates from the prior year if rates drop in subsequent rate setting or maintaining a higher level contribution rate until a certain funded status is achieved.

[3] Contributions also include administrative expenses.

## 4. Funding Target

VRS operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on an ongoing basis. This means that contribution rates are set with the intent of funding 100% of a member's benefits during a member's working lifetime. The Line of Duty Act Fund is an exception, as employer contributions are currently determined by the Board on a current disbursement basis per statute. As such, the target funding level for all ongoing employers for LODA is at or near 0% of its accrued liabilities.

Funded Status is defined as the ratio of the actuarial value of assets to the value placed on the benefits, or plan's liabilities, by the VRS Plan Actuary. The VRS Plan Actuary reports on the funded status of each plan in the system in each annual valuation.

## 5. Actuarial Cost Method

The actuarial cost method is the means by which the total present value of all future benefits for current active and retired participants is allocated to each year of service (i.e., the "normal cost" for each year) including past years (i.e., the "actuarial accrued liability"). There are several available actuarial cost methods, but most governmental plans use the entry age normal (EAN) cost method while a significant minority use the projected unit credit (PUC) method. In the past, VRS has used the EAN method for most of the plans it administers.

Although the EAN and PUC cost methods are both considered reasonable under actuarial standards of practice and GASB 25 and GASB 43 in most circumstances, it is important for plan stakeholders to understand the implications of either method. EAN tends to recognize actuarial liabilities sooner than PUC, and it also tends to result in a more stable normal cost pattern over time for pay-related benefits, even in the face of demographic shifts. The more stable normal cost pattern over time should help in reducing the risk of higher levels of future contributions.

Under the PUC method, the plan's normal cost is the present value of the benefits "earned" during the year, but based on projected pay levels at retirement. For an individual participant, the PUC normal costs increase each year because the present value increases as the participant gets a year closer to retirement. In contrast, under the EAN method, the normal cost is specifically determined to remain a level percentage of pay over each participant's career.

Because EAN normal cost rates are level for each participant, the normal cost pattern for the entire plan under EAN is more stable for pay-related benefits in the face of demographic shifts in the workforce. It is this normal cost stability that makes the EAN method the preferred funding method for pay-related benefits of public plans.

GASB has reaffirmed its decision to require governmental pension plans to base their financial statement reporting on the EAN method. For comparability, GASB has also decided to require governmental OPEB plans, which may not provide pay-related benefits, to base their financial statement reporting on the EAN method.

**Effective with the June 30, 2013 valuation, the Board has adopted the Entry-Age Normal cost method in deriving plan liabilities. This is a continuation of the Board's existing cost method. Effective with the June 30, 2016 valuation, the Board has adopted the Entry-Age Normal cost method for all OPEB plans.**

### 6. Asset Valuation Method

Because investment markets are volatile and because pension plans typically have long investment horizons, asset-smoothing techniques can be an effective tool to manage contribution volatility and provide a more consistent measure of plan funding over time. Asset-smoothing methods reduce the effect of short-term market volatility on contributions, while still tracking the overall movement of the market value of plan assets, by recognizing the effects of investment gains and losses over a period of years. This is also in keeping with § 51.1-145(A), which requires that contribution rates be determined in a manner so as to remain relatively level from year to year.

Determining the ideal asset-smoothing policy involves balancing the two goals of ensuring fairness across generations and controlling contribution volatility for plan sponsors. A very long smoothing period will greatly reduce contribution volatility, but this may mean the impact of recent investment experience is deferred to future generations. However, a very short smoothing period (or none at all) may result in contribution requirements that fluctuate dramatically from year to year.

Such volatility may also result from an asset-smoothing method that constrains how far the smoothed value differs from the market value by imposing a market value "corridor." A corridor is typically expressed as a ratio of the smoothed value of assets to the market value of assets. Actuarial standards of practice and related actuarial studies seek to identify asset-smoothing methods that achieve a reasonable balance between how long it takes to recognize investment experience (the smoothing period) and how much smoothing is allowed in the meantime (the corridor). The resulting smoothing periods are in the range of three to 10 years (with five the most common) and a corridor wide enough to allow the smoothing method to function except in the most extreme conditions.

While the smoothing period for governmental plans is not limited by federal laws or regulations, the Actuarial Standards Board has set out principles for asset smoothing in ASOP No. 44. Under these principles, when a smoothed asset valuation method is used, the actuary should select a method so that the smoothed asset values fall within a reasonable range of the corresponding market values and any differences between the actuarial value and market value of assets should be recognized within a reasonable period.

**Effective with the June 30, 2013 valuation, the Board has adopted a five-year asset smoothing period, which also includes a corridor that will restrict the smoothed value from falling below 80% of the true market value or exceeding 120% of the true market value. This is a continuation of the Board's existing asset valuation method. Effective with the June 30, 2016 valuation, the Board has adopted the same asset smoothing period and corridors for the OPEB plans, with the exception of the LODA program, which, by statute, does not prefund benefits. In the event a change to the statutory contribution requirements**

**of the LODA program necessitate an asset valuation method, the same asset smoothing period and corridors should be applied to the LODA program at that time.**

## 7. Amortization Method

Amortization of unfunded liabilities is a major component of the annual contribution. Amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. The Plan Actuary uses the specific amortization periods adopted by the Board for all employers when developing a method over which to pay down any unfunded liabilities that may exist. The amortization period should allow adjustments to contributions to be made over periods that appropriately balance intergenerational equity against the goal of keeping contributions level as a percentage of payroll over time as required by § 51.1-145.

Amortization of the unfunded actuarial accrued liability (UAAL) determines how current and future UAAL will be paid off or "amortized," and so includes how changes in benefits or actuarial assumptions that affect the actuarial accrued liability should be funded over time. Even more than with asset smoothing methods, amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. Longer amortization periods help keep contributions stable, but excessively long periods may inappropriately shift costs to future generations. In seeking to achieve an appropriate balance between these two important policy goals, a comprehensive amortization policy will involve the following distinct elements:

- □ Payment basis
- □ Payment structure
- □ Amortization period

A. Payment Basis: Level Dollar vs. Level Percent of Pay

One of the first considerations is whether amortization payments will be set at a level dollar amount (similar to a home mortgage) or as a level percent of pay. The great majority of public pension plans use level-percent-of-pay amortization where the payments toward the UAAL increase each year at the same rate as is assumed for payroll growth. Compared with the level-dollar approach, payments start at a lower dollar amount under the level percent approach, but then increase in proportion to payroll. The level-dollar method is more conservative in that it funds the UAAL faster in the early years. However, the level-percent-of-pay approach is consistent with the pay-related structure of benefits under most public plans. Moreover, because the normal cost is also determined as a level percent of pay, level percent amortization provides a total cost that remains level as a percentage of pay. In contrast, level- dollar amortization of UAAL will produce a total cost that decreases as a percentage of pay over the amortization period. A plan should balance these considerations in choosing between level-percent and level dollar amortization. Section 51.1-145(A) of the *Code of Virginia* provides in part that "[t]he total annual employer contribution for each employer, expressed as a percentage of the annual membership payroll, shall be determined in a manner so as to remain relatively level from year to year...."

**Effective with the June 30, 2013 valuation the Board has elected to use the level percent of pay payment basis. This is consistent with historical VRS practice. Effective with the June 30, 2016 valuation the Board confirms the continued use of the level percent of pay payment basis put in effect June 30, 2013 for the OPEB plans when an actuarially determined contribution is calculated.**

B. Payment Structure

Amortization policy must also consider how amortization payments should be structured. For example, a determination needs to be made as to whether the entire UAAL should be aggregated and amortized as a single amount, or whether the plan should track individual bases for each source of UAAL or surplus each year, and amortize these separately. Amortization periods can be fixed, open or "rolling" (with the amortization period restarted each year).

Although use of a single amortization base provides simplicity, use of separate amortization bases for each source of UAAL has the advantage of tracking separately each new portion of UAAL and providing another mechanism to stabilize contribution rates. Under this approach, over time there will be a series of bases, one for each year's gain or loss as well as for any other changes in UAAL. This provides useful information to stakeholders, as they can view the history of the sources of a plan's UAAL in any year. The use of separate amortization bases should help balance the annual ups and downs in the UAAL. In practice, the number of bases will be limited by the length of the amortization period as eventually bases will be fully amortized, and so will no longer be part of the UAAL.

Fixed amortization periods identify a date certain by which each portion of the UAAL will be funded. This can be contrasted with open or rolling amortization, whereby the plan "resets" its amortization period every year. This is analogous to a homeowner who refinances his mortgage each year. Although both methods are common in current practice, fixed amortization periods have the advantage of providing stakeholders with a clearer understanding of the ultimate funding target (full funding) and the path to get there. It is the structure required for private sector pensions, and is increasingly common for public pension plans.

**Effective with the June 30, 2013 valuation the Board has elected to use individual bases for each source of UAAL or surplus each year and to use fixed amortization periods rather than open or rolling periods. This is a change from past VRS practice but is consistent with industry best practices. Effective with the June 30, 2016 valuation the Board confirms the continued use of individual bases for each source of UAAL or surplus each year and the use of fixed amortization periods rather than open or rolling periods put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open period. In the event a change to the statutory contribution requirements of the LODA program necessitate a payment structure, individual bases for each source of UAAL or surplus each year and fixed amortization periods, rather than open or rolling periods, will be used by the LODA program at that time.**

C. Amortization period

Amortization period is a determination of the appropriate period of time over which amortization should occur. The answer can depend on the source of the UAAL being amortized, as discussed below:

UAAL Due to Actuarial Gains/ Losses

> Actuarial gains and losses arise when there is a difference between the actuary's estimates (assumptions) and the actual experience of the plan. They can result from demographic experience (e.g., the number of new retirees is higher or lower than expected), investment experience (e.g., returns that are higher or lower than expected), or other economic experience (e.g., payroll growth that is higher or lower than expected). In determining the appropriate period for amortizing gains and losses, plan sponsors should strike a balance between reducing contribution volatility (which would lead to longer amortization periods) and maintaining a closer relationship between contributions and routine changes in the UAAL (which would lead to shorter amortization periods). For many plans, amortization periods in the range of 15 to 20 years for gains and losses would assist plans in achieving a balance between these objectives.

UAAL Due to Changes in Actuarial Assumptions

> Assumption changes will result in an increase or decrease in the UAAL. Unlike gains and losses, which reflect actual past experience, assumptions are modified when future expectations about plan experience change. This amounts to taking the effect of future expected gains or losses and building it into the cost today. For that reason, and because of the long-term nature of assumption changes, a plan could be justified in using a longer amortization period than that used for actuarial gains or losses, perhaps in the range of 15 to 25 years.

Amortization of UAAL Due to Plan Amendments

> Because plan amendments are under the control of the plan sponsor, managing contribution volatility is generally not a consideration for plan amendments. This means that the primary rationale in selecting the period is to support intergenerational equity by matching the amortization period to the demographics of the participants receiving the benefit. This leads to shorter, demographically based amortization periods. For active participants, this could be the average future working lifetime of the active participants receiving the benefit improvement, while for retirees, this could be the average life expectancy of the retired participants receiving the benefit improvement. This approach would usually result in no longer than a 15-year amortization period for benefit improvements.

An equitable amortization policy should ensure that the UAAL will be paid off in a reasonable period of time. Long amortization periods can make paying down the UAAL appear more affordable, but, because interest charges accrue and compound on the unpaid UAAL, it is prudent to set amortization periods that are not excessively long. This is especially important where level percent of pay amortization is used.

In an effort to balance the need to pay down the current unfunded liability while managing already increasing contribution rates, the Board elected to manage the paydown of any unfunded liabilities created prior to June 30, 2013 over a 30-year closed period. In an effort to better manage intergenerational equity and to build funding discipline into the VRS policy, the Board also decided that future unfunded liabilities would be best amortized over 20-year closed periods.

With long amortization periods, the UAAL may increase during the early years of amortization period, even though contributions are being made to amortize the UAAL. This phenomenon, known as "negative amortization", occurs only with level percent of pay amortization. This happens because, under level percent of pay amortization, the lower early payments can actually be less than interest on the outstanding balance, so that the outstanding balance increases instead of decreases. For typical public plans, this happens whenever the average amortization period is longer than approximately 20 years.

While there is nothing inherently wrong with negative amortization in the context of a public plan, stakeholders should be aware of its consequences, especially for amortization periods substantially longer than 20 years. Negative amortization is a particular concern for plans using open, or rolling, amortization periods. As described above, plans that use open/rolling amortization methods "reset" to a new amortization period every year. By contrast, a plan using a closed amortization commits to paying down the UAAL over a fixed period.

**Effective with the June 30, 2013 valuation the Board has elected to amortize the legacy unfunded liability as of June 30, 2013, over a closed 30-year period. New sources of unfunded liability will be explicitly amortized over closed 20-year periods. The amortization period for the deferred contributions from the 2010-2012 biennium will remain a 10-year closed period. These amortization periods reflect a shift to closed amortization periods and tiered successive 20-year closed periods for new sources of unfunded liability. This is a change from past VRS practice of using a 20-year rolling method. Effective with the June 30, 2016 valuation the Board confirms the continuation of the amortizations put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open 30- year period. In the event a change to the statutory contribution requirements of the LODA program necessitate an amortization period, the LODA program will, at that time, explicitly amortize new sources of unfunded liability over closed 20-year periods.**

**Effective November 20, 2019, the Board amends this policy to clarify that amortization periods of explicit bases may be shortened in an effort to pay off unfunded liabilities of either pensions or OPEBs earlier than originally scheduled.**

**Effective October 18, 2022, the Board amends this policy to set the amortization period for unfunded liabilities generated by plan amendments to be 10 years rather than 20 years.**

**Effective October 18, 2023, the Board amends this policy for pension and OPEB plans to allow for the legacy unfunded liability, which was originally amortized over a 30-year period in 2013,**

**and all subsequent amortization bases established between 2014 and 2023, which were initially amortized over 20 years, to be amortized over a new 20-year period. New layers will be established in future years according to the parameters of the funding policy. The reset would exclude unfunded liabilities being amortized over a shorter 10-year period associated with new employers or benefit enhancements elected by certain political subdivision employers.**

## 8. Actuarial Assumptions

Setting actuarial assumptions is critical to the funding of a plan. Forward-looking assumptions about plan demographics, wages, inflation, investment returns and more drive the measurement of liabilities and costs, and therefore affect funding. Unlike the selection of funding methods, which involves a fair degree of policy discretion, the selection of assumptions should be based solely on best estimates of actual future experience. While it may be tempting to set assumptions based on how they might affect current contribution requirements, such "results-based assumption setting" should be avoided. ***It is the plan's actual experience that ultimately determines the cost of the benefits, so the assumptions should try to anticipate actual experience.*** Periodic reexamination of plan assumptions is an essential part of any plan's actuarial processes. As a general rule, many plans conduct an experience study every three to five years, an interval that should help ensure that assumptions remain appropriate in the face of evolving conditions and experience. VRS reviews assumptions every four years as required under § 51.1-124.22(A)(4).

All assumptions should be consistent with Actuarial Standards of Practice and reflect professional judgment regarding future outcomes.

VRS plans to continue experience studies once every four years as required by § 51.1-124.22(A)(4) to determine whether changes in the actuarial assumptions are appropriate.

Appendix A contains a chart summarizing some of the current assumptions used for the various benefit plans managed by the VRS.

Appendix B is RBA 2013-07-18, which documents the approval of VRS funding policy assumptions.

Appendix C is RBA 2013-11-26, which documents the approval of revisions to the VRS funding policy assumptions for political subdivisions.

Appendix D is RBA 2016-06-15, which documents the approval of VRS funding policy methods and assumptions with regard to the OPEB plans.

Appendix E is RBA 2016-06-16, which documents the Board's approval of changes to actuarial methods for certain OPEB plans.

Appendix F is RBA 2017-04-9, which documents the approval of VRS funding policy assumptions.

Appendix G is RBA 2019-10-13, which documents approval of a discount rate of 6.75% for actuarial valuations effective with the June 30, 2019 valuations.

Appendix H is RBA 2019 -11 -, which documents the approval of the use of shortened amortization periods for unfunded liabilities and maintaining prior contribution rates to assist in paying unfunded liabilities.

## 9. Additional Considerations

Where the Funding Policy Statement as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the Board authorizes the VRS staff, working with the Plan Actuary, to determine alternative funding requirements that would maintain the plan's solvency while also meeting the other objectives as stated in the Board's funding policy.

1. **Additional Funding Contribution** - The Additional Funding Charge is the contribution rate needed, if necessary, to allow the local system to use the plan's assumed Investment Return Rate as its Single Equivalent Interest Rate (SEIR) under GASB Statement No. 67. The additional funding contribution rate, if needed, allows for the use of the 6.75% investment return as the single equivalent investment return assumption for purposes of the GASB 67/68 statements. To determine the SEIR, the Fiduciary Net Position (FNP) must be projected into the future for as long as there are anticipated benefits payable under the plan's provisions applicable to the members and beneficiaries of the system on the Measurement Date. If the FNP is not projected to be depleted at any point in the future, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR. If the FNP is projected to be depleted, an Additional Funding Charge is developed to avoid depletion.

2. **Surcharge for "At Risk" Plans** – Political subdivision plans identified as potentially "at-risk" due to low funded levels may require an additional surcharge or shortened amortization periods to bring the funding level of the plan to a sustainable level as determined by the Plan Actuary.

3. **Limitation on Benefit Enhancements Increasing Liability** - Benefit enhancements to a political subdivision pension plan that would have the effect of increasing the plan's liabilities by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become non-forfeitable may take effect during any plan year if the political subdivision's current funded ratio for such plan year would be at least 75 percent after taking into account such amendment.

   In order to increase benefits in circumstances where the funded ratio would be less than 75 percent after taking into account the amendment, the political subdivision would be required to make a lump sum contribution in the amount necessary to bring the funding level to 75 percent as of the effective date of the change, in addition to any increase in annual funding due to plan enhancements.

   Any accrued liability generated by the plan amendment that is not covered by the lump sum contribution will be amortized over no more than 10 years.

4. **Pension Plans for New Employers –**
   **Any new employer must have a funded status of at least 75 percent for pension benefits.** Any past service that is granted by the employer or purchased at the time the employer joins VRS must be at least 75 percent funded at the join date with the remaining amount amortized over no more than 10 years.

5. **Health Insurance Credit (HIC) Elections** –
   Any employer (new and existing VRS employers) that elects the HIC benefit is required to pay an initial contribution equal to the greater of two years of expected benefit payments or the amount required to reach at least 25 percent funded for its HIC plan, with the remainder of the unfunded liability amortized over no more than 10 years.

   In addition, Any employer (new and existing employers) that wishes to enhance the health insurance credit by electing the extra $1.00 of coverage per year of creditable service or expand coverage to additional non-covered members is required to meet the following requirements:
   - If the funded status of the plan is below 50% prior to the change, the employer must make an initial contribution equal to the full increase in the plan's liability associated with enhancing the HIC benefit.
   - If the funded status of the plan is greater than 50% but below 75% prior to the change, the employer must make an initial contribution equal to 50% of the increase in the plan's liability associated with enhancing the HIC benefit, with the remaining additional liability to be amortized over 10 years.
   - If the funded status of the plan is greater than 75% prior to the change, the employer must make an initial contribution in the amount necessary to keep the funded status at the 75% threshold after the change, with any remaining additional liability to be amortized over 10 years.

## 10. Conclusion

In funding defined benefit pension plans and OPEBs, governments must satisfy a range of objectives. In addition to the fundamental objective of funding the long-term costs of promised benefits to plan participants, governments also work to:

1. Keep employer's contributions relatively stable from year to year
2. Allocate pension costs on an equitable basis
3. Manage pension risks
4. Pay off unfunded liabilities over reasonable time periods

This Funding Policy was developed to help decision-makers understand the tradeoffs involved in reaching these goals and to document the reasoning that underlies the Board's decisions.

Amended November 14, 2013, June 7, 2016, November 15, 2017, ~~and~~ November 20, 2019, and October 18, 2022

| Policy | State | Teachers | SPORS | VALORS | JRS | Locals Non-LEOS | Locals LEOS | HIC | Group Life | VSDP | LODA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Actuarial Cost Method | Entry-age Normal | | | | | | | | | | |
| Asset Valuation Method | 5 Year Smoothing 80/120 Corridor | | | | | | | | | | Market Value * |
| Amortization Method | 30 year decreasing each year down to 20 then remains open - Level % of Pay | | | | | | | | | | 30 Year Open Level % of Pay |

* LODA is statutorily required to be funded on a current disbursement or "pay-as-you-go" basis. Accordingly, the market value of assets is used.

| Actuarial Assumptions | State | Teachers | SPORS | VALORS | JRS | Locals Non-LEOS | Locals LEOS | HIC | Group Life | VSDP | LODA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - Discount Rate | 6.75% | | | | | | | | | | 4.75% |
| - Payroll Growth Rate | 3.00% | | | | | | | | | | |
| - Inflation Assumption | 2.50% | | | | | | | | | | |
| - Salary Increases | Inflation rate of 2.5% plus real wage component of 1.0% & step-rate component that varies by Plan and Service | | | | | | | Same as Retirement Plans | | | N/A |
| Year 1 | 5.35% | 5.95% | 4.75% | 4.75% | 4.50% | 5.35% | 4.75% | | | | |
| Year 5 | 4.45% | 5.45% | 4.65% | 4.65% | 4.50% | 4.45% | 4.65% | | | | |
| Year 10 | 4.00% | 4.85% | 4.00% | 4.00% | 4.50% | 4.00% | 4.00% | | | | |
| Year 20 | 3.50% | 3.50% | 3.50% | 3.50% | 4.50% | 3.50% | 3.50% | | | | |
| - Cost-of-Living Adjustments | Plan 1 vested - 2.50% per year / Plan 1 non-vested & Plan 2 - 2.25% per year | | | | | | | N/A | N/A | Same as Retirement Plans | N/A |
| - Mortality Rates | RP 2014 Mortality Table projected to 2020 for males and females | | | | | | | | | | |
| * Pre Retirement | Adjustments vary based on employer group and gender | | | | | | | | | | |
| * Post Retirement | Adjustments vary based on employer group and gender | | | | | | | Adjustments similar to retirement plans, by group covered | | | |
| * Post Disability | RP 2014 Disability Table with varying setbacks based on employer group and genders | | | | | | | | | | |
| - Withdrawal Rates | **"Experience Related"** Varies by Plan, Gender and Service at Retirement | | | | | | | | | | |
| - Disability Rates | **"Experience Related"** Varies by Plan, Gender and Age at Disability | | | | | | | | | | |
| - Retirement Rates | **"Experience Related"** Varies by Plan, Gender, Age and Service at Retirement | | | | | | | | | | |

## Appendix B

Appendix B is RBA 2013-07-18, which documents the approval of VRS funding policy assumptions.



**<u>REQUEST FOR BOARD ACTION</u>**

## Requested Action

**The VRS Board of Trustees approves its plan actuary's and VRS staff recommendations, which are consistent with industry best practices, to use the Entry Age Normal Actuarial Cost Method and the five-year asset smoothing method; and to amortize the legacy unfunded liability over a closed 30-year period, with new sources of unfunded liability explicitly amortized over closed 20-year periods, effective with the June 30, 2013 valuation. Lastly, the 10-year payback of the retirement contribution payments deferred for the 2010-12 biennium will remain as a separate 10-year closed amortization period ending in FY 2020.**

### Description/Background

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67, *Financial Reporting/or Pension Plans,* which addresses financial reporting for state and local government pension plans, and Statement No. 68, *Accounting and Financial Reporting/or Pensions,* which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. Statement No. 67 replaces the requirements of Statement No. 25, *Financial Reporting/or Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* for most public employee pension plans. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* for most government employers. The new Statement Nos. 67 and 68 made a definitive separation between funding for and accounting of pensions and moved away from defining an "annual required contribution" (ARC) that was used by many public sector employers, including the Virginia Retirement System, as a de facto "funding policy." Accordingly, the VRS Board has undertaken a review of its current funding policy and seeks to develop a written policy. The funding policy has significant implications related to contribution rates and funded status.

Beginning in February 2013, the VRS Benefits and Actuarial Committee began a review of the VRS Funding Policy. The process included a summarization of the current VRS funding policy; an overview of the various components that go into the development of a funding policy; as well as a review of recommendations provided by a Pension Funding Task Force which was created by national associations representing local and state governments. The Task Force was created to provide funding policy guidelines to fill the void created by GASB when it updated its pension accounting standards in 2012.

The Benefits and Actuarial Committee discussed the three core elements of pension funding: the actuarial cost method, the asset smoothing method and the amortization policy. Special consideration was given to the amortization policy as it is the only area where the Task Force's recommendation differs from current VRS funding policy and methodology.

As a result of its review, the Benefits and Actuarial Committee recommends that the Board adopt the following principles: use of the Entry Age Normal actuarial cost method; use of the five-year asset smoothing method; and amortization of legacy unfunded liability over a thirty-year closed period, with new sources of unfunded liability explicitly amortized over twenty-year closed periods. The IO-year payback of the retirement contribution payments deferred for the 2010-12 biennium will remain as a separate 10-year closed amortization period, ending in fiscal year 2020_.This change in the amortization methodology is designed to maintain contribution rates in the near term, improve the plan's funded status, and create intergenerational equity.

Rationale for Requested Action

Article X, § 11 of the *Constitution of Virginia* establishes that the Virginia Retirement System benefits shall be funded using methods which are consistent with generally accepted actuarial principles. VRS has relied on GASB Standard Nos. 25 and 27 as a de facto funding policy. In June 2012, GASB updated its pension accounting standards. The new Standard Nos. 67 and 68 made a definitive separation between funding for and accounting of pensions and moved away from defining an "annual required contribution" (ARC) that was used by many public sector employers, including the Virginia Retirement System, as a de facto funding policy. The change in GASB standards necessitates the review of current funding practices and development of a written VRS funding policy.

Authority for Requested Action

The Board's authority for this action is contained in:

- Article X, § 11 of the *Constitution of Virginia,* establishing that the Virginia Retirement System benefits shall be funded using methods which are consistent with generally accepted actuarial principles;
- § 51.1-145 of the *Code of Virginia,* providing additional details on the basis for employer contributions; and
- § 51.1-124.22 of the *Code of Virginia* empowers the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1 and adopt rules and policies that bring the Retirement System into compliance with any applicable law or regulation of the Commonwealth or the United States.

The above action is approved effective July 11, 2013.

Diana F. Cantor, Chair
VRS Board of Trustees

## Appendix C

Appendix C is RBA 2013-11-26, which documents the approval of revisions to the VRS funding policy assumptions for political subdivisions.

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(14 pages)

## Appendix D

Appendix D is RBA 2016-06-15, which documents the approval of VRS funding policy methods and assumptions with regard to the OPEB plans.

2

(3 pages)

## Appendix E

Appendix E is RBA 2016-06-16, which documents the Board's approval of changes to actuarial methods for certain OPEB plans.

2

(3 pages)

## Appendix F

Appendix F is RBA 2017-04-9, which documents the approval of VRS funding policy assumptions.

(2 pages)

## Appendix G

Appendix G is RBA 2019-10-13, which documents approval of a discount rate of 6.75% for actuarial valuations effective with the June 30, 2019 valuations.

**Request for Board Action**
**RBA 2019-10-13**

Virginia Retirement System

**Approve a reduction in the actuarial assumed rate of return from 7.00% to 6.75%, effective as of July 1, 2019, to be applied beginning with the 2019 actuarial valuations.**

### Requested Action

The Board approves a reduction in the actuarial assumed rate of return from the current 7.00% to 6.75%, effective as of July 1, 2019, to be applied beginning with the 2019 actuarial valuations.

### Description/Background

The Investment Policy Committee (IPC) conducted a series of luncheon meetings in February, May and June 2019. Overall asset/liability modeling, which included the actuarial assumed rate of return, was the subject of significant discussion during each of those meetings. In addition, the Investment Advisory Committee (IAC) discussed forward looking returns in its April 2019 meeting.

An asset/liability study presented by Verus to a joint meeting of the IAC and the IPC on August 13, 2019 served as a catalyst for continued robust discussion among IAC and IPC members regarding the actuarial assumed rate of return. Factors considered by the members included the effect of a change in the assumed rate of return on current and projected contribution rates and funded status, as well as historical trends and projections with respect to portfolio returns under several asset mix alternatives, especially in light of the related changes to the policy portfolio effective January 1, 2020.

### Authority for Requested Action

Article X, § 11 of the *Constitution of Virginia,* which establishes that VRS benefits shall be funded using methods which are consistent with generally accepted actuarial principles, and *Code of Virginia* § 51.1-124.22(A)(8), which authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1.

The above action is approved.

Mitchell L. Nason, Chairman
VRS Board of Trustees

10/10/19
Date

Page 1 of 1
October 10, 2019

## Appendix H

Appendix H is RBA 2019-11- , which documents the approval of VRS funding policy amendments related to alternative funding requirements, reducing amortization periods to accelerate payback of unfunded liabilities, and clarifying funding parameters for political subdivision plans entering VRS or enhancing benefits for members.

Virginia Retirement System

P.O. Box 2500, Richmond, Virginia 23218-2500
Toll free: 1-888-VARETIR (827-3847)
Web site: www.varetire.org
E-mail: vrs@varetire.org

# Proposed 2024 VRS Legislation

**1. Adds service from other branches of armed services to the list of branches included for purposes of purchasing prior service. Change is recommended as there is currently an enumerated list that does not include the Space Force.**

**Rationale:** The *Code of Virginia* currently specifies that members of the United States Army, Navy, Air Force, Marines, and Coast Guard may purchase active-duty military service. Since the Space Force was established in 2019, a technical amendment is needed in § 51.1-142.2(A) so that active-duty service with this branch, and any others that may be added, can be purchased.

**Proposal:** Amend § 51.1-142.2 (A) to allow VRS members to purchase prior service of other branches of U.S armed services not already specifically listed.

**Suggested amendment language:**

§ 51.1-142.2(A):

For purposes of this subsection, "active duty military service" means full-time service of at least 180 consecutive days in the United States Army, Navy, Air Force, Marines, Coast Guard, *or other distinct branch of armed services as established by the federal government,* or reserve components thereof.

**2. Allow escheatment for DC accounts**

**Rationale:** No VRS accounts may currently be escheated under the current exemption in § 55.1-2544 for any property held or payable pursuant to Title 51.1. VRS must hold Defined Contribution (DC) plan accounts with relatively low balances indefinitely if the participant cannot be found. We are an outlier in the DC plan industry in that most plans escheat DC accounts.

Currently, VRS has close to 12,000 stale-dated DCP participant checks that range in amounts. These are managed by spreadsheets generated when VRS changes recordkeepers. The average check is $119.50 and the median is $66.23. Over 10,000 of these checks fall between the amounts of $10 and $250. We expect there to be over 15,000 checks by the time we transition to the new DCP record keeper.

**Proposal:** Preserve the Defined Benefit (DB) account exemption and amend § 55.1-2544 to allow DC accounts to be escheated after five years if the participant cannot be located using all available means. Unclaimed Property has higher visibility and will make it easier for participants to locate and claim these funds.

**Suggested amendment language:**

§ 55.1-2544: Property held or payable pursuant to Title 51.1.

This chapter shall not apply to any *defined benefit plan* funds, or other property, tangible or intangible, held or payable pursuant to Title 51.1. *Any funds or other property, tangible or intangible, held or payable in a defined contribution plan, deferred compensation plan, or cash match plan pursuant to Title 51.1 that has remained unclaimed for more than five years after such funds or other property became payable shall be presumed abandoned*.

# VRS Project Portfolio

## FISCAL YEAR 2024

**September 30, 2023**

Virginia Retirement System

**Status Indicator**

- ● Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ☆ Completed
- ▯ Project timeline
- N/S Not started

| Agency Performance Objectives (APOs) | Strategic Alignment | Status | 2023 Jul | Aug | Sep | Oct | Nov | Dec | 2024 Jan | Feb | Mar | Apr | May | Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Customer Experience Enhancements: Call Management System (CMS) - Phase 1 | Member, Retiree and Employer Education, Outreach and Partnership | ● | | | | | | | | | | | | |
| Customer Experience Enhancements: Voice of the Customer (VoC) Program – Phase 1 | Member, Retiree and Employer Education, Outreach and Partnership | ● | | | | | | | | | | | | |
| Records Management Program – Phase 2 Implementation | Digital Transformation and Secure Service Delivery | ● | | | | | | | | | | | | |
| Hybrid Plan – Contribution Separation Legislation Implementation Phase 2 | Superior Governance and Long-Term Financial Health | ● | | | | | | | | | | | | |
| Human Resource Information System (HRIS) Implementation – Phase 1 | Organization Strength Culture and Engagement | ● | | | | | | | | | | | | |

| IT Initiatives[1] | | Status | 2023 Jul | Aug | Sep | Oct | Nov | Dec | 2024 Jan | Feb | Mar | Apr | May | Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Onboard and Operationalize Security MSP | Digital Transformation and Secure Service Delivery | ● | | | | | | | | | | | | |
| Implement Secure and Remote Support Solution | Technology Infrastructure | N/S | | | | | | | | | | | | |
| Research and Replace Secure File Transfer System | Technology Infrastructure | N/S | | | | | | | | | | | | |
| Migrate from Cisco to Teams Voice | Technology Infrastructure | N/S | | | | | | | | | | | | |
| Implement Enterprise Identity and Access Management Solution | Digital Transformation and Secure Service Delivery | N/S | | | | | | | | | | | | |

| Other Projects[2] | | Status | 2023 Jul | Aug | Sep | Oct | Nov | Dec | 2024 Jan | Feb | Mar | Apr | May | Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Continue Agency Project Portfolio Process Enhancements | Superior Governance and Long-Term Financial Health | ● | | | | | | | | | | | | |
| Conduct Transition Activities to New DC/Hybrid Record Keeping Service Business Partner | Superior Governance and Long-Term Financial Health | ● | | | | | | | | | | | | |
| Lease Space Renewal | Superior Governance and Long-Term Financial Health | ● | | | | | | | | | | | | |
| Update VRS Optional Form Factors and Review Early Retirement Reduction Factors | Superior Governance and Long-Term Financial Health | ● | | | | | | | | | | | | |

| Legislation | | Status | 2023 Jul | Aug | Sep | Oct | Nov | Dec | 2024 Jan | Feb | Mar | Apr | May | Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| HB2314 HIC Increase for State Retirees | | N/S | | | | | | | | | | | | |
| HB2314 HIC Increase for Constitutional Officers and Employees | | N/S | | | | | | | | | | | | |
| SB1403 Income Tax Subtraction; Professional Firefighter Pension | | ☆ | | | | | | | | | | | | |
| SB1449 JRS | | ☆ | | | | | | | | | | | | |
| HB1452 Add OAG Medical Fraud Investigators to LODA | | ☆ | | | | | | | | | | | | |
| SB1411 RTW Law Enforcement Report | | ● | | | | | | | | | | | | |
| HB1630/SB1289/SB1479 RTW Report | | ● | | | | | | | | | | | | |
| Secure 2.0 | | N/S | | | | | | | | | | | | |

| Operational/Ongoing Activities | | Status | 2023 Jul | Aug | Sep | Oct | Nov | Dec | 2024 Jan | Feb | Mar | Apr | May | Jun |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| COLA 2023 | | ☆ | | | | | | | | | | | | |
| FYE 2023 | | ☆ | | | | | | | | | | | | |
| EDGE | | ● | | | | | | | | | | | | |
| Retirement Wave 2023 | | ☆ | | | | | | | | | | | | |
| Teacher Contracts | | ☆ | | | | | | | | | | | | |
| MBPs | | ☆ | | | | | | | | | | | | |
| Annual Code of Ethics Training | | N/S | | | | | | | | | | | | |
| Annual Security Awareness Training | | N/S | | | | | | | | | | | | |
| FOIA Training | | N/S | | | | | | | | | | | | |
| ACFR | | ● | | | | | | | | | | | | |
| PAFR | | ● | | | | | | | | | | | | |
| LODA Annual Report | | ● | | | | | | | | | | | | |
| GASB 67 | | ● | | | | | | | | | | | | |
| GASB 68 | | N/S | | | | | | | | | | | | |
| GASB 74 | | ● | | | | | | | | | | | | |
| GASB 75 | | N/S | | | | | | | | | | | | |
| Actuarial Valuations | | ☆ | | | | | | | | | | | | |
| myVRS Annual Updates | | N/S | | | | | | | | | | | | |
| Update Contribution Rates in VNAV | | N/S | | | | | | | | | | | | |
| 1099/W2 | | N/S | | | | | | | | | | | | |

| Operational/Ongoing Activities | | Status | 2023 | | | | | | 2024 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| Annual Roadmap Review | | N/S | | | | | | | | | | | | |
| FYE 2024 | | N/S | | | | | | | | | | | | |
| Retirement Wave 2024 | | N/S | | | | | | | | | | | | |
| Commonwealth Bond Disclosure | | N/S | | | | | | | | | | | | |
| ORPHE Surcharge Billing for FY 2024 | | N/S | | | | | | | | | | | | |
| Data Fixes | | | | | | | | | | | | | | |
| ALM Backlog Prioritization | | | | | | | | | | | | | | |
| Employer VNAV Security Review | | N/S | | | | | | | | | | | | |
| VRS Fund Sensitivity and Stress Testing Report for GA | | N/S | | | | | | | | | | | | |
| Legislation FY 2024 | | N/S | | | | | | | | | | | | |

[1]Initiatives led directly by Technology Services.
[2]Other initiatives are led by other business units and supported by Technology Services.

## Yellow Status Items

| Item | Due Date | Comments |
|---|---|---|
| | | |

## Red Status Items

| Item | Due Date | Comments |
|---|---|---|
| N/A | | |

## Realignments/Adjustments

| Item | Due Date | Comments |
|---|---|---|
| N/A | | |

Virginia Retirement System

# Director’s Report

## October 19, 2023
## Trish Bishop, VRS Director

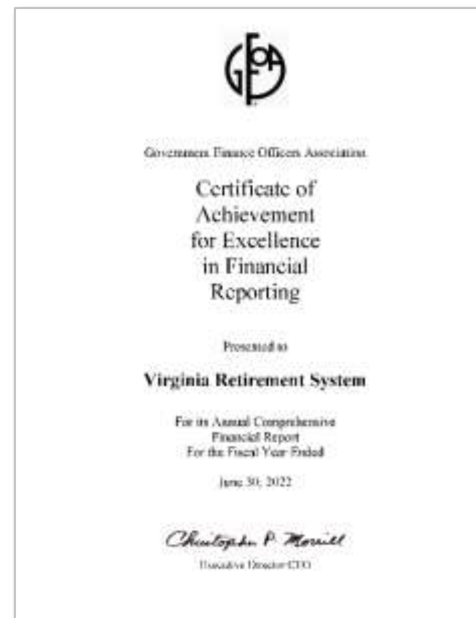
# New Employer Coverage

| Coverage Elected | Details |
|---|---|
| **Enhanced Hazardous Duty Benefits for Firefighters and Emergency Medical Technicians** | **City of Norton,** Effective October 1, 2023 |
| **Commonwealth of Virginia 457 Deferred Compensation Plan** | **Town of Gate City (Scott County)**, Effective November 1, 2023 |
| **Virginia Cash Match Plan** | **Town of Gate City (Scott County)**, Effective November 1, 2023 |
| **New VRS Employer with Enhanced Hazardous Duty Benefits for Law Enforcement Officers and Firefighters with the 1.85% Multiplier** | **City of Richmond**, Effective January 1, 2024 |

# GFOA Award for FY22 ACFR

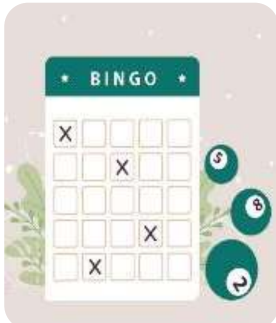

VRS has received a Certificate of Achievement for Excellence in Financial Reporting for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022, from the Government Finance Officers Association of the United States and Canada (GFOA).

**VRS has now achieved this prestigious recognition for 41 consecutive years!**



# 2023 Customer Service Week

Virginia Retirement System






## VRS Customer Service Week — October 2-6



# Agency Annual Meeting and Breakfast

Virginia Retirement System

**Save the Date!**

- **Wednesday, December 13**
- **8:30-11:30 a.m.**
- **Greater Richmond Convention Center**

Plan to attend this celebration of achievements and awards!

Watch for more details and a meeting invitation to come.