



Virginia
Retirement
System

VRS Overview

Senate Finance and Appropriations
Committee

Presented by
Patricia S. Bishop, VRS Director
October 17, 2023



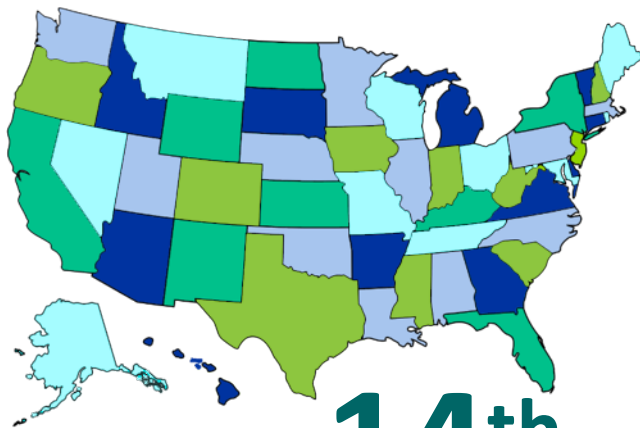
VRS Overview





active and retired members

As of June 30, 2023

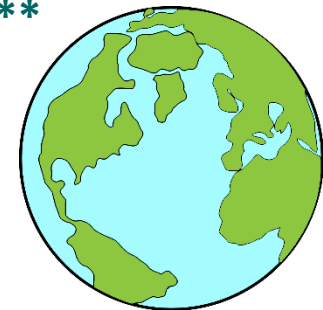


14th largest

public or private pension system
in the United States*

42nd largest

public or private pension system
in the world**



* As ranked by *Pensions & Investments* in 2023

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

VRS Total Membership as of June 30, 2023



	Plan 1	Plan 2	Hybrid	Total
Teachers	55,568	26,901	71,682	154,151
Political Subdivision Employees	31,794	31,047	50,598	113,439
State Employees	24,761	12,585	39,172	76,518
State Police Officers' Retirement System (SPORS)	919	949	—	1,868
Virginia Law Officers' Retirement System (VaLORS)	1,858	5,561	—	7,419
Judicial Retirement System (JRS)	141	42	273	456
Total Active Members	115,041	77,085	161,725	353,851

Total Active Members
353,851

Retirees/Beneficiaries
239,733

Inactive/Deferred Members
207,642

VRS Total Population
801,226



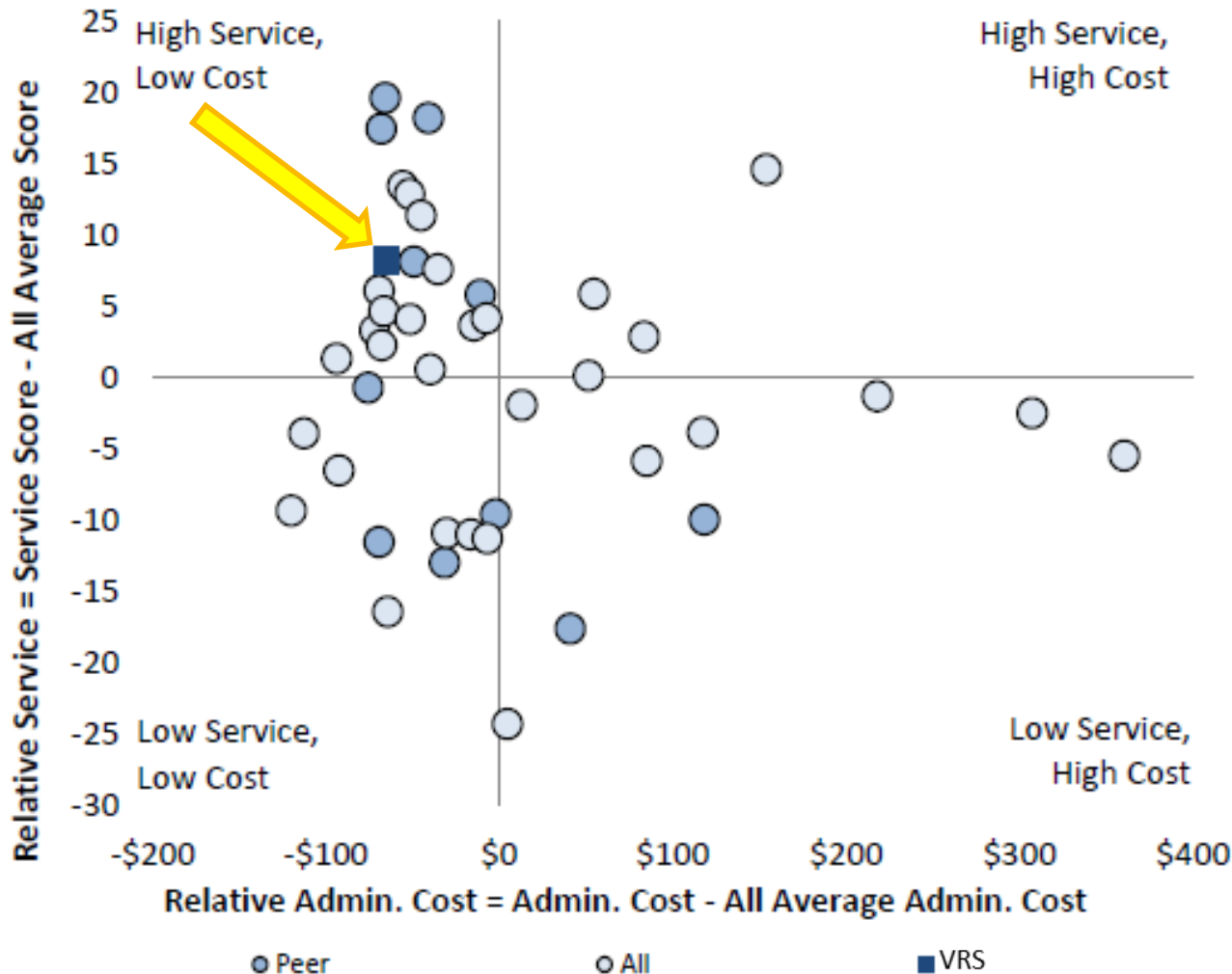
Virginia
Retirement
System

Comparison Data

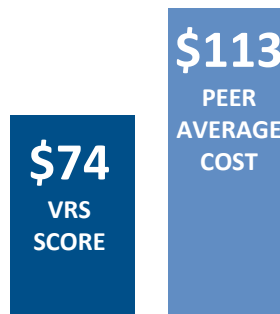


Service-Cost Relationship

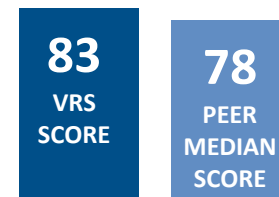
Relationship between VRS service and pension administration cost



Pension Administration Cost



Total Service Score



Investments Overview



VRS Must Invest for Exclusive Benefit of Members



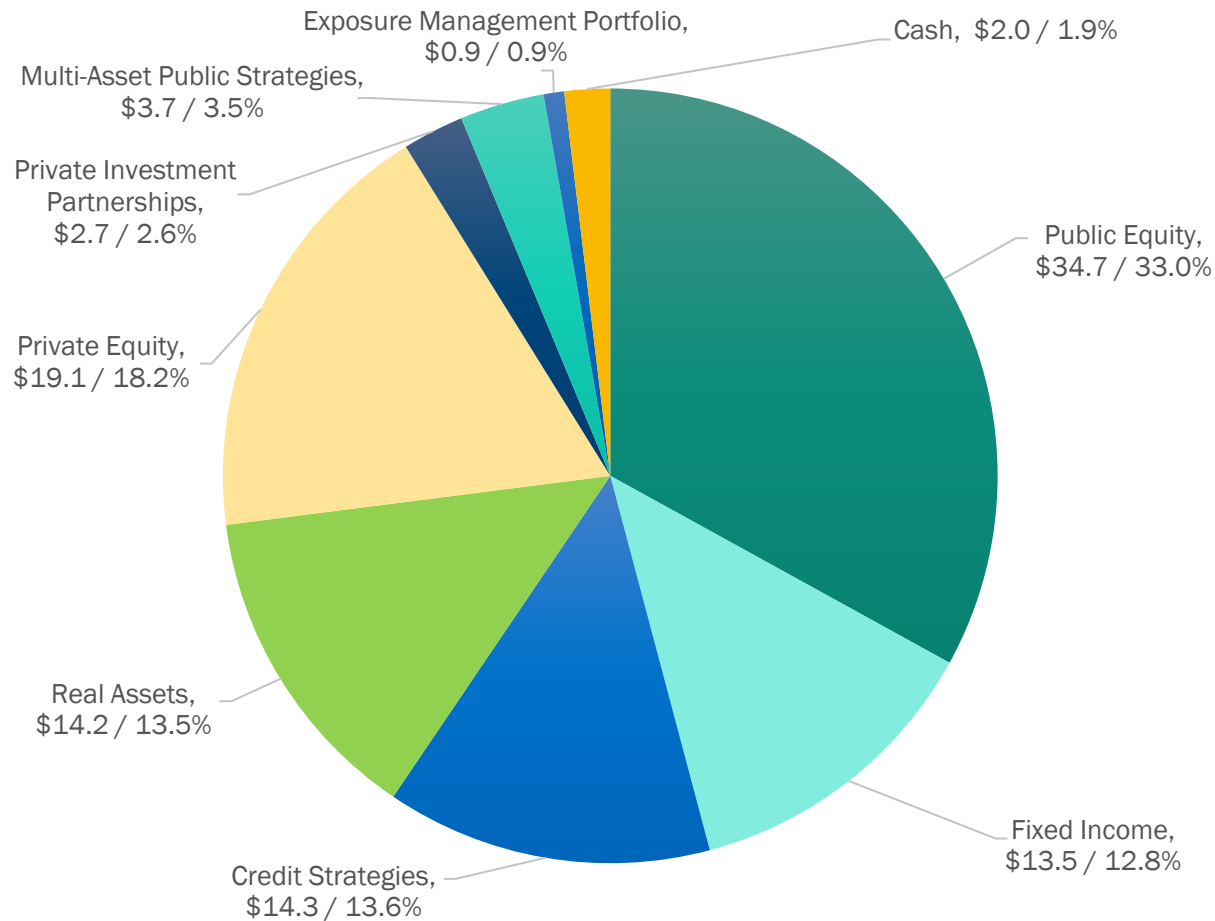
As the plan fiduciary, VRS must comply with the exclusive benefit rule, which expressly provides that government retirement plans must be maintained “for the exclusive benefit” of the beneficiaries of the plans as prescribed in:

- *Constitution of Virginia*
- *Code of Virginia*
- Federal law

VRS must have access to the broadest set of investment options, which ultimately benefits its members.

Asset Allocation as of June 30, 2023

Total Fund Market Value = \$105.0 billion (Dollar Amounts in Billions/Percent of Total Fund)



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

VRS Invests for the Long Term

	VRS Return (as of June 30, 2023)
1-year	6.1%
3-year	10.8%
5-year	8.0%
10-year	8.2%
15-year	6.8%
20-year	7.9%
25-year	6.8%

Source: Bank of New York Mellon



Virginia
Retirement
System

Review Progress in Plan Health



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

- \$1 billion cash infusion to the VRS trust fund addressed unfunded liabilities in retirement and OPEB plans.
 - Cash infusions to State health insurance credit were used to increase benefit level from \$4 per year of service to \$4.25 per year of service rather than to increase funded status, which remains well below healthy level.
- Cash infusions are expected to result in an estimated **\$2 billion in savings** over a 20-year period.
- Maintaining board-certified rates from the prior biennium provides an estimated **\$548 million in savings**.
- While funded status improved, legacy unfunded liabilities remain.



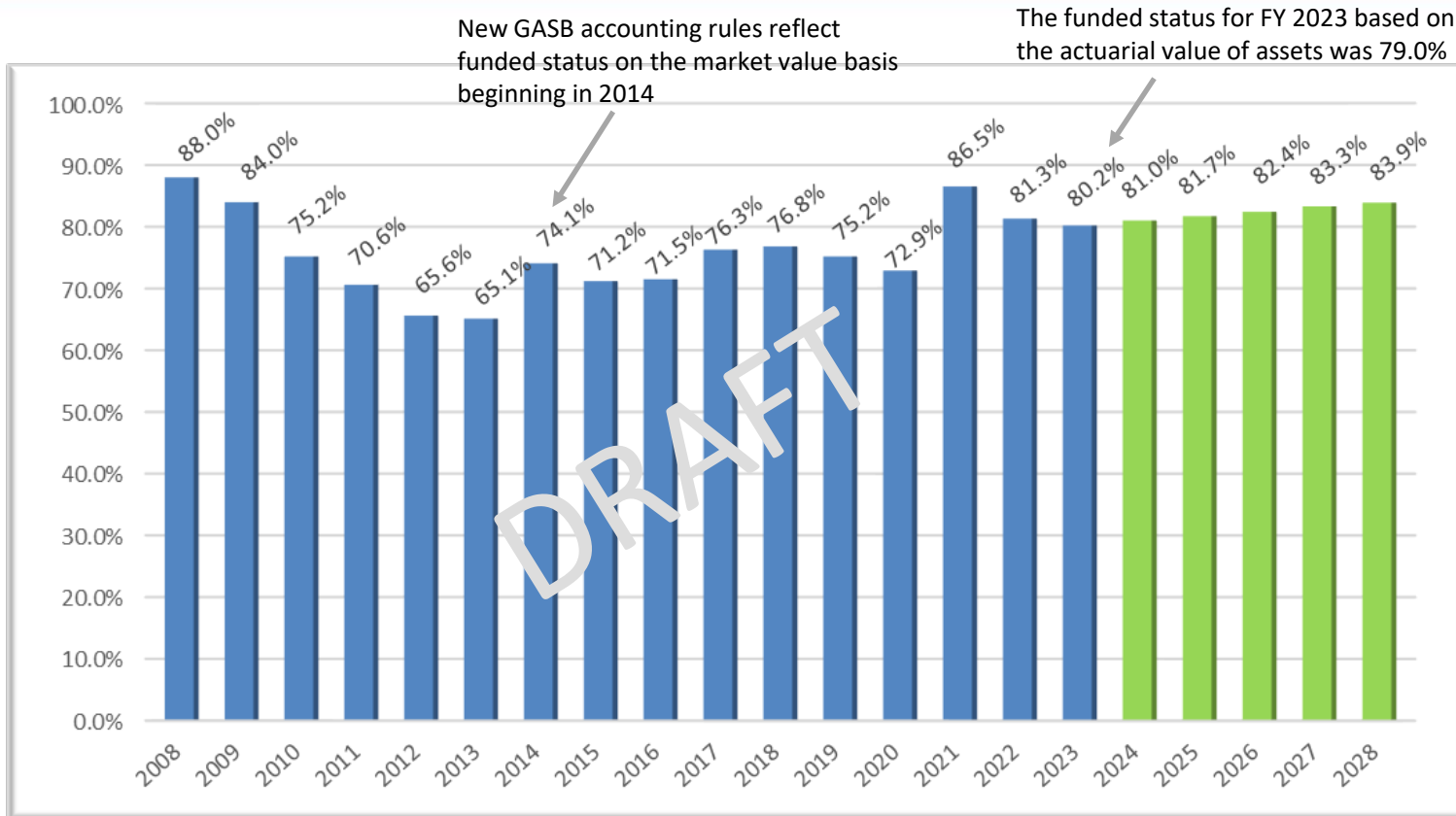


Virginia
Retirement
System

Funded Status



Funded Status: State (Subject to Board Approval)



State Plan
Unfunded
Liability as of
6/30/2023

\$6.1 Billion
using
Actuarial
Assets

\$5.8 Billion
using
Market
Assets

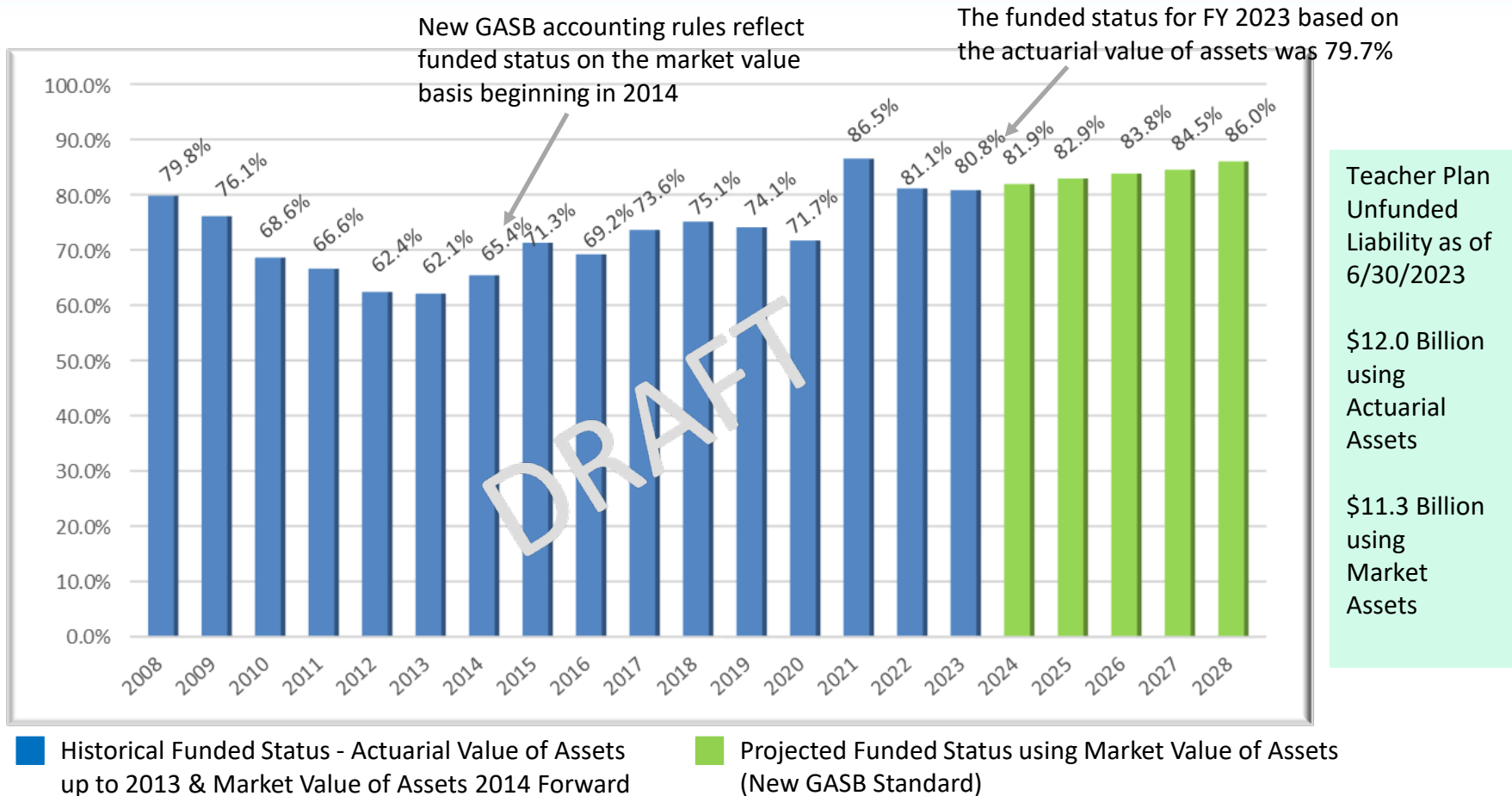
■ Historical Funded Status - Actuarial Value of Assets up to 2013 & Market Value of Assets 2014 Forward

■ Projected Funded Status using Market Value of Assets (New GASB Standard)

Notes:

- Projected funded status based on assumed investment returns of 6.75% and inflation of 2.5%.
- GASB Accounting rules reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.

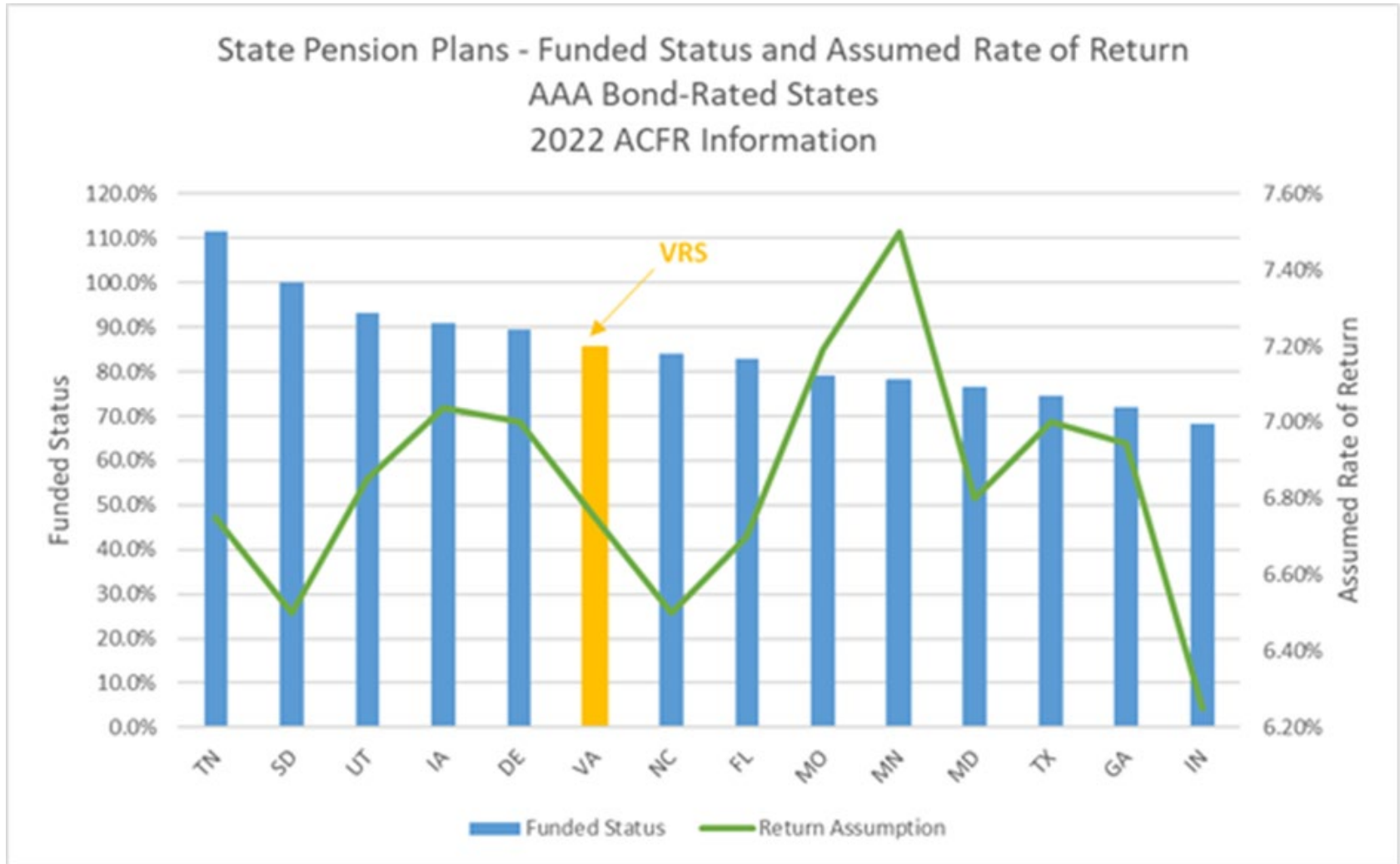
Funded Status: Teachers (Subject to Board Approved)



Notes:

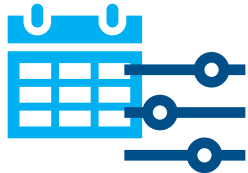
- Projected funded status based on assumed investment returns of 6.75% and inflation of 2.5%.
- GASB Accounting rules reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.

State Plans Comparison Data



Contribution Rates





- Contribution rates continue to remain fairly stable.



- Recent infusions and maintaining higher contribution rates have improved plan health and generated long-term savings.



- Meaningful positive steps taken, but unfunded liabilities remain.



- Hybrid Retirement Plan deploys a shared risk model and serves to lower future employer benefit costs.

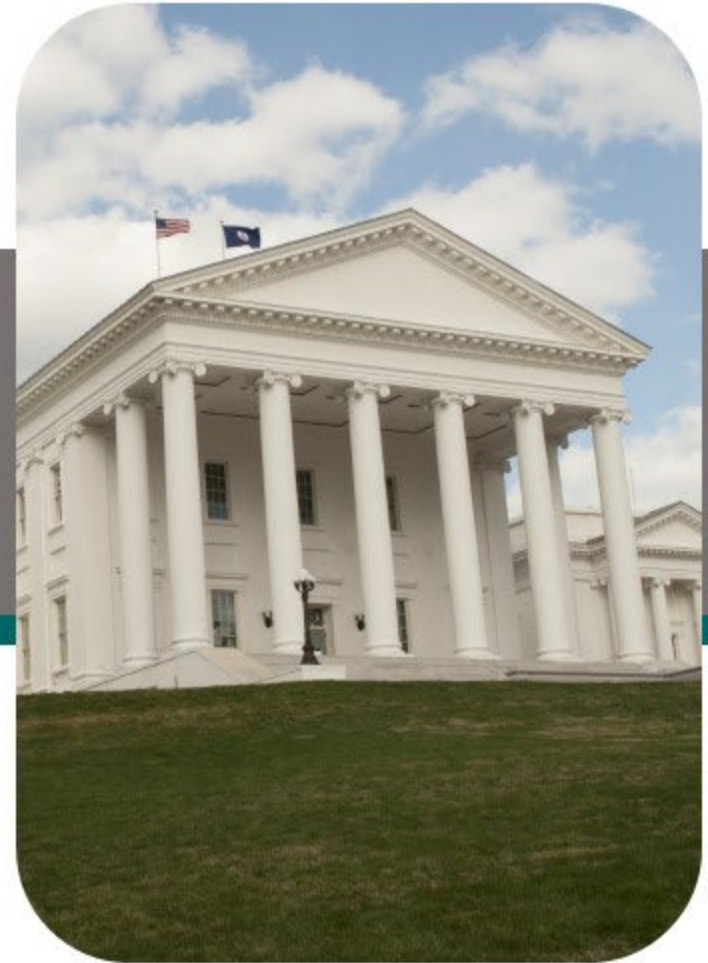


VRS Board and the plan actuary constructed contribution rates and moved to a 20-year amortization, which serves to:

- Smooth rates across the period.
- Generate approximately \$1 billion in savings over a 20-year period.*

* This is assuming all future assumptions are met, including the long-term rate of return.

Recent Legislative Changes



Legislative Changes effective July 1, 2023

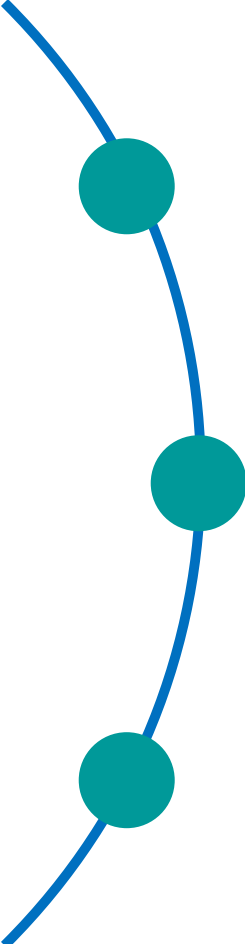


- Reduces to **six months from 12 months** the break in service required for retirees returning to work full-time in critical shortage positions.
- Makes **specialized student support personnel eligible** for the K-12 critical shortage program.
- Requires employers to **report critical shortage employees to VRS and submit employer contributions** for these positions.
- **Extends these provisions** to July 1, 2028.

Benefit Enhancement Considerations



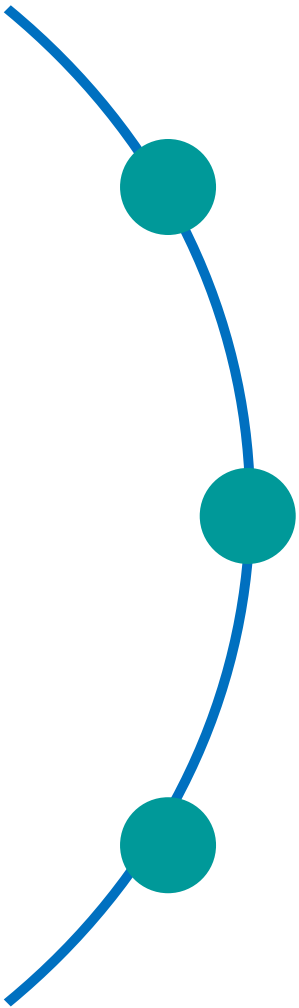
Efforts to Strengthen the Plan



Implemented a series of pension reforms to provide long-term, sustainable benefits to members.

Modified funding policies to provide greater discipline and oversight to ensure long-term health of the plans to pay benefits into the future.

Concerted effort and plan implemented to pay down unfunded liabilities on an accelerated basis to improve plan health, reducing unfunded liabilities and increasing funded status.



Benefit enhancements generally will increase plan costs and liabilities, as well as decrease funded status, unless the benefit is prefunded.

As of June 2022*, VRS-administered plans had an unfunded liability of \$22.4 billion on a market value basis. Expanding benefits will further increase unfunded liabilities.

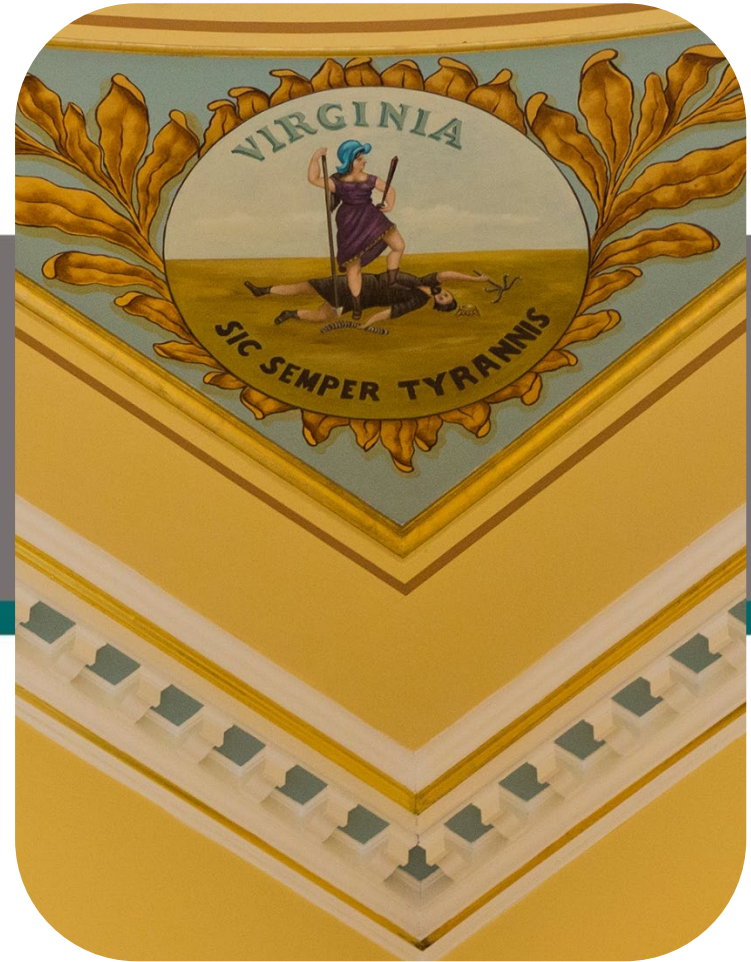
Consider prefunding the liability or prospective service only coverage to avoid further deteriorating funding levels and to make employer contribution rates less volatile.

* FY 2023 data available after valuations are completed in December.



Virginia
Retirement
System

Summary



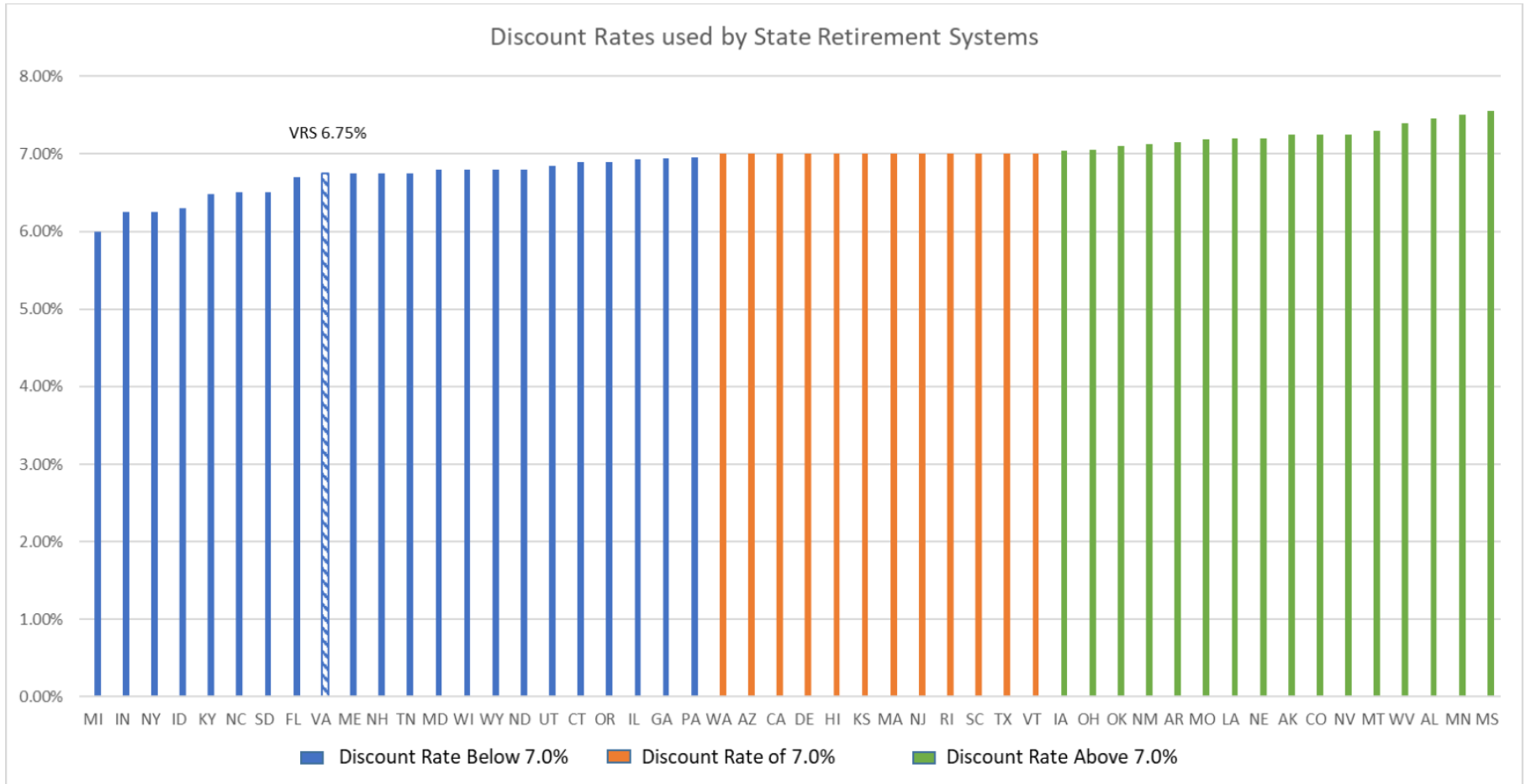


- Hybrid Retirement Plan is the largest active member plan.
 - Creates a shared risk model between employer and employee.
 - Lowered employer benefit plan costs.
- Contribution rates continue to remain fairly stable.
- Recent infusions and maintaining higher contribution rates have improved plan health and generated long-term savings.
- Meaningful positive steps taken, but unfunded liabilities remain.
- Any new plan design changes or benefit enhancements require careful consideration with respect to increasing liabilities and funding requirements.

**Helping members plan
for tomorrow, today**

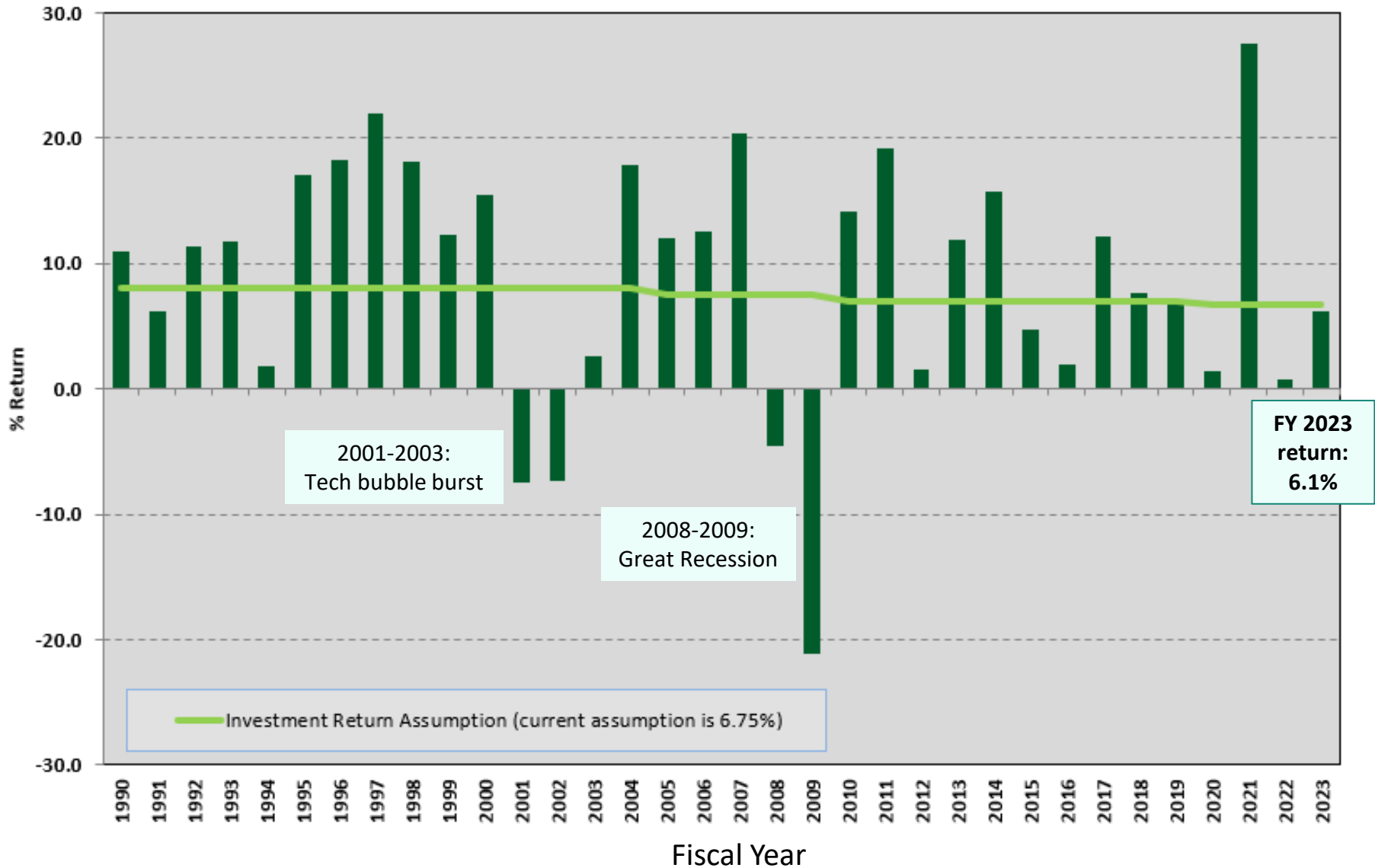
Appendix

State Plans Comparison Data

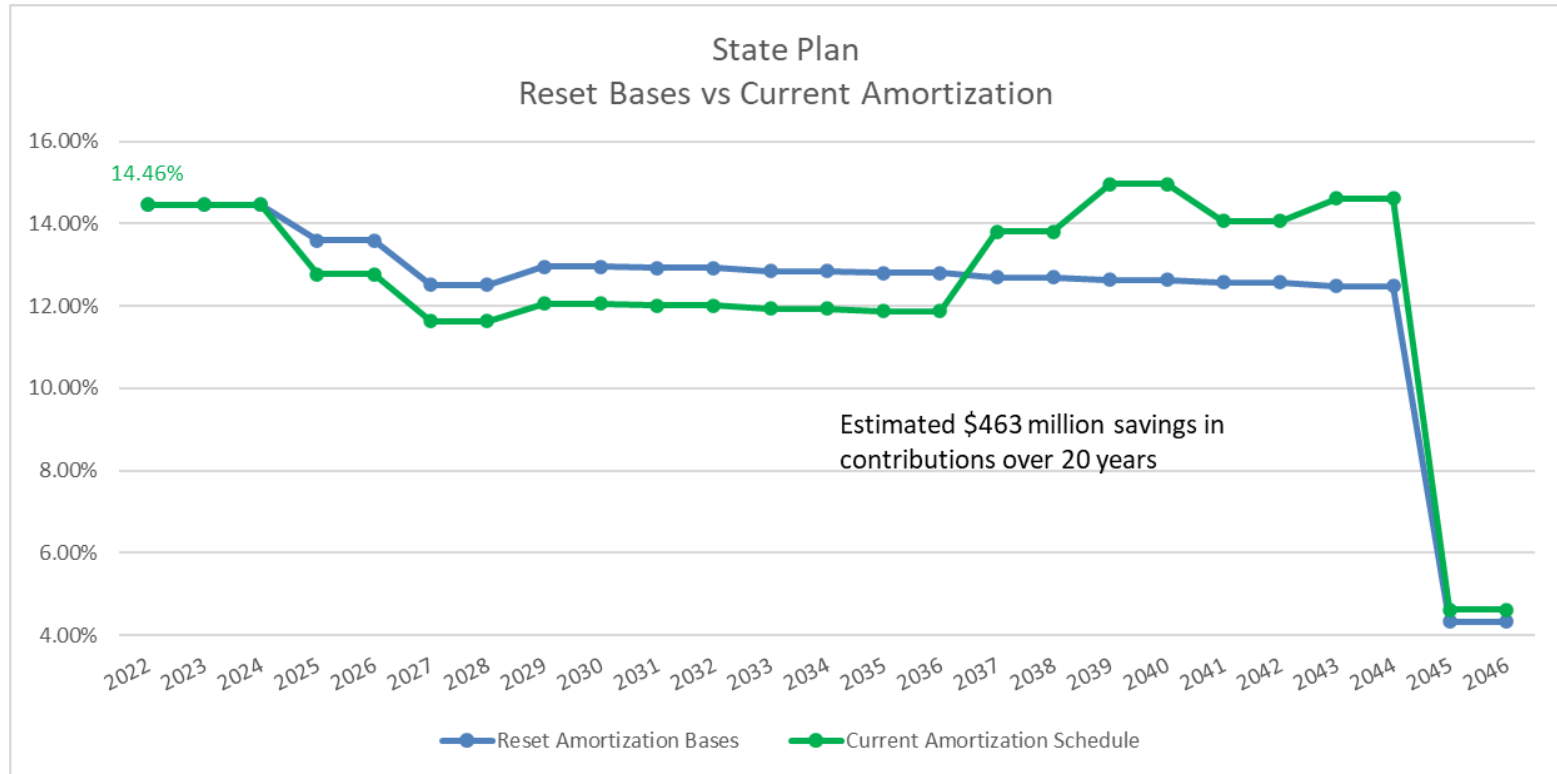


Source: NASRA 2022

VRS Fiscal Year Returns

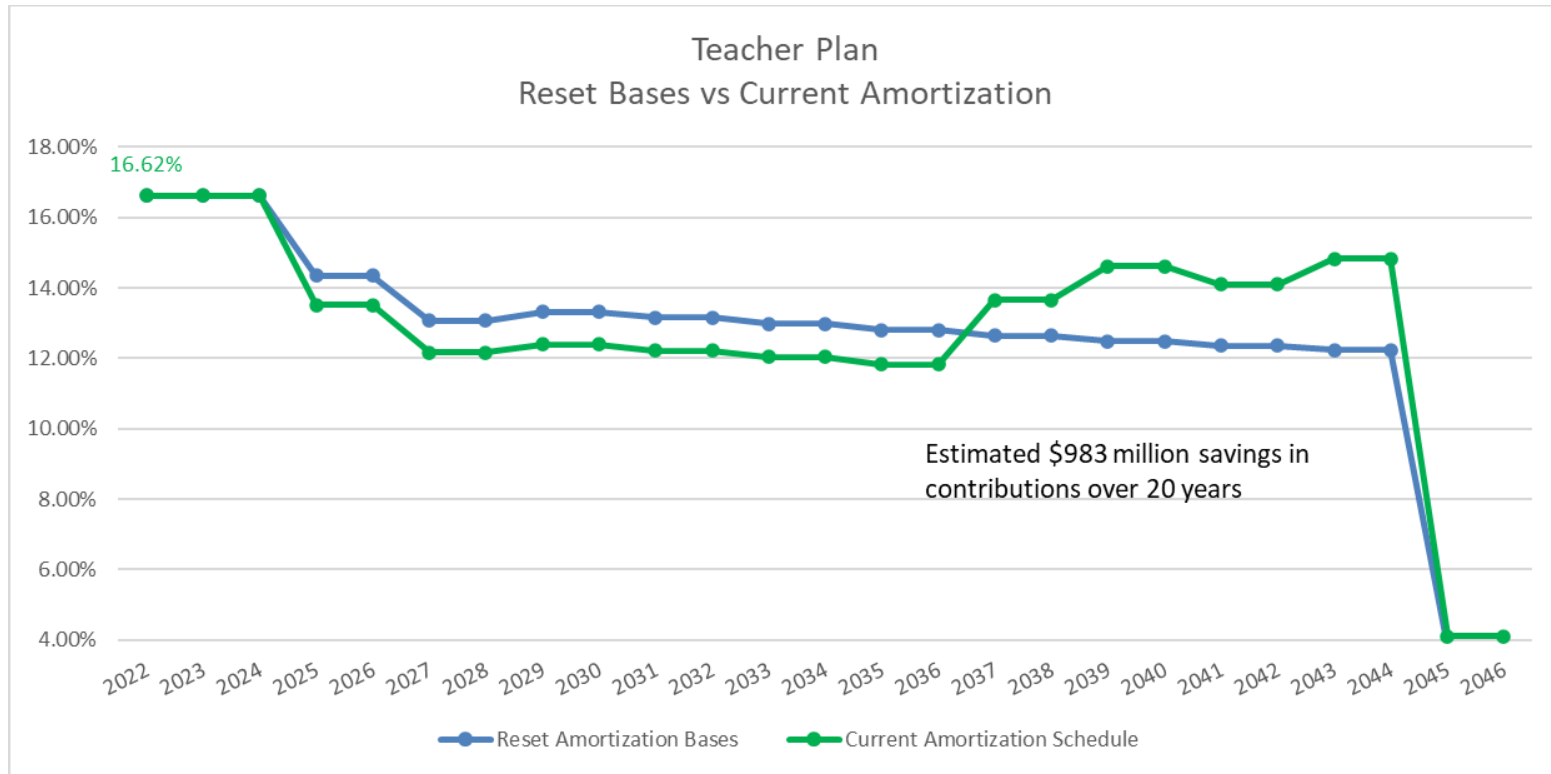


Resetting Amortization Base State Plan Estimate



Projected rates based on 2022 valuation data and subject to change based on 2023 valuation results.

Resetting Amortization Base Teacher Plan Estimate



Projected rates based on 2022 valuation data and subject to change based on 2023 valuation results.

Contribution Rates



Estimated Employer Contribution Rates and Funding Requirements for Statewide Plans



Plan	2021 Board Certified Rates FY 23/24 DB & DC	Appropriation Act FY 23/24			2023 Estimated Rates FY 25/26 DB Only *
		DB	DC	DB & DC	
State	14.13%	13.40%	1.06%	14.46%	12.52%
SPORS	29.98%	29.98%	0.00%	29.98%	31.32%
ValORS	24.60%	24.60%	0.00%	24.60%	22.81%
JRS	30.67%	28.81%	1.86%	30.67%	30.66%
Teachers	14.76%	15.81%	0.81%	16.62%	14.21%

- * Beginning in FY 25/26, the hybrid defined contribution (DC) match estimate is no longer included in the employer rates for State, Teachers and JRS plans. Employers will pay the DC match separately and will use the current DC match amounts to estimate future DC match amounts.
- The hybrid DC match represented 1.06% (State), 0.81% (Teachers) and 1.86% (JRS) of covered payroll for the respective plans in the prior year rates.
- As an example, the State retirement costs for FY 25/26 would be the 12.52% defined benefit (DB) rate, plus an amount for the DC Match. If we assume 1.48% for DC Match the state retirement cost would be 12.52% (DB) + 1.48% (DC Match) or approximately 14.00%.
- **Above rates are estimated and subject to board certification.**

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



System	2022		Estimated 2023	
	UAAL based on AVA (Dollars in Thousands)	Funded Status	UAAL based on AVA (Dollars in Thousands)	Funded Status
PENSIONS				
State	\$ 5,861,321	78.9%	\$ 6,128,594	79.0%
Teachers	\$ 11,792,090	78.9%	\$ 11,950,840	80.0%
SPORS	\$ 416,642	70.6%	\$ 449,999	70.0%
ValORS	\$ 718,017	71.4%	\$ 770,210	71.0%
Judicial	\$ 110,861	85.2%	\$ 125,232	84.0%
Total State-wide systems	\$ 18,898,932	78.6%	\$ 19,424,875	TBD

Estimated and subject to board certification.

Estimated OPEB Contribution Rates



System	2021 Actuarial Valuation Fiscal Years 2023/2024	Appropriation Act Fiscal Year 2023	Estimated 2023 Actuarial Valuation Fiscal Years 2025/2026
Group Life	1.19%	1.34%	1.18%
HIC State	1.04%	1.12%	0.90%
HIC Teachers	1.21%	1.21%	1.03%
VSDP	0.56%	0.61%	0.50%

Estimated and subject to board certification.

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



System	2022		Estimated 2023	
	UAAL based on AVA (Dollars in Thousands)	Funded Status	UAAL based on AVA (Dollars in Thousands)	Funded Status
OPEBS				
Group Life	\$ 1,349,005	63.9%	\$ 1,357,720	66.0%
HIC State	\$ 802,184	21.8%	\$ 797,401	26.0%
HIC Teachers	\$ 1,237,047	15.1%	\$ 1,196,302	18.0%
VSDP	\$ (291,190)	198.6%	\$ (316,522)	202.0%

Estimated and subject to board certification.



**Helping members plan
for tomorrow, today**