



Virginia
Retirement
System®



VRS Update

Senate Finance and Appropriations Committee

October 14, 2025

Presented by Patricia S. Bishop, VRS Director

Agenda

- VRS Rate-Setting Year
- Unfunded Liabilities
- Peer Comparison
- Hybrid Plan Review





Rate-Setting Year

- Investment performance exceeded assumption
- Employer contribution rates generally decreased
- Funded status increased

Successful Year for Investments



- VRS reported a **9.9% return**, net of fees, for the fiscal year that ended June 30, 2025.
- Strong return surpassed the actuarially assumed return of 6.75%.
- Fund reached **record high of \$122.8 billion** in market value.

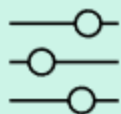
VRS Invests for the Long Term

Assumed
actuarial rate
of return
is 6.75%

VRS Return (as of June 30, 2025)	
1-year	9.9
3-year	8.6
5-year	10.4
10-year	8.1
15-year	8.9
20-year	7.4

Source: Bank of New York

Contribution Rates



- Contribution rates continue to trend lower for most plans.



- Cash infusions approved by General Assembly and governor in past years and plus maintaining higher contribution rates have improved plan health and generated long-term savings.

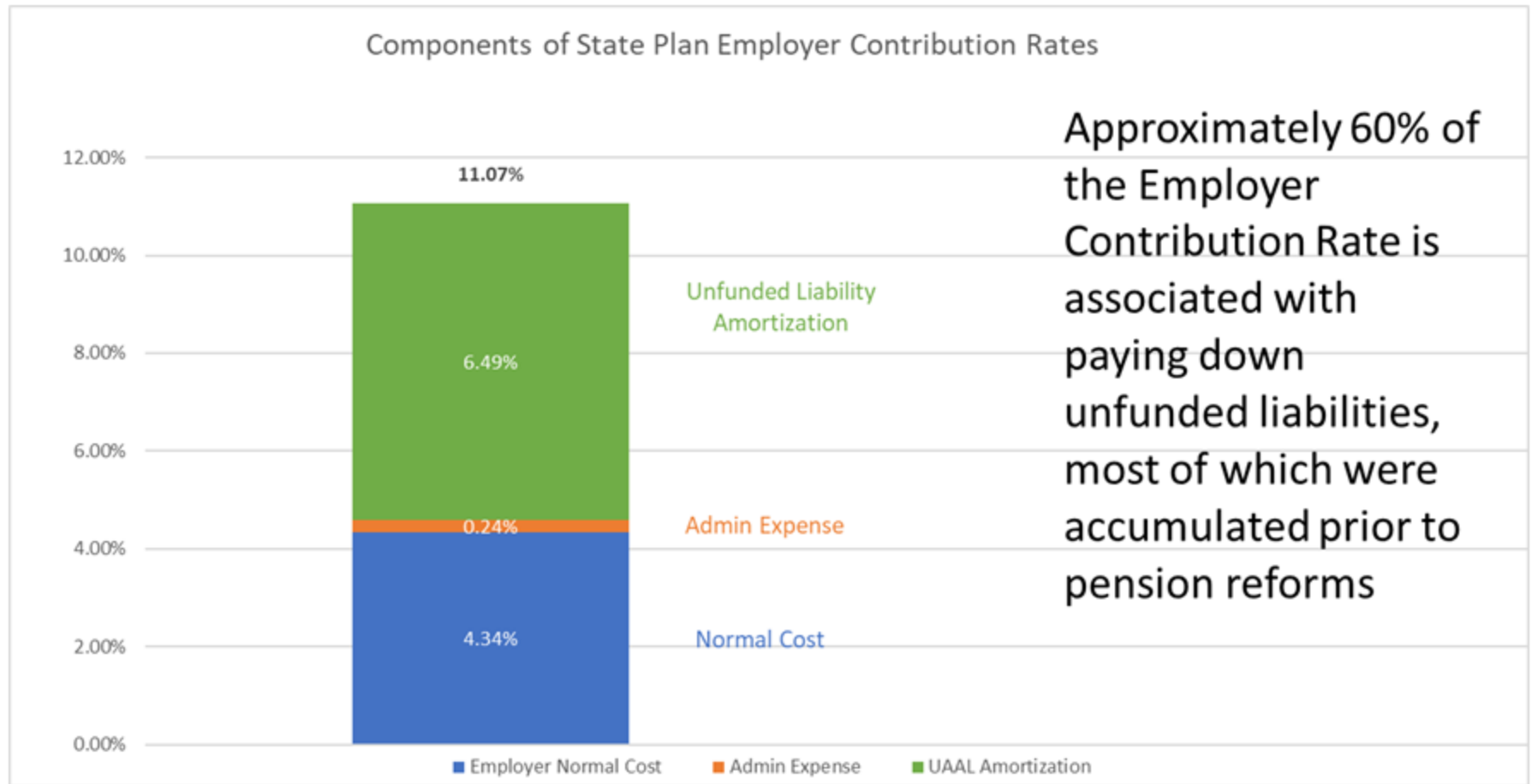


- Meaningful positive steps taken, but unfunded liabilities remain.



- Opportunity exists to maintain prior rates, which will provide additional plan funding without increasing budgeted rates.

Employer Contribution Rates



Estimated Employer Contribution Rates and Funding Requirements for Statewide Pension Plans

Plan	FY 2025/2026	FY 2027/2028		
	2023 Valuation	2025 Valuation		
	DB Only	To be Presented to VRS Board for Certification DB Only	Appropriation Act DB Only	Estimated DC
State	12.52%	11.07%	TBD	1.47%
Teachers	14.21%	12.20%		1.17%
SPORS	31.32%	31.67%		N/A
VaLORS	24.60%	22.60%		N/A
JRS	30.67%	30.49%		N/A

- Beginning in FY 25/26,* the hybrid defined contribution 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.
- As an example, the State retirement costs for FY 27/28 would be the 11.07% defined benefit (DB) rate, plus an amount for the DC Match. If we assume 1.47% for DC Match, the State retirement cost would be 11.07% (DB) + 1.47% (DC Match) or approximately 12.54%.

*** Above rates are estimated and subject to board certification.**

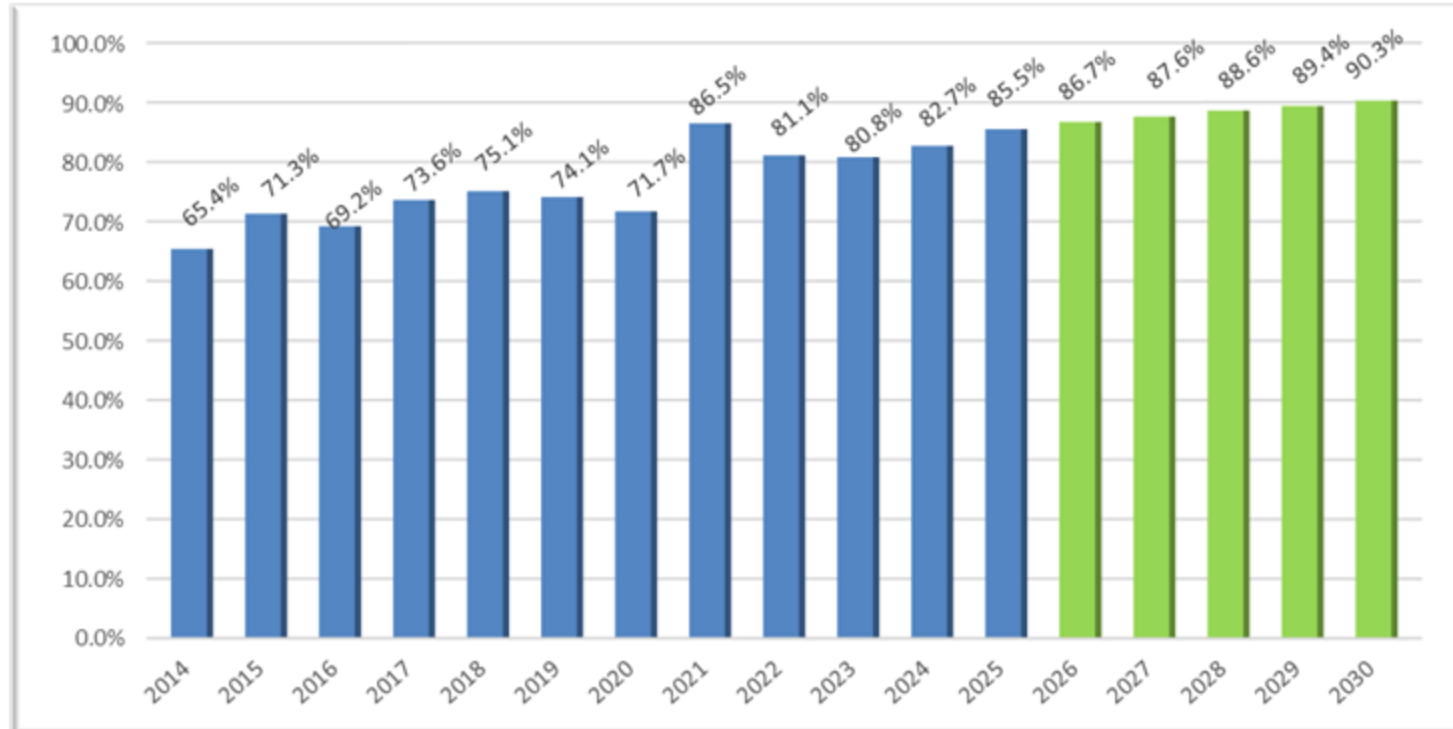
Estimated OPEB Contribution Rates

Plan	FY 2025/2026	FY 2027/2028	
	2023 Valuation	2025 Valuation	
	Appropriation Act	To be Presented to VRS Board for Certification	Appropriation Act
Group Life	1.18%	1.06%	TBD
HIC State	1.12%	0.70%	
HIC Teachers	1.21%	0.88%	
VSDP	0.50%	0.42%	

* Above rates are estimated and subject to board certification.

Funded Status: Teachers

The funded status for FY 2025 based on the actuarial value of assets was 82.8%



Teacher Plan
Unfunded
Liability as of
6/30/2025

\$11.2 Billion
using
Actuarial
Assets

\$9.5 Billion
using
Market Assets

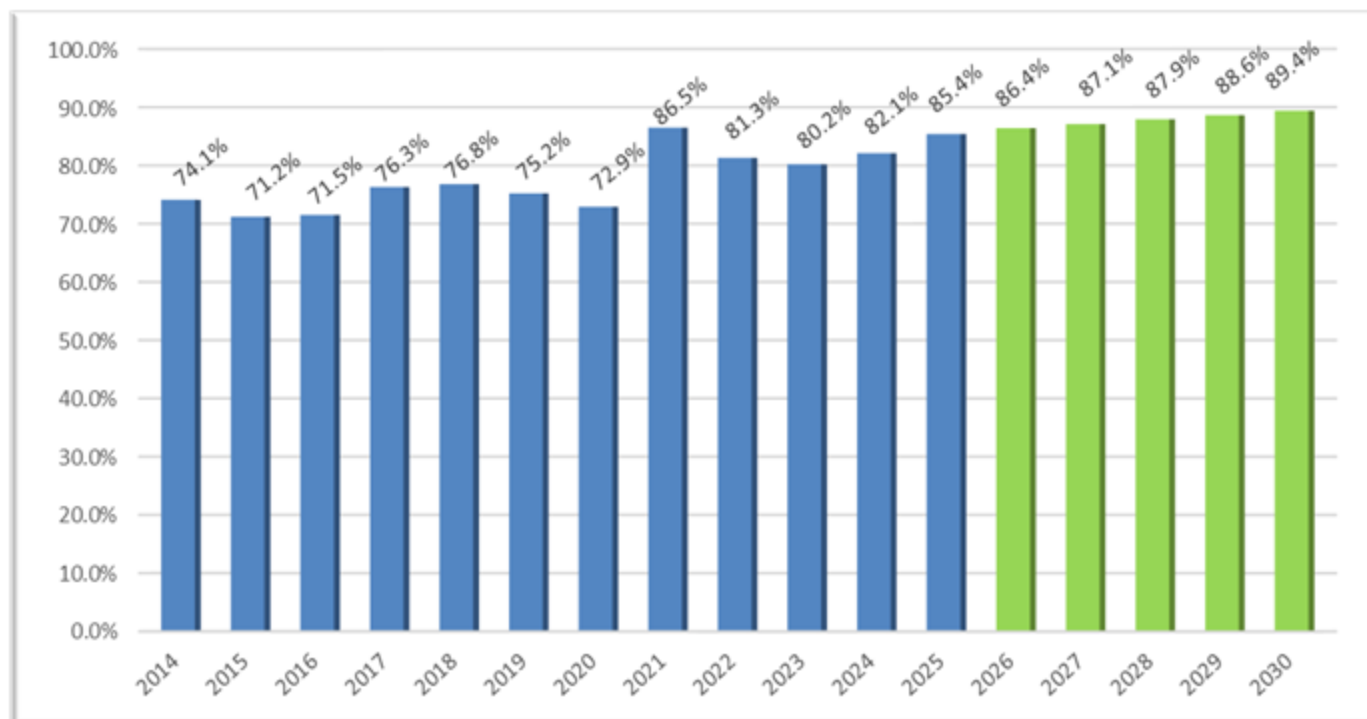
■ Historical Funded Status – using Market Value of Assets ■ Projected Funded Status using Market Value of Assets

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.

Funded Status: State

The funded status for FY 2025 based on the actuarial value of assets was 82.8%



State Plan
Unfunded
Liability as of
6/30/2025

\$5.4 Billion
using
Actuarial
Assets

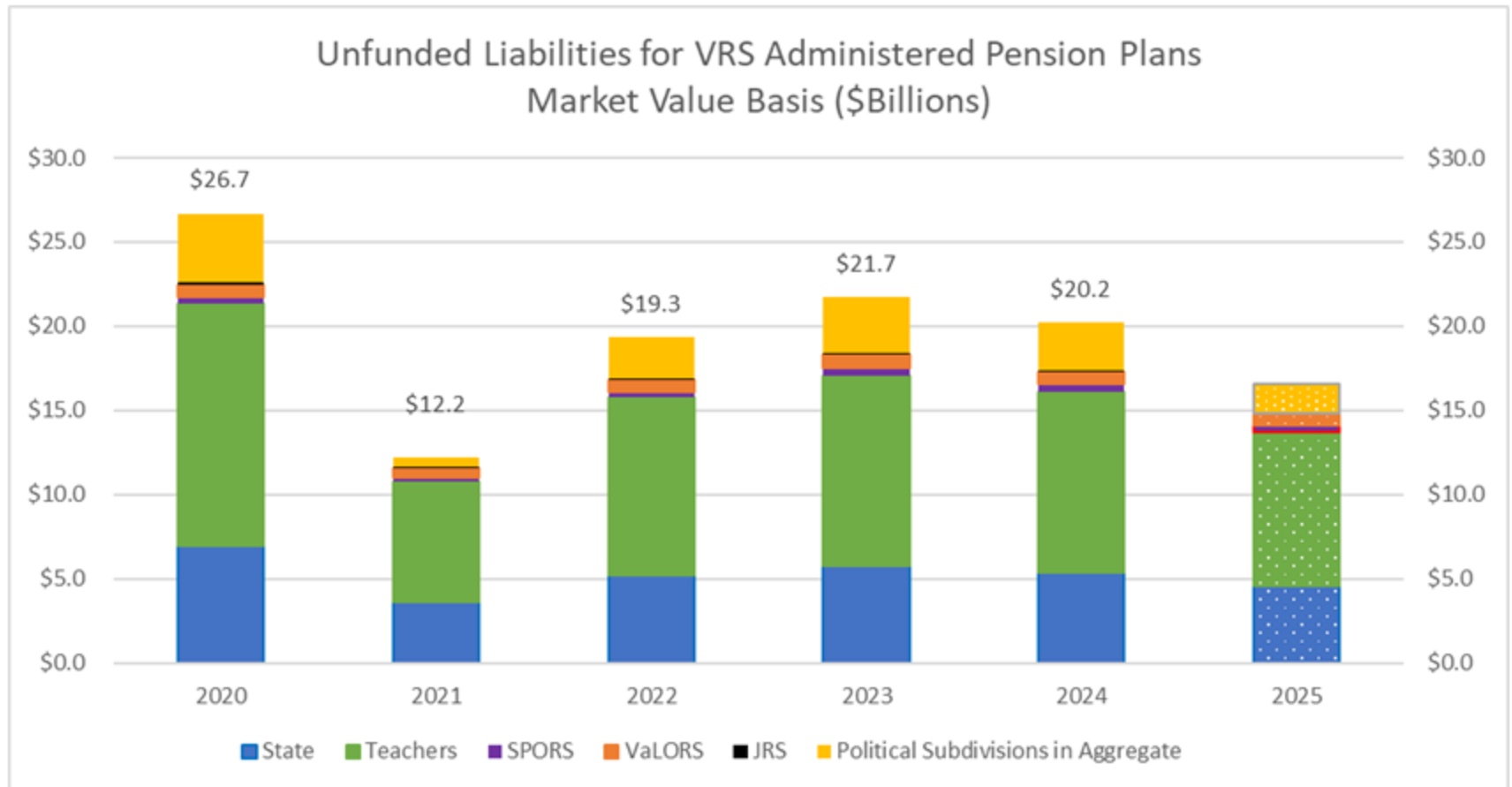
\$4.5 Billion
using
Market Assets

■ Historical Funded Status using Market Value of Assets ■ Projected Funded Status using Market Value of Assets

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.

Unfunded Liabilities

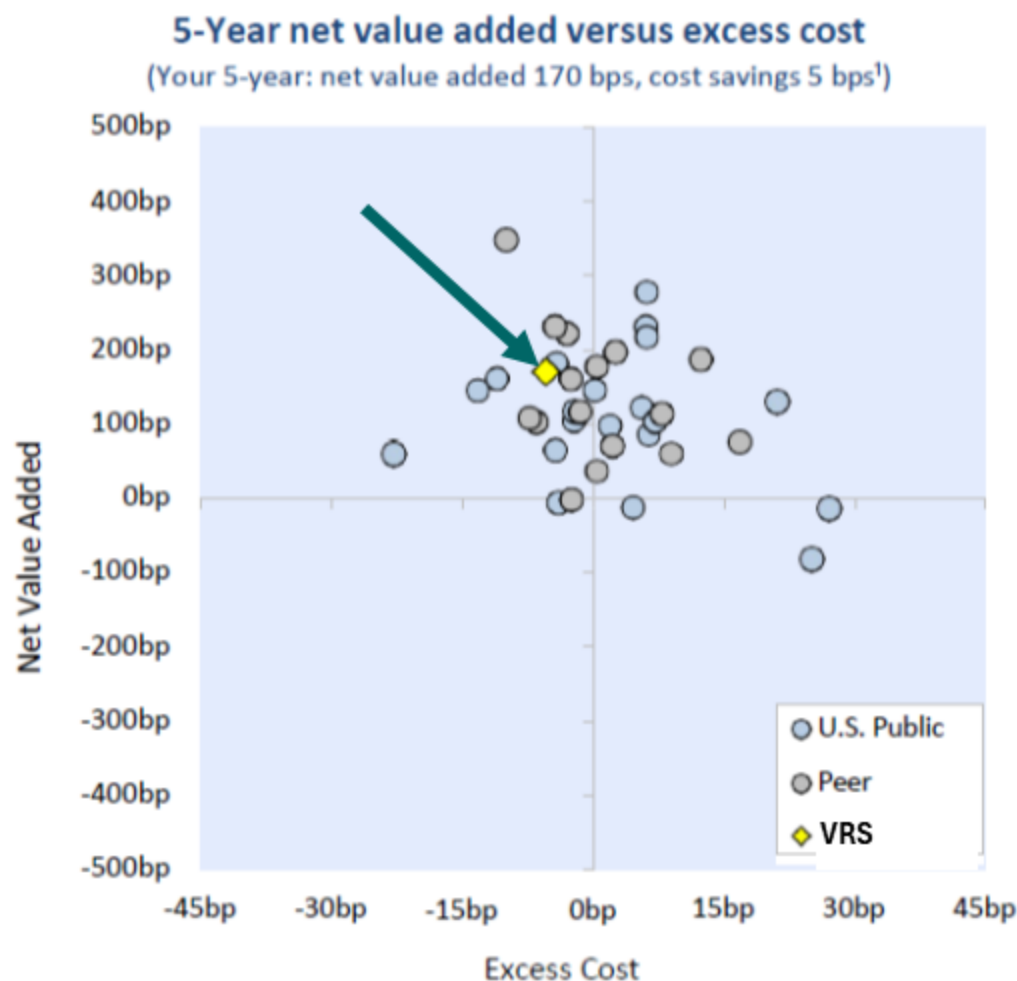


- Unfunded liabilities are trending lower, but significant liabilities still exist.
- Legacy unfunded liabilities have 18 years remaining to be paid off.
 - With amortization period below 20 years, major portion of amortization payment now going to principal rather than just satisfying interest requirement.

How VRS Compares to Peers



CEM Benchmarking: VRS Investments



VRS' five-year net total return: 9.5%

U.S. public median: 8.7%

VRS peer median: 9.2%

VRS' five-year net value added: 1.7%

U.S. public median: 1.2%

VRS peer median: 1.2%

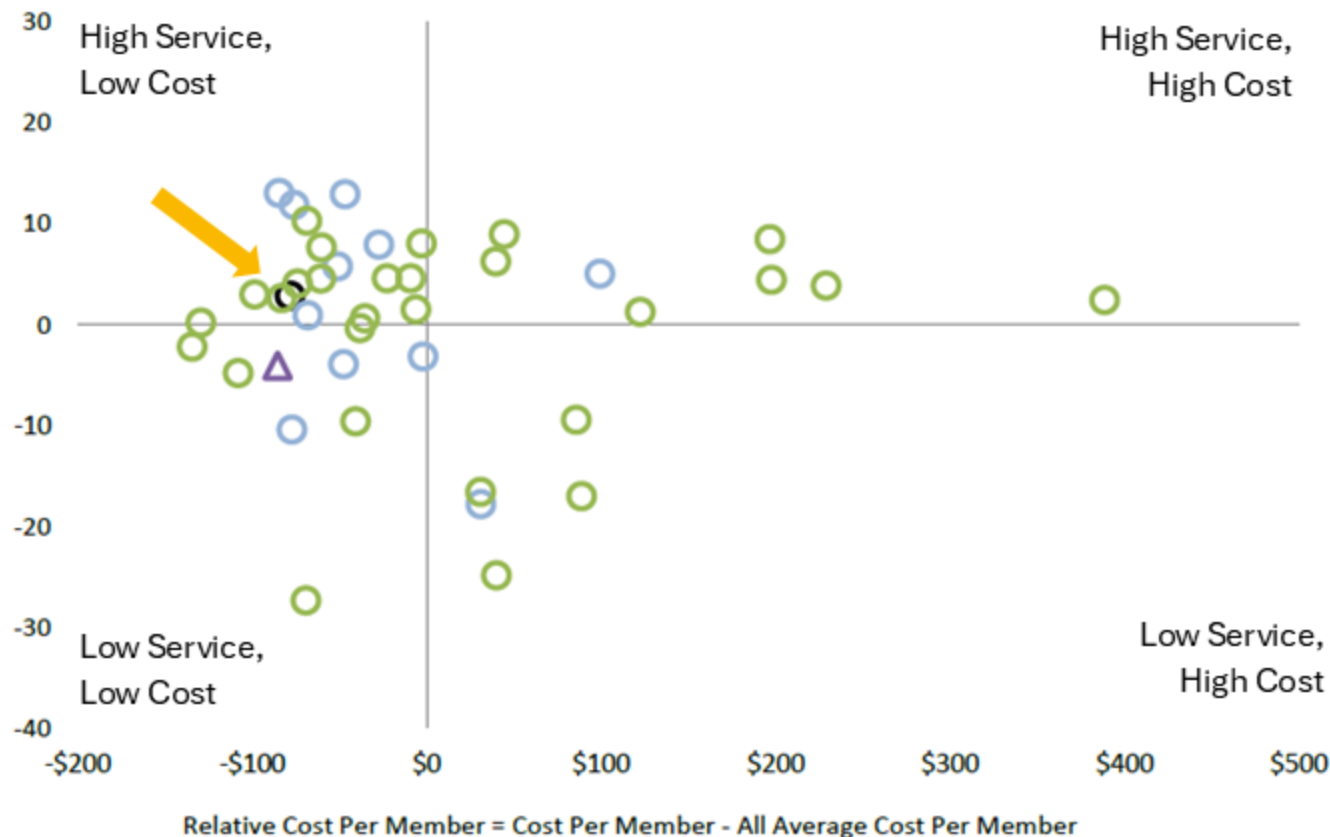
VRS' investment cost: 64.2 bps

Benchmark cost: 69.3 bps

© 2024 CEM Benchmarking Inc.

CEM Benchmarking: VRS Administration

Relationship between VRS service and pension administration cost



● VRS ● Peers ● All ▲ VRS (2017)

**Pension
Administration Cost**

\$81
VRS
SCORE

\$124
PEER
AVERAGE
COST

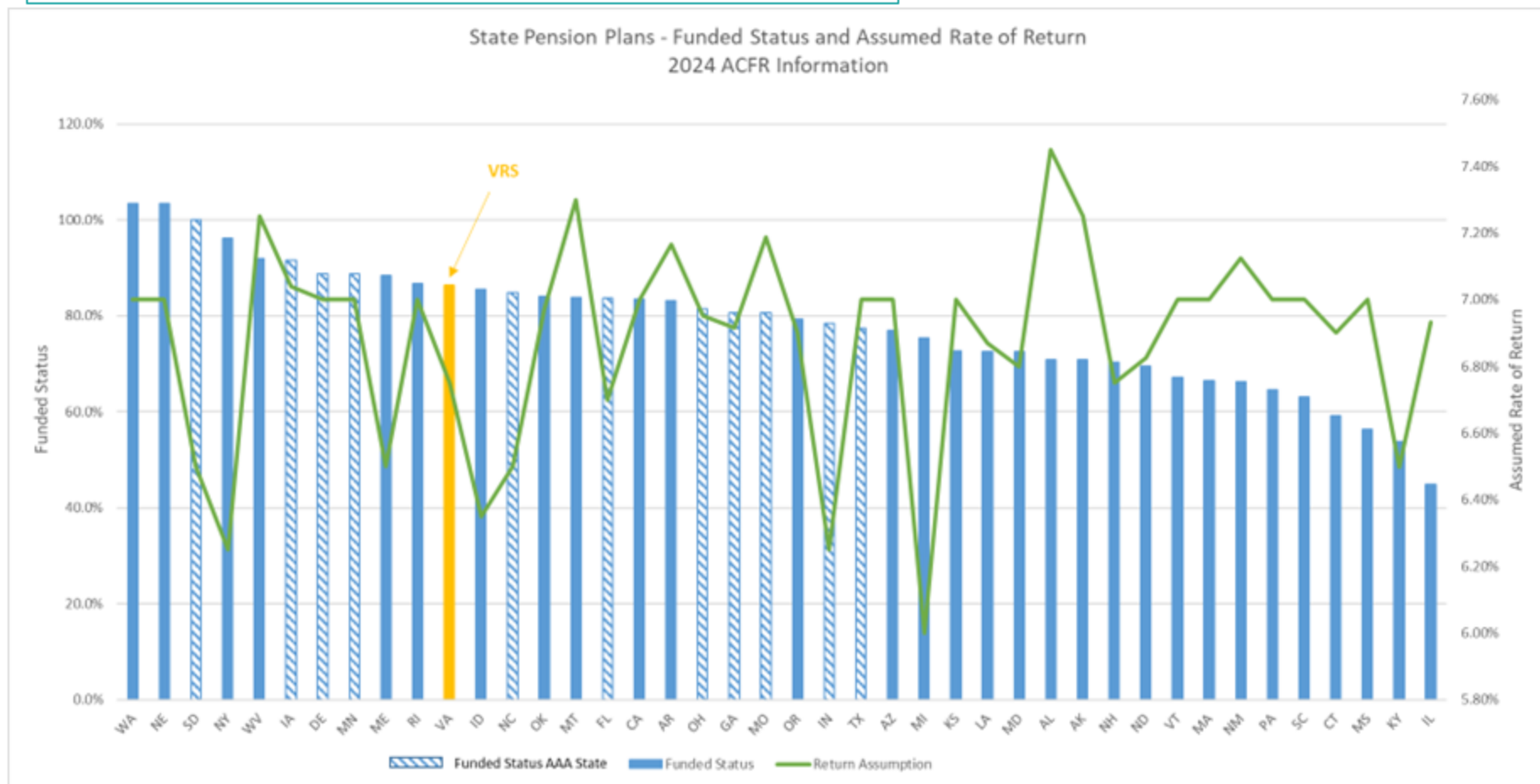
Total Service Score

81
VRS
SCORE

82
PEER
MEDIAN
SCORE

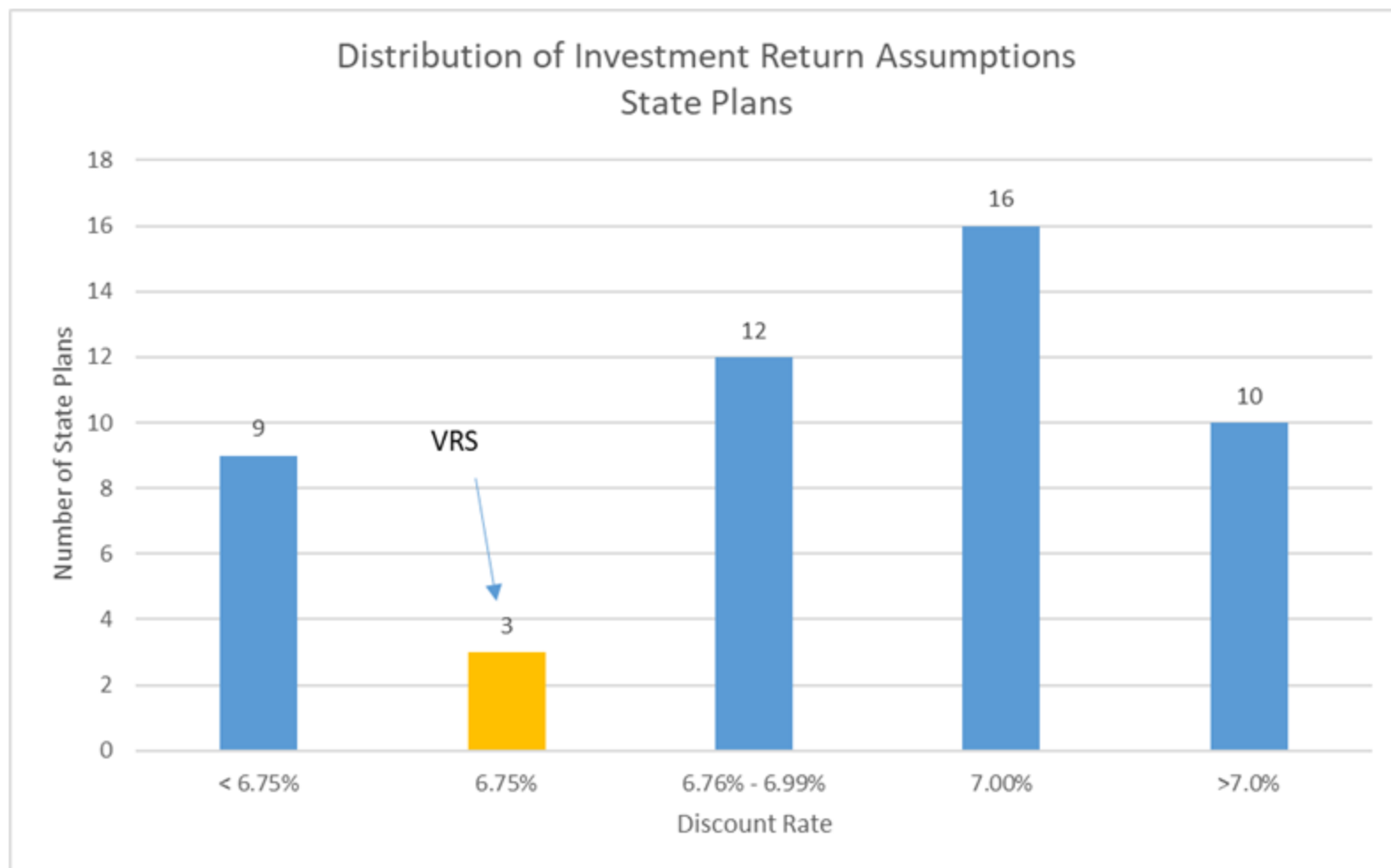
State Pension Plans: Funded Status and Assumed Rate of Return

VRS is in the top quartile compared to other states.*



*VRS uses a lower discount rate than many other states that if normalized would move VRS up in rankings.

Distribution of Investment Return Assumptions



Nine states have lower assumed rate of return
while 38 states use a higher expected rate of return.



Review of Hybrid Retirement Plan

VRS Total Membership as of June 30, 2025

	Plan 1	Plan 2	Hybrid	Total
Teachers	48,800	25,452	86,802	161,054
Political Subdivision Employees	26,808	33,150	63,330	123,288
State Employees	21,167	11,817	48,345	81,329
State Police Officers' Retirement System (SPORS)	790	1,070	—	1,860
Virginia Law Officers' Retirement System (VaLORS)	1,366	5,961	—	7,327
Judicial Retirement System (JRS)	102	34	330	466
Total Active Members	99,033	77,484	198,807	375,324

**Total
Active Members**
375,324

**Retirees/
Beneficiaries**
249,331

**Inactive/Deferred
Members**
233,402

**VRS Total
Population**
858,057

Pension Reforms



- Great Financial Crisis caused public sector pension plans to adjust benefit levels provided to employees
- VRS faced large increases in unfunded liability due to poor financial markets and historical pattern of underfunding of actuarially determined contribution rates
- Following legislation to create a second tier of benefits, Plan 2, the General Assembly in 2012 passed legislation, which created a hybrid retirement plan
- By design, the hybrid plan provided a lower defined benefit and would require members to contribute more to their retirement plan than Plan 1 and Plan 2 members if they wanted to generate similar levels of income replacement

Hybrid Retirement Plan Design



Shares
risk between
employer and
employee



Reduces
employer
investment
risk



Increases
portability



Reduces
employer
longevity risk



Lowens
future costs
of the plan

Importance of Hybrid Plan Voluntary Contributions



- Hybrid plan contains a defined contribution component that incentivizes members to defer additional funds for retirement by providing employer matching contributions



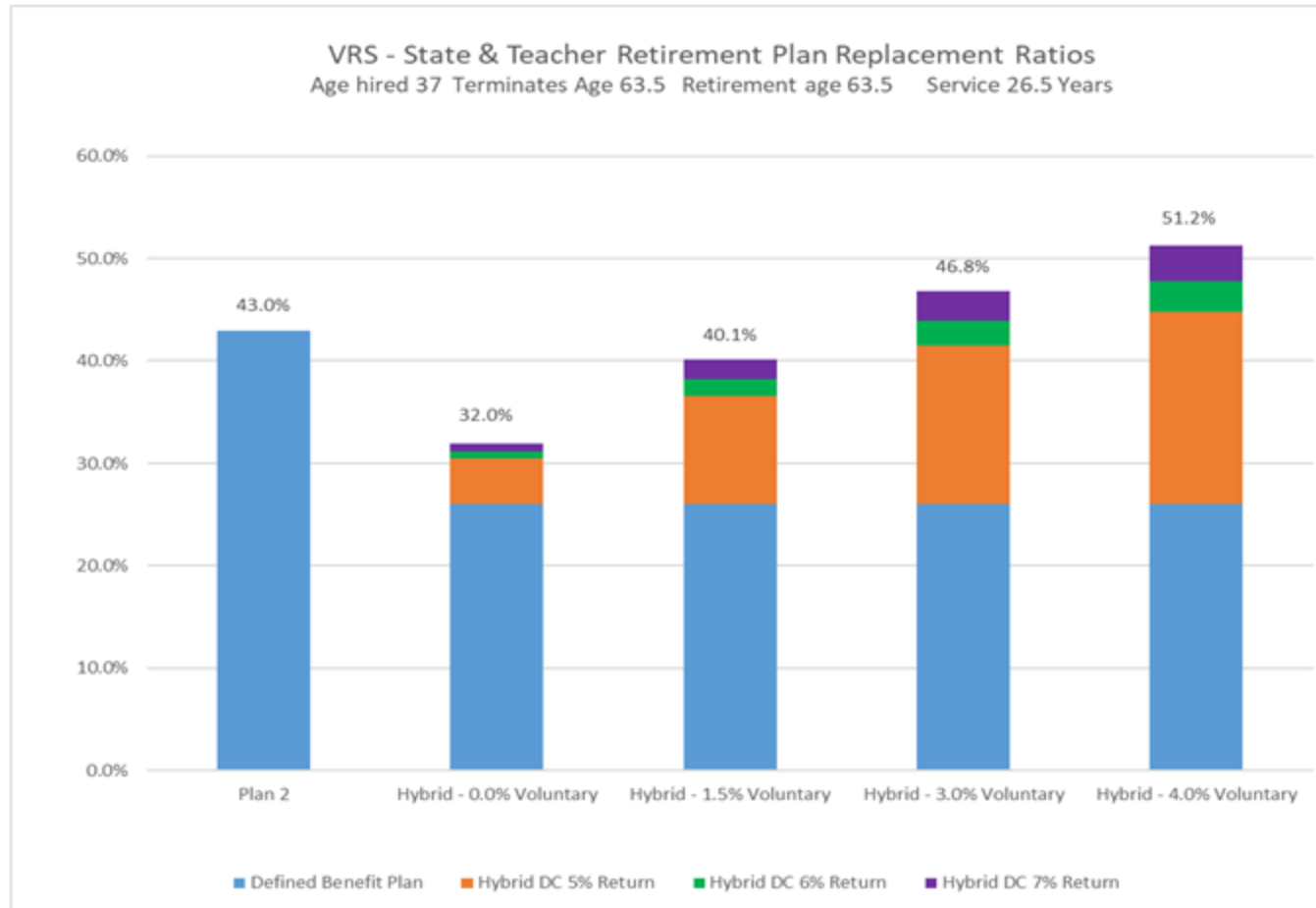
- VRS actively encourages voluntary contributions among hybrid plan members



- Every three years, auto-escalation increases voluntary contributions by 0.5% for those not at the maximum; next escalation is January 1, 2026

Estimated Replacement Ratios

State Plan by Benefit Tier



- Plan 2 requires a 5% total member contribution
- Hybrid 0% voluntary requires a 5% total member contribution.
- Hybrid 3% voluntary requires an 8% total member contribution.
- Hybrid 4% voluntary requires a 9% total member contribution.

- Investment return for defined contribution investments is shown for 5%, 6%, and 7% per year and converted to annuity assuming 4% post-retirement discount rate and 2.25% COLA.
- Income replacement percentage, based on final average final compensation (AFC).

Hybrid Plan Outreach and Resources



SmartStep



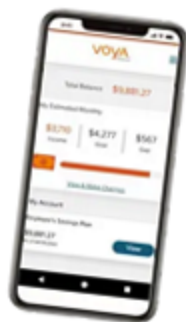
Education
and Counseling



Award-winning
Campaigns



Active Choice
by Members



Mobile App



Online Calculators



Member
Resources



Hybrid Plan
Learning Channel

Hybrid Plan Currently Under Study and Review



- JLARC will report on its review of the defined contribution component of the hybrid plan at its December meeting
- DHRM's annual compensation report will include a review of retirement plan impacts on the commonwealth's ability to retain state government employees and teachers

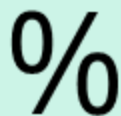
Prior Legislative Proposals – Hybrid Plan Modifications



- Accelerate auto-escalation to 0.5% increase in voluntary contributions every two years for members not at the maximum voluntary level.



- Auto-enroll with voluntary contribution at 0.5% upon date of hire, with ability to opt-out.



- Change allocation of member contribution.
 - Current 4% DB and 1% DC.
 - Proposed 3% DB and 2% DC.

Summary



Current and Future Outlook



- Hybrid Retirement Plan is largest active member plan:
 - Shared risk model between employer and employee
 - Has lowered employer benefit plan costs
- Future plan design changes/benefit enhancements require careful consideration with respect to increasing liabilities and funding requirements

(Continued)

Current and Future Outlook



- Retirement plan health has improved:
 - Investment returns have met or exceeded the assumed rate of return for past 10 years
 - Additional progress made on unfunded liabilities in pension plans through cash infusions
 - Maintained contribution rates at prior years' budget instead of lowering to actuarial costs
 - Contribution rates remain stable for employers
- Peer benchmarking studies show that VRS delivers comparable services at a lower cost
- Benchmarking also highly rates VRS investment management, signifying superior performance at less cost than peers

Helping members
plan for tomorrow,
today



Virginia
Retirement
System®





Appendix

Exclusive Benefit Rule

- 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 plan beneficiaries 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.



Cash Infusions Allocated to VRS by General Assembly

Virginia Retirement System

Analysis of Special Contributions to Pension and OPEB Plans

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020 - FY 2017	FY 2016	FY 2015	FY 2013
Pension:									
State			73,052,105	219,156,318	-	-	162,406,000	-	
Teacher			147,457,029	442,371,085	61,344,000	-	-	192,884,000	
Political Subdivisions				-	-	-	-	-	
State Police			3,652,605	10,957,816	-	-	2,119,000	-	15,000,000
ValORS			6,628,802	19,886,407	-	-	16,492,000	-	15,000,000
Judges			2,083,338	6,250,014	-	-	8,466,000	-	
Total Pension		-	232,873,879	698,621,640	61,344,000	-	189,483,000	192,884,000	30,000,000
OPEB:									
Group Life Insurance			10,146,126	30,438,378	-	-	-	-	-
Health Insurance Credit:				-	-	-	-	-	-
State		52,800,000	27,159,085	8,522,746	38,656,000	-	-	-	-
Teacher			4,004,338	12,013,013	-	-	-	-	-
Political Subdivisions				-	-	-	-	-	-
Constitutional Officers			91,992	275,975	-	-	-	-	-
Social Services Employees			1,031,416	121,754	-	-	-	-	-
Registrars			2,165	6,494	-	-	-	-	-
Total OPEB		52,800,000	42,435,122	51,378,360	38,656,000	-	-	-	-
Grand Total	-	52,800,000	275,309,001	750,000,000	100,000,000	-	189,483,000	192,884,000	30,000,000

FY 2013 - \$30 Million Award

FY 2015 - Transfer from the Literary fund toward the Teacher Pension 10-year 2010-2012 deferred contribution balance.

Chapter 665, 2015 Acts of Assembly, Item 136 C2c

FY 2016 - Additional payment for State employee Pension plans toward their 10-year 2010-12 deferred contribution balances.

Chapter 732, 2016 Acts of Assembly, Item 467 Z

FY 2021 - Special contribution toward Teacher Pension and State employee Health Insurance Credit.

Chapter 552, 2021 Acts of Assembly, Item 277

FY 2022 - Additional contributions for Pension and OPEB plans to address Unfunded Liabilities of each plan.

Chapter 1, Special Session 1, 2022 Acts of Assembly, Item 277

