

## JLARC Meeting

July 9, 2018 – MINUTES

JLARC Members Present:

Senator Thomas K. Norment: Chairman, Delegate R. Steven Landes: Vice-Chairman, Delegate Terry L. Austin, Delegate Betsy B. Carr; Speaker M. Kirkland Cox, Senator Emmett Hanger, Delegate Charniele Herring, Senator Janet Howell, Delegate Chris Jones, Delegate Robert Orrock, Senator Ryan McDougle, Delegate Kenneth Plum, Senator Frank Ruff.

JLARC Staff Present:

Hal Greer, Director; Justin Brown, Senior Associate Director; Tracey Smith, Associate Director; Kimberly Sarte, Associate Director; Lauren Axselle, Erik Beecroft, Sarah Berday-Sacks, Danielle Childress, Kathy DuVall, Nick Galvin, Maria Garnett, Elizabeth Gibbs, Mark Gribbin, Paula Lambert, Jeff Lunardi, Joe McMahan, Ellen Miller, Jordan Paschal, Ellie Rigsby, Nathan Skreslet, Brittany Utz, Nichelle Williams.

The meeting was called to order at 10:10 a.m. by Delegate Landes, Vice-Chairman. Delegate Landes recognized Hal Greer, JLARC staff Director, who provided the Commission with a brief overview of the meeting agenda.

**Workforce and Small Business Incentives**

Mr. Greer introduced Ellen Miller who provide the Commission with a presentation on the *Workforce and Small Business Incentives* report.

Senator Howell commented that the original reasoning behind the telework tax credit was mainly to reduce traffic on Virginia roads and not necessarily to provide an economic development incentive. She asked if JLARC staff looked at other states and the research regarding the impact of getting people off the road. Ms. Miller said that we also looked at the other purposes of the credit, and the research findings in other states is mixed regarding the impacts. Research has not found that teleworkers are off the road more than non-teleworkers.

Senator Norment mentioned the low returns per dollar invested and asked what JLARC staff see as a potential ripple effect if the General Assembly eliminated all of the programs with less than a one-for-one return. He also asked what the business case is for receiving a four cent return. Ms. Miller said that the effect would depend on how the General Assembly may wish to use this money for other purposes. She also indicated that if the expectation is to have a higher return, then these incentives are ones to consider eliminating. Hal Greer then explained that it is more than just the revenue return as some

incentives may still have sizable impacts on state GDP. The low return in revenue per dollar is why JLARC staff recommended eliminating the incentive.

Senator Norment then requested a motion to receive the *Workforce and Small Business Incentives* report and authorize printing. Delegate Carr made a motion, which was seconded and approved unanimously by the Commission.

## **VRS Oversight Report**

Mr. Greer introduced Kimberly Sarte, who provided a brief overview of JLARC's VRS oversight report and the Quadrennial Actuarial Audit of VRS performed by Gabriel, Roeder, Smith & Company. She then introduced Joe McMahon who provided the Commission with a presentation of the VRS oversight report.

Following Mr. McMahon's presentation, Delegate Landes commented that VRS should look at the advantages and disadvantages of what peer institutions in other states are doing regarding compensation of investment professionals. He stated that he is pleased the consultant is broadening what they look at and asked if JLARC will be one of the stakeholders the consultant reaches out to. Mr. McMahon said stated that VRS invited JLARC staff to be one of the stakeholders, and noted that they will share the findings of JLARC's 2016 review of compensation of VRS investment staff as well as findings from additional JLARC research conducted as follow-up to the report.

Delegate Landes also asked why higher education employees have a low participation rate in the VRS plan. Mr. McMahon stated that the higher education employees in Virginia also have the option to use the Fidelity and TIAA-CREF plans. He said the advantage of the VRS plan is lower fees, so they may experience slightly lower returns. He also stated that higher education employees may be more comfortable with the TIAA-CREF plan.

Delegate Landes then asked whether the VRS plan is comparable to private plans. He said that the VRS fees seem lower and asked if the plan is as portable as private plans, and whether employers are doing enough to make staff aware of the VRS plan. Mr. McMahon said the state plan is just as portable and the fees are lower. Kimberly Sarte added that there may be an inertia effect because Fidelity and TIAA-CREF plans are more widely known, which has resulted in lower participation in the VRS plan.

Delegate Jones inquired as to how large the fee difference is between the TIAA and the VRS plans. He said he seems to recall that it is significant. Mr. McMahon said he is not sure of the exact difference, but it is big enough to matter. He said it depends on the specific fund since the fees differ by fund.

Senator Howell questioned what incentives are provided to employees to participate in the voluntary portion of the hybrid retirement plan. Mr. McMahon explained that employers match the first 1% voluntary contribution and 0.5% for each of the next 3% voluntarily contributed.

Senator Howell then asked if JLARC has looked into what other states are doing in terms of similar incentives. She expressed concern that employees are not saving enough toward their retirement. Mr. McMahon stated that JLARC staff have not looked into what other states are doing, but this is something that the staff can do. He said that most employees are not even taking advantage of the 1% match for the first 1% invested. Senator Howell also asked whether the lower participation could be due to declining incomes or the lack of salary increases over time. Mr. McMahon said there are probably many reasons for the low participation, but that this could be one of them.

Senator Norment asked if the administrative costs continue to justify the existence of the hybrid plan. Mr. McMahon said he doesn't think he can answer that bigger picture question. Senator Norment then asked how the higher education voluntary contribution plan returns have performed compared to the deferred compensation investment options available to VRS hybrid plan members. Mr. McMahon answered that the VRS plan tends to perform better than the other higher education plans when compared to their respective benchmarks.

### **Quadrennial Actuarial Audit of Virginia Retirement System**

Joe McMahon then introduced Lance Weiss and Amy Williams from Gabriel, Roeder, Smith & Company (GRS), who gave a presentation on the Quadrennial Actuarial Audit of VRS.

Delegate Jones questioned page 42 of their report, which notes 75% funded, but that many other state systems use a higher rate of return. He said that when the benchmark changed from 8.5% to 7%, the General Assembly had to make a contribution. He asked how VRS would compare if all states used a 7% assumed rate of return, or if VRS assumed a higher rate of return of 7.5%. He noted that other states' unrealistic assumptions result in Virginia not comparing as well in terms of funded status. Mr. Weiss agreed but stated that many other states are lowering their assumptions and that a 7% assumption rate is not as conservative as it used to be. He explained that the trend is declining so VRS may want to look at this since other states have lower assumed rates of return, such as 6.75%.

Senator Norment asked how traumatic it would be if VRS missed the assumption by one-tenth of a percent. Mr. Weiss stated that actuarial assumptions tend to be self-correcting because some years will be below the assumed rate, and others will be above. He explained that the gains and losses are amortized, so VRS is doing well as long as they hit the 7% target on average.

### **VRS Annual Status Report**

Ms. Sarte then introduced the Chair of the VRS Board of Trustees, Mitchell Mason, who provided the Commission with an overview of VRS. Following Mr. Nason's remarks, Mr. Ronald Schmitz, VRS Chief Investment Officer, presented an overview of VRS' investments. At the conclusion of Mr. Schmitz's presentation, Ms. Patricia Bishop, VRS' Director, provided the Commission with an overview of VRS membership, hybrid retirement plan status (including voluntary contributions), communications and outreach

efforts, funded status, contribution rates, sensitivity analysis and stress testing, benchmarking, and impact of pension reform.

At the conclusion of Ms. Bishop’s remarks, Senator Norment requested a motion to receive JLARC’s *VRS Oversight Report* and authorize printing. Senator Howell made a motion, which was seconded by Delegate Carr, and approved unanimously by the Commission.

### Other Business

Mr. Greer stated that Justin Brown’s interactive data visualization demonstration will be postponed to a later meeting date. He then stated that the JLARC Study Topic Selection Subcommittee will meet the morning of September 10, 2018 to discuss potential work under JLARC’s new health and human resources responsibilities and other study topic ideas. The Commission members who are on the subcommittee agreed to begin that meeting at 9:00 a.m. on September 10th.

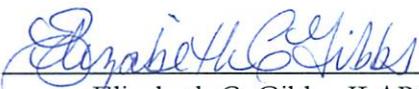
### Adjournment

Lastly, Mr. Greer announced that there will be no Commission meeting in August and the next Commission meeting is scheduled for September 10, 2018, which will include presentations on the Department of Elections report and a transition update from VITA.

There being no further business, the Commission rose at 11:54 a.m.

Approved by:   
Hal E. Greer, JLARC Director

Date: 7/18/18

Prepared by:   
Elizabeth C. Gibbs, JLARC Business Manager