

# JLARC Legislator's Guide Virginia Retirement System

2023





# About VRS

The Code of Virginia establishes a retirement system for state employees and the employees of school divisions and participating political subdivisions as required by the Constitution of Virginia (Article X, §11).

The Virginia Retirement System (VRS), the nation's 14th largest public or private pension system, administers retirement plans and other benefit programs for more than 788,000 current and former members. VRS members include most employees in Virginia state and local government, including public school divisions. Members participate in one or more retirement plans, including defined benefit and defined contribution plans, and programs for life insurance, sickness and disability, and other post-employment benefits.

## VRS fast facts

**MEMBERSHIP** as of September 30, 2022



**354,102** Actively employed members

**238,390** Retired members & beneficiaries

**195,807** Inactive and deferred members

**788,299** Total

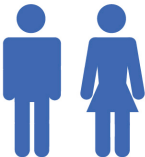
**ASSETS** as of September 30, 2022



**\$96.8 billion**

Total VRS trust fund assets

**STATE EMPLOYEES AT RETIREMENT\*** as of June 30, 2022



**65** Average age

**25** Average years of service

**40%** Average VRS benefit received as percentage of pay

**\$25,119** Average annual benefit at retirement

SOURCE: VRS administration and investment data.

\* Shown: State Employees Plan only.

# Legislative oversight

The General Assembly regularly enacts legislation to adjust benefits and state contributions to the VRS trust fund as well as to address other needed changes to the VRS statutes. The Senate Finance and Appropriations and House Appropriations committees are the legislative committees that consider legislation that affects VRS. The General Assembly approves the VRS administrative budget and state contributions to the retirement system every year in the Appropriation Act.

Under the Virginia Retirement System Oversight Act, the Joint Legislative Audit and Review Commission (JLARC) oversees and evaluates VRS on an ongoing basis (Title 30, Chapter 10 of the Code of Virginia). JLARC provides semiannual updates, including an annual VRS oversight report; oversees a quadrennial actuarial audit; and produces other reports as requested. In addition, the Auditor of Public Accounts conducts an annual financial audit of VRS.

## State contributions to VRS

### STATE CONTRIBUTIONS for FY22



**\$1,574 million** to retirement plans  
**\$286 million** to other benefit programs  
**\$1,859 million** total state contributions

### STATE CONTRIBUTION RATES approved by the General Assembly



Retirement	FY23–FY24
Teachers	16.62%
State	14.46
VaLORS	24.60
SPORS	29.98
JRS	30.67

SOURCE: 2022 Appropriation Act and JLARC analysis of VRS financial data and Department of Education standards of quality data.

NOTE: State contribution amounts may not sum because of rounding. State contribution rates are shown as a percentage of employer payroll. Board-certified contribution rates decreased for the State and Teachers plans for FY23–FY24, but the 2022 Appropriation Act maintained higher rates to help pay down pension liabilities. VaLORS is the Virginia Law Officers' Retirement System. SPORS is the State Police Officers' Retirement System. JRS is the Judicial Retirement System.

# Operations

VRS is an independent agency governed by a board of trustees. The board is responsible for overseeing VRS operations and investments, including oversight of the VRS trust fund, which it does through the assistance of several standing committees. The board appoints a director to lead VRS and a chief investment officer to oversee the VRS trust fund. The board also issues policies and procedures to guide operations, appoints an internal auditor to review agency operations, and procures an actuary to perform annual valuations of VRS plans and programs.

## VRS board – nine members

**Five members** appointed by the **governor**

**Two** with investment management experience, **one** with employee benefit plan management experience, **one** local government employee or retiree, and **one** public institution of higher education employee or retiree

**Four members** appointed by the **General Assembly**

**Two** with investment management experience, **one** state government employee or retiree, and **one** public school division employee or retiree

NOTE: By statute, elected or appointed officials are prohibited from serving on the VRS board.

The VRS director oversees the administrative departments, which manage benefits administration, customer service, finance, public relations, human resources, policy, and IT. The chief investment officer oversees the investment department, which manages the VRS trust fund and the defined contribution plans' investments according to policies set by the board. As an independent agency, VRS is exempt from some personnel and procurement laws and regulations that apply to executive branch agencies.

Nearly all VRS operations are funded through the VRS trust fund; the agency generally does not receive general fund appropriations. VRS operating expenses were \$105 million for FY22. Operating expenses include most agency expenses, such as personnel, contracted professional services, communications, and office space. Operating expenses include in-house investment expenses (\$38 million) but do not include payments for outside investment services (\$575 million in FY22). Operating expenses also do not include payments to retirees and beneficiaries (\$6 billion in FY22).

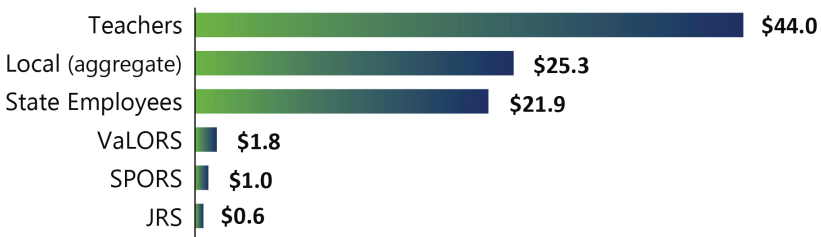
# Retirement plans

VRS administers defined benefit retirement plans, also called pension plans, for state and local employees. The two largest plans are the Teachers Plan and the State Employees Plan. Other plans include those for state police officers (SPORS), other Virginia state law officers (VaLORS), judges (JRS), and individual plans for 600 local political subdivisions. Plan members are divided into three benefit groups, depending on when they were hired: Plan 1, Plan 2, and the Hybrid Retirement Plan. Plan 1 and Plan 2 are defined benefit plans. The hybrid plan has both defined benefit and defined contribution components.

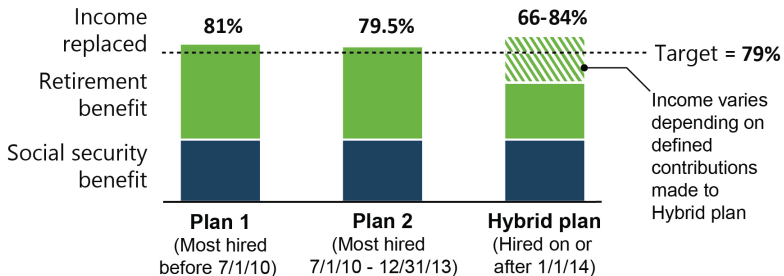
Members with enhanced hazardous duty benefits—public safety officers in SPORS, VaLORS, and approximately 40 percent of local plans—receive higher benefits per year of service and can retire with fewer years of service. A hazardous duty supplement is available to some members from the date they

## Defined benefit plans at a glance

**PLAN SIZE BY NET POSITION** as of June 30, 2022 (\$ billions)



**INCOME REPLACEMENT RATIO BY BENEFIT GROUP**



SOURCE: VRS retirement plan financial information and actuarial analysis.

NOTE: Plan size by assets is the total actuarial value of assets in each plan. Local plan size is the aggregate assets of all 600 plans for political subdivisions. Income replacement is for a member of the State Employees Plan retiring at age 65 with an average final compensation of \$55,000 and 30 years of service.

retire until they reach normal Social Security retirement age, or age 65. Members with enhanced benefits are not eligible to participate in the hybrid plan.

VRS also administers eight defined contribution plans. Higher education faculty, political appointees, and school superintendents may select optional retirement plans in lieu of a VRS defined benefit plan or hybrid plan. The Commonwealth 457 and Virginia 401(a) Cash Match plans are available to most state employees, and some local employees, for supplementing their defined benefit plan. The Hybrid Retirement Plan’s defined contribution component is open only to hybrid plan members. The eight defined contribution plans administered by VRS held total assets of \$6.5 billion across approximately 520,000 accounts as of September 30, 2022.

Assets of defined contribution plans are individually owned and held separate from the VRS trust fund. The defined contribution plans are administered by private companies under contract with VRS. These companies charge participants for the investment management and account administration services they provide.

## Defined contribution plans at a glance

### TYPES OF PLANS



### PLAN ASSETS as of September 30, 2022 (\$ millions)



SOURCE: VRS plan financial information.  
 NOTE: Supplemental plans also include the Virginia Supplemental Retirement Plan, which is a seldom-used supplemental plan for certain educators.

# Other benefits programs

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VRS administers several additional benefit programs.

**Retiree health insurance credit** – Provides a tax-free reimbursement to offset the cost of health insurance premiums, equal to \$1.50 to \$4 per year of the employee's creditable service each month. (The reimbursement will increase by \$0.25 per month for certain employees starting in FY24.) Available to retired state employees, teachers, and employees of participating local governments that have elected the benefit and who have at least 15 years of service.

**Group life insurance** – Provides basic group life insurance for death and dismemberment. Available to active state employees, teachers, and employees of participating local governments that have elected the benefit. Employees have the option to purchase additional coverage for themselves and other family members.

**Disability programs** – The Virginia Sickness and Disability Program (VSDP) provides eligible state employees with sick leave, family leave, and personal leave, as well as short- and long-term disability benefits for non-work- and work-related illnesses and injuries. VSDP also provides long-term care benefits for eligible employees. The VRS Disability Retirement program provides disability benefits for state employees not covered by VSDP, certain local public safety employees receiving enhanced retirement benefits, and local employees and teachers who are not in the Hybrid Retirement Plan.

The Virginia Local Disability Program (VLDP) provides short and long-term disability benefits and long-term care benefits for Hybrid Retirement Plan employees of participating school divisions and political subdivisions. Plan 1 and Plan 2 employees of participating school divisions and political subdivisions, as well as political subdivision employees covered by enhanced hazardous duty benefits, are covered under the traditional disability retirement plan.

**Line of Duty Act program** – Provides health insurance and certain disability and death benefits for eligible state and local government employees and volunteers who are killed or disabled while performing their public safety duties. VRS conducts eligibility determinations for the Line of Duty Act (LODA) program, and manages LODA funds for state agencies and those localities that have chosen to pool their funds. The Department of Human Resource Management administers the LODA health benefit plans.

**Other programs** – Includes voluntary, employee-paid, group long-term care insurance, and the Service Award Program for Volunteer Firefighters and Rescue Squad Workers (VOLSAP).



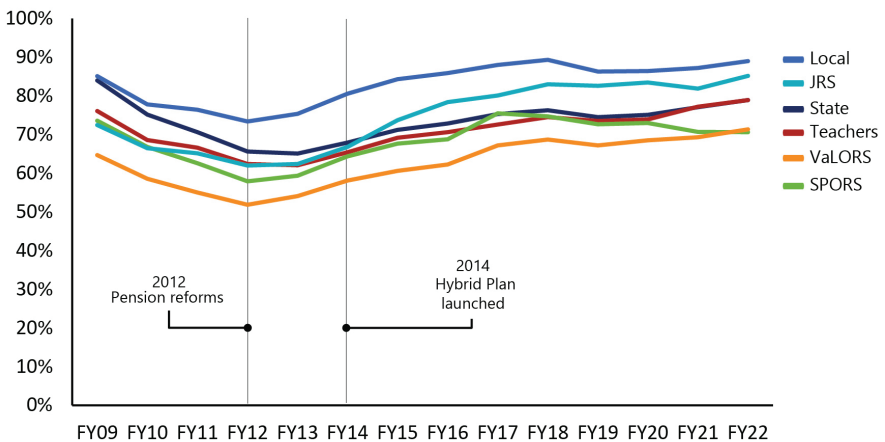
# Funding

The financial assets used to pay VRS pension and other benefits are pooled in the VRS trust fund. VRS receives revenues for the fund from three sources: employer contributions, member contributions, and investment income.

Employer contributions come from state agencies, school divisions, and local political subdivisions. The recommended employer contribution rate for each plan is calculated by the VRS actuary every two years. Statute requires VRS to determine rates in a manner so that they remain relatively level from year to year. The rate covers the cost of plan benefits and repays outstanding liabilities over a designated time period. The state pays employer contributions for the State Employees, SPORS, VaLORS, and JRS plans. The state pays about 37 percent of the Teachers Plan costs, and school divisions pay the rest. Each local plan has a unique employer contribution rate that is paid by the local body.

The health of a pension plan is commonly measured by its funded status, which is the ratio of plan assets to liabilities. The five state-supported plans had a funded status ranging from 71 to 85 percent as of June 30, 2022. Local plans had an aggregate funded status of 89 percent. The funded status increased in FY22 for most state-supported VRS plans—including the Teachers and State Employees plans—because of FY21 investment gains and actions taken by the General Assembly in recent years to pay down liabilities.

## Funded status of VRS retirement plans



SOURCE: Annual valuation reports from VRS actuary.

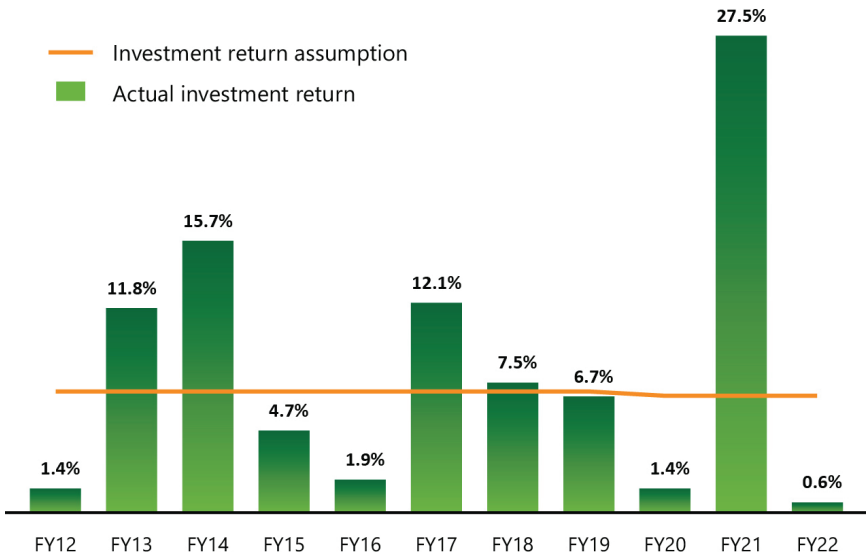
NOTE: Funded status is reported based on actuarial value of assets.

# Investments

VRS invests the trust fund's assets to provide additional income to pay for retirement and other benefits. VRS assumes a long-term 6.75 percent rate of return on investments, but actual returns vary from year to year. Historically, investment returns have covered two-thirds of the cost of benefits paid.

Trust fund investments are allocated among different asset classes to maximize returns while controlling risks. The asset classes are global public equity (stocks), private equity (ownership in companies not publicly listed), real assets (real estate, infrastructure), credit strategies (high yield and bank loans), fixed income (bonds, money market instruments, and emerging market debt), private investment partnerships (multi-strategies, private assets) and multi-asset public strategies (opportunistic and risk-based approaches). Asset allocations are set by the VRS board, and investments are managed by the investment department. As of September 30, 2022, 27 percent of assets were managed in-house by VRS staff, including nearly all fixed income assets, nearly half of public equity assets, and some real assets. The remaining 73 percent of assets were managed by external managers under VRS supervision.

## VRS one-year investment returns



SOURCE: VRS annual reports and investment department data.

NOTE: Long-term investment return assumption reduced from 7.0% (FY10–FY19) to 6.75% in FY20.

Consistent with the Internal Revenue Code, Virginia statute states that the VRS trust fund assets must be used and managed for the exclusive benefit of members and beneficiaries. VRS assets must remain separate and independent from all other state funds and must be administered solely in the interest of the members and beneficiaries of the retirement system (Article X, §11, Constitution of Virginia). The VRS board has broad authority to determine how funds are invested but is required to maintain a diverse investment portfolio and make decisions with "the care, skill, prudence, and diligence" of a "prudent person" (§51.1-124.30, Code of Virginia).



For more information on the Virginia Retirement System,  
see [varetire.org](http://varetire.org)

[JLARC.VIRGINIA.GOV](http://JLARC.VIRGINIA.GOV)

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