



Virginia Retirement System Oversight Report

JLARC oversight of VRS

- Virginia Retirement System (VRS) Oversight Act* requires JLARC to
 - Oversee VRS on a continuing basis
 - Report on investments and other topics
 - Conduct actuarial analysis every four years
 - Publish a guide for legislators

*Code of Virginia, Title 30, Chapter 10.

In this presentation

Trust fund investments

Trust fund rates and funding

Hybrid plan

Trust fund had 5.5 percent return over one-year period

- Assets = \$82.7 billion
- \$2.5 billion increase over one-year period
- All asset classes achieved positive returns for all benchmark periods

Investment returns and asset value as of September 30, 2019.

Recent total trust fund performance slightly below benchmarks, but longer term performance above them

Total fund	1-year	3-year	5-year	10-year	25-year
Return	5.5%	8.0%	6.8%	8.4%	8.3%
Benchmark	5.9	8.1	6.6	8.0	7.8
Excess return	-0.4	-0.1	0.2	0.4	0.5

Returns as of September 30, 2019.

Benchmarks are a blend of indexes holding similar types of investments.

Returns for asset classes largely met or exceeded benchmarks but some underperformed

Asset class	1-year	3-year	5-year	10-year
Public equity	x	x	x	✓
Fixed income	✓	✓	✓	✓
Credit strategies	x	✓	✓	✓
Real assets	✓	✓	✓	✓
Private equity	✓	✓	✓	x
Multi-asset public strategies	x	N/A	N/A	N/A
Private investment partnerships	✓	✓	N/A	N/A

✓ = Return met or exceeded benchmark x = Return below benchmark
 N/A = Not yet applicable

Performance as of September 30, 2019.

VRS approved changes to strategic asset allocation policy

Asset class	Current policy	New policy	Change
Public equity	40%	34%	↓ 6%
Fixed income	16	15	↓ 1
Credit strategies	14	14	None
Real assets	14	14	None
Private equity	11	14	↑ 3
PIP	2	3	↑ 1
MAPS	3	6	↑ 3

- Expected to provide additional protection against stock market volatility and increase long-term investment returns

PIP = Private Investment Partnerships; MAPS = Multi-Asset Public Strategies

VRS lowered long-term rate of return assumption to 6.75 percent from 7 percent

- Investment returns expected to be lower over the next five to 10 years due to possible economic downturn
- 6.75 percent rate of return assumption
 - assumes low near-term returns, moderate long-term returns
 - higher probability of being met because reflects 40th percentile of projected returns instead of median
- VRS will need approximately \$178 million in additional employer contributions each year, beginning in FY21
 - General fund impact = \$74 million

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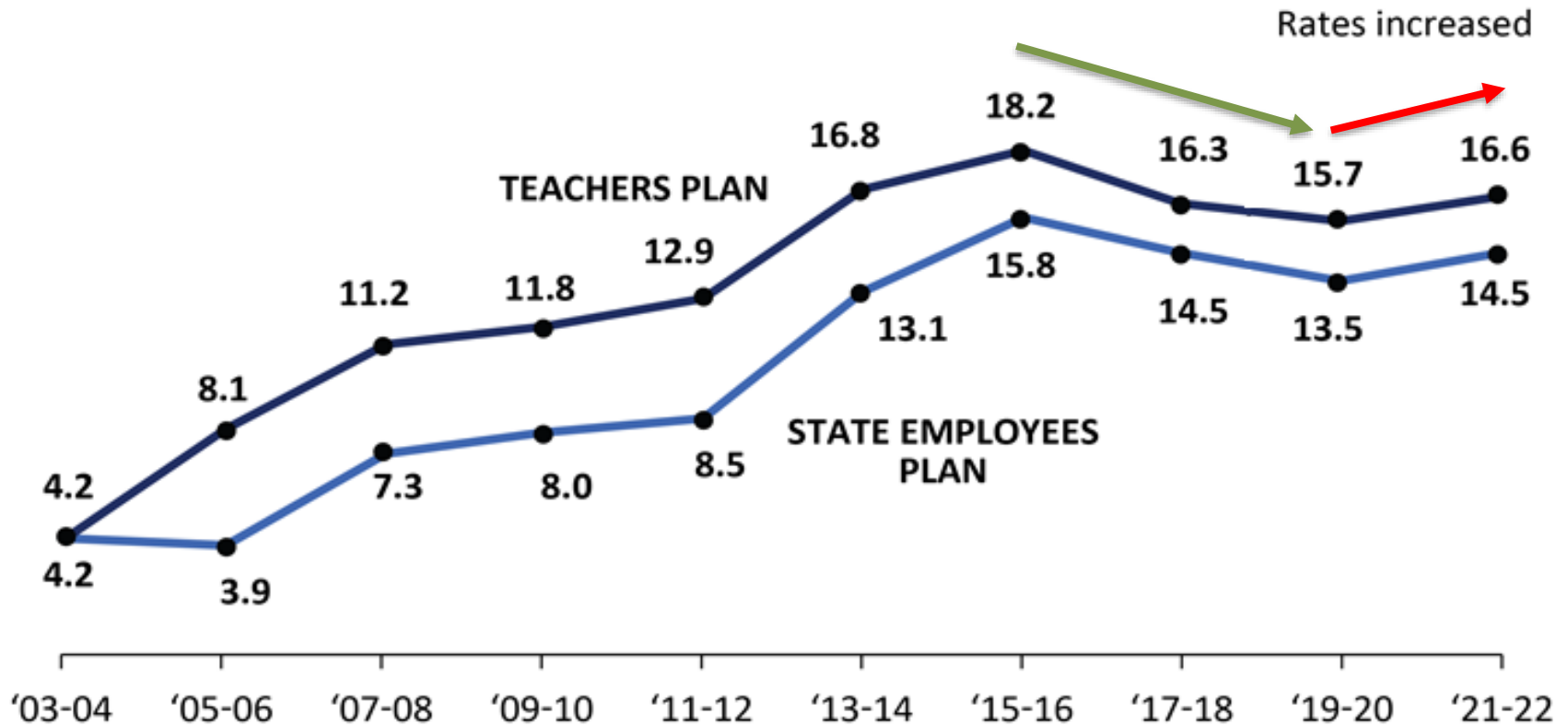
Contribution rates certified by VRS board increased for most plans due to new return assumption

	FY19 – FY20	FY21 – FY22	% Change
Teachers	15.68%	16.62%	↑ 0.94%
State employees	13.52	14.46	↑ 0.94

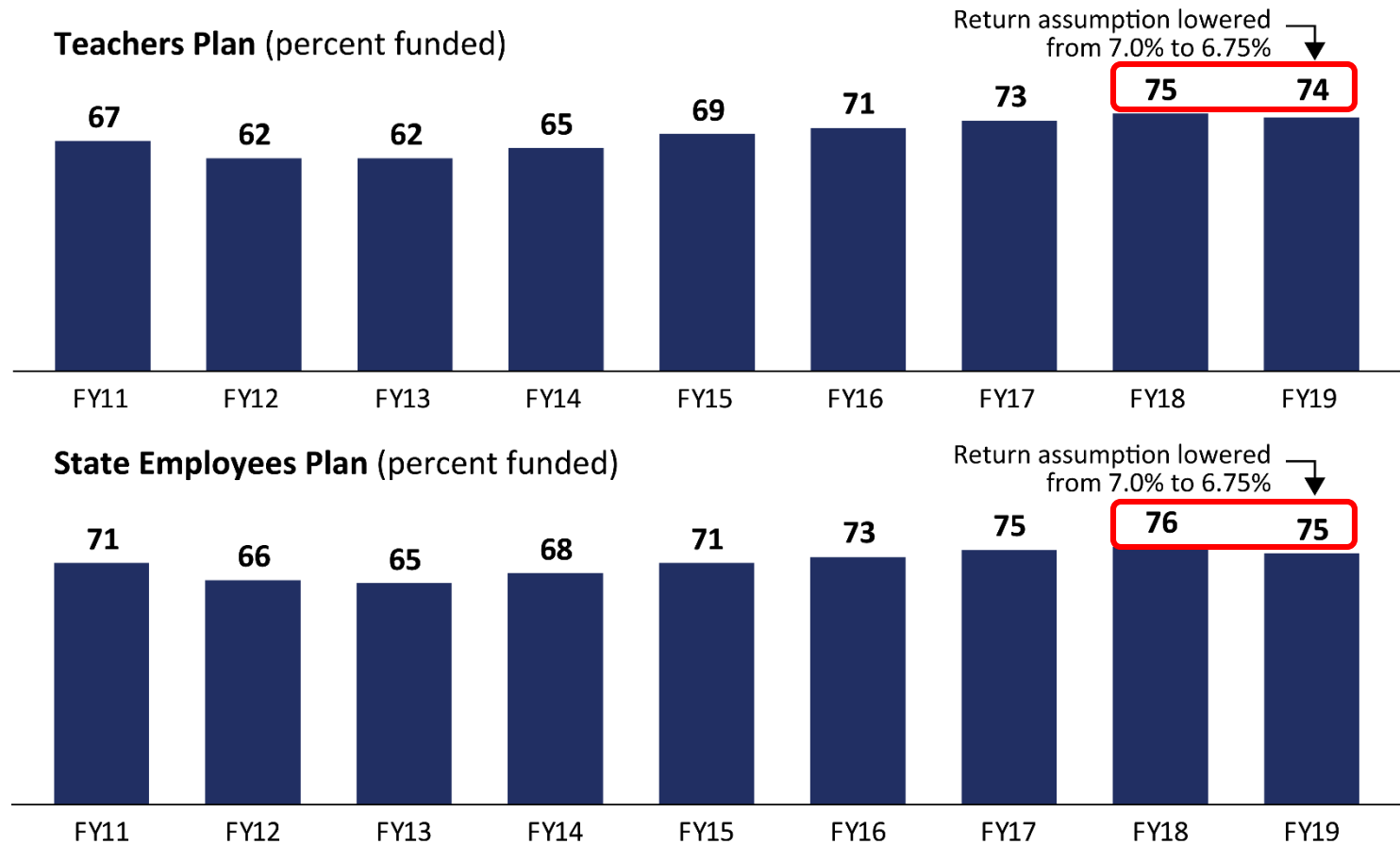
- Rates increased for VaLORS, SPORS, and local plan average; rates decreased for JRS

VaLORS = Virginia law officers' retirement system; SPORS = state police officers' retirement system; JRS = judicial retirement system

Contribution rate increases will be first since FY15-16



Funded status decreased slightly for most VRS plans due to new return assumption



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Hybrid plan

Automatic rate escalation expected to boost voluntary contributions for Hybrid Plan

- Automatic 0.5 percent escalation of voluntary contribution rate occurs every three years
 - Unless employee opts out or already makes maximum voluntary contribution*
- Next automatic rate escalation on January 1, 2020
 - Expected to increase proportion of members making voluntary contributions and the amount they contribute
 - 45 percent of participants made a voluntary contribution (as of September 30, 2019)

*Less than 1 percent of members had opted out as of October 30, 2019

JLARC staff for this report

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