



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

Defined contribution plans

Hybrid plan

VRS manages investment of trust fund assets

- Assets used to pay VRS benefits are pooled in the trust fund
 - Retirement plans for state employees, teachers, local government employees, judges, state police, and other law enforcement officers
 - Other benefits programs

Trust fund had -2.2% return over one-year period, largely because of COVID-19 pandemic

- Assets = \$76.9 billion
- \$3.5 billion decrease over one-year period
- Losses occurred primarily in the public equity and credit strategies asset classes

Investment returns and asset value are as of March 31, 2020.

Trust fund returns met or exceeded benchmarks in nearly all periods

Total fund	1-year	3-year	5-year	10-year	25-year
Return	-2.2%	4.0%	4.6%	6.9%	7.8%
Benchmark	-1.4	4.0	4.4	6.5	7.3
Excess return	-0.8	0.0	0.2	0.4	0.5

Returns as of March 31, 2020.

Benchmarks are a blend of indexes holding similar investments.

Returns for most asset classes met or exceeded benchmarks

Asset class	1-year	3-year	5-year	10-year
Public equity (36%)	x	x	x	✓
Fixed income (16%)	✓	✓	✓	✓
Real assets (14%)	✓	✓	✓	✓
Private equity (14%)	x	✓	✓	✓
Credit strategies (14%)	✓	✓	✓	✓
Multi-asset public strategies (3%)	x	N/A	N/A	N/A
PIP* (2%)	x	✓	✓	N/A

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

Performance as of March 31, 2020. Asset allocation includes 1% in cash.

*PIP=Private investment partnerships.

Board modified asset class benchmarks and staff incentive compensation requirements

- Asset class benchmarks modified in 2019 and became effective in January 2020
- External consultant reviewed benchmarks and incentive compensation and made recommendations
 - Modify private equity and PIP benchmarks
 - Increase outperformance of benchmarks required for staff to receive incentive compensation, in most cases
 - Recommendations adopted by the board

VRS Board of Trustees approved benchmark modifications in 2019.

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Trust fund investments

Defined contribution plans

Hybrid Plan

VRS manages defined contribution plans for state and local employees

- Similar to a 401(k) or IRA
- Intended to provide
 - Primary income: Hybrid and higher education plans
 - Supplemental income: Deferred compensation plan
- Aggregate assets = \$4.9 billion

Assets as of March 31, 2020.

Most defined contribution investment options outperformed benchmarks

Plan	1-year	3-year	5-year	10-year
Target retirement date portfolios	✓	✓	✓	✓
Customized individual options	✓	✓	✓	✓
Additional options under higher education plan	✓	✓	✓	✓

✓ = Returns for majority of options exceeded benchmarks

✗ = Returns for majority of options did not exceed benchmarks

Performance as of March 31, 2020. Participants in higher education plan may select from additional investment options offered by TIAA.

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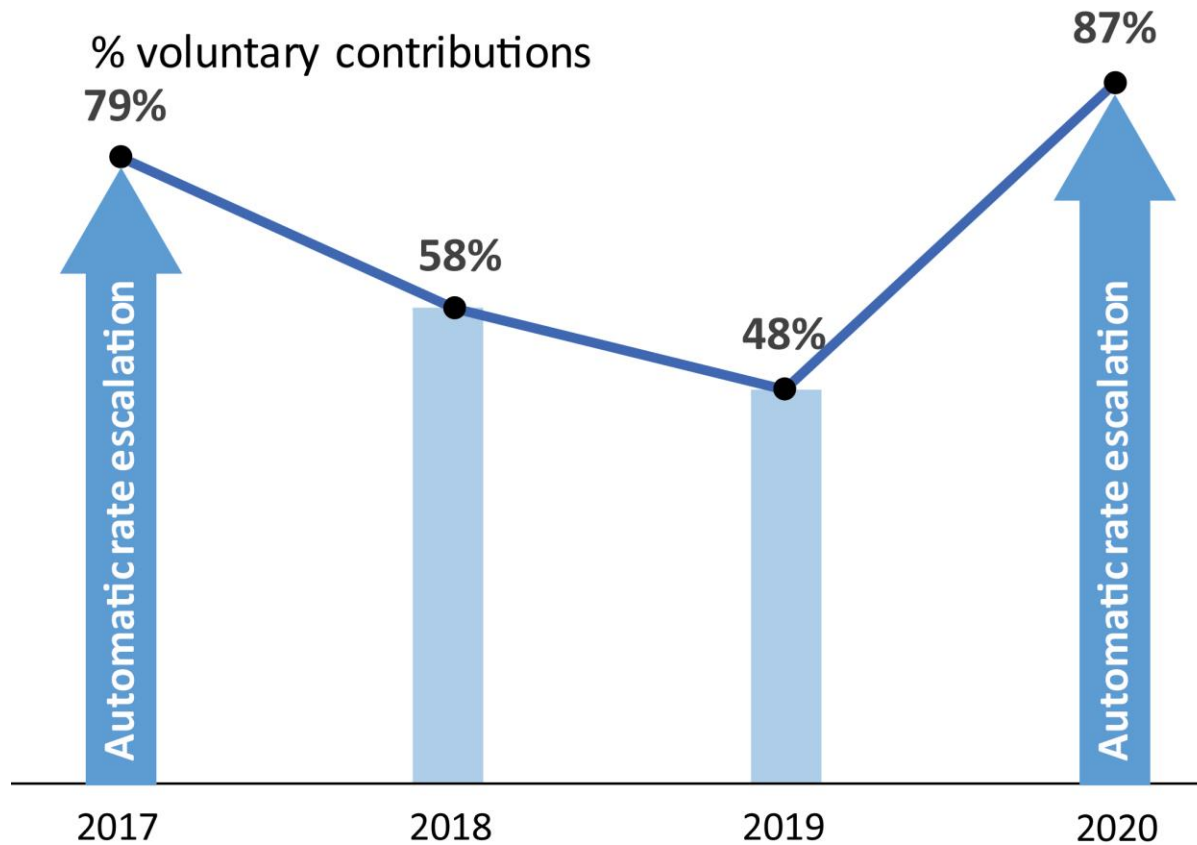
Hybrid plan

Hybrid plan members' voluntary contributions increased because of automatic escalation

- Voluntary contributions necessary to have income replacement comparable to Plan 1 or Plan 2
- Automatic 0.5 percent escalation of voluntary contribution in January 2020 (unless opted out)
- Percentage of hybrid plan members making voluntary contributions increased to a high point of nearly 90% in 2020

*Hybrid plan members can make up to 4 percent in voluntary contributions; 2.5 percent employer match

Percentage of hybrid plan members making voluntary contributions increased



As of March 2020.

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