



# Virginia Retirement System Oversight Report

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# 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.

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## In this presentation

Trust fund investments

Defined contribution plans

Benefits administration

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# 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

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## Trust fund returned 28.3% over one-year period, reflecting market rebound from pandemic

- Assets = \$96.4 billion
- \$19.5 billion increase over one-year period
- All asset classes achieved positive returns for all periods
- Returns for all periods above the long-term return assumption (6.75 percent)

Investment returns and asset value are as of March 31, 2021.

# Trust fund exceeded benchmarks for all periods

Total fund	1-year	3-year	5-year	10-year	25-year
Return	28.3%	9.5%	9.8%	8.3%	8.0%
Benchmark	27.5	9.3	9.6	7.9	7.4
Excess return	0.8	0.2	0.2	0.4	0.6

Returns as of March 31, 2021.

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 (39%)	✗	✗	✗	✓
Private equity (15%)	✓	✓	✓	✓
Fixed income (14%)	✓	✓	✓	✓
Credit strategies (14%)	✓	✓	✓	✓
Real assets (12%)	✓	✓	✓	✓
Multi-asset public strategies (3%)	✓	N/A	N/A	N/A
Private investment partnerships (2%)	✗	✗	✗	N/A

✓ = Return met or exceeded benchmark    ✗ = Return below benchmark

N/A = Not yet applicable

Performance as of March 31, 2021. Asset allocation includes 2% in cash.

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# 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 = \$7.0 billion

Assets as of March 31, 2021.

# 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, 2021. Participants in higher education plan may select from additional investment options offered by TIAA.

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# Board approved changes to actuarial assumptions for next plan valuation

- Assumption changes to improve accuracy
  - Mortality assumption - future beneficiaries will live longer
  - When beneficiaries leave active membership during year
- No change to long-term return or inflation assumptions
- Based on recent experience study conducted by VRS's plan actuary
- Implemented recommendations from 2018 JLARC quadrennial actuarial audit

\*The Code requires JLARC to conduct an actuarial review of VRS every four years. JLARC's independent actuary, GRS, conducted the review.

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## Revised assumptions may increase contribution rates for 2022–2024 biennium

- Funded status for state plan estimated to decrease from 75% to 74%
- Employer contributions for defined benefit portion of state plan estimated to increase by one percentage point
  - Approximately \$39M in additional contributions annually
  - Required increase may be less if strong investment returns continue
- Revised assumptions reduce likelihood of future large rate increase due to changes in mortality assumption

\*Revised actuarial assumptions will be implemented in the June 30, 2021 plan valuation, which will be used to set contribution rates for the 2022–2024 biennium.

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## Over half of hybrid plan members likely not making sufficient voluntary contributions

- Voluntary contributions necessary to have income replacement comparable to Plan 1 or Plan 2
- Majority of hybrid plan members make no or minimum (0.5%) voluntary contribution
  - Only one-quarter of hybrid plan members make maximum contribution of 4.0%
- Contribution rates unlikely to increase significantly with out statutory plan change, such as automatic enrollment

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

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## JLARC staff for this report

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