JLARC
JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

December 12, 2022

Virginia Retirement System Oversight Report

Commission Briefing

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% return over 1-year period but exceeded all benchmarks

- Assets = $96.8 billion
- $6.9 billion decrease over one-year period
- Total fund returns exceeded benchmarks for all periods

Investment returns and asset value as of September 30, 2022.

Trust fund performance exceeded benchmarks for all periods

Total fund	1-year	3-year	5-year	10-year	25-year
Return	**–5.0%**	**7.5%**	**7.0%**	**7.9%**	**6.8%**
Benchmark	–11.6	3.8	4.8	6.6	6.0
Excess return	+6.6	+3.7	+2.2	+1.3	+0.8

- Exceeded long-term return assumption (6.75%) for all but the 1-year period

Returns as of September 30, 2022.
Benchmarks are a blend of indexes holding similar types of investments.

Performance exceeded benchmarks for nearly all asset classes

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

✓ = Return exceeded benchmark ✗ = Return below benchmark
N/A = Not yet applicable

Performance as of September 30, 2022.

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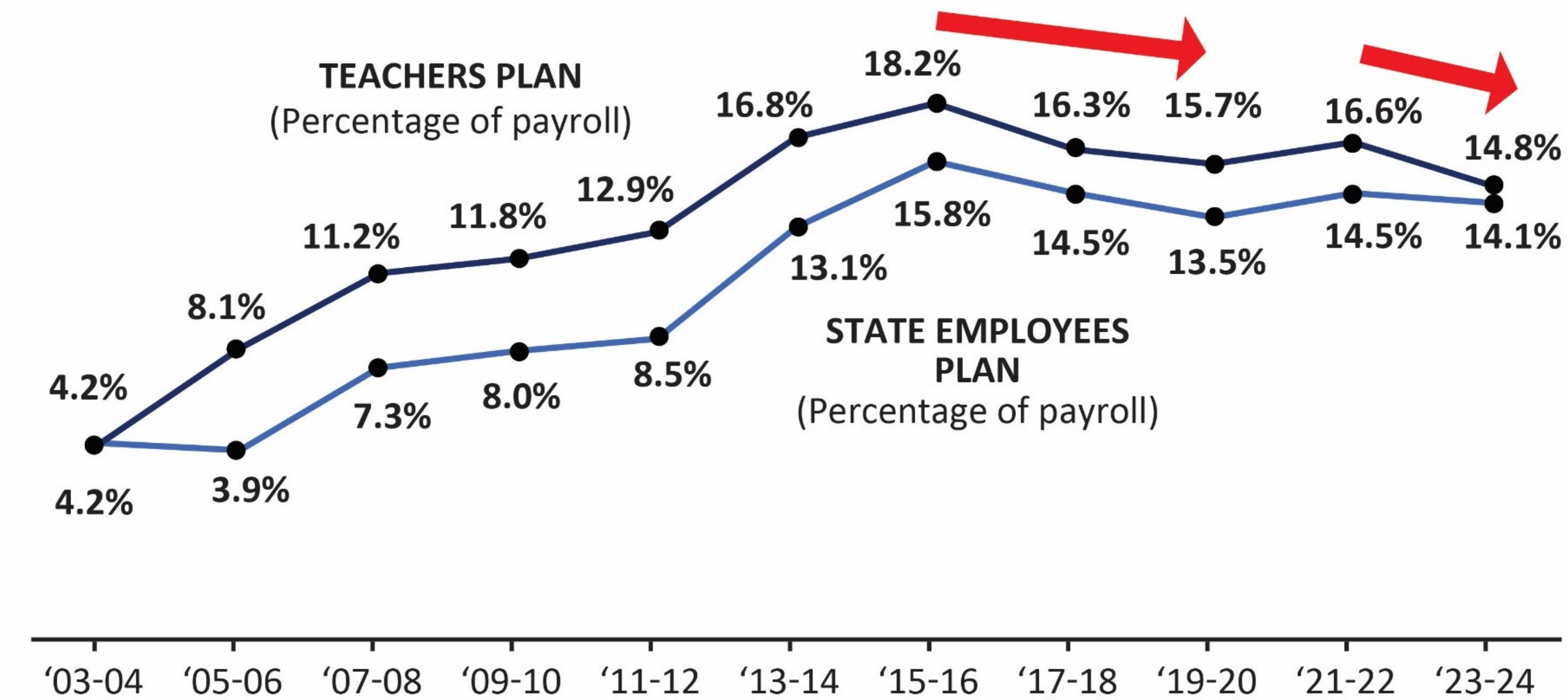
Board-certified contribution rates continue a longer-term downward trend



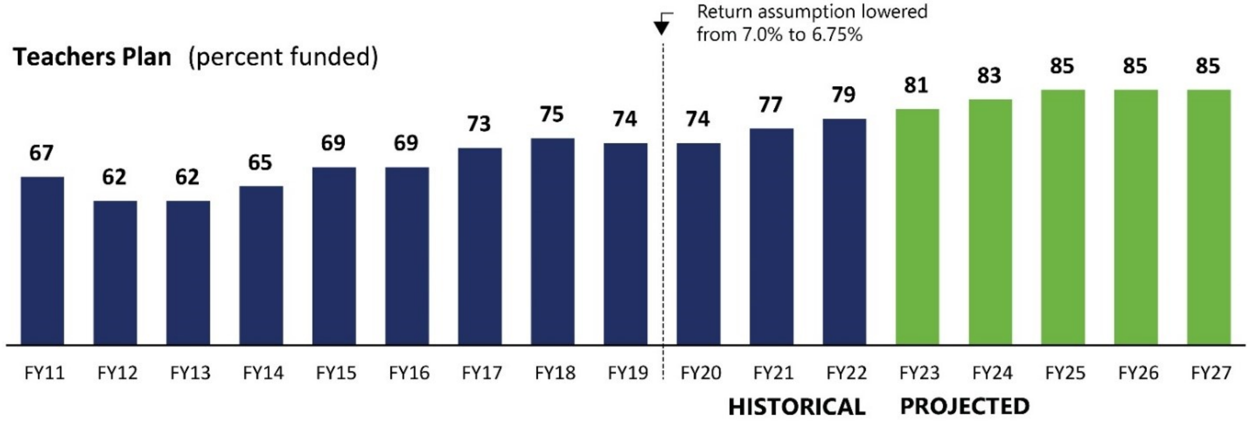
Actual contribution rates were lower in some years prior to the 2017–2018 biennium because board-certified contribution rates were not always fully funded.

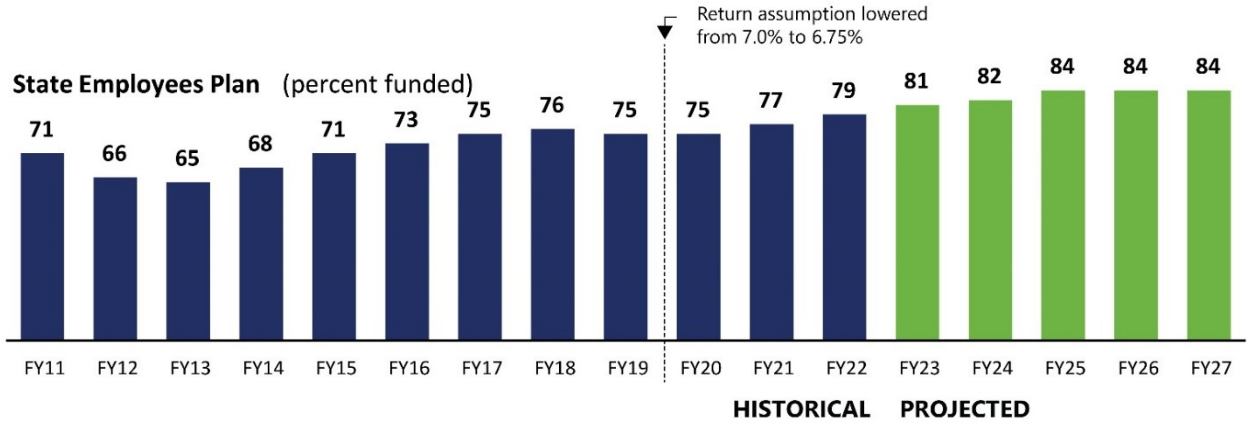
Appropriation Act maintained higher contribution rates despite decrease in board-certified rates

	FY23–FY24 Board-certified rates	FY23–FY24 Appropriation Act rates
Teachers	14.76%	16.62%
State employees	14.13	14.46

- 2022 Appropriation Act maintained higher FY21–FY22 rates for FY23–FY24 biennium
  - Could result in savings of $500 million for Teachers plan and $48 million for State Employees plan

Funded status of largest VRS plans increased because investment returns are smoothed over 5 years





2022 Appropriation Act provided $1 billion to help pay down pension liabilities

- $750 million contributed in June 2022
  - Includes $442 million for Teachers plan and $219 million for State Employees plan
- Additional $250 million scheduled to be provided in June 2023
  - Contingent on general fund revenues

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Proportion of Hybrid Plan members making voluntary contributions declined between automatic escalations

- 56 percent of participants making voluntary contributions (as of September 30, 2022)
  - Down from 79 percent (as of September 30, 2020)
- Voluntary contributions increase immediately after automatic rate escalations but decline as new members join plan
  - Last automatic rate escalation January 2020; next automatic rate escalation January 2023
- Changes to auto-enrollment and automatic escalations needed to maintain higher voluntary contribution rates

JLARC staff for this report

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