



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

Key recent legislation

In this presentation: section 1

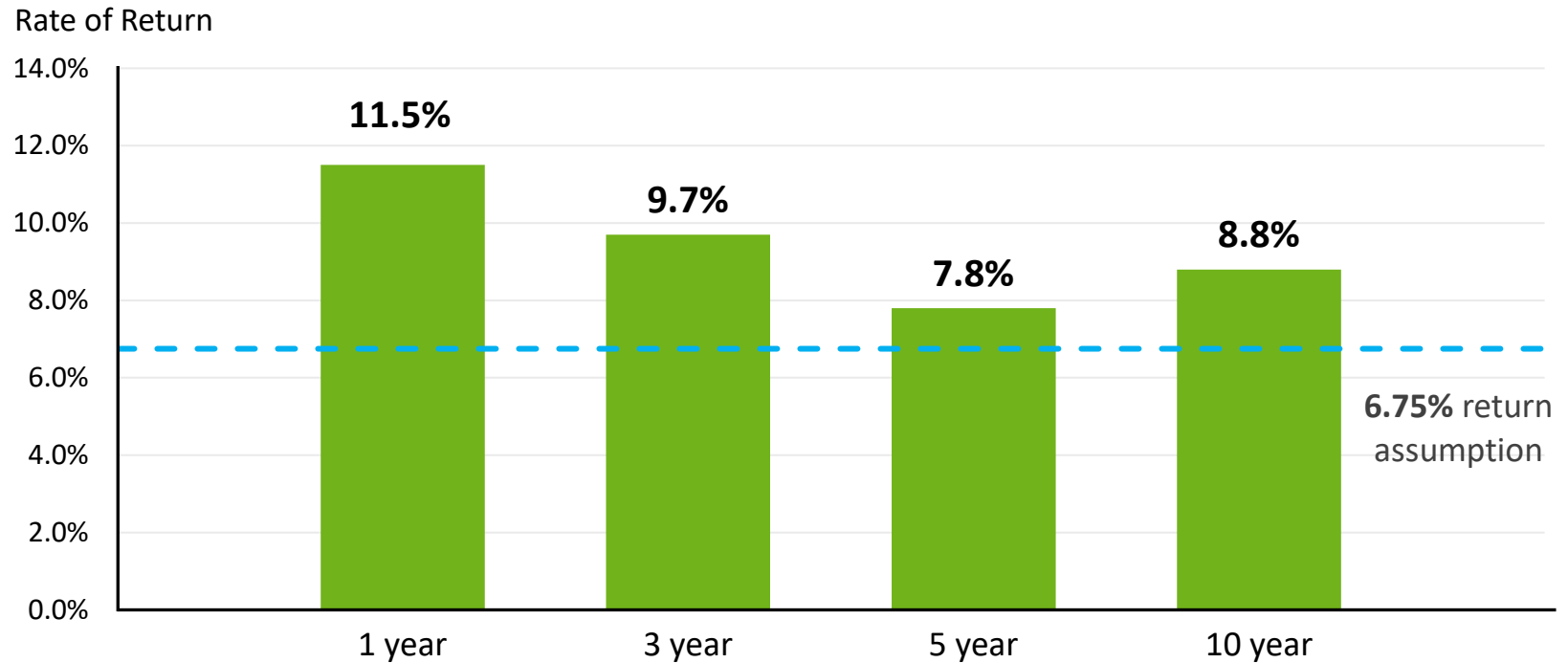
Trust fund investments

VRS manages investment of trust fund assets

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

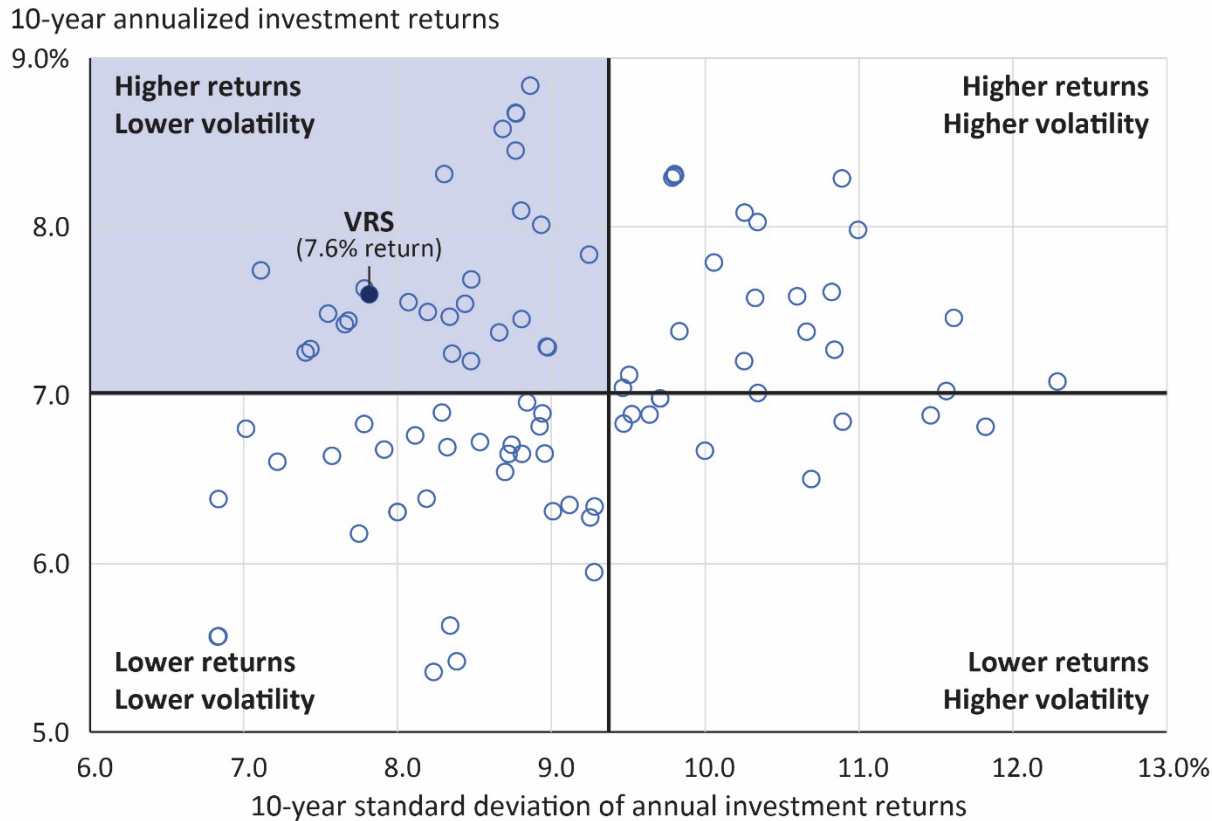
Trust fund exceeded return assumption for all periods

(March 31, 2026)



Assets = \$129.3 billion

VRS achieved higher returns and kept volatility lower than many large public pension plans



Source: Milliman Public Pension Funding Study, 2025; emphasis added by JLARC. As of June 30, 2024, for most plans.

Total fund performance was below benchmark in the near term because of private equity assets (March 31, 2026)

Asset class (% of total fund)	1-year	3-year	5-year	10-year
Public equity (32.8%)	✓	✓	✓	✓
Private equity (15.4%)	✗	✗	✗	✓
Fixed income (15.4%)	✓	✓	✓	✓
Credit strategies (14.7%)	✓	✓	✓	✓
Real assets (13.2%)	✓	✓	✓	✓
Diversifying strategies (5.2%)	✗	✗	✓	n/a
Private investment partnerships (1.5%)	✗	✗	✓	✓
Total Fund	✗	✗	✓	✓

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

Asset allocation includes 1.9% in cash, 1.0% in exposure management portfolio, and -1.1% in leverage.

Board adopted new benchmarks for three asset classes

- **Private equity:** replaced public equity-based benchmark with a private equity fund universe
 - Universe sourced from private equity manager data
- **Credit strategies:** benchmark lagged by one quarter
 - Better matches reporting timeframe of investments
- **Diversifying strategies:** added Hedge Fund Research Trend Index to comprise 25% of benchmark
 - Reflects defensive portion of the asset class

New benchmarks started July 1, 2026. Private equity benchmark will be phased in over 5 years.

Board adopted changes to investment staff incentive pay plan to reflect new benchmarks

- New private equity benchmark is expected to be more difficult to outperform
- Significantly less overperformance will be required in private equity to receive incentive pay*
- JLARC staff has requested VRS continue tracking previous pay approach to ensure changes are not causing consistently higher incentive pay

*Change recommended by a consultant review of the new benchmarks and the incentive pay plan.

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Defined contribution plans

VRS manages defined contribution plans for state and local employees

- Similar to a 401(k) or IRA
- Intended to provide
 - Primary income: Hybrid defined contribution component and optional plans (e.g., higher education plan)
 - Supplemental income: Deferred compensation
- Aggregate assets = \$12 billion*

*As of March 31, 2026. Both the hybrid DC component and deferred contribution accounts have associated employer cash match plans.

Nearly all defined contribution investment options met or exceeded benchmarks

(March 31, 2026)

Option	1-year	3-year	5-year	10-year
Target date retirement options	✓	✓	✓	✓
Member selected options	✓	✓	✓	✓
Additional options under higher education plan*	✓	✓	✓	✓

✓ = Returns for nearly all options met or exceeded benchmarks**

*Participants in higher education plan may select from additional investment options offered by TIAA. **At most, one option missed its benchmark.

In this presentation: section 3

Key recent legislation

General Assembly funded employer contribution rates and reduced retiree health care liabilities

- Board-approved employer contribution rates are fully funded for 2026–2028 biennium (Appropriation Act*)
- \$93.6M deposit to retiree health care plan to help address unfunded liabilities (Appropriation Act*)

*HB 30, 2026 Special Session I

JLARC staff for this report

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Appendix: Trust fund performance

Asset class (% of total fund)	1-year	3-year	5-year	10-year
Public equity (32.8%)	20.8	17.4	10.1	11.1
Benchmark	18.4	16.1	9.1	11.1
Private equity (15.4%)	8.3	7.0	11.2	14.1
Benchmark	22.3	21.0	11.6	13.8
Credit strategies (14.7%)	8.8	10.3	7.8	7.8
Benchmark	5.9	8.1	5.1	6.0
Fixed income (15.4%)	5.4	4.7	1.2	2.7
Benchmark	4.7	4.1	0.6	1.9
Real assets (13.2%)	5.9	1.4	6.2	7.0
Benchmark	4.1	-0.6	3.7	4.8
Diversifying strategies (5.2%)	6.2	7.9	5.2	n/a
Benchmark	6.5	8.0	4.7	n/a
Private investment partnerships (1.5%)	8.3	7.9	10.0	8.8
Benchmark	10.5	9.0	7.1	7.9
Total fund	11.5	9.7	7.8	8.8
Benchmark	12.2	11.0	6.8	8.2

Performance as of March 31, 2026; net of fees.