



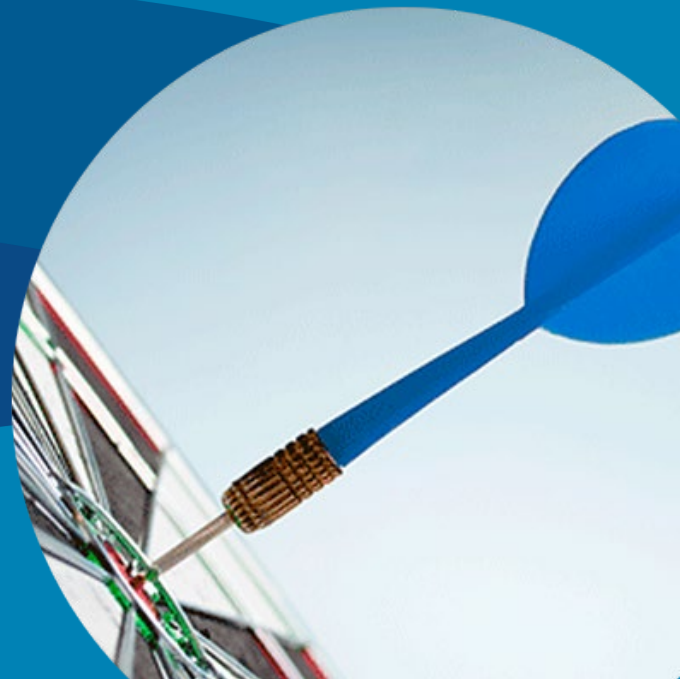
Commonwealth of Virginia Joint Legislative Audit and Review Commission

2022 Quadrennial Actuarial Audit of the
Virginia Retirement System

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Agenda

- Background and Purpose of an Actuarial Audit
- Actuarial Audit Process
- Actuarial Audit Conclusions
- Actuarial Audit Recommendations
- Comments and Questions

Background and Purpose of an Actuarial Audit

- In accordance with the Virginia Retirement System Oversight Act, Gabriel, Roeder, Smith & Company (“GRS”) was retained by the Joint Legislative Audit and Review Commission (“JLARC”) to conduct the 2022 Quadrennial Actuarial Audit of the Virginia Retirement System (“VRS”)
- The purpose of the audit is to provide the General Assembly with a comprehensive overview of the actuarial soundness of the VRS
- This audit was completed with the full cooperation of the VRS staff and VRS’ consulting actuary, Cavanaugh Macdonald Consulting, LLC (“CMC”)

Actuarial Audit Process

- GRS performed a non-replication actuarial audit of the June 30, 2021 actuarial valuations prepared by CMC
- The GRS audit addressed the following areas:
 - Reasonableness of Actuarial Assumptions
 - Reasonableness of Actuarial Methods and Funding Policy
 - Application of Actuarial Assumptions and Benefit Plan Provisions
 - Actuarial Report Content, Detail, Format and Clarity
 - Review of Contribution Rates and Funded Ratios
 - Actuarial Principles and Practices Employed by the Actuary

Actuarial Audit Process

- The actuarial audit of the VRS included a review of the following VRS programs:
 - VRS State Plans covering the following divisions: State Employees, Teachers, State Police (SPORS), Judges (JRS) and Virginia Law Officers (VaLORS)
 - Six select political subdivisions participating in the VRS
 - Health Insurance Credit Program (“HIC”)
 - Group Life Insurance Program (“GLI”)
 - Virginia Sickness and Disability Program (“VSDP”)
 - Virginia Local Disability Program (“VLDP”)
 - Line of Duty Act Program (“LODA”)

Actuarial Audit Conclusions

- **Audit confirms that VRS is actuarially sound**
 - Actuarial assumptions and methods used for the June 30, 2021 actuarial valuations of all plans are generally reasonable
 - The 6.75 percent investment return assumption is reasonable
 - CMC appropriately applied the actuarial assumptions, methods and plan provisions
 - Based on our review of 94 sample test lives
 - The June 30, 2021 actuarial valuation reports prepared by CMC generally comply with the Actuarial Standards of Practice

Actuarial Audit Conclusions

- **Audit confirms that VRS is actuarially sound**
 - VRS actuarial funding policy is reasonable
 - UAAL as of June 30, 2013 is amortized over a closed 30-year period (22 years remaining as of June 30, 2021) as a level percentage of payroll
 - Annual changes in the UAAL after June 30, 2013 are amortized over separate closed 20-year periods (between 13 and 20 years remaining as of June 30, 2021) as a level percentage of payroll
 - The employer contribution rates are reasonable
 - The funded ratios of the VRS plans are generally improving and moving towards a 100% funded ratio goal
 - The combined funded ratio for all VRS Pension Plans is 79.4 percent as of June 30, 2021 (Including State Employees, Teachers, State Police, Judges, Virginia Law Officers and Political Subdivision Plans)

Actuarial Audit Recommendations

- None of the following recommendations are the result of material deficiencies
- They are intended **to improve the measurement and communication of future actuarial valuations**

Actuarial Audit Recommendations

- Actuarial Assumptions
 - Payroll Growth Assumption
 - VRS should review the payroll growth assumption between experience studies to ensure the assumption remains appropriate, given changes in total payroll and the number of active members
 - Total payroll has increased on average by less than the current assumption of 3.0 percent for the nine-year period from 2012-2021 as well as for the five-year period from 2016-2021
 - The implications of actual payroll increasing at a slower rate than the payroll growth assumption is that the contribution rate as a percent of pay increases over time

Note: GRS is not recommending that any changes in assumptions need to be implemented prior to the next scheduled assumption/experience review

Actuarial Audit Recommendations

- VRS Actuarial Funding Policy
 - Consider the implications (i.e., increasing contributions) of having separate unfunded liability amortization bases and the magnitude of the expected change in future contribution rates as a result of the separate amortization bases
 - Consider actions to achieve a minimum net amortization charge for each plan that is not less than the payment required under a single 20 or 25-year amortization layer

Actuarial Audit Recommendations

- Actuarial Report Content, Detail, Format and Clarity
 - Provide more details in the VRS funding actuarial report including:
 - A description of the technical assumptions (such as decrement timing and pay increase timing)
 - The basis of the early retirement reduction factors
 - The implications (i.e., increasing contributions) of having separate unfunded liability amortization bases and the magnitude of the expected change in future contribution rates as a result of the separate amortization bases

Comments and Questions



Disclosures

- This study was performed at the request of the Commonwealth of Virginia Joint Legislative Audit and Review Commission (“JLARC”). It may be shared with other interested parties only with the permission of the JLARC. If shared with other parties, it should be shared in its entirety.
- This report was prepared by Gabriel, Roeder, Smith & Company (“GRS”) in its role as actuary for the JLARC in accordance with the Virginia Retirement System Oversight Act (§30-78 – §30-84 of the Code of Virginia) to provide the General Assembly with a comprehensive overview of the actuarial soundness of the VRS.
- This report should not be relied upon for any other purpose or by any other party.

Disclosures

- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- The GRS actuaries submitting this presentation (Lance J. Weiss and Amy Williams) are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.
- This is one of multiple documents comprising the actuarial audit results of the Virginia Retirement System (“VRS”) for JLARC. Additional documentation regarding actuarial assumptions and methods, and important additional disclosures are provided in the full Actuarial Audit Report of the VRS prepared by GRS.

Disclosures

- GRS is not responsible for the unauthorized use of this report.
- If you need additional information to make an informed decision about the contents of this presentation, or if anything appears to be missing or incomplete, please contact us before relying on this presentation.