



# 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

Recent legislation

---

# 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 returned **12.3%** and increased **\$10 billion** over one-year period ended March 2022

- Assets = \$106.3 billion\*
- \$10 billion increase over one-year period\*
- Most asset classes achieved positive returns for all time periods
- Returns for all periods above the long-term return assumption (6.75%)
- Fiscal year returns expected to be lower

\*As of March 31, 2022.

---

## Performance relative to benchmarks is critical for the VRS trust fund

- Investment returns are a key source of income for the trust fund
- Consistently meeting benchmarks is critical to achieving the long-term assumed rate of return
- The assumed rate of return and investment performance are key components of the actuarial valuation process used to determine contribution rates

# Trust fund performance exceeded total fund benchmarks

Total fund	1-year	3-year	5-year	10-year
Return	12.3%	12.1%	10.2%	9.2%
Benchmark	7.4	10.5	9.0	8.4
Excess return	4.9	1.6	1.2	0.8

Performance as of March 31, 2022.

## Returns for most asset classes met or exceeded benchmarks, except for public equity

Asset class	1-year	3-year	5-year	10-year
Public equity (33%)	x	x	x	x
Private equity (18%)	✓	✓	✓	✓
Credit strategies (14%)	✓	✓	✓	✓
Real assets (14%)	✓	✓	✓	✓
Fixed income (12%)	✓	✓	✓	✓
Multi-asset public strategies (4%)	✓	x	N/A	N/A
Private investment partnerships (2%)	✓	✓	✓	N/A

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

N/A = Not yet applicable

Performance as of March 31, 2022. Asset allocation includes 2% in cash.



---

## VRS board appointed new chief investment officer (CIO)

- VRS conducted a national search with assistance of a consultant to fill CIO position
- Andrew H. Junkin appointed CIO in May 2022
  - Current CIO for Rhode Island's retirement programs
  - Previous president of Wilshire Consulting
- Mr. Junkin will begin serving in September 2022
  - Current CIO will remain at VRS through 2022 to facilitate transition

---

## In this presentation

Trust fund investments

Defined contribution plans

Recent legislation

---

# VRS manages defined contribution plans for state and local employees

- Similar to a 401(k) or IRA
- Intended to provide
  - Primary income: Hybrid and optional plans (including higher education plan)
  - Supplemental income: Deferred compensation and cash match plans
- Aggregate assets = \$7.7 billion\*

\*As of March 31, 2022.

# Most defined contribution investment options outperformed benchmarks

Plan	1-year	3-year	5-year	10-year
Target retirement date portfolios	✘	✓	✓	✓
Customized individual options	✓	✓	✓	✓
Higher education plan investment options	✘	✓	✓	✓

✓ = Returns for majority of options exceeded benchmarks

✘ = Returns for majority of options did not exceed benchmarks

Performance as of March 31, 2022. Underperformance is largely the result of fair value pricing. Participants in higher education plan may select from additional investment options offered by TIAA.

---

## In this presentation

Trust fund investments

Defined contribution plans

Recent legislation

# 2022 Appropriation Act maintains higher employer contribution rates to achieve savings

- FY21–22 rates maintained for teachers and state employees plans for FY23–24 biennium

	FY21–22 Rates	FY23–24 Board certified rates
Teachers	16.62%	14.76%
State employees	14.46%	14.13%

- Higher rates result in estimated savings to VRS plans over next 15 years\*
  - \$500 million for teachers plan
  - \$48 million for state employees plan

\* Assumes trust fund meets long-term investment return assumption of 6.75%.

---

## 2022 Appropriation Act provides up to \$1B to reduce unfunded liabilities of state & local plans

- \$750 million in FY22
  - \$442 million for teachers plan
  - \$219 million for state employees plan
  - \$89 million for other plans
- \$250 million by the end of FY23
  - Contingent on general fund revenues
- Could result in an estimated \$2 billion in savings over next 20 years

---

## JLARC staff for this report

Kimberly Sarte, Associate Director

Jamie Bitz, Chief Legislative Analyst for Ongoing Oversight



# Appendix: Trust fund performance

Asset class (% of total fund)	1-year	3-year	5-year	10-year
<b>Public equity (33%)</b>	<b>4.9</b>	<b>12.2</b>	<b>10.3</b>	<b>10.0</b>
Benchmark	6.7	13.7	11.4	10.2
<b>Private equity (18%)</b>	<b>43.6</b>	<b>27.4</b>	<b>22.9</b>	<b>18.1</b>
Benchmark	19.0	22.5	17.2	15.8
<b>Credit strategies (14%)</b>	<b>8.3</b>	<b>8.5</b>	<b>7.2</b>	<b>6.8</b>
Benchmark	1.3	4.9	5.0	5.4
<b>Real assets (14%)</b>	<b>22.4</b>	<b>10.4</b>	<b>9.9</b>	<b>10.9</b>
Benchmark	17.4	8.1	7.8	9.0
<b>Fixed income (12%)</b>	<b>-3.4</b>	<b>3.3</b>	<b>3.3</b>	<b>3.0</b>
Benchmark	-4.1	1.7	2.2	2.3
<b>Multi-asset public strategies (4%)</b>	<b>5.8</b>	<b>6.5</b>	<b>n/a</b>	<b>n/a</b>
Benchmark	3.4	7.7	n/a	n/a
<b>Private investment partnerships (2%)</b>	<b>25.2</b>	<b>12.9</b>	<b>11.2</b>	<b>n/a</b>
Benchmark	12.8	12.8	10.1	n/a
<b>Total fund</b>	<b>12.3</b>	<b>12.1</b>	<b>10.2</b>	<b>9.2</b>
Benchmark	7.4	10.5	9.0	8.4