



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

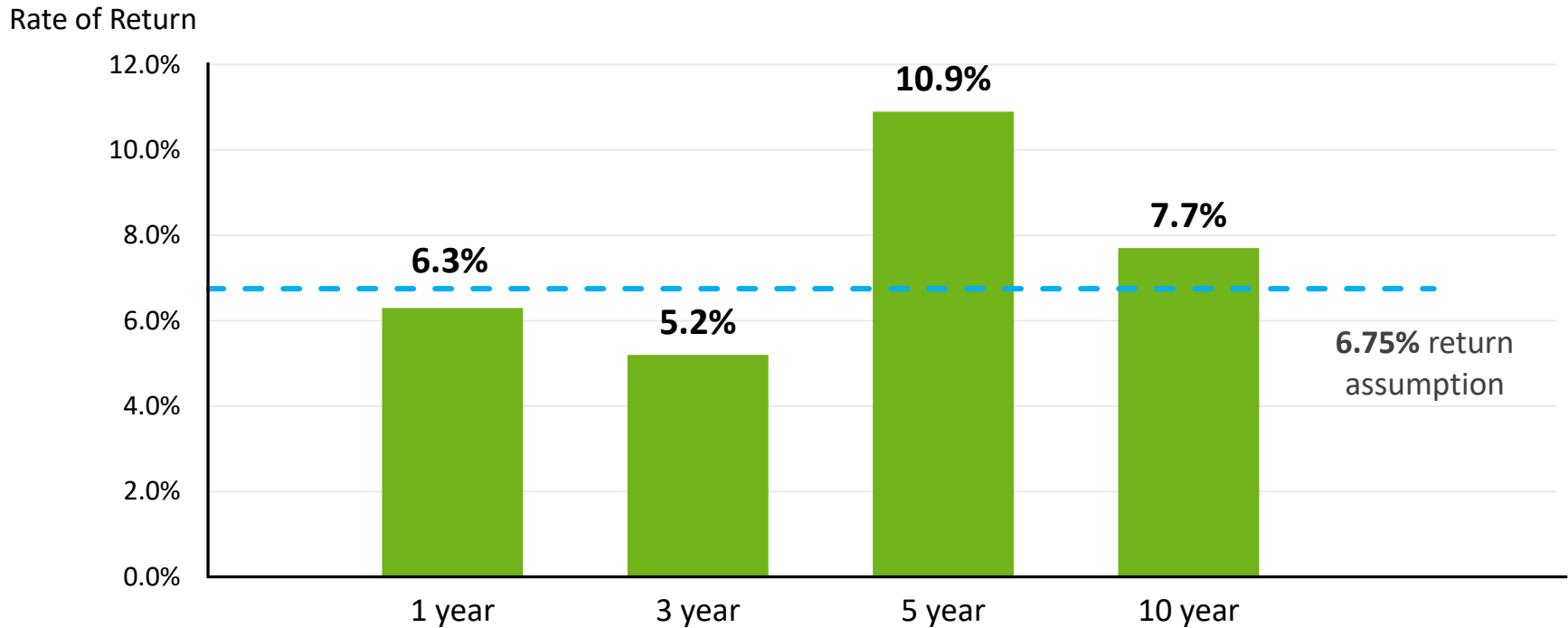
Trust fund rates and funding

Key recent legislation

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 longer periods but has been below for shorter periods (March 31, 2025)



Assets = **\$118.1 billion**

Returns for asset classes met or exceeded most benchmarks

(March 31, 2025)

Asset class (% of total fund)	1-year	3-year	5-year	10-year
Public equity (32.2%)	✓	✓	✓	✓
Private equity (16.3%)	✗	✗	✓	✓
Credit strategies (16.3%)	✓	✓	✓	✓
Fixed income (15.6%)	✓	✓	✓	✓
Real assets (12.9%)	✓	✓	✓	✓
Diversifying strategies (4.0%)	✗	✓	✓	n/a
Private investment partnerships (1.9%)	✓	✓	✓	✓
Total Fund	✗	✓	✓	✓

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

Asset allocation includes 2.2% in cash, 0.9% in exposure management portfolio, and -2.3% in leverage.

Board authorized CIO to restrict some or all investments in foreign adversaries

- Investments in countries designated as foreign adversaries by U.S. secretary of commerce may be higher risk if federal government imposes sanctions
- Policy changes aim to balance investment risks with returns and fiduciary responsibility
 - VRS working to remove investment exposures to China, including Hong Kong
 - Three benchmarks adjusted to remove investments in China

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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 defined contribution component and optional plans (including higher education plan)
 - Supplemental income: Deferred compensation
- Aggregate assets = \$10.2 billion*

*As of March 31, 2025. 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, 2025)

Option	1-year	3-year	5-year	10-year
Target date retirement options	✓	✓	✓	✓
Customized individual options	✓	✓	✓	✓
Additional options under higher education plan ¹	✓	✓	✓	✓

✓ = Returns for nearly all options met or exceeded benchmarks

¹ Participants in higher education plan may select from additional investment options offered by TIAA.

VRS transitioned to a new record keeper for defined contribution plans – Voya

- Contribution changes allowed monthly instead of just quarterly
- Improved accessibility through mobile app
- Payroll reconciliation changes caused some processing delays during transition
 - Voya, VRS, and employers worked to address issues; few remaining accounts to be reconciled

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Board approved minor changes to actuarial assumptions for retirement plans

- No change to long-term return or inflation assumptions
- Minor assumption changes to improve accuracy
 - Decreased VaLORS payroll growth to 2.5%
 - Slightly raised merit and tenure pay increase rates
 - Moved to most recent Mortality Improvement Scale
- Based on 2025 experience study conducted by VRS's plan actuary

Revised assumptions may slightly increase employer contribution rates for next biennium

- Funded status for state plan estimated to decrease 0.27%, remain about 80%
- Employer contributions for defined benefit portion of state plan estimated to increase by half a percentage point
 - Estimated \$25M in additional contributions annually based on 2024 valuation
- Revised assumptions reduce likelihood of future large rate increase
- There may be additional changes to funded status and employer contributions based on 2025 plan valuation and experience

*Revised actuarial assumptions will be implemented in the June 30, 2025, plan valuation, which will be used to set contribution rates for the 2026–2028 biennium.

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Expanded access for certain public safety occupations to several plans

- DCR conservation officers added to VaLORS (SB 1201)*
- LODA benefits for participating private university campus police and private police (HB 1815/SB 1142) **
- Expanded access to VLDP benefits for certain Plan 1 and Plan 2 emergency dispatchers (HB 1705)***

*Virginia Law Officers Retirement System. Will apply prospectively to future years of service. **Line of Duty Act. ***Virginia Local Disability Program. Becomes effective on July 1, 2026.

Changes to Judicial Retirement System and VOLSAP

- Judges' service years after July 1, 2026, will be in Plan 2 rather than the hybrid plan (SB 950)*
- Unclaimed funds in Volunteer Firefighters' and Rescue Squad Workers' Service Award Program (VOLSAP) available in state's Unclaimed Property Program after 5 years (SB 934)

*For judges with existing service under the hybrid plan, all service starting on or after July 1, 2026, will be determined under Plan 2. Prior service under the hybrid plan will not be moved.

VRS supporting DHRM on studies of compensation, recruitment, and retention

- Total compensation for VaLORS law enforcement members
- Impact of hybrid retirement system on recruitment and retention
 - State government employees
 - Teachers
- Publication expected September 2025

NOTE: In December 2025, JLARC staff plan to report on the adequacy of Virginia's hybrid plan at providing income replacement and to compare it to other state hybrid plans.

JLARC staff for this report

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Alex Jansson, Principal Legislative Analyst for Ongoing Oversight

Appendix: Trust fund performance

Asset class (% of total fund)	1-year	3-year	5-year	10-year
Public equity (32.2%)	7.8	8.5	16.0	8.7
Benchmark	7.8	7.0	15.7	8.7
Private equity (16.3%)	5.0	3.0	14.2	14.2
Benchmark	18.1	5.9	11.1	11.8
Credit strategies (16.3%)	9.7	7.3	10.0	6.8
Benchmark	6.8	6.1	7.7	5.3
Fixed income (15.6%)	5.9	1.4	1.4	2.4
Benchmark	5.1	0.8	0.1	1.6
Real assets (12.9%)	1.8	1.4	6.2	7.4
Benchmark	0.7	-0.6	4.0	5.5
Diversifying strategies (4.0%)	4.6	4.7	8.6	n/a
Benchmark	7.5	4.5	7.5	n/a
Private investment partnerships (1.9%)	8.3	5.9	9.6	8.7
Benchmark	8.2	4.2	7.6	7.7
Total fund	6.3	5.2	10.9	7.7
Benchmark	7.9	4.8	9.5	6.9

Performance as of March 31, 2025; net of fees.