



# Virginia Retirement System Oversight Report

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# 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.

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# In this presentation

Trust fund investments

Defined contribution plans

Hybrid plan

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# 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

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## Trust fund had 4.7% return over one-year period

- Assets = \$80.4 billion
- \$2.3 billion increase over one-year period
- All asset classes achieved positive returns for all periods

Investment returns and asset value are as of March 31, 2019.

# Trust fund returns exceeded benchmark in all periods

Total fund	1-year	3-year	5-year	10-year	25-year
Return	4.7%	8.4%	6.7%	10.1%	8.2%
Benchmark	3.7	8.0	6.2	9.5	7.7
Excess return	1.0	0.4	0.5	0.6	0.5

Returns as of March 31, 2019.

Benchmarks are a blend of indexes holding similar types of investments.

# Returns for most asset classes met or exceeded benchmarks

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

✓ = Return met or exceeded benchmark    x = Return below benchmark  
 N/A = Not yet applicable

Performance as of March 31, 2019.

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# VRS stress test confirms importance of state's continued commitment to paying off unfunded liabilities

- Unfunded liability has decreased 10 percent over past 5 years, in part due to actions taken by legislature
- Stress test showed existing unfunded liabilities continue to present risk during market downturn
- Projected median investment return (6.83%) is within reasonable range, but slightly less than current assumed return (7.00%)

\*VRS Stress Test & Sensitivity Analysis required by statute (§ 51.1-124.30:1)



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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 and higher education plans
  - Supplemental income: Deferred compensation plan
- Aggregate assets = \$4.8 billion

Assets as of March 31, 2019.

# Most defined contribution investment options outperformed benchmarks

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

✓ = Returns for majority of options exceeded benchmarks

✗ = Returns for majority of options did not exceed benchmarks

Performance as of March 31, 2019. Participants in higher education plan may select from additional investment options offered by two private providers, TIAA and Fidelity.

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## VRS board approved changes to optional retirement plan for higher education providers

- Fidelity deselected and TIAA options changed to address poor performance and high fees
- Participants can have assets transferred to VRS DCP or updated TIAA options
- VRS staff conducted outreach to inform stakeholders of changes

Benchmark data as of March 31, 2019.

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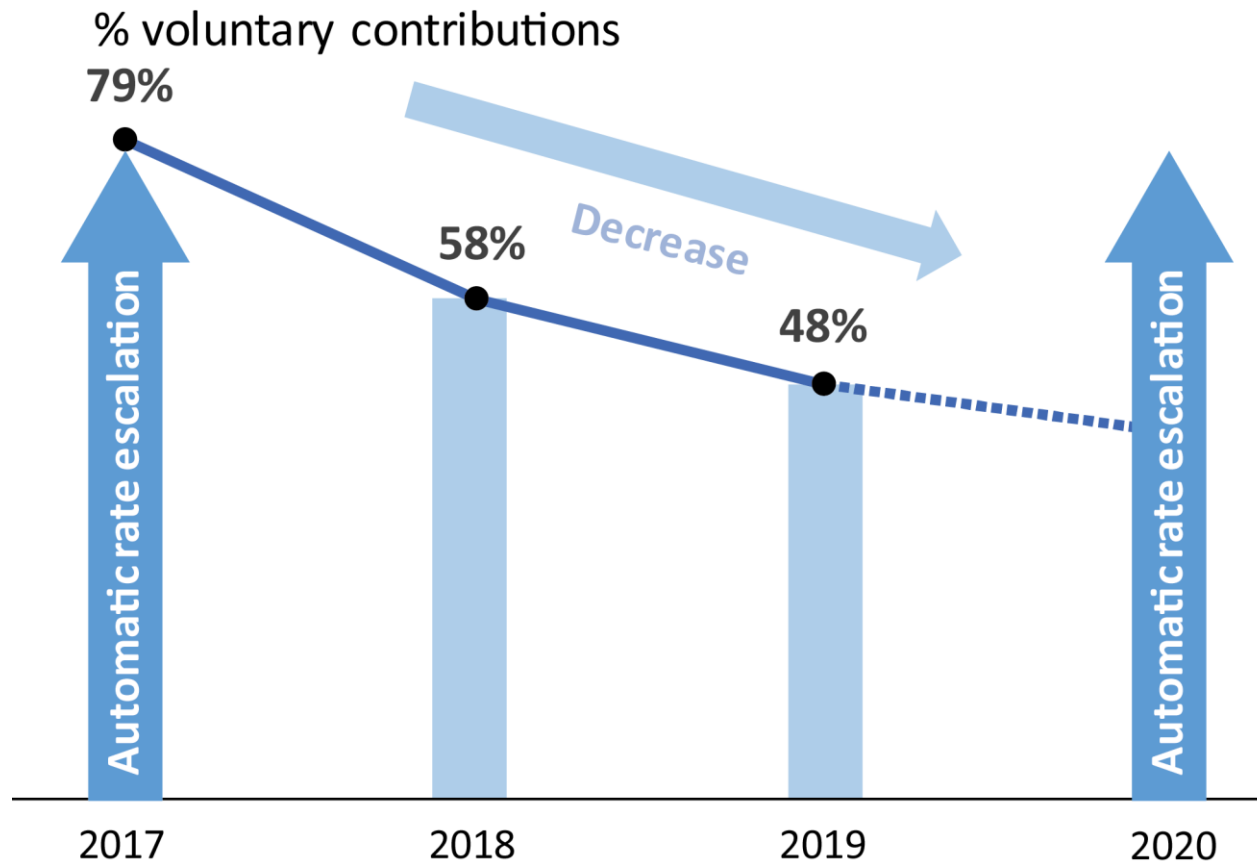
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## Despite importance of voluntary contributions for hybrid plan members, participation is low

- Voluntary contributions necessary to have income replacement comparable to Plan 1 or Plan 2
- Automatic 0.5 percent escalation of voluntary contribution occurs every three years (unless opt out)
- Less than half of hybrid plan members making voluntary contributions (March 2019)

\*Hybrid plan members can make up to 4 percent in voluntary contributions; 2.5 percent employer match

# Percentage of hybrid plan members making voluntary contributions has declined since 2017



As of March 2019.

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## Automatic rate escalation in 2020 expected to boost proportion of members making voluntary contributions

- Proportion of members making voluntary contributions decreases between automatic escalations due to employee turnover
  - Over 59,000 new members since 2017
- Plan change likely needed to maintain progress in proportion of members making voluntary contributions



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## JLARC staff for this report

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