



VRS Overview

Presented to the Joint Legislative Audit and Review Commission

A. Scott Andrews, Chair, VRS Board of Trustees

Andrew H. Junkin, VRS Chief Investment Officer

Saundra M. Jack, VRS Director of Policy, Planning and Compliance

July 14, 2025

Agenda

VRS Overview

A. Scott Andrews

Chair, VRS Board of Trustees

Investments Overview

Andrew H. Junkin

VRS Chief Investment Officer

Administration Overview

Sandra M. Jack

VRS Director of Policy,
Planning and Compliance



VRS Overview

A. Scott Andrews

Chair, VRS Board of Trustees



VRS Board Members



A. Scott Andrews, Chair
Northern Contours & Harvest Equity Investments



Lawrence A. Bernert III, Vice Chair
Clearstead Advisory Solutions



The Hon. J. Brandon Bell II, CRPC
Brandon Bell Financial Partners



John M. Bennett
VCU (Retired)



J. Clifford Foster IV
Raymond James & Associates



Susan T. Gooden, Ph.D.
VCU



Jessica L. Hood
Wise County and City of Norton
Commonwealth's Attorney's
Office



The Hon. Matthew James
MJames Consulting LLC



Lindsey K. Pantele
Henrico County
Public Schools



Our mission is to deliver retirement and other benefits
to Virginia public employees
through sound financial stewardship
and superior customer service.



VRS Trust Fund



- VRS Trust Fund health is strong
- VRS is well-positioned to respond to shifting market conditions
- We pay more than \$6 billion in benefits annually to retirees
- We build our diversified portfolio to weather short-term economic challenges and market volatility

Strategic and Efficient Investing



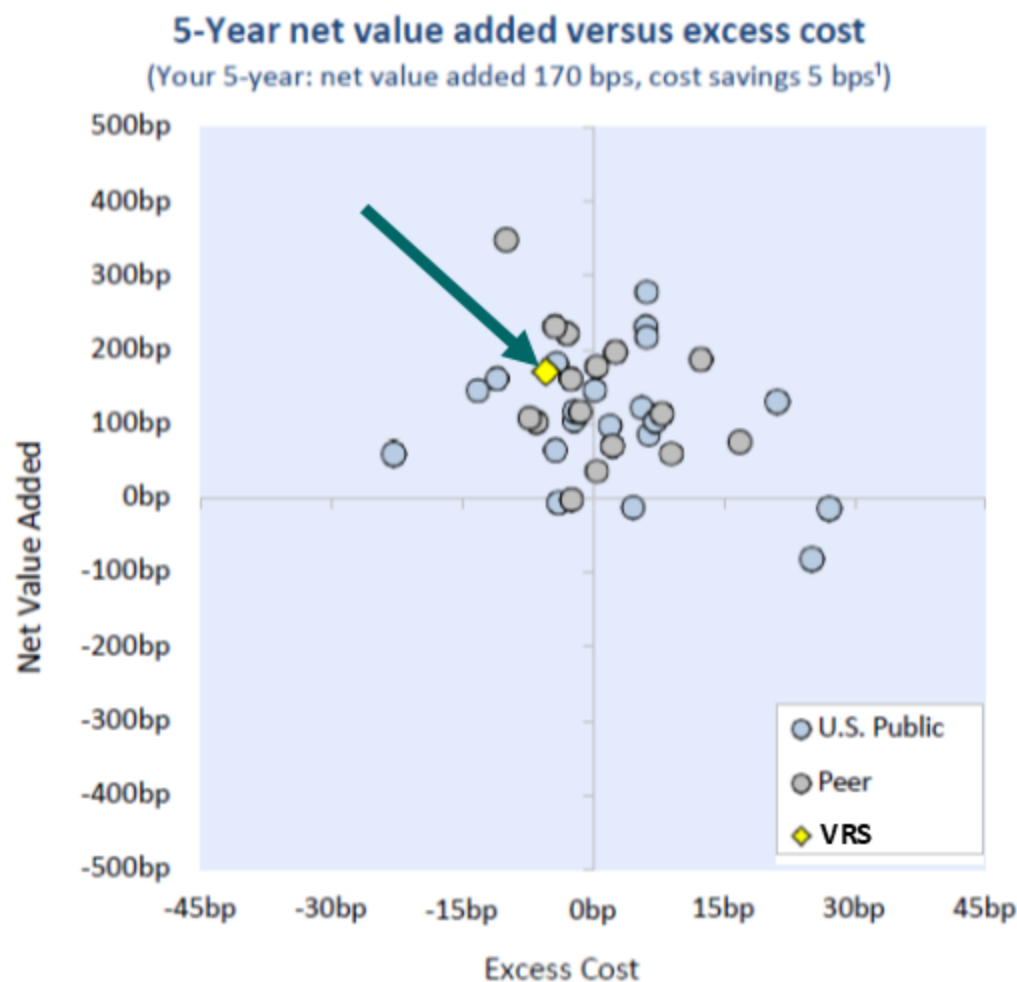
- VRS seeks investments that will bring favorable returns while carefully managing risk across the entire portfolio
- VRS' investment strategy has generated long-term returns that meet or exceed our assumed rate of 6.75%
- This strategy has raised the market value of the fund to more than \$118 billion

Management for Significant Savings

- VRS manages one-third of investments in-house, saving an estimated \$58 million annually in fees
- VRS benefits from discounts on fees charged by external portfolio managers
- Each extra dollar in the plan is a dollar that does not have to come from state or employer contributions



CEM Benchmarking: VRS Investments



VRS' five-year net total return: 9.5%

U.S. public median: 8.7%

VRS peer median: 9.2%

VRS' five-year net value added: 1.7%

U.S. public median: 1.2%

VRS peer median: 1.2%

VRS' investment cost: 64.2 bps

Benchmark cost: 69.3 bps

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CEM Benchmarking: VRS Administration

Relationship between VRS service and pension administration cost



Pension Administration Cost

\$81
VRS
SCORE

\$124
PEER
AVERAGE
COST

Total Service Score

81
VRS
SCORE

82
PEER
MEDIAN
SCORE

Focus on Customer Experience

- VRS focuses on voluntary contributions made by Hybrid Retirement Plan members
- We work with the defined contribution plan record keeper to provide education and outreach
- VRS recently transitioned to Voya, an industry leader offering an array of financial services



Summary



- VRS thanks JLARC and the General Assembly for your support of our work on behalf of public servants in Virginia
- Your partnership and commitment to funding contribution rates helps ensure we uphold our shared duty to deliver benefit payments to retirees for years to come

Investments Overview

Andrew H. Junkin

VRS Chief Investment Officer



Investments Agenda

- Long Term Asset Allocation
- Performance Update
- Staff Value-Add
 - Internal management
 - Cost-effective implementation
- Markets & Economy

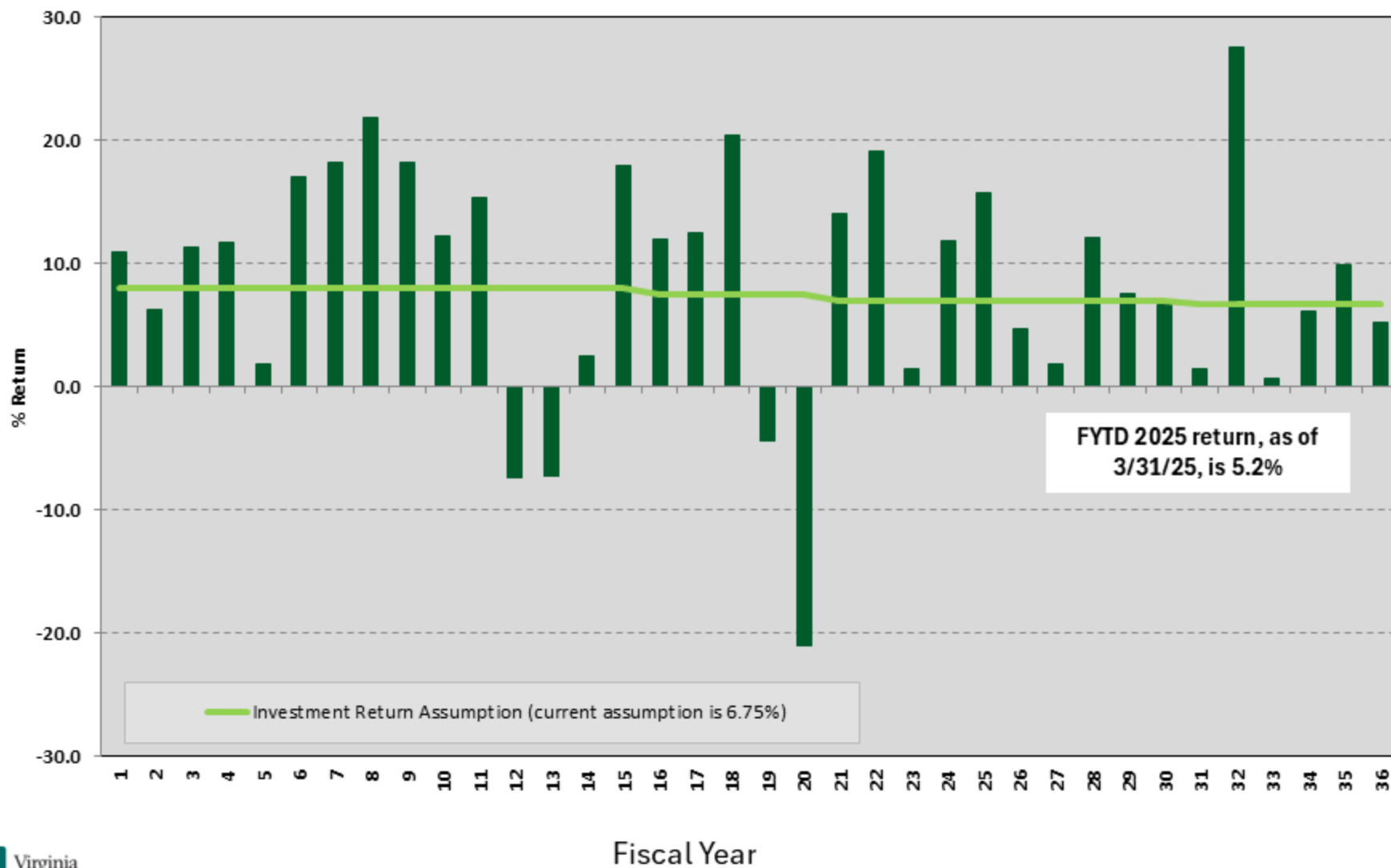


Asset Liability Study – Risk Reduction

- Following Comprehensive Asset Liability Management study in 2023-2024, the VRS Board adopted a long-term asset allocation that increases the overall diversification of the portfolio without sacrificing expected returns in the future.
- Code of Virginia* requires the Board to “diversify such investments so as to minimize the risk of large losses.”

| | Prior Target Allocation | Long Term Target Allocation |
|--------------------------------------|-------------------------|-----------------------------|
| Expected Annualized Return | 7.14% | 7.14% |
| Expected Annualized Volatility | 12.63% | 12.00% |
| Return Greater Than 6.75% - 10 Years | 53% | 55% |
| Return Greater Than 6.75% - 20 Years | 55% | 61% |
| | Prior Target Allocation | Long Term Target Allocation |
| Public Equity | 34% | 32% |
| Fixed Income | 15% | 16% |
| Credit Strategies | 14% | 16% |
| Real Assets | 14% | 15% |
| Private Equity | 16% | 15% |
| Private Investment Partnerships | 2% | 1% |
| Diversifying Strategies | 4% | 6% |
| Cash | 1% | 2% |
| Total | 100% | 103% |
| Leverage included in the Total | 0% | 3% |

VRS Fiscal Year Returns



Total Fund Performance* as of March 31, 2025

| | VRS Return | Benchmark | |
|---------|------------|-----------|---|
| 1-year | 6.3 | 7.9 | — |
| 3-year | 5.2 | 4.8 | + |
| 5-year | 10.9 | 9.5 | + |
| 10-year | 7.7 | 6.9 | + |
| 15-year | 8.2 | 7.5 | + |
| 20-year | 7.3 | 6.6 | + |
| 25-year | 6.3 | 5.7 | + |

*Percent; net of fees

Source: Bank of New York

Total Fund Performance* as of March 31, 2025

| | 10 Year | 5 Year | 3 Year | 1 Year | Market Value (\$MM) |
|--|-------------|-------------|------------|------------|---------------------|
| Total Public Equity | 8.7 | 16.0 | 8.5 | 7.8 | 37,974 |
| <i>Benchmark</i> | 8.7 | 15.7 | 7.0 | 7.8 | |
| Total Private Equity | 14.2 | 14.2 | 3.0 | 5.0 | 19,262 |
| <i>Benchmark</i> | 11.8 | 11.1 | 5.9 | 18.1 | |
| Total Real Assets | 7.4 | 6.2 | 1.4 | 1.8 | 15,239 |
| <i>Benchmark</i> | 5.5 | 4.0 | -0.6 | 0.7 | |
| Total Credit Strategies | 6.8 | 10.0 | 7.3 | 9.7 | 19,203 |
| <i>Benchmark</i> | 5.3 | 7.7 | 6.1 | 6.8 | |
| Total Diversifying Strategies | n/a | 8.6 | 4.7 | 4.6 | 4,747 |
| <i>Benchmark</i> | n/a | 7.5 | 4.5 | 7.5 | |
| Total Private Investment Partnerships | 8.7 | 9.6 | 5.9 | 8.3 | 2,264 |
| <i>Benchmark</i> | 7.7 | 7.6 | 4.2 | 8.2 | |
| Total Fixed Income | 2.4 | 1.4 | 1.4 | 5.9 | 18,368 |
| <i>Benchmark</i> | 1.6 | 0.1 | 0.8 | 5.1 | |
| Total Fund | 7.7 | 10.9 | 5.2 | 6.3 | 118,089 |
| <i>VRS Custom Benchmark</i> | 6.9 | 9.5 | 4.8 | 7.9 | |

*Percent; net of fees

Source: Bank of New York

Total Fund Performance* as of April 30, 2025

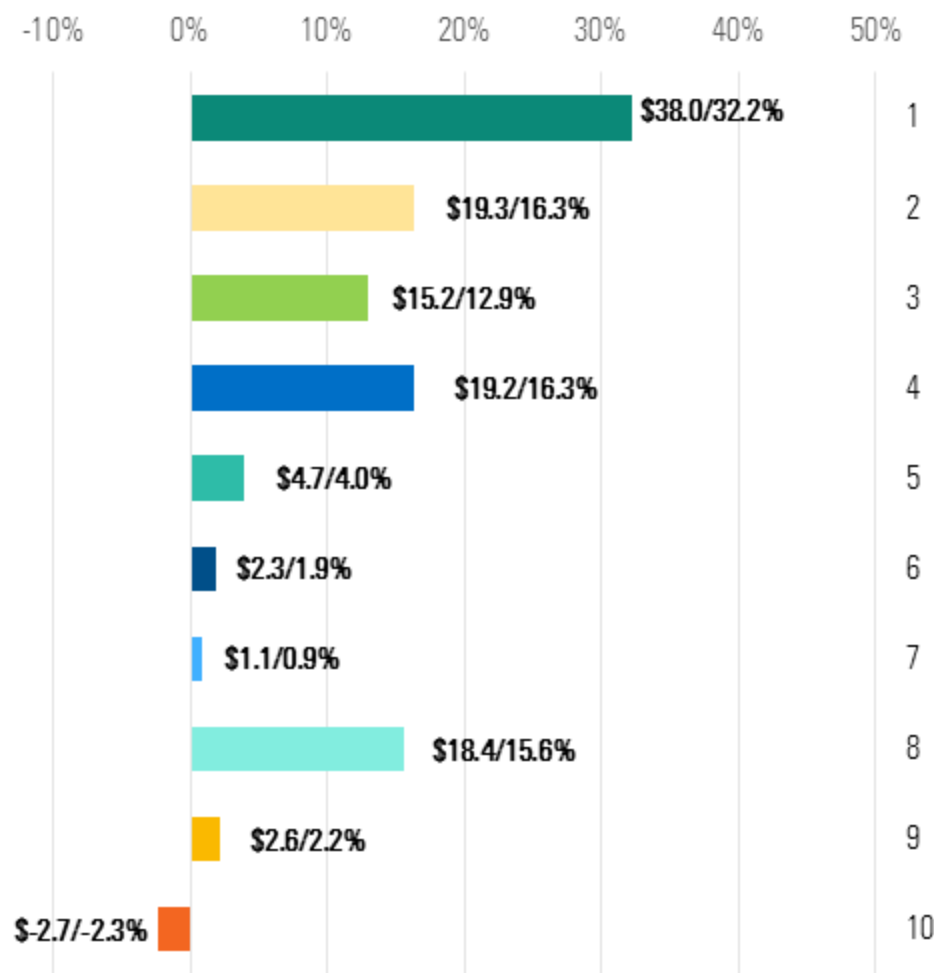
| | 10 Year | 5 Year | 3 Year | 1 Year | Fiscal YTD | Market Value (\$MM) |
|--|-------------|-------------|-------------|-------------|------------|---------------------|
| Total Public Equity | 8.6 | 13.9 | 11.2 | 12.6 | 7.3 | 38,326 |
| <i>Benchmark</i> | 8.6 | 13.5 | 10.4 | 12.7 | 6.8 | |
| Total Private Equity | 14.2 | 14.3 | 3.3 | 5.5 | 4.2 | 19,333 |
| <i>Benchmark</i> | 12.3 | 12.1 | 9.1 | 21.8 | 13.0 | |
| Total Real Assets | 7.4 | 6.0 | 1.6 | 1.8 | 2.3 | 15,372 |
| <i>Benchmark</i> | 5.5 | 3.8 | -0.8 | 1.5 | 2.0 | |
| Total Credit Strategies | 6.6 | 9.3 | 7.5 | 9.4 | 7.1 | 19,337 |
| <i>Benchmark</i> | 5.2 | 6.8 | 6.6 | 7.0 | 5.2 | |
| Total Diversifying Strategies | n/a | 7.5 | 5.2 | 2.2 | 2.9 | 4,774 |
| <i>Benchmark</i> | n/a | 6.8 | 6.1 | 7.4 | 6.0 | |
| Total Private Investment Partnerships | 8.7 | 9.6 | 5.9 | 8.0 | 5.8 | 2,229 |
| <i>Benchmark</i> | 7.8 | 7.7 | 5.2 | 9.6 | 6.6 | |
| Total Fixed Income | 2.5 | 0.9 | 2.8 | 8.8 | 5.8 | 18,421 |
| <i>Benchmark</i> | 1.7 | -0.2 | 2.3 | 8.1 | 5.3 | |
| Total Fund | 7.6 | 9.9 | 6.3 | 8.1 | 5.5 | 118,214 |
| <i>VRS Custom Benchmark</i> | 6.9 | 8.7 | 6.8 | 10.6 | 6.6 | |

*Percent; net of fees

Source: Bank of New York

Asset Allocation as of March 31, 2025

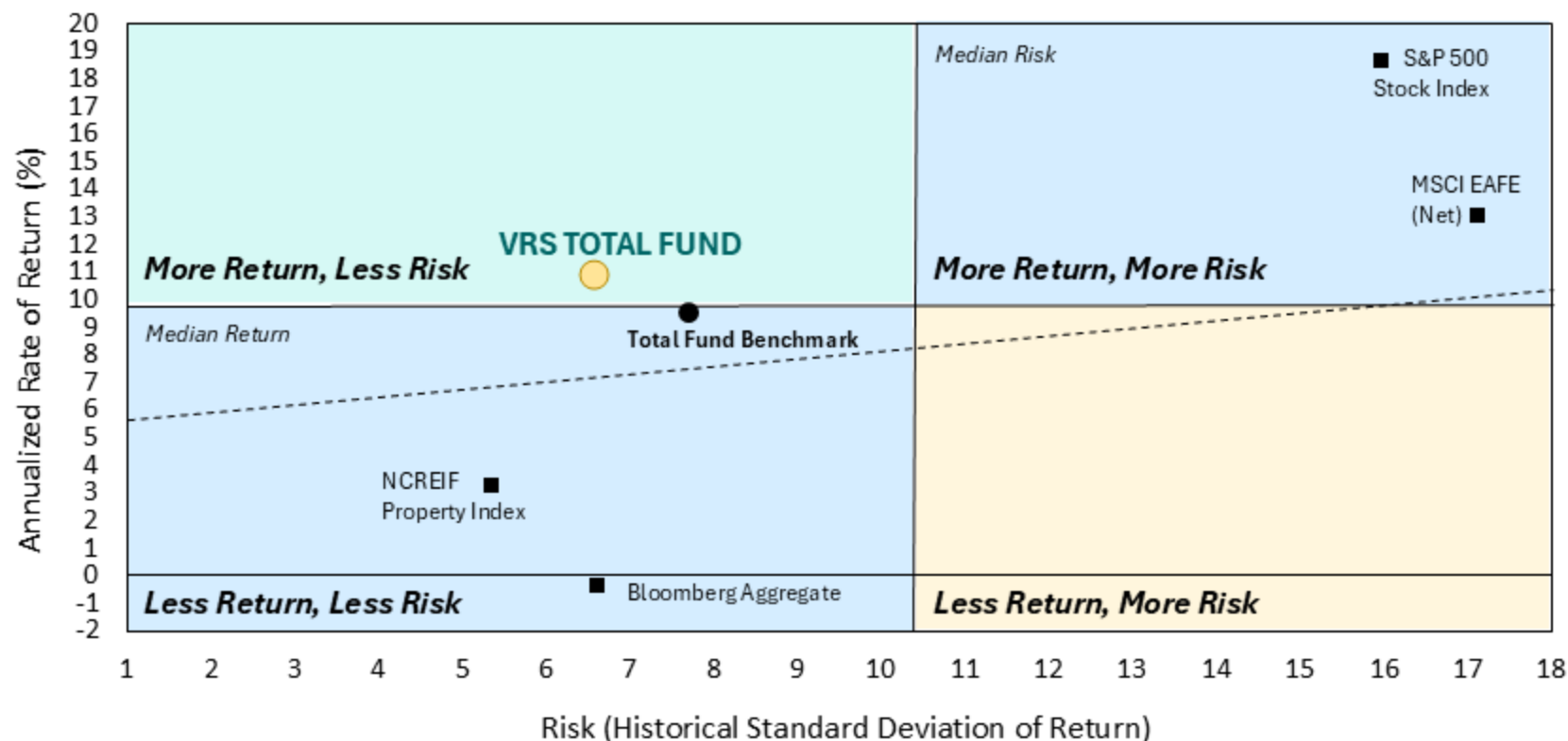
Total Fund Market Value = **\$118.1 billion**



Dollar Amounts in Billions /
Percent of Total Fund
Difference in totals are due to rounding
Source: Bank of New York

Trust Universe Comparison Services

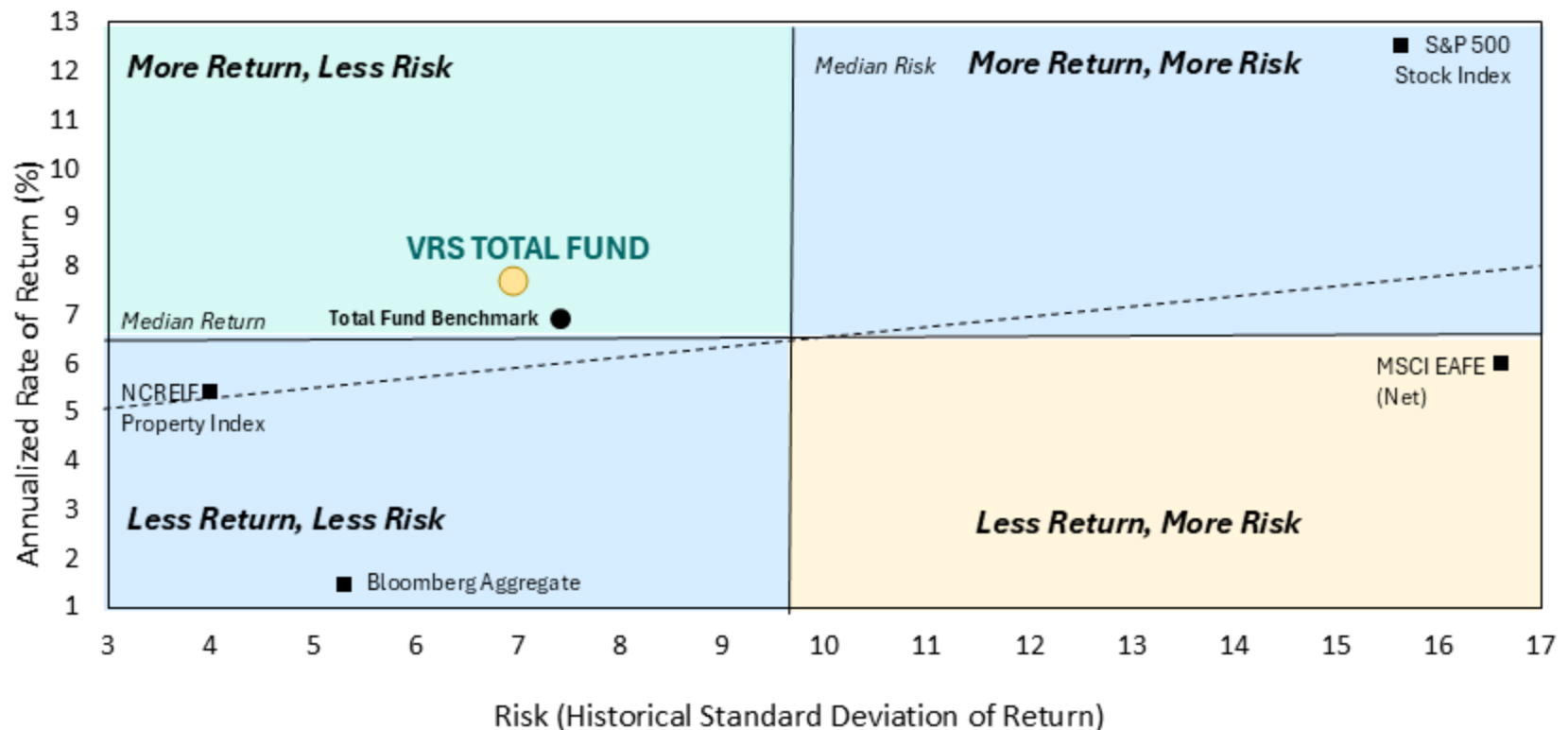
Risk vs Total Return
5 Years Ending March 31, 2025



Source: Wilshire Trust Universe Comparison Service® (TUCS®)

Trust Universe Comparison Services

Risk vs Total Return
10 Years Ending March 31, 2025



Source: Wilshire Trust Universe Comparison Service® (TUCS®)

Internal Asset Management (IAM)

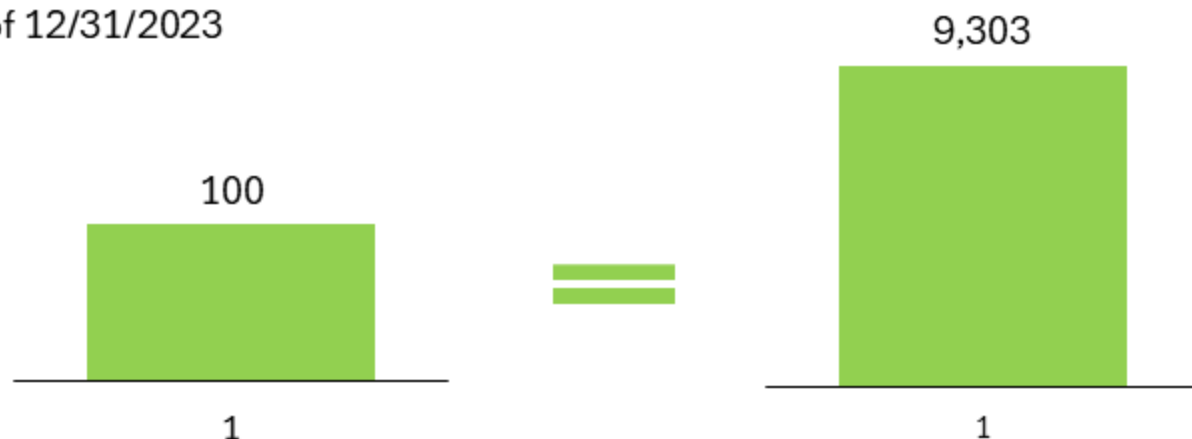
| Asset Class | Objective | \$MM |
|--------------|--------------------|-----------------|
| Fixed Income | Core | 16,838.0 |
| | Core Plus | 698.2 |
| | Subtotal | 17,536.2 |
| Equity | Low Tracking Error | 12,339.0 |
| | Low Volatility | 7,139.1 |
| | Other | 0.5 |
| | Subtotal | 19,478.6 |
| Other | Other | 2,100.9 |
| | Total | 39,115.7 |

as of March 31, 2025

Adding Value Multiple Ways

Total Fund 10-Year Value Add

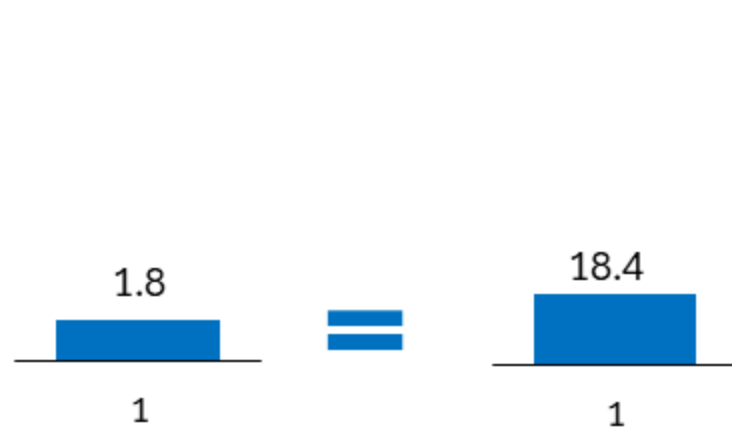
As of 12/31/2023



Source: BNY Data, 12/31/23

Effective Cost Management

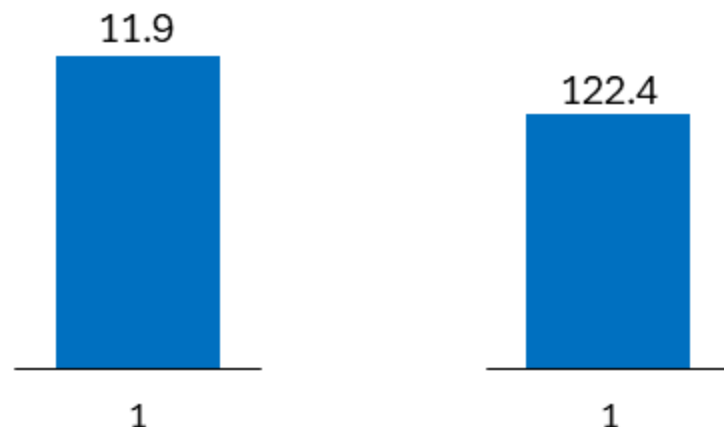
As of 12/31/2023



Source: CEM, CY2023

In-House Management Fee Savings

As of 12/31/2023



Source: CEM, CY2023

Markets & Economy



Tariff and trade negotiations plus federal budget reconciliation process creating policy uncertainty for investors.



U.S. economy has remained resilient despite policy uncertainty. Employment and consumer spending are both still strong. Inflation and interest rates lower than a year ago.



Geopolitical tension and military actions raise overall levels of uncertainty and create “event risk” for the VRS portfolio. VRS maintains more than sufficient liquidity to meet benefit payments and other obligations.



Global equity markets at record high levels. Technology and AI-related investments continue to deliver solid returns.

Recent Accomplishments



Continued implementation of long-term target asset allocation, which is a multi-year process. The new target should help mitigate volatility of returns and drawdown risk.



Enhanced and expanded risk-management team and liquidity/leverage management team.



Mitigated exposure to Foreign Adversaries in VRS benchmarks and portfolios.



Ongoing professional development and training:

- 32 Chartered Financial Analyst designations
- 6 Chartered Alternative Investment Analyst designations
- 54 Master's degrees
- 6 Ph.Ds
- 1 Juris Doctor

Summary



VRS maintains a long-term investment horizon, aligning portfolio strategy with its enduring commitments to beneficiaries.

The investment program remains focused on prudent risk management while pursuing returns. Strategic asset allocation is designed to achieve the assumed rate of return while minimizing overall portfolio volatility.



Over the long term (5-, 10-, 15-, and 20-year periods), the VRS portfolio has exceeded both its policy benchmark and the 6.75% assumed rate of return, reflecting the effectiveness of a diversified, risk-aware investment approach.



Robust equity market performance has been a key contributor to returns. In addition, the portfolio's diversified structure and risk-mitigation strategies have helped limit losses during periods of market stress, including the recent tariff-driven selloff.

Investment staff continues to generate value through strong relative performance and efficient, cost-conscious implementation of investment strategies.

Administration Overview

Sandra M. Jack

VRS Director of Policy,
Planning and Compliance



VRS Total Membership as of May 31, 2025

| | Plan 1 | Plan 2 | Hybrid | Total |
|--|-----------------|---------------|----------------|----------------|
| Teachers | 50,753 | 25,951 | 88,968 | 165,672 |
| Political Subdivision Employees | 27,179 | 33,100 | 63,230 | 123,509 |
| State Employees | 21,311 | 11,864 | 48,167 | 81,342 |
| State Police Officers' Retirement System (SPORS) | 797 | 1,022 | | 1,819 |
| Virginia Law Officers' Retirement System (VaLORS) | 1,376 | 5,948 | | 7,324 |
| Judicial Retirement System (JRS) | 104 | 35 | 327 | 466 |
| Total Active Members | 101, 520 | 77,920 | 200,692 | 380,132 |

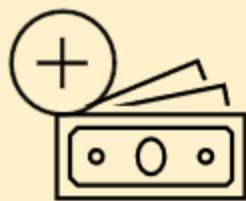
**Total
Active Members
380,132**

**Retirees/
Beneficiaries
248,984**

**Inactive/Deferred
Members
228,557**

**VRS Total
Population
857,673**

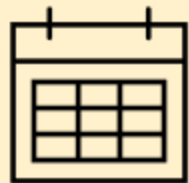
Importance of Hybrid Plan Voluntary Contributions



- Hybrid plan contains a defined contribution component that incentivizes members to defer additional funds for retirement by providing employer matching contributions



- By design, the hybrid plan requires members to contribute more to their retirement plan than Plan 1 and Plan 2 colleagues to generate similar levels of income replacement



- VRS actively encourages voluntary contributions among hybrid plan members
- Every three years, auto-escalation increases voluntary contributions by 0.5% for those not at the maximum; next escalation is January 1, 2026

Opportunities to Enhance Hybrid Retirement Plan Outcomes*



- Auto-enrolling new hybrid plan members in the voluntary portion of the plan, with the ability to opt out



- Increasing auto-escalation frequency



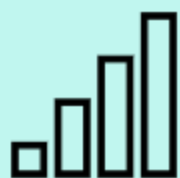
- Adjusting the required member contribution to the DB portion of the plan so that a higher portion goes to the DC component

*Plan design changes require legislative action.

Funded Status (Assets/Liabilities)



- VRS is on a long-term trajectory toward full funding



- Funded status is above 82% for the largest two plans — teacher and state



- Significant progress reducing unfunded liabilities through
 - Cash infusions
 - Full funding of actuarially determined contribution rates
 - Favorable investment experience

Actuarial Experience Study



- Process used to evaluate actual historical plan experience against expected or assumed outcomes
- Reviews key actuarial assumptions:
 - Economic assumptions, including investment returns, inflation and wage growth
 - Demographic assumptions, including mortality rates, retirement rates, termination rates and pay increases

Results:

- No significant changes recommended to economic assumptions or the plan's assumed rate of return at 6.75%
- Minor adjustments to demographic assumptions to better align with experience

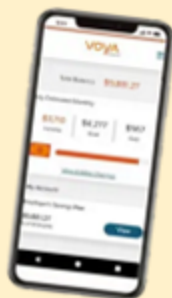
VRS and its actuary are working on 2025 rate-setting actuarial evaluations that will determine employer contribution rates for next budget cycle.

Expanded Services From Voya

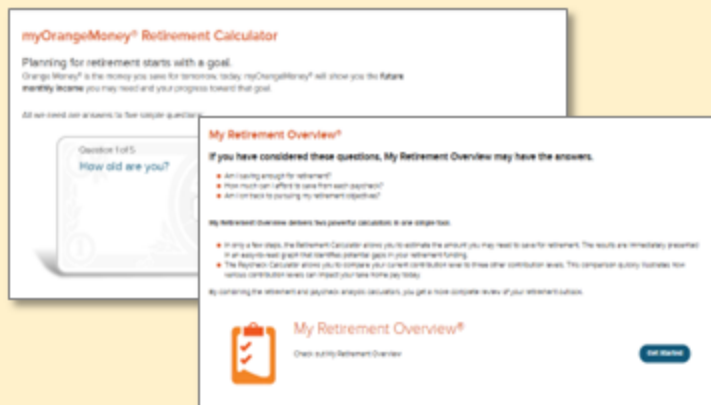


Professional investment advice from **Voya Retirement Advisors, LLC (VRA)**

Financial planning for *all* VRS members and retirees through Voya's **Be Ready** team



Members can manage accounts on the go with the **Voya Retire mobile app**



Tools and resources include
myOrangeMoney®
and **My Retirement Overview®**

Focus on Customer Experience



- Opened a new counseling center in central Henrico County, with free parking and easy access for customers
- Launched a new call management system with more efficient call routing
- Hired a customer experience manager to help VRS explore additional opportunities to innovate

Summary



- With your continued support, VRS is making progress toward achieving full funding across all plans



- We are encouraged by the results from paying down legacy liabilities, which further strengthens plan health



- We continue our customer experience journey with a focus on improved outcomes for our members, employers and retirees

Helping members
plan for tomorrow,
today





Appendix

Constitutional Duties and U.S. Code: Exclusive Benefit Rule

Constitution of Virginia, Article X, Section 11:

“The funds of the retirement system shall be deemed separate and independent trust funds, shall be segregated from all other funds of the Commonwealth, and shall be **invested and administered solely in the interests of the members and beneficiaries thereof.**” [Emphasis added.]

26 United States Code § 401(a):

“A trust ... shall constitute a qualified trust under this section ... if under the trust instrument it is impossible ... for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than **for the exclusive benefit of his employees or their beneficiaries....**” [Emphasis added.]

VRS Fiduciary Duty



Administer the trust fund solely in the interests of VRS members, retirees and beneficiaries.

- *Constitution of Virginia*
- *Code of Virginia*
- *Internal Revenue Code*



Manage assets with care, skill, prudence and diligence.

- Trustees carry out the Board's fiduciary duties and responsibilities.
- Protect long-term value of investment portfolio.
- Provide benefit security to members and rate stability for employers.



Maintain broadest possible opportunity set in the investment portfolio.

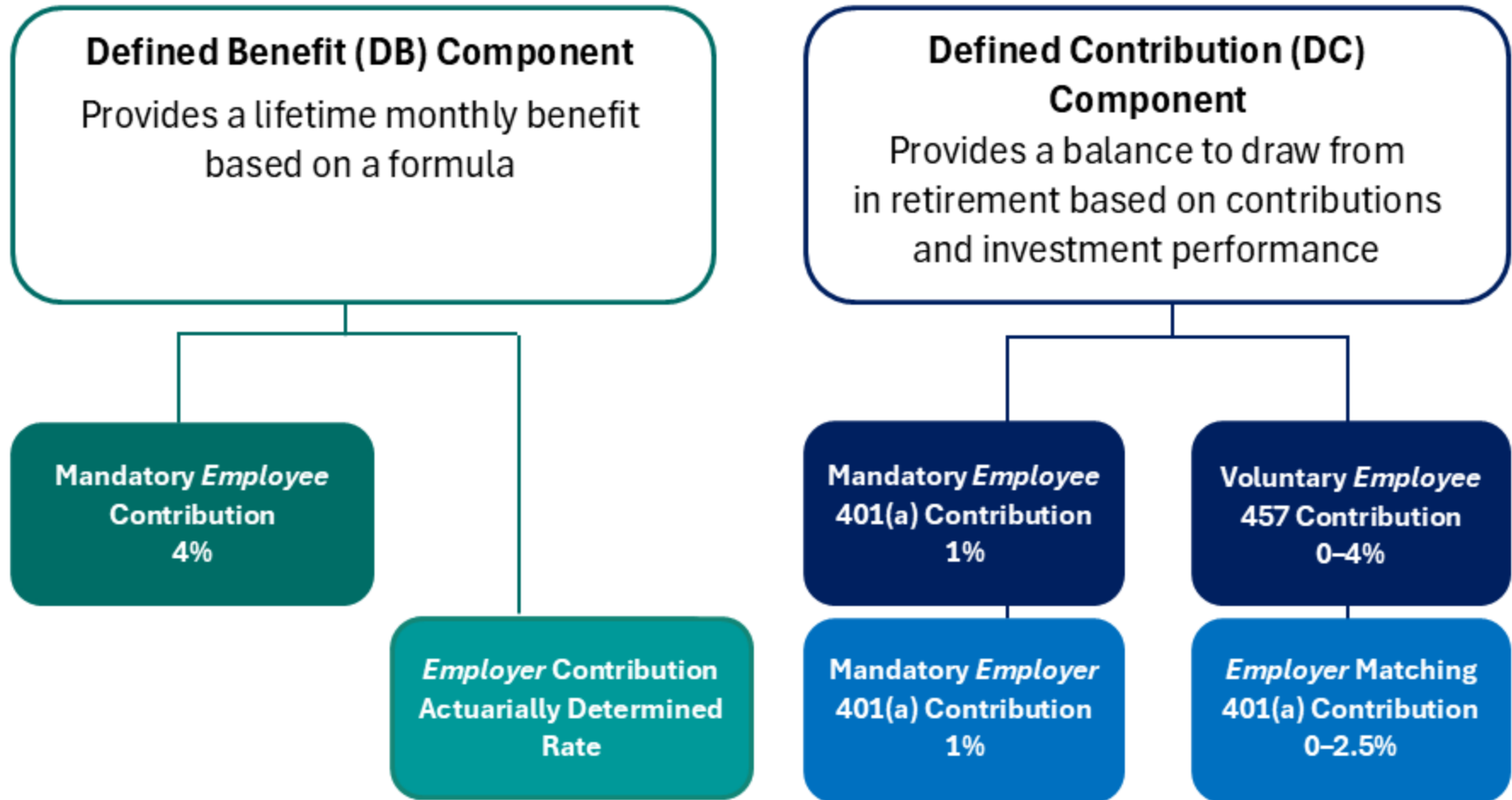
- Divesting from/not investing in certain sectors may contradict fiduciary requirements.
- Investment income has historically funded two-thirds of benefit payments.

VRS Plans

| Plan 1 | Plan 2 | Hybrid Retirement Plan |
|---|---|--|
| <p>A defined benefit plan for employees hired or rehired:</p> <ul style="list-style-type: none">▪ Before July 1, 2010, and vested as of January 1, 2013, and▪ Have not taken a refund. | <p>A defined benefit plan for employees hired or rehired:</p> <ul style="list-style-type: none">▪ From July 1, 2010, to December 31, 2013, or▪ Before July 1, 2010, and not vested as of January 1, 2013, and▪ Have not taken a refund. | <p>A combined defined benefit plan and defined contribution plan for members hired on or after January 1, 2014.</p> <ul style="list-style-type: none">▪ Members covered under SPORS and VaLORS, and political subdivision members who are covered by enhanced benefits for hazardous duty, are not eligible to participate in this plan. |

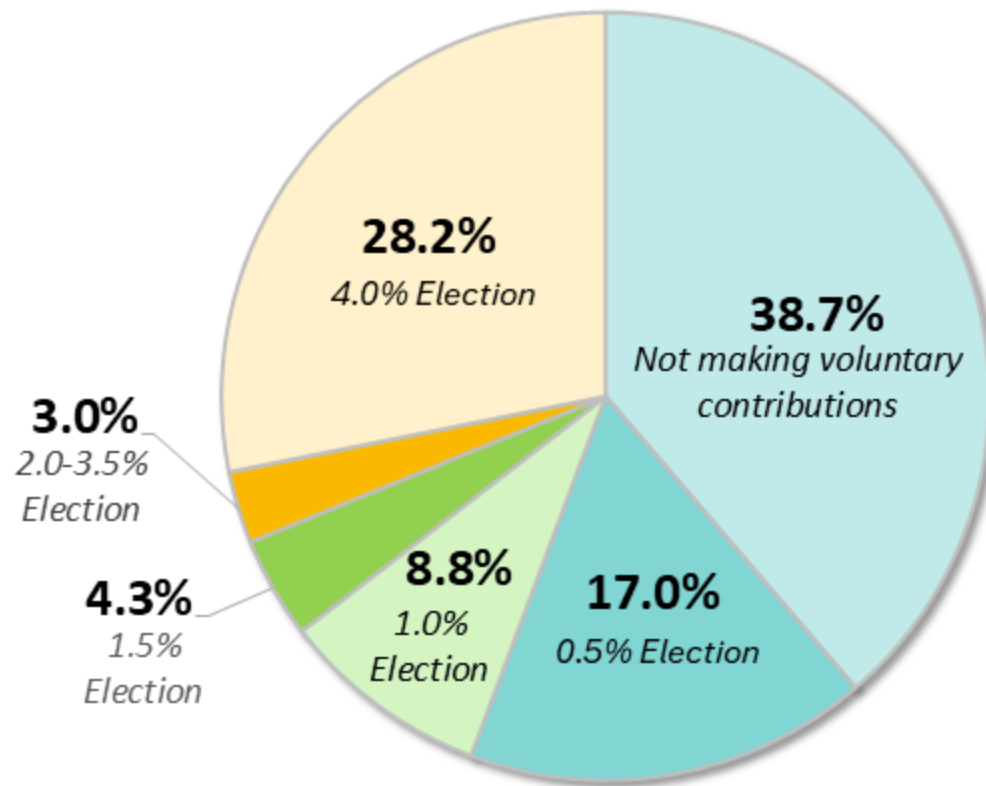
Group life insurance, disability coverage and the health insurance credit in retirement are available to eligible members in all plans.

Hybrid Retirement Plan



Hybrid 457 Plan – Voluntary Participation

Voluntary contribution percentages for **all** current hybrid plan members effective April 1, 2025



Voluntary Contribution Percentages

1 2 3 4 5 6

VRS-Administered Benefits

Retirement Plans

Defined Benefit Plans

- **VRS** (Plan 1 and Plan 2)
- **SPORS** (Plan 1 and Plan 2)
- **JRS** (Plan 1 and Plan 2)
- **VaLORS** (Plan 1 and Plan 2)

Defined Contribution Plans*

- **Commonwealth of Virginia Deferred Compensation Plan**
- **Virginia Cash Match Plan**
- **Optional Retirement Plan for Political Appointees**
- **Optional Retirement Plan for School Superintendents**
- **Virginia Supplemental Retirement Plan**
- **Optional Retirement Plan for Higher Education** (Plan 1 and Plan 2)

Hybrid Retirement Plan*

- **VRS**
- **JRS**

* Denotes third-party administrator

VRS-Administered Benefits

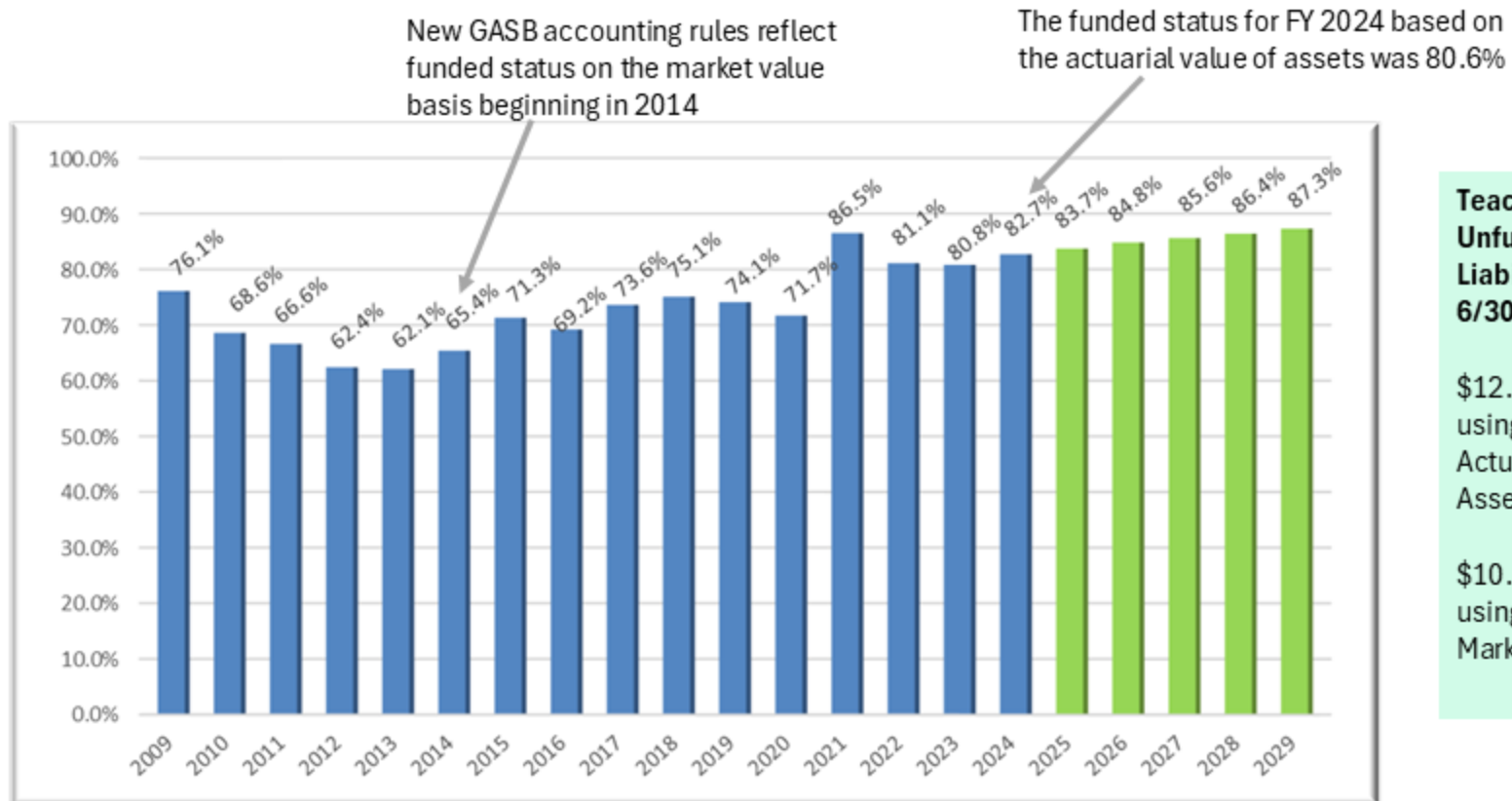
Insurance Programs

- **Life Insurance Plans***
- **Traditional Disability Retirement** (local and school employees pre-hybrid plan)
- **Virginia Sickness and Disability Program*** (state employees)
- **Long-Term Care Insurance Plans***
- **Health Insurance Credit**
- **Virginia Local Disability Program*** (local and school employees in hybrid plan)

Other Programs

- **Line of Duty Act (LODA)**
- **Virginia Volunteer Firefighters' & Rescue Squad Workers' Service Award Program (VOLSAP)**

Funded Status: Teachers



**Teacher Plan
Unfunded
Liability as of
6/30/2024**

\$12.0 Billion
using
Actuarial
Assets

\$10.7 Billion
using
Market Assets

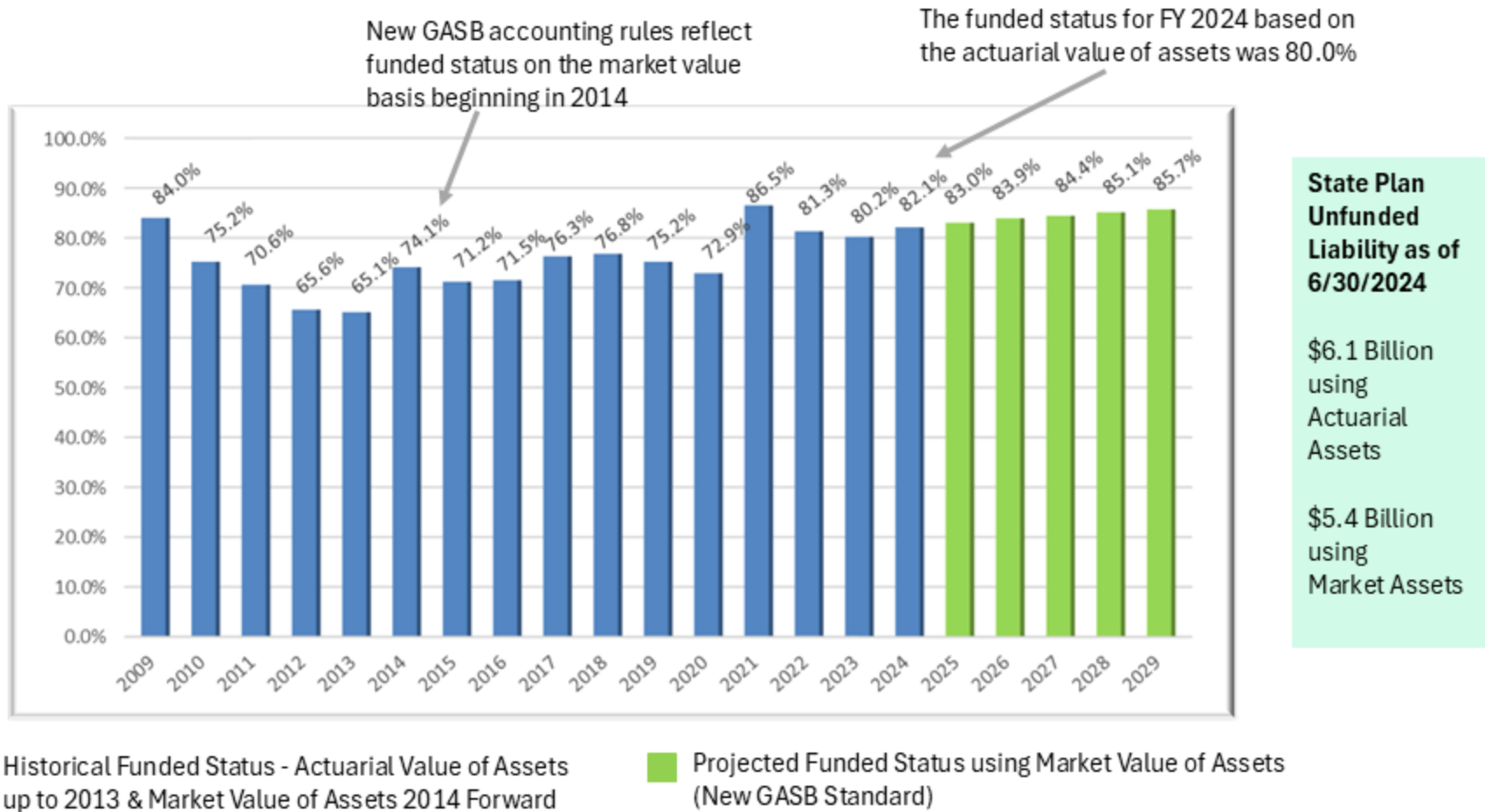
■ Historical Funded Status - Actuarial Value of Assets up to 2013 & Market Value of Assets 2014 Forward

■ Projected Funded Status using Market Value of Assets (New GASB Standard)

Notes:

- Projected funded status based on assumed investment returns of 6.75% and inflation of 2.5%.
- GASB Accounting rules reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.

Funded Status: State

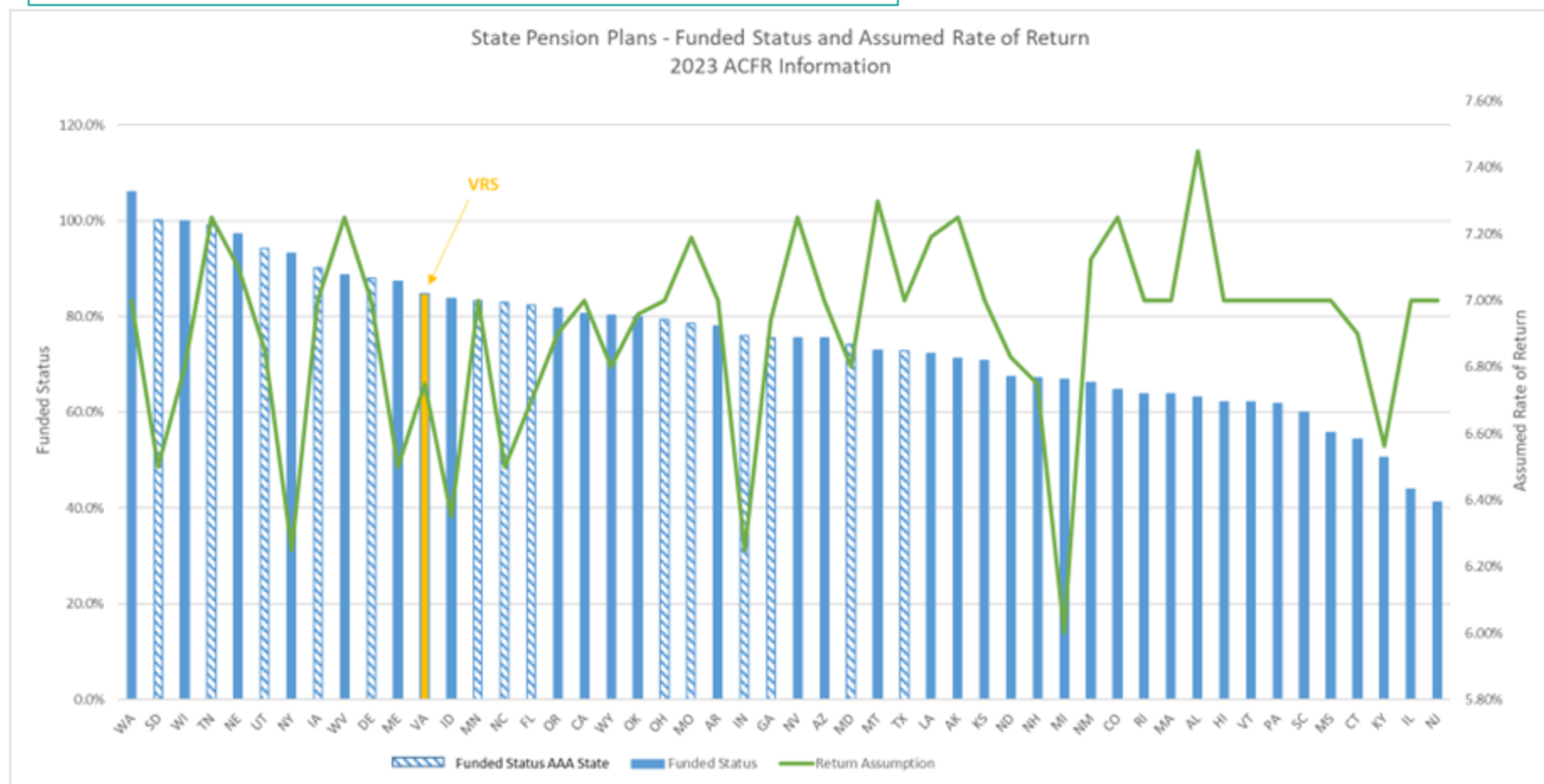


Notes:

- Projected funded status based on assumed investment returns of 6.75% and inflation of 2.5%.
- GASB Accounting rules reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.

State Pension Plans: Funded Status and Assumed Rate of Return

VRS is in the top quartile compared to other states.*



*VRS uses a lower discount rate than many other states that if normalized would move VRS up in rankings.

OPEB Funded Status and Unfunded Liabilities: Market Value of Assets (MVA)

| System | 2023 | | 2024 | |
|-----------------------------|---|---------------|---|---------------|
| | UAAL based on MVA (Dollars in Thousands) | Funded Status | UAAL based on MVA (Dollars in Thousands) | Funded Status |
| Group Life | \$ 1,309,524 | 67.4% | \$ 1,166,536 | 72.5% |
| HIC State | \$ 799,546 | 26.0% | \$ 689,141 | 35.8% |
| HIC Teachers | \$ 1,196,910 | 18.1% | \$ 1,141,564 | 22.0% |
| VSDP | \$ (325,183) | 205.0% | \$ (364,449) | 211.0% |
| | | | | |
| HIC Locals in Aggregate | \$ 33,857 | 54.2% | \$ 29,409 | 61.6% |
| HIC Constitutional Officers | \$ 29,956 | 24.6% | \$ 25,888 | 35.4% |
| HIC Social Services | \$ 10,017 | 33.9% | \$ 8,264 | 44.1% |
| HIC Registrars | \$ 306 | 45.5% | \$ 226 | 59.1% |
| VLDP Teachers | \$ 795 | 92.6% | \$ 471 | 96.7% |
| VLDP Political Subdivisions | \$ (1,486) | 115.4% | \$ (3,717) | 130.7% |
| Total OPEBS | \$ 3,054,242 | 56.5% | \$ 2,693,334 | 63.0% |

VRS Employer Contribution Rates by Fiscal Year

| Retirement Program | FY 2025-2026 Defined Benefit Rate |
|--|--------------------------------------|
| State Employees | 12.52%* |
| Teachers | 14.21%* |
| State Police Officers' Retirement System | 31.32% |
| Virginia Law Officers' Retirement System | 24.60% |
| Judicial Retirement System | 30.67%* |
| Non-Professional School Board and Political Subdivision Employees | Varies by Employer** |

* Additional contributions of 1.0% – 3.5% of the hybrid payroll is required for Hybrid Retirement Plan members.

** Political subdivision and non-professional school board employers can download actuarial valuation reports and rate letters directly from myVRS Navigator.

Other Post-Employment Benefits (OPEBs)

Contribution Rates by Fiscal Year

| OPEB | | FY 2025-2026 |
|---|---|---------------------|
| Group Life Insurance | Employee | 0.71% |
| | Employer | 0.47% |
| | Total | 1.18% |
| Health Insurance Credit | State Employees | 1.12% |
| | Teachers | 1.21% |
| | Non-Professional School Board Members and Political Subdivision Employees | Varies by Employer* |
| Virginia Sickness and Disability Program (VSDP) | Covered Payroll | 0.50% |
| Virginia Local Disability Program (VLDP) | Teachers | 0.45% |
| | Participating Non-Professional School Board Members and Political Subdivision Employees | 0.74% |

Recent VRS Awards



- **Gold Stevie® Award,**
The American Business Awards®



- **Communicator Award of Excellence** and
Communicator Award of Distinction, Academy of Interactive & Visual Arts



- **Honorable Mention,**
MarCom Awards, The Association of Marketing & Communication Professionals



- **Certificate of Transparency,**
National Conference on Public Employee Retirement Systems



- **Certificate of Achievement for Excellence in Financial Reporting** and **Award for Outstanding Achievement in Financial Reporting,**
Government Finance Officers Association



- **Public Pension Standards Award for Funding and Administration,**
Public Pension Coordinating Council



- **Philanthropy Excellence Award, 2024** Commonwealth of Virginia Campaign