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Report to the Governor and the General Assembly of Virginia

VRS Hybrid Retirement Plan Employee Contributions

COMMISSION DRAFT

JLARC
JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

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WHAT WE FOUND

Hybrid retirement plan reduces employer costs and transfers some retirement risk to employees

Cost savings for the state was a key motivation for the Virginia General Assembly to adopt the hybrid retirement plan, and the plan will cost the state less than the legacy defined benefit (DB) retirement plans—Plan 1 and Plan 2. The hybrid plan costs the state less because the DB benefit for hybrid plan employees has been reduced, and hybrid plan employees pay a greater percentage of their DB benefit. Even though employers provide a partial cash match to employees' defined contributions (DC), the majority of hybrid plan members are not taking advantage of the full employer match, which further decreases employer costs.

Another key goal of adopting the hybrid retirement plan was transferring some of the longevity and investment risks associated with retirement benefits from employers to employees. Hybrid plan employees now bear the longevity and investment risks associated with the DC component of their plan.

Hybrid plan will allow most career employees to achieve an estimated 80 percent income replacement in retirement when including Social Security

The hybrid retirement plan, as structured, is generally adequate to allow most career employees (who have worked enough years to receive an unreduced retirement benefit) to receive an estimated 80 percent income replacement in retirement if Social Security is included. (Actual replacement ratios may be higher or lower because Social Security benefits vary by income.) Approximately 80 percent of annual pre-retirement income is a typical goal for adequate income in retirement.

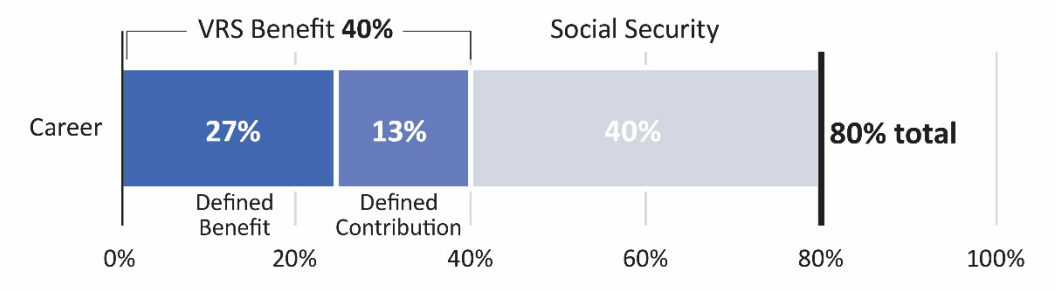
WHY WE DID THIS STUDY

JLARC undertook this review as part of JLARC's ongoing oversight required by the Virginia Retirement System Oversight Act (§30-78 et. seq.). The hybrid retirement plan has been in place for over 10 years, and as of 2024, the majority of VRS active members are covered by the hybrid plan. Now that the state has over a decade of experience, JLARC staff reviewed the hybrid retirement plan to determine whether the state's goals for adopting the plan in 2012 are still being met and whether retirement plan members will be able to meet retirement income replacement goals. While the plan covers state employees, teachers, and local employees, this review focuses primarily on state employees. However, many of the findings apply to teacher and local employee retirement plan members and employers. Any changes to the hybrid plan would affect these groups as well.

ABOUT THE HYBRID RETIREMENT PLAN

The Virginia General Assembly adopted the hybrid retirement plan in 2012 for most new general state employees, teachers, and local employees. The hybrid retirement plan includes defined benefit and defined contribution components to which employers and employees contribute. The General Assembly adopted the plan because of concerns over the cost of the state's retirement plans and the decreased funded status of the VRS trust fund following the Great Recession. The goals of the plan were to reduce the cost of the retirement plan and to transfer some of the retirement risk to employees. The hybrid plan became the default state retirement plan for most non-public safety employees hired after January 1, 2014.

Hybrid plan will allow most career employees to receive an estimated 80 percent income replacement in retirement, including Social Security



Assumes an illustrative employee who works a full career (26.5 years of service) to receive an unreduced benefit, has an average final compensation (AFC) of $74,725 (the statewide average), and receives an annual investment return of 6 percent on their DC contributions. For comparison, a Plan 2 member with the same AFC and length of service would receive an estimated income replacement of 84 percent.

Because of the hybrid plan's structure, hybrid employees must make higher contributions than employees in the legacy pension plans to receive a similar benefit. To receive a benefit comparable to a Plan 2 member, a hybrid plan member must contribute approximately 7 percent annually on average over the course of their career compared to a Plan 2 member who must make an annual 5 percent contribution.

Hybrid plan members could replace more income in retirement, but the majority passively remain at the default contribution level

Most hybrid plan members do not choose to make additional voluntary contributions to the DC component of their plan when they are hired, but they could replace more income in retirement if they did. Hybrid plan members start at a default voluntary contribution of 0 percent unless they make an "active election" to contribute additional income. Choosing a higher voluntary DC contribution would not only increase their employee contributions but allow them to take fuller advantage of the employer match (which would also increase employer costs). Without actively electing to make a voluntary contribution when hired, it will take an employee 24 years to reach the maximum voluntary contribution (4 percent) and receive the full employer match. Hybrid plan members may not actively elect an initial voluntary contribution rate above 0 percent for a variety of reasons, but the most cited reason in research on retirement savings is inertia and passivity.

VRS could increase outreach and education to hybrid plan members to encourage increased voluntary contributions

VRS currently has multiple outreach efforts and educational tools to encourage hybrid plan members to make voluntary contributions to their DC accounts. However, some of the tools are dependent on employers' HR staff informing employees of them. Additional tools provided by VRS directly could help encourage hybrid plan members to actively elect higher voluntary contribution rates. These could include an online

training module as part of state employees' required onboarding and targeted outreach to members.

Changes to Virginia's hybrid retirement plan design could help employees increase their retirement income replacement

Some General Assembly members have been concerned about whether the hybrid retirement plan negatively affects employee recruitment and retention because it is less generous than the legacy DB plans. Legislation enacted during the 2025 session moves judges from the hybrid retirement plan back to Plan 2 starting in FY26. If the General Assembly wanted to help hybrid plan members save more for retirement, it could consider several incremental changes. The General Assembly could take steps to accelerate employees' voluntary DC contributions or change the allocation of employees' contribution between the DB and DC components of the plan. These potential changes would be consistent with the research on retirement savings that shows plan design has the greatest influence on employee savings.

Auto-enroll members at a voluntary contribution above 0 percent – Virginia is unique among states in enrolling new hybrid plan members at a 0 percent voluntary contribution rate. Virginia's hybrid plan could auto-enroll new members at 0.5 percent or 1 percent.

Implement an annual auto escalation – Virginia's auto-escalation of 0.5 percent for voluntary contributions every three years for hybrid plan members is unusually slow. Virginia's hybrid plan could have an annual auto escalation of 0.5 percent or 1 percent. This would increase retirement income replacement the most of the potential changes considered in this report.

Change the allocation of hybrid plan employees' mandatory contribution between their DB and DC components – Instead of the existing allocation for members' mandatory contribution of 4 percent to the DB component and 1 percent to the DC component of their plan (for a total mandatory contribution of 5 percent), the allocation could be changed to 3 percent and 2 percent, respectively. This would reduce the employee contribution obligation to the DB portion of the plan and increase the employees' mandatory contribution to the DC component (for a total of 2 percent).

Changing hybrid retirement plan's design would result in substantial state costs

Changing the hybrid retirement plan's design would result in substantial state costs. This review did not analyze the total state costs for the potential changes reviewed, but to give a sense of the magnitude, employer costs would increase by an estimated $40 million annually if all current state hybrid plan employees were contributing the maximum 4 percent in voluntary contributions. The most costly potential change reviewed would be adopting an annual automatic escalation (either 1 percent or 0.5 percent annually). Changes to the hybrid plan would also increase costs for the teachers

and local political subdivision plans, and the state would be responsible for a portion of the cost increase for the teachers plan.

With any change that would substantially increase employer costs, the General Assembly needs to consider the substantial unfunded liabilities ($20 billion) in the VRS DB plans, which are scheduled to be paid down over the next 18 years.

Virginia's cap on hybrid plan voluntary contributions may unnecessarily discourage them

Virginia has a 4 percent cap on voluntary DC contributions for the hybrid retirement plan (Hybrid 457), and hybrid members who wish to contribute more must do so through a separate account. This creates unnecessary complexity for members wishing to contribute up the Internal Revenue Service (IRS) limit and likely discourages employee savings. Other states allow employees to contribute up to the IRS maximum in their hybrid DC retirement account. Allowing hybrid plan members to contribute up to the IRS limit in their Hybrid 457 DC account would simplify DC contributions for Virginia hybrid plan members, who will become the dominant share of VRS members over the next decade.

WHAT WE RECOMMEND

Legislative action

- Direct the Virginia Retirement System to develop an introductory online training video that explains the hybrid plan and matching structure and the Department of Human Resource Management to include it as part of required training for new state employees.
- Increase the contribution limit for the Hybrid 457 defined contribution accounts to the IRS annual contribution limit.

Agency action

- The Virginia Retirement System should conduct regular targeted outreach to hybrid plan members not contributing the maximum 4 percent in voluntary contributions.

Recommendations: VRS Hybrid Plan Employee Defined Contributions

RECOMMENDATION 1

The General Assembly may wish to consider amending the Appropriation Act to direct the Virginia Retirement System to develop an introductory online training video that explains the hybrid retirement plan and matching structure and the Department of Human Resource Management to include the video as part of the Required Training for newly hired state employees.

RECOMMENDATION 2

The Virginia Retirement System should conduct regular targeted outreach to hybrid plan members not contributing the maximum 4 percent in voluntary contributions to remind them to consider increasing their defined contribution plan voluntary contributions.

RECOMMENDATION 3

The General Assembly may wish to consider amending the Code of Virginia § 51.1-169 (C)2 to increase the contribution limit for the Hybrid 457 account to the IRS annual contribution limit.

VRS Hybrid Retirement Plan Employee Contributions

Virginia adopted the hybrid retirement plan in 2012 for most new state employees, teachers, and local employees. (Some state and local public safety occupations are not eligible for the hybrid retirement plan.) This was a change from the state's traditional pension retirement plans provided by the Virginia Retirement System (VRS).

The hybrid retirement plan has now been in place for over 10 years, and as of 2024, the majority of VRS active members are covered by the hybrid plan. Hybrid retirement plan members have a greater responsibility for ensuring they have adequate retirement income through their retirement savings compared with traditional pension plan members.

Now that the state has over a decade of experience with the hybrid retirement plan, JLARC staff reviewed the hybrid retirement plan to determine whether the state's goals for adopting the plan are still being met and whether hybrid retirement plan members will be able to meet retirement income replacement goals. As part of this review, JLARC conducted interviews with VRS staff, staff from other states with hybrid retirement plans, and public retirement plan experts; reviewed hybrid retirement plan designs and education and outreach information from other states; reviewed research on the factors affecting retirement savings; received input from Virginia hybrid retirement plan members; requested VRS staff to model several potential plan design changes; and conducted analysis of VRS data.

The review focused on general state government employees, but the review's findings also largely apply to teachers and local employees in the hybrid plan.

JLARC staff undertook this **review of VRS hybrid retirement plan employee contributions** as part of JLARC's ongoing oversight required by the Virginia Retirement System Oversight Act (§30-78 et. seq.). JLARC's statutory oversight includes the review and evaluation of the structure and governance of the retirement system, and its administration and management.

Public sector retirement plans are designed to help provide long-term employees income in retirement

Public sector retirement plans, which provide employees with income in retirement, can serve different roles and purposes. One perspective is that retirement plans primarily serve as a recruitment tool. Defined benefit (DB) pension plans are more widespread in the public sector than the private sector, so some stakeholders view them as a valuable tool for recruitment of workers to the public sector. (Previous JLARC research has found that salaries are much more important to state employees than retirement benefits, which likely limits their value in recruitment. [sidebar].) Another perspective is that retirement benefits, particularly DB plans, primarily act as a retention tool by incentivizing employees to stay with their employer to receive the promised retirement benefits. A third perspective is that the primary purpose of retirement plans is to fulfill a responsibility that they believe employers have to provide adequate income replacement after long-term employees retire.

JLARC reviewed the importance of retirement benefits in state employees' overall compensation in ***Review of State Employee Total Compensation (2008)***, ***Total Compensation for State Employees (2017)*** *and* ***Review of Retirement Benefits for State and Local Government Employees (2011)***.

Staff from VRS, plan administrators from other state public pension plans, public retirement plan experts, and state and local employee representative groups generally agree that a retirement plan should fulfill all these purposes to some degree. However, there are varied perspectives on the *primary* purpose of retirement plans. Retirement plan administrators, including VRS, generally view the primary purpose as ensuring the recruitment and retention of an adequate workforce to perform needed government functions. Employee representative groups, such as the Virginia Association of Counties (VACo) and the Virginia Municipal League (VML), indicate that having adequate retirement income is of central importance.

An 80 percent income replacement is a typical benchmark for adequate retirement income, of which a retirement plan is one source

Plan 1 is a defined benefit plan covering state employees, teachers, and political subdivision employees who were hired or rehired before July 1, 2010.

Plan 2 is a defined benefit plan covering state employees, teachers, and political subdivision employees who were hired or rehired from July 1, 2010, to December 31, 2013.

Plan 2 was adopted to reduce employer retirement costs, so some plan design attributes are less generous than Plan 1. For example, average final compensation is calculated over 60 months of employment compared with 36 months of employment for Plan 1.

An income replacement ratio is the proportion of pre-retirement income that retirement sources provide during retirement. The sources for retirement income generally are: (1) an employer-sponsored retirement plan, (2) Social Security, and (3) additional savings by the employee. Typically, approximately 80 percent of annual pre-retirement income is considered adequate in retirement. An individual may need a different level of income depending on their desired standard of living. If an individual wants to travel frequently or anticipates housing costs or healthcare costs being higher in retirement, they may desire a higher replacement ratio. Virginia's legacy defined benefit pension plans (Plan 1 and Plan 2) have approximately an 80 percent replacement ratio (85 percent and 84 percent, respectively, for an employee with an average final compensation of $74,725) when combined with an employee's Social Security benefit (sidebar).

Most public sector retirement plans are defined benefit plans, where employers bear most of the risk

Most public sector retirement plans are defined benefit (DB) plans where retirement benefits (e.g., monthly payments) are guaranteed throughout a retiree's lifetime and based on the employee's tenure with the employer and the employee's salary. Employers carry the risk of ensuring there are sufficient funds to pay the guaranteed retirement benefits under a DB plan. Though there are multiple types of risk associated with retirement plans; the two primary risks are longevity and investment. Longevity risk is the potential for an employee to live longer than actuarially expected. For employers, this risk is that they will need to pay retirement benefits longer than expected, which produces actuarial losses. Investment risk is the potential that investments will not generate the expected returns needed to help to cover retirement benefits. For employers, this risk can result in employers having to make additional contributions to the plan to make up for the insufficient investment income or incur an unfunded liability.

The other primary type of retirement plan is a defined contribution (DC) plan, where the employee carries both the longevity and investment risks. The longevity risk is that an employee outlives their assets in retirement, and the investment risk is that

investment underperformance leads to a smaller benefit. DC plans are mostly offered by private-sector employers as a primary plan. With a DC retirement plan, employees, employers, or both, make regular contributions to an employee's individual investment account (similar to a 401[k]) and the funds available at retirement are a combination of employee and employer contributions and investment returns (or losses). Unlike a DB retirement plan, DC plans do not guarantee retirement payments until death or a cost-of-living-adjustment.

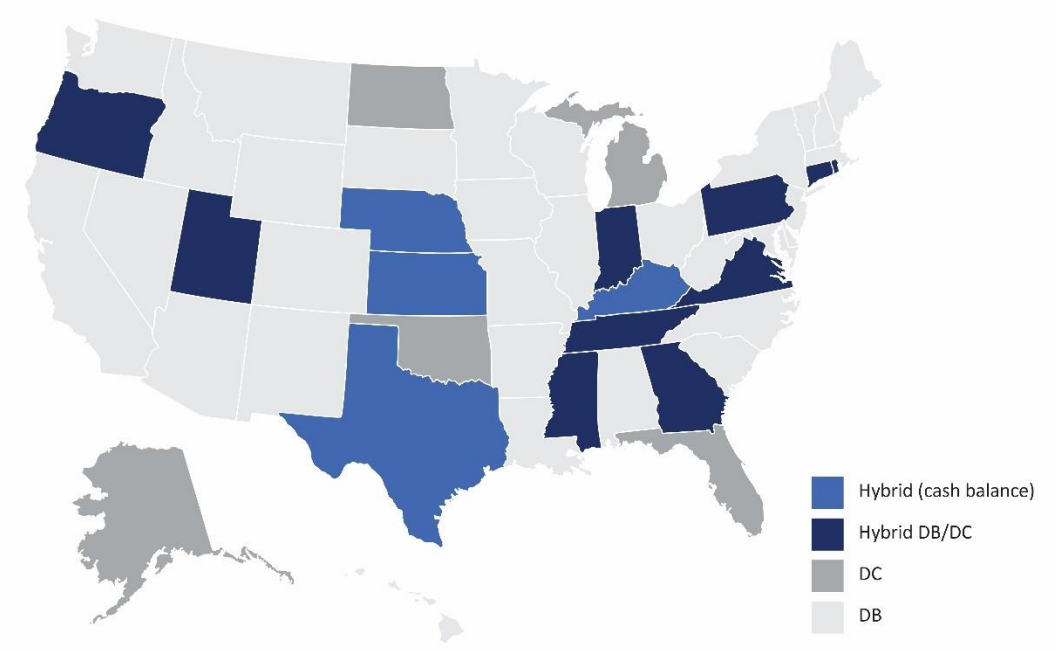
Some states, including Virginia, have adopted hybrid retirement plans to transfer some of the risk to employees and reduce state costs

Hybrid plans seek to share the risks between employers and employees by incorporating features of both a DB plan and a DC plan. There are two primary types of hybrid plans—cash balance and a DB-DC combination. With a cash balance plan, both employees and employers contribute to one account during the employee's career. At retirement, the amount in the member's account is annuitized, providing a lifelong benefit based on the final account balance. This structure removes some of the longevity and investment risk from the employer. In a DB-DC combination plan, there is a lower benefit multiplier for the DB component and a mandatory supplemental DC component to help make up the difference in retirement income (sidebar). The employer's longevity and investment risk is reduced because a portion of the employee's retirement comes from their DC plan. The employer's cost is also reduced because of the lower multiplier for the DB portion of the plan.

A **benefit multiplier** is a factor applied to an employee's average final compensation for every year of active service to determine the retirement benefit.

Though the majority of public sector retirement plans are still traditional DB plans, some states have adopted hybrid retirement plans for new employees to reduce employer risks and cost (Figure 1). In the late 1980s, concerns over the funded status of the federal employee pension plan led the federal government to adopt the first major hybrid public pension plan, the Federal Employees Retirement System. Following the dot-com burst in 2000 and the Great Recession, some states also adopted hybrid plans as their default options.

Figure 1
Fourteen states use a default hybrid plan for general state employees



Source: Information from state retirement plan documents and NASRA.
NOTE: Some states may have additional plan options for members; the default plans are represented here. States where hybrid is not the default for general state employees are not coded as hybrid states. For example, Colorado has a default hybrid plan for public safety employees but not general state employees.

Virginia's hybrid plan reduces employer costs and transfers some retirement risk to employees

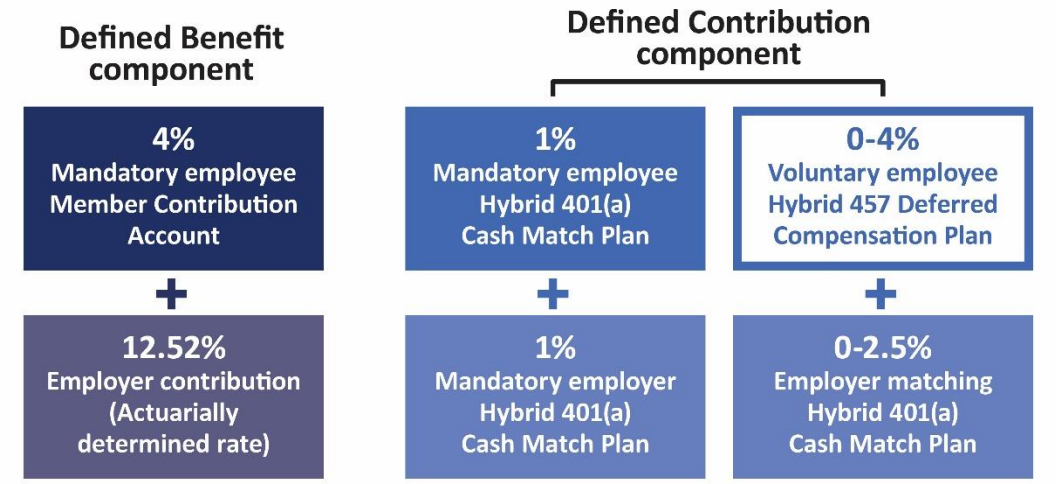
The Virginia General Assembly adopted a DB-DC combination style hybrid plan for state and local employees in 2012 following the Great Recession because of concerns over the cost of the state's retirement plans and the decreased funded status of the plans. (The funded status for the state employees plan had declined from 84 percent in 2009 to 71 percent in 2011.) The hybrid plan was adopted to reduce the cost of the state retirement plan and transfer some of the retirement risk to employees, although it does enhance retirement portability for employees. The hybrid plan became the default state retirement plan for most non-public safety employees hired after January 1, 2014.

Hybrid plan members have both DB and DC components of their retirement plans. The DB component pays members a monthly benefit based on their years of service, age, and final average compensation. However, the benefit multiplier is lower than for employees in Plan 1 and 2. The DC portion of the hybrid plan operates similarly to a private 401(k) plan. Members have flexibility in how their DC benefits are paid out. Funds can be paid out in regularly scheduled installments, on an ad hoc basis when needed, or all at once when a member retires.

Virginia's hybrid plan includes defined benefit and defined contribution components to which employers and employees contribute

Virginia's hybrid retirement plan requires employers and employees to make contributions to both the DB and DC components of the plan (Figure 2). Employees are required to contribute 5 percent of their salary, with 4 percent going to the DB portion of their plan and 1 percent to the DC portion. Employees can choose to make additional voluntary contributions of up to 4 percent of their salary to the DC portion of their plan. Employees can contribute above 4 percent, but this money goes to a separate deferred compensation account (COV 457) for state employees.

Figure 2
Employees and employers contribute to both the DB and DC portions of the hybrid retirement plan



Source: JLARC staff analysis of information provided by the Virginia Retirement System..
NOTE: Rates reflect the state employee plan for FY25. Other plans, such as teachers or local plans have different employer contribution rates for the DB component.

Employers are required to contribute the actuarially determined amount to the DB component (12.52 percent for the 2025–2026 biennium for the state plan) and a 1 percent mandatory contribution to the DC component. If an employee makes voluntary contributions, the employer is required to fully match the first 1 percent and then provide a 50 percent match for the next 3 percent, for a total of 2.5 percent in matching contributions for an employee's 4 percent voluntary contribution.

Every three years, members who are not contributing the maximum 4 percent have their DC contributions automatically escalated by 0.5 percent (although members can opt out of the escalation). There is a single escalation date every three years, so a member who started nearly three years ago and a member who started less than a year ago experience auto-escalation on the same date.

Hybrid plan members have various options for how to invest their DC accounts. Almost all members (88 percent) are in the default option, which are retirement target date portfolios, where the funds adjust investments over time to reduce risk as employees get closer to retirement.

Hybrid plan saves the state money and transfers some risk, but costs employees more to get a similar benefit

Cost savings and reduced risk for the state were primary motivations for adopting the hybrid plan, and the plan will cost employers less than Plan 2. This would still be the case even if most existing hybrid plan employees were making the full voluntary 4 percent contribution and maximizing their match opportunity. In 2015, VRS estimated the total savings in the 2015-2016 biennium from the 2012 pension reform was $23.6 million for the state plan. The bulk of these savings were expected to come from the switch to the hybrid plan. According to VRS staff, the full actual savings since implementing the hybrid plan are difficult to isolate from other impacts such as actuarial assumption changes and demographic experience over the last 10 years.

The **normal cost** is the annual cost of the pension benefit that is earned by an employee during the current year.

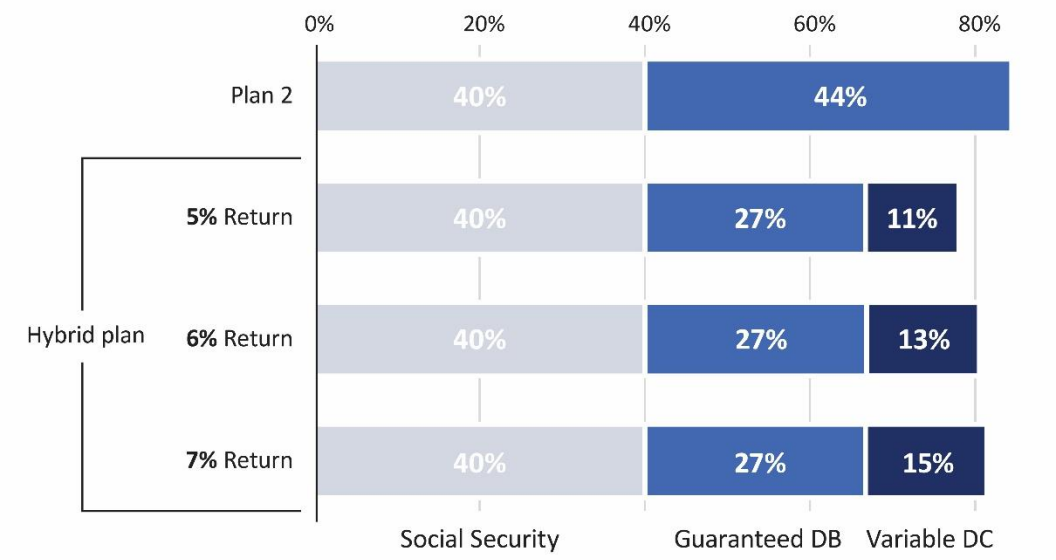
The **normal cost rate** is the percentage of total covered payroll that, when added to investment income, is needed to pay for the cost of projected benefits allocated to the plan year.

The hybrid plan costs the state less because the DB benefit for hybrid employees has been reduced, and employees pay more of the normal cost for their DB benefit compared to legacy members (sidebar). Even though employers provide a cash match to employees' DC contributions, the total employer cost is further reduced because the majority of hybrid plan members are not taking advantage of the full match.

Hybrid plan employees also take on longevity and investment risks associated with their retirement benefit that are not present for employees with the legacy DB plans (Figure 3). For example, a Plan 2 employee who works a full career with the state would receive an income replacement of 84 percent, including Social Security, without carrying these risks because their benefit would come from their DB plan, where the employer bears these risks. However, a similar employee in the hybrid retirement plan would receive only 67 percent income replacement from these two sources. The remaining portion of their retirement benefit would come from the DC component of their plan, for which the employee bears both the longevity and investment risks. As a result, the value of this portion of their income replacement is not assured.

A potential benefit to hybrid plan employees, however, is added portability of contributions to the DC component. Hybrid plan members can take their employee contributions to the DC and DB components if they leave state service to work for a non-VRS employer, and once vested, they can also take the employer contributions to the DC component. In contrast, Plan 2 employees leaving state service before retirement can take much less - only their contributions to the DB component.

Figure 3
Investment rate of return on DC component is not guaranteed, and income replacement can vary



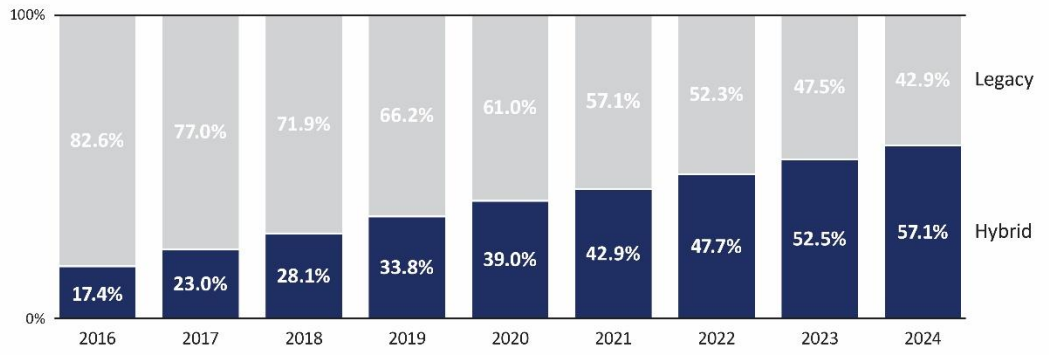
Source: JLARC staff analysis of data provided by VRS.
NOTE: Assumes an illustrative employee who works a full career (26.5 years of service) with the state to receive an unreduced retirement benefit, follows the plan design under current law, and has a final average compensation of $74,725.

Because of the hybrid plan's structure, hybrid plan employees must make higher contributions than employees in the legacy pension plans to receive a similar benefit. In short, the same retirement income will cost hybrid plan members more. Plan 1 and Plan 2 each require employees to contribute 5 percent of their salary for their retirement benefit. Hybrid employees are required to contribute 5 percent of their salary to the plan and can contribute an additional 4 percent in voluntary contributions. To receive an income replacement comparable to a Plan 2 member, a hybrid plan member must contribute a total of approximately 7 percent annually on average (5 percent in mandatory contributions and approximately 2 percent in voluntary contributions) over the course of their career.

As of 2023, the majority of active state plan VRS members are in the hybrid plan

Enrollment in the hybrid plan has increased annually over the past decade since the plan was implemented in 2014. As of 2023, over half of active state plan VRS members are in the hybrid plan. (Figure 4).

Figure 4
Majority of active state employees are hybrid retirement plan members



Source: JLARC staff analysis of data provided by VRS.
NOTE: Only includes general state employees and does not include hazardous duty or optional retirement plan members.

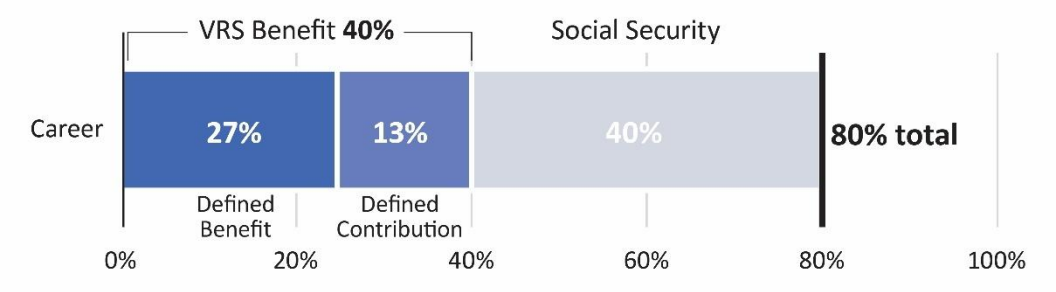
Virginia's hybrid plan will allow most career employees to achieve approximately 80 percent income replacement in retirement

The current hybrid plan, as structured, is generally adequate to allow most career employees to receive an estimated 80 percent income replacement in retirement if Social Security is included, which is the traditional income replacement benchmark (Figure 5). This assumes an employee:

- Has an average final compensation (AFC) of $74,725 (based on the statewide average salary from the 2024 actuarial valuation),
- Has received an average of 1.75 percent annual salary increase throughout their career,
- Works a full career with the state and receives their full (unreduced) DB retirement benefit (which, according to VRS, would be 26.5 years of service for the examples in this report),
- Receives an average annual investment return of 6 percent on their DC contributions,
- Receives a 40 percent income replacement from Social Security, and
- Starts at 0 percent in voluntary DC contributions and follows the plan's automatic escalation schedule.

Income replacement may be lower for higher income employees and higher for lower income employees because the income replacement from Social Security varies depending on several factors including income.

Figure 5
Hybrid plan will allow most career employees to receive an 80 percent income replacement including Social Security



Source: JLARC staff analysis of data provided by VRS
NOTE: Assumes an illustrative employee who works a full career (26.5 years of service) with the state to receive an unreduced retirement benefit, follows the plan design under current law, has a final average compensation of $74,725, and receives an annual investment return of 6% on their DC contributions.

For comparison, a Plan 2 member with the same AFC and length of service would receive an estimated 84 percent of their final income and their benefit would cost them less.

Many state employees retire with less than 26.5 years of service. The typical state employee retires with 23.5 years of service. A typical hybrid plan retiree (with 23.5 years of service) would receive an estimated 74 percent of their final income (assuming the same AFC and investment return).

Hybrid plan members could replace more income in retirement, but majority passively remain at default contribution level

Most hybrid plan members do not choose to make additional voluntary contributions to the DC component of their plan when they are hired, but they could replace more income in retirement if they did. Hybrid plan members start at a default voluntary contribution of 0 percent unless they make an "active election" to contribute additional income. However, as of April 1, 2025, only one-third of all hybrid plan members were making an active election. By actively electing an initial voluntary contribution of 1.5 percent (and receiving the automatic escalations), a career hybrid plan member would receive an estimated 85 percent of their final income in retirement. This would not only increase their employee contributions but also allow them to take fuller advantage of the employer match (which would also increase employer costs). Without making a voluntary contribution when hired, it will take 24 years to reach the maximum voluntary contribution (4 percent) and receive the full employer match as the plan is designed under current law.

Hybrid plan members may not actively elect a voluntary contribution rate for a variety of reasons, but the most cited reason in research on retirement savings is inertia and passivity. Research on retirement savings shows that people are generally subject to procrastination and most likely to passively remain in the default option offered by their retirement plan. A robust study from 2001 of a large company that implemented auto-enrollment for their 401(k) plan found that participation greatly increased after auto-enrollment. In the year prior to implementing auto-enrollment, only 38 percent of new employees participated in the plan. When the default changed to auto-enrollment the next year, 86 percent of new employees stayed enrolled and did not opt out. This effect has been reported in the research literature consistently since then. The literature also finds that opt-out rates do not vary much based on the default initial contribution rate, further supporting that employees will generally stick with their plan's default option.

Interviews with other state public pension plans and expert groups also support employees' tendencies to remain with the default option. For example, when Georgia increased its default employee contribution rate, the opt-out rate from employees did not change much.

Other reasons that employees may not actively elect a contribution rate above the default rate include that they cannot afford to, they don't know that they can make additional contributions, and they have other financial goals. JLARC staff received input from a subset of approximately 150 state employees in the hybrid plan, and these were the top reasons given for not electing the maximum contribution rate of 4 percent.

There is a difference in active contribution rates across agencies, with employees who work for some agencies that are geographically dispersed across the state making active elections at a slightly lower rate than the statewide average of 33 percent. Hybrid plan employees in the teachers plan and political subdivisions also make active elections at a lower rate than the statewide average, 28 percent and 30 percent respectively.

VRS could increase outreach and education to members to encourage voluntary contributions

Because two-thirds of state hybrid plan employees are not making an active election for their voluntary contributions, there are opportunities to improve education, outreach, and clarity to increase members' savings. These efforts may not fully offset the effects of inertia and passivity among members, but a 2011 JLARC report advised that a shift to a hybrid or DC plan should "be accompanied by a comprehensive and ongoing program to educate employees about financial planning."

VRS currently has several outreach efforts, including member newsletters, quarterly statements, and annual member benefit profiles. VRS's website also has educational tools, including videos and graphics to explain the hybrid plan, and members can sign up for a counseling session to discuss their financial goals. However, some hybrid plan employees still express confusion or lack awareness of their options. Around 15

percent of a subset of approximately 150 state employees in the hybrid plan said that making contribution changes were too confusing, time consuming, or they were not aware it was an option. Required training for new employees, targeted outreach to subpopulations that are not maximizing their contributions, and more streamlined account information could help increase voluntary contributions.

> *"I am not sure if I am contributing the additional 4%."*
>
> *"I am not very knowledgeable about my options."*
>
> *"It's still confusing what and how much to contribute to what plan to get all the matches from the state."*
>
> **– Hybrid retirement plan members**

Required training for new employees could encourage hybrid plan members to actively elect higher contribution rates

While VRS has various educational communications and tools on its websites, additional and improved tools, such as those used by other states like Georgia and Pennsylvania, could help encourage hybrid plan members to actively elect higher contribution rates. One step that should be taken is to require an online training module as part of employee onboarding. VRS has a hybrid learning channel with educational videos, but informing members of the learning channel is dependent on employers. It would be helpful to require new employees to watch a video explaining the hybrid plan and matching structure during their onboarding. For state employees, this could be part of the Department of Human Resource Management's required training for newly hired staff. After watching the video, employees could be required to sign an acknowledgement that they watched the video. Alternatively, there could be a brief quiz at the end of the video that an employee must pass to receive 'credit' for having watched the video. There could also be a link to VRS's website for members to register their DC account and increase their contributions.

RECOMMENDATION 1

The General Assembly may wish to consider amending the Appropriation Act to direct the Virginia Retirement System to develop an introductory online training video that explains the hybrid retirement plan and matching structure and the Department of Human Resource Management to include the video as part of the required training for newly hired state employees.

Targeted outreach may be more effective at reaching hybrid plan members not making active elections

VRS could provide more personalized outreach to hybrid plan members who are not contributing at the maximum 4 percent level or at a level that would help them achieve 80 percent income replacement. A 2023 study by Vanguard Research found that participants receiving "personalized nudges" were up to three times more likely to increase their contributions. Tennessee and Georgia send emails approximately quarterly to subpopulations that are not contributing enough to meet replacement goals. Some states contact members on their work anniversaries to remind them to think about increasing retirement contributions.

VRS staff indicated that they are working on increasing outreach to employees on their work anniversaries at the June 2025 Board of Trustees meeting. According to VRS,

currently they would only be able to conduct outreach to members who have registered their accounts and provided a personal email address. (Members must use their personal email address because they will no longer have access to their work email address in retirement.) VRS is currently working to increase account registration, and requiring education at onboarding (Recommendation 1 above) should help with this. However, VRS should also work to match employee contact information held by their DC plans record keeper, Voya, with the employee information VRS holds for all members for their DB benefit, so that all hybrid plan members making less than the maximum 4 percent contribution can be contacted.

RECOMMENDATION 2

The Virginia Retirement System should conduct regular targeted outreach to hybrid plan members not contributing the maximum 4 percent in voluntary contributions to remind them to consider increasing their defined contribution plan voluntary contributions.

Streamlined account access would allow hybrid plan members to better access their projected retirement benefit

A more streamlined, dynamic dashboard that allows hybrid plan members to view their DB and DC components together and model different DC contribution scenarios could help members better understand the status of their retirement accounts and whether they are saving enough. Tennessee has a dashboard through their DC plan record keeper that dynamically updates and combines the DB and DC portions of members' retirement savings. This allows members to better monitor and model the impacts of changes in voluntary contribution amounts.

VRS's DC plan record keeper, Voya, has a dashboard that is updated daily, but it does not automatically include the DB component, nor does it calculate a total replacement ratio. Hybrid plan members also cannot dynamically interact with or model both components of their retirement benefit together easily. There are opportunities to make moving between the two benefit types more seamless, and VRS is discussing some options with Voya to achieve this. VRS staff indicate that creating a more streamlined and seamless dynamic dashboard would involve administrative complexities and costs, and accuracy and security standards would need to be met. However, a more seamless, dynamic dashboard would assist hybrid plan members in better understanding if they are meeting their retirement income replacement goals.

Changes to the hybrid plan's design could help employees save more for retirement but would increase state costs

There has been interest among some General Assembly members in considering changes to the hybrid retirement plan, and members have introduced legislation to

modify the plan because of concerns that it negatively affects employee recruitment and retention. Legislation enacted during the 2025 session moved judges from the hybrid retirement plan back to Plan 2 starting in FY26 (SB 950), and directed the Department of Human Resource Management, with support from VRS, to evaluate the impact of the hybrid plan on recruitment and retention efforts for state employees and teachers (Appropriation Act). Determining whether the hybrid plan has negatively impacted recruitment and retention is beyond the scope of this study, though previous JLARC research has found that salaries are much more important to state employees than retirement benefits, limiting their influence on recruitment.

This review primarily focuses on **general state employees in the hybrid plan.** Any change to the hybrid plan would also affect employer costs for the teachers and local political subdivision plans.

A more incremental step than placing additional groups of employees in Plan 2 or creating a new DB plan for certain employee groups would be for the General Assembly to consider potential changes to the hybrid plan's design. Potential changes could include accelerating employees' voluntary DC contributions or changing the allocation of the employee's contribution between the DB and DC components of the plan which would also have the effect of increasing employee contributions to the DC portion.

Each of the potential changes discussed below would come with increased costs to the state and other hybrid plan employers. The primary added cost would be the additional amount in matching contributions that the state and other employers would be required to make. The additional cost of these proposed changes has been calculated on a per employee basis for this review.

Changes could also be made to the DB component of the hybrid plan to make it more generous for employees, but these were not explored in this study because key design features of Virginia's hybrid plan, such as the multiplier and AFC, are generally in line with the DB components of other comparable state hybrid retirement plans.

Changes to the hybrid retirement plan design could help employees increase their income replacement in retirement

The research on retirement savings and public retirement plan experts indicate that plan design features have the greatest influence on member savings. As part of this study, JLARC staff reviewed hybrid retirement plan designs from other states, including Tennessee, Georgia, Rhode Island, Connecticut, Pennsylvania, and Indiana. Staff also reviewed the structure of the federal Thrift Savings Program (TSP), which is the DC component of the federal hybrid retirement plan. Compared to other state hybrid retirement plans, Virginia's hybrid retirement plan is more favorable to employees than some plans by allowing voluntary contributions in the Hybrid 457 account. However, among hybrid plans that allow voluntary contributions, Virginia is unique in enrolling employees at a 0 percent contribution rate, which means that most employees do not receive the full employee match and compounding interest as soon in their employment. More information about each plan reviewed and a comparison of them can be found in Appendix E.

If the General Assembly wishes to accelerate voluntary contributions or make the hybrid plan more generous, three elements of the plan could be adjusted—the voluntary contribution enrollment level, the default escalation pattern, or the DB/DC split for the mandatory contribution. Changes could be made to one or more of these elements to bring them more in line with other states and industry standards, and also ensure employees are maximizing the employer match. Changing any one of these elements is estimated to increase income replacement for career employees from 2 percent to 7 percent, assuming an employee with an average final compensation at the statewide average ($74,725) and an average annual investment return of 6 percent (Table 1). Combining more than one element could lead to greater increases in income replacement.

Table 1
Changing plan design elements increases career retirees' income replacement

Element changed	Estimated income replacement[1, 2]	Estimated employee DC contributions ($)[3]	Estimated employer DC contributions ($)[3]	Change simplifies plan
Current plan – baseline[4]	80%	$52,300	$41,700	N/A
Auto-enrollment				
Auto-enroll new members at 1%	84%	$67,800	$50,600	No
Auto-enroll new members at 0.5%	82%	$59,700	$46,200	No
Annual escalations				
1% annual escalation of member contributions	87%	$78,500	$55,700	Yes
0.5% annual escalation of member contributions	86%	$74,200	$53,400	Yes
DB/DC split for mandatory 5% member contribution	84%	$67,800[4]	$50,600[5]	No

SOURCE: JLARC analysis of data provided by VRS.
NOTE: For each element changed, all other plan design features remain the same as the current plan. Career means retiring with 26.5 years of service and receiving an unreduced retirement benefit. [1] Assumptions include a 6 percent annual return, final compensation at the statewide average ($74,725), and 40 percent Social Security benefit replacement. Actual returns may vary and past performance is not a guarantee of future performance. [2] The income replacement for a Plan 2 member for a career employee is 84%. [3] Estimated employee and employer DC contributions are over the member's career (26.5 years of service). [4] The baseline is the current statutory plan assuming no opt out from auto-escalations. [5]The increase in employee DC contributions would be completely offset by a commensurate decrease in their DB contributions. Both DB and DC costs would increase for employers.

Auto-enrolling members at a voluntary contribution level above 0 percent is a common practice in other states and would increase income replacement ratios

The research on retirement savings indicates that automatic features, such as automatic enrollment, are the most effective tools for increasing savings. Virginia is unique in enrolling new members at a 0 percent voluntary contribution rate. Georgia and Tennessee enroll members at voluntary contribution rates to generally receive the maximum employer match (4 percent in Georgia and 2 percent in Tennessee). At the federal

level, the Thrift Savings Program (TSP) enrolls employees at the contribution rate to receive the maximum employer match. Retirement plan experts at the National Institute on Retirement Security indicate that, in general, the typical practice is to enroll employees at a contribution rate to receive the full employer match.

A previous concern among some General Assembly members about auto-enrolling hybrid plan members above the current 0 percent rate was that some employees may not be able to afford it. However, employees could still be given the option to opt out, as is the case with the current plan. In practice, research shows that opt-out rates do not vary much with differing automatic contribution rates. This is also supported by the experience in other states. In Georgia, the auto-enrolled contribution rate is 5 percent (1 percent mandatory and 4 percent voluntary), but the opt-out rate of around 5 percent is still low.

Auto-enrolling Virginia hybrid plan members at 1 percent is estimated to allow career employees to achieve a total income replacement ratio (including Social Security) of 84 percent (Table 2). For an illustrative employee with an average final compensation of $74,725, an auto-enrollment contribution rate of 1 percent could result in an estimated increase of $249 in monthly retirement benefit.

Table 2
Estimated income replacement and cost impact of auto-enrolling at 1 percent for a career employee

	Baseline [a]	1% enrollment	Change from baseline
Income replacement	**80%**	**84%**	**+4%**
Cost impact			
Employee cost over career	$52,300	$67,800	$15,500
Employer cost over career	$41,700	$50,600	$8,900
Avg. employee contribution over career (DC) [b]	3.0%	3.9%	0.9%
Avg. employer contribution over career (DC) [b]	2.4%	3.0%	0.6%

SOURCE: JLARC analysis of data provided by VRS.
NOTE: Assumptions include a 6 percent annual return, final compensation at the statewide average ($74,725), and 40 percent Social Security benefit replacement. Actual returns may vary, and past performance is not a guarantee of future performance. [a] Baseline is the current statutory plan assuming no opt out from auto-escalations. [b] Estimated employee and employer DC contributions are over the member's career (26.5 years of service in this example).

This change would increase costs for both the employee and employer for DC contributions. An employee's contribution would increase over their career by an estimated $15,500, and an employer's contribution over the employee's career would increase by an estimated $8,900.

Auto-enrolling Virginia hybrid plan members at just 0.5 percent is estimated to allow career employees to achieve a total income replacement (including Social Security) of approximately 82 percent (Table 3). For the illustrative career employee with a final

compensation at the statewide average, this could result in an estimated $100 increase in benefit per month.

This change would increase an employee's contribution over their career by an estimated $7,400, and an employer's contribution over the employee's career would increase an estimated $4,500.

Table 3
Estimated income replacement and cost impact of auto-enrolling at 0.5 percent for a career employee

	Baseline [a]	0.5% enrollment	Change from baseline
Income replacement	**80%**	**82%**	**+2%**
Cost impact			
Employee cost over career	$52,300	$59,700	$7,400
Employer cost over career	$41,700	$46,200	$4,500
Avg. employee contribution over career (DC) [b]	3.0%	3.4%	0.4%
Avg. employer contribution over career (DC) [b]	2.4%	2.7%	0.3%

SOURCE: JLARC analysis of data provided by VRS.
NOTE: Assumptions include a 6 percent annual return, final compensation at the statewide average ($74,725), and 40 percent Social Security benefit replacement. Actual returns may vary and past performance is not a guarantee of future performance. [a] Baseline is the current statutory plan assuming no opt out from auto-escalations. [b] Estimated employee and employer DC contributions are over the member's career (26.5 years of service in this example).

Annual auto escalation would bring Virginia in line with other plans and significantly increase income replacement ratios

Auto-escalations of voluntary contributions are effective at increasing retirement savings, but their impact depends heavily on the frequency and amount of the increase. Virginia's auto-escalation of 0.5 percent every three years for hybrid plan members is unusually slow. By contrast, public retirement plan experts, such as the National Association of Government Defined Contribution Administrators and the Center for Retirement Research at Boston College, indicated that the typical automatic escalation is 1 percent annually until the contribution limit is reached. When Virginia hybrid plan members elect their own escalation schedule, a 1 percent increase annually is the option chosen most often.

If the auto-escalation pattern for Virginia's hybrid retirement plan were changed to 1 percent annually starting in the second year of employment, career retirees are estimated to achieve an income replacement of 87 percent (Table 4). For the illustrative career employee making an average final compensation of $74,725, this would result in an estimated monthly increase of $436 in benefit.

This change would increase costs for both the employee and employer for DC contributions. The employee would contribute an estimated additional $26,200 over their

career; the employer would contribute an estimated additional $14,000 over the employee's career.

Table 4
Estimated income replacement and cost impact of a 1% annual escalation for a career employee

	Baseline [a]	1% annual	Change from baseline
Income replacement	**80%**	**87%**	**+7%**
Cost impact			
Employee cost	$52,300	$78,500	$26,200
Employer cost	$41,700	$55,700	$14,000
Avg. employee contribution over career (DC) [b]	3.0%	4.6%	1.6%
Avg. employer contribution over career (DC) [b]	2.4%	3.3%	0.9%

SOURCE: JLARC analysis of data provided by VRS.
NOTE: Assumptions include a 6 percent annual return, final compensation at the statewide average ($74,725), and 40 percent Social Security benefit replacement. Actual returns may vary, and past performance is not a guarantee of future performance. [a] Baseline is the current statutory plan assuming no opt out from auto-escalations. [b] Estimated employee and employer DC contributions are over the member's career (26.5 years of service in this example).

If the auto-escalation pattern for Virginia's hybrid retirement plan were changed to just 0.5 percent annually starting in the second year of employment, career retirees are estimated to achieve an income replacement of 86 percent (Table 5). For the illustrative career employee making an average final compensation of $74,725, this would result in an estimated monthly increase of $349 in benefit.

This change would increase costs for both the employee and employer for DC contributions. The employee would contribute an estimated additional $21,900 over their career; the employer would contribute an estimated additional $11,700 over the employee's career.

Table 5
Estimated income replacement and cost impact of a 0.5 percent annual escalation for a career employee

	Baseline [a]	0.5% annual	Change from baseline
Income replacement	**80%**	**86%**	**+6%**
Cost impact			
Employee cost	$52,300	$74,200	$21,900
Employer cost	$41,700	$53,400	$11,700
Avg. employee contribution over career (DC) [b]	3.0%	4.3%	1.3%
Avg. employer contribution over career (DC) [b]	2.4%	3.1%	0.7%

SOURCE: JLARC analysis of data provided by VRS.

NOTE: Assumptions include a 6 percent annual return, final compensation at the statewide average ($74,725), and 40 percent Social Security benefit replacement. Actual returns may vary, and past performance is not a guarantee of future performance. [a] The baseline is the current statutory plan assuming no opt out from auto-escalations. [b] Estimated employee and employer DC contributions are over the member's career (26.5 years of service in this example).

Changing allocation of employees' mandatory contribution between their DB and DC components would help members achieve higher income replacement

Another potential change is the allocation of employees' mandatory 5 percent employee contribution between their DB and DC components. Instead of the existing allocation of 4 percent to the DB component and 1 percent to the DC component, the allocation could be changed to 3 and 2 percent, respectively. This would reduce the employee contribution obligation to the DB portion of the plan and increase employees' mandatory contribution to the DC component (for a total of 2 percent). Mandatory contributions to the DC component would be matched fully by the employer. This would also bring hybrid plan members' normal cost share for their DB benefit in line with the legacy retirement plans. Hybrid plan members currently pay approximately 60 percent of their normal cost, whereas Plan 2 members pay approximately 50 percent of their normal cost.

Changing the allocation of the mandatory 5 percent employee contribution is estimated to increase income replacement for career employees to 84 percent (Table 6). For the illustrative career employee with a final compensation at the statewide average compensation of $74,725, this would result in an estimated monthly increase of $249 in benefit.

Changing the allocation of the mandatory 5 percent would increase employer costs. Employer normal costs would increase to cover the 1 percent reduction in the employee contribution to the DB plan. Over the course of the employee's career in this example, the employer's DB cost is estimated to increase $16,720. Employer DC costs would also increase by an estimated $8,900 over a career employee's career in this example, because employees would be starting with 2 percent going to the DC component rather than the current 1 percent. However, there would not be an overall net cost increase to the employee because the 1 percent voluntary contribution to their DC component would be completely offset by the 1 percent reduction in contributions to their DB component.

Table 6
Income replacement and cost impact of a 3 percent/2 percent split for a career employee

	Baseline [a]	3/2 split	Change from baseline
Income replacement	**80%**	**84%**	**+4%**
Cost impact			
Employee cost	$52,300	$67,800 [c]	--
Employer cost	$41,700	$50,600	$8,900
Avg. employee contribution over career (DC) [b]	3.0%	3.9%	0.9%
Avg. employer contribution over career (DC) [b]	2.4%	3.0%	0.6%

SOURCE: JLARC analysis of data provided by VRS.
NOTE: Assumptions include a 6 percent annual return, final compensation at the statewide average ($74,725), and 40 percent Social Security benefit replacement. Actual returns may vary, and past performance is not a guarantee of future performance. [a] Baseline is the current statutory plan assuming no opt out from auto-escalations. [b] Estimated employee and employer DC contributions are over the member's career (26.5 years of service in this example). [c] The increase in employee DC contributions would be completely offset by a commensurate decrease in their DB contributions. Both DB and DC costs would increase for employers.

Changing hybrid retirement plan's design would result in substantial state costs

Each of the potential changes to the hybrid retirement plan's design would result in substantial additional state costs. This review did not analyze the total state costs for the potential changes reviewed, but to give a sense of the magnitude, employer costs would increase by an estimated $40 million annually if all current state hybrid plan employees were contributing the maximum 4 percent in voluntary contributions. Of the potential changes reviewed, the most costly would be adopting an annual automatic escalation (either 1 percent or 0.5 percent annually). (This change would also increase income replacement by the greatest amount.) Changes to the hybrid retirement plan would also increase costs for the teachers and local political subdivision plans, and the state would be responsible for a portion of the cost increase for the teachers plan. In addition, VRS would incur administrative costs to implement and support any changes. (For example, education and training for employers and modifications to the technology, systems, and record keepers.)

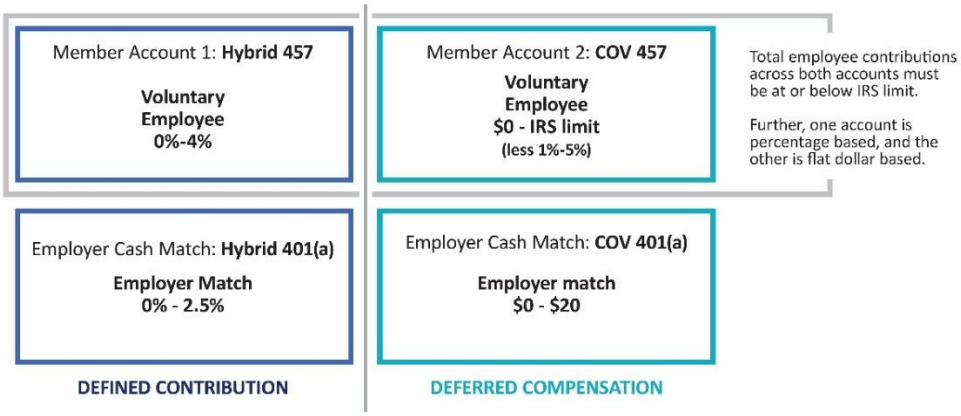
With any changes that would substantially increase employer costs, the General Assembly needs to consider the current unfunded liabilities (approximately $20 billion) in the VRS DB plans, which are scheduled to be paid down over the next 18 years.

Virginia's cap on voluntary contributions may unnecessarily discourage additional savings

The hybrid plan's DC components are managed by a third-party record keeper, Voya. Members use a separate site login to view and manage their accounts.

Virginia has a cap of 4 percent on voluntary contributions for the DC portion of the hybrid plan (Hybrid 457 account), and hybrid plan members who wish to contribute more must do so through a separate account. This creates unnecessary complexity for members wishing to make voluntary contributions up to the Internal Revenue Service (IRS) limit and likely discourages employee savings. Members can make additional contributions beyond the 4 percent cap to their COV 457, which is a separate DC account available through VRS (sidebar) (Figure 6). However, members must take an extra step to contribute to the COV 457 account, and the contribution approach for the two accounts is different. The Hybrid 457 account is a percentage of salary, and the COV 457 account is a flat dollar amount. The combined contributions to the two accounts count toward the IRS annual contribution limit (which is $23,500 for most participants in 2025), which also can be confusing. Further, hybrid plan members who open a COV 457 account must keep track of four separate accounts if the employer match accounts are included.

Figure 6
Hybrid employees have four DC accounts, even if not contributing to COV457



Note: There are mandatory employee (1 percent) and employer (1 percent) contributions to the Hybrid 401(a) account

Other states, such as Georgia and Tennessee, allow contributions up to the IRS contribution limit in their hybrid voluntary DC accounts. Virginia's 4 percent contribution limit was initially adopted, in part, because of concerns about pressure to increase the employer match for hybrid plan members. However, matching up to a higher limit would not be required, and some other states with voluntary contributions do not match up to the contribution limit. For example, Georgia and Tennessee do not match up to the IRS limit — Georgia matches only the first 5 percent, and Tennessee matches the first $50 contribution each month.

As hybrid plan members become the dominant share of VRS members over the next decade, it would be helpful to raise the contribution limit for the Hybrid457 account up to the IRS limit to allow hybrid plan employees to more easily make higher voluntary contributions. Twenty-eight percent of hybrid plan members were at the 4 percent cap as of March 31, 2025.

Increasing the cap would require legislative change, and there are additional logistical considerations. These considerations include Roth catch-up provisions currently captured in the COV 457 account and the migration of existing accounts. An additional consideration would be converting the match opportunity available in the COV 457, which is based on a flat amount to the percentage-based match of the Hybrid 457 accounts. According to VRS staff, these changes would be logistically complex to implement and involve administrative costs. Even though there would be challenges and costs with these changes, the benefits to employees would outweigh them.

RECOMMENDATION 3

The General Assembly may wish to consider amending the Code of Virginia § 51.1-169 (C)2 to increase the contribution limit for the Hybrid 457 account to the IRS annual contribution limit.

Appendix A: Virginia Retirement System Oversight Act

§ 30-78. Title of chapter
This chapter may be referred to as the "Virginia Retirement System Oversight Act."

§ 30-79. Purpose
A. Section 11 of Article X of the Constitution of Virginia (1971) requires that the General Assembly maintain a state employees retirement system to be administered in the best interest of the beneficiaries thereof. In order to fulfill this duty, continuing legislative oversight of the Virginia Retirement System ("Retirement System" or "System") is essential.

B. The General Assembly hereby designates the Joint Legislative Audit and Review Commission ("Commission") to oversee and evaluate the Virginia Retirement System on a continuing basis and to make such special studies and reports as may be requested by the General Assembly, the House Committee on Appropriations, or the Senate Committee on Finance and Appropriations.

§ 30-80. Duties and powers
A. The areas of review and evaluation to be conducted by the Commission shall include, but are not limited to, the following: (i) structure and governance of the Retirement System; (ii) structure of the investment portfolio; (iii) investment practices, policies, and performance, including the effect of investment performance on employer contributions; (iv) actuarial policy and the actuarial soundness of the Retirement System's trust funds; and (v) administration and management of the Retirement System.

B. For the purpose of carrying out its duties under this chapter and notwithstanding any contrary provision of law, the Commission shall have the following powers, including but not limited to:

1. Access to the information, records, and facilities of the Retirement System and any corporations or subsidiaries thereof or other entities owned, directly or indirectly, or otherwise created by or on behalf of the System.

2. Access to the public and executive session meetings and records of the board of trustees of the System, as well as those of the System's investment advisory committee and real estate advisory committee. Access shall include the right to attend such meetings.

3. Access to the System's employees, consultants, actuaries, investment managers, advisors, attorneys, accountants, or other contractors in the employ or hire of the Virginia Retirement System. Such persons shall cooperate with the Commission and upon its request shall provide specific information or opinions in the form requested.

4. The chairman of the Commission may appoint a permanent subcommittee to provide guidance and direction for oversight activities, subject to the full Commission's supervision and such guidelines as the Commission itself may provide.

C. Confidential or proprietary records of the Virginia Retirement System or its subsidiary corporations provided to the Commission shall be exempted from the Virginia Freedom of Information Act (§ 2.2-3700 et seq.).

§ 30-81. Required reports

A. The Virginia Retirement System shall submit to the General Assembly, through its Commission, both semi-annual and annual reports on the investment programs of the Retirement System. The report shall be presented in a format approved by the Commission and shall include information concerning (i) planned or actual material changes in asset allocation, (ii) investment performance of all asset classes and subclasses, and (iii) investment policies and programs.

B. The System shall also submit a biennial report on the actuarial soundness of its trust funds, which shall include (i) funding policy and objectives, (ii) current and projected funding levels, (iii) current and projected contribution rates, and (iv) actuarial assumptions.

C. The System shall furnish such reports or information as may be requested by standing committees of the General Assembly having jurisdiction over the subject matter which is the basis of such committee's inquiry.

D. The Commission shall publish the following reports concerning the Retirement System: (i) a biennial status report which shall include, at a minimum and where appropriate, findings and recommendations and the status of actions, if any, taken in response to prior recommendations and (ii) with the assistance of an actuary, an actuarial report once every four years.

E. The Commission's staff shall prepare and maintain an informational guide to the Virginia Retirement System for the members of the General Assembly.

F. The Auditor of Public Accounts shall complete an annual financial audit of the Virginia Retirement System, the State Police Officers' Retirement System, and the Judicial Retirement System. The Auditor shall report the findings of his audit to the Governor, the General Assembly, the Joint Legislative Audit and Review Commission, and the Board of Trustees of the Virginia Retirement System. Such audit shall be submitted on or before the first day of the General Assembly session.

§ 30-82. Use of consultants

The Commission may employ on a consulting basis such investment, actuarial, and other professional or technical experts as may be reasonably necessary for the Commission to fulfill its responsibilities under this chapter. Such consultants shall provide, upon request, assistance to the House Committee on Appropriations and the Senate Committee on Finance and Appropriations on matters related to the Retirement System.

§ 30-83. Cooperation of other agencies

All agencies of the Commonwealth shall cooperate as requested by the Commission in the performance of its duties under this chapter.

§ 30-84. Funding for Commission's oversight activities

The Commission's reasonable and necessary expenses related to its duties under this chapter shall be paid by the Retirement System and shall be borne by each trust fund in the System in the same ratio as the assets of each trust fund, as of the preceding June 30, bear to the total trust funds of the

System on that date. On or before September 30 of each year, the Commission shall submit to the Board of Trustees of the Virginia Retirement System an itemized estimate for the next fiscal year of the amounts necessary to pay the Commission's expenses related to its duties under this chapter and shall include the estimate as part of the agency's budget submission to the House Committee on Appropriations and the Senate Committee on Finance and Appropriations.

Appendix B: Research activities and methods

Key research activities performed by JLARC staff for this study included:

- structured interviews with peer hybrid plan administrators, VRS staff, stakeholder groups for VRS members, and subject-matter experts;
- survey of a subset of state employees regarding hybrid retirement plan contribution behavior through the Virginia Governmental Employees Association (VGEA);
- review of actuarial models developed by VRS staff actuaries of different potential plan changes to assess the impact on replacement ratios and employer cost;
- review of documents and research literature; and
- data analysis.

Structured interviews

Structured interviews were a key research method for this report. JLARC staff conducted 16 structured interviews for this study. Key interviews included:

- Other retirement plan administrators for peer hybrid retirement plans;
- VRS staff;
- Stakeholder groups representing VRS members across legacy and hybrid retirement plans at the local and state level; and
- National subject-matter experts.

Other public retirement plan administrators

JLARC staff conducted interviews with administrators for five peer state hybrid retirement plans, including Georgia, Tennessee, Rhode Island, Pennsylvania, and Indiana. JLARC staff also conducted an interview with the executive director of the Federal Retirement Thrift Investment Board, who is also on the VRS Defined Compensation Plans Advisory Committee. These interviews focused on the structure of the hybrid retirement plan in each state and the federal Thrift Savings Plan (TSP) and perspectives about the purpose of retirement systems and effective and efficient ways to increase participant savings in retirement plans.

VRS staff

JLARC staff conducted multiple interviews with VRS staff. Topics included historical information on VRS's hybrid retirement plan, questions asked of other state hybrid plan administrators to ensure VRS's perspective was captured, and information on education and outreach.

VRS member stakeholder groups

JLARC staff interviewed three groups that represent the interests of different VRS membership groups: the Virginia Municipal League, the Virginia Association of Counties, and the Virginia Governmental Employees Association. Topics included feedback on the purpose and structure of the

hybrid plan, perception of adequacy of the income replacement ratio for hybrid members, and effective ways to encourage member savings in the plan.

National subject-matter experts

JLARC staff interviewed experts in public retirement savings at four nationally recognized groups: the National Association of State Retirement Administrators, the National Association of Government Defined Contribution Administrators, the National Institute on Retirement Security, and the Center for Retirement Research at Boston College. Topics included trends in state hybrid retirement plans, particularly the DC components; perspectives on retirement income benchmarks; the purpose and structure of retirement systems; and effective and efficient ways to encourage participant savings in retirement plans.

Survey

JLARC partnered with the VGEA to conduct a survey of VGEA members in the hybrid retirement plan on their DC savings habits. The survey was a brief questionnaire that asked members about their level of voluntary DC contributions and if they were not contributing the maximum 4 percent, their reasons for not contributing the maximum amount.

Actuarial modeling of potential plan design changes

JLARC requested the VRS staff actuaries to model different potential plan design changes for defined contributions based on common design features of other public hybrid retirement plans to determine the impact on income replacement ratios for hybrid plan members. Additional analyses were performed to estimated cost impact on employers and employees of a subset of potential changes.

Potential plan design changes

The potential plan design changes modeled by the VRS staff actuaries that are included in the report are:

- Current plan - baseline
- Variations on auto-enrollment
    - Auto-enroll new members at 1 percent
    - Auto-enroll new members at 0.5 percent
- Variations on annual escalations
    - 1 percent annual escalation of member contributions
    - 0.5 percent annual escalation of member contributions
- Mandatory employee contribution split: 3 percent DB/2 percent DC

Additional design changes were modeled by the VRS staff actuaries but were not included in the report.

Assumptions

Several assumptions about the characteristics of the retiring employee were utilized across the potential plan design changes:

- Average final compensation (AFC) is $74,725, which was the statewide average for state employees based on the 2024 VRS valuation.
- Prior year salaries are derived by discounting from current salary back to date of hire assuming a 1.75 percent annual salary increase.
- *Career* service retirees are assumed to have been hired at age 37, worked for 26.5 years, and retired under Rule of 90 at age 63.5 with 26.5 years of service, allowing them to receive an unreduced retirement benefit. This timeframe was based on the approximation of the 30-year example historically used for benefit estimations.
- *Typical* service retirees are assumed to have been hired at age 43, worked for 23.5 years, and retired under Rule of 90 at age 66.5 with 23.5 years of service, allowing them to receive an unreduced retirement benefit. This was based on the 2024 valuation's average number of years of service a member had at retirement.
- Average annual investment return is 6 percent on DC contributions.
- The retiree's DC balance is annuitized, assuming a 4.0 percent discount rate and a 2.25 percent cost-of-living adjustment and using the VRS mortality tables, to estimate their benefit.
- Retirees receive a 40 percent income replacement from Social Security. Actual income replacement from Social Security will vary based on income.

Disclaimers

Note that the potential plan design changes provided are based on the assumptions listed above and that actual results will differ for each member. For example, rates of return will vary because of member investment elections and market conditions.

The current VRS hybrid retirement plan does not offer the annuitization used in the potential plan design changes for the DC account as a function of the plan. However, an annuitization was used to provide a consistent withdrawal assumption for the DC benefits. Members would be required to find a third-party vendor to provide actual annuitization of defined contribution balance.

Document and research literature review

JLARC staff reviewed numerous documents and literature, including:

- Member handbooks of hybrid retirement plans for Virginia and peer states,
- Behavioral finance research on employee behavior regarding retirement savings,
- Virginia's laws and bills related to the hybrid retirement plan, and
- Prior reports from JLARC, VRS, and national organizations regarding retirement plan structure and impacts of plan design.

Data analysis

JLARC staff analyzed data provided by VRS on hybrid plan members demographic factors and contribution rates. For example:

- Using data across several factors including years of service, agency, age, and salary, staff assessed average employee voluntary DC contribution rates.
- Staff calculated changes in membership over time based on benefit tier. For example, the proportion of all active members in the hybrid tier and the proportion of state employee active members in the hybrid tier.

Appendix C: Agency response

As part of an extensive validation process, the state agencies and other entities that are subject to a JLARC assessment are given the opportunity to comment on an exposure draft of the report. JLARC staff sent an exposure draft of the full report to the Virginia Retirement System (VRS). The Department of Human Resource Management was provided relevant portions.

Appropriate corrections resulting from technical and substantive comments are incorporated in this version of the report. This appendix includes a response letter from VRS.

Virginia Retirement System

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Email: vrs@varetire.org

Patricia S. Bishop
Director

December 9, 2025

Mr. Hal E. Greer
Director
Joint Legislative Audit and Review Commission
919 E. Main Street, Ste. 2101
Richmond, VA 23219

Dear Mr. Greer:

The Virginia Retirement System (VRS) appreciates the opportunity to review and provide feedback and context on the exposure draft of JLARC's *Review of VRS Hybrid Plan Employee Defined Contributions*. VRS acknowledges the efforts of and expresses our thanks to the JLARC staff. We value their professionalism and collaborative approach throughout this engagement and as they perform their ongoing oversight duties.

Background

As discussed in the JLARC report, public retirement plans are a key component of an employee's benefit package and total compensation, including providing post-retirement long-term income replacement for employees. Public sector retirement plans serve as important elements for recruitment and retention, and security in retirement.

As noted in the report, the Hybrid Retirement Plan was developed following the 2008-2009 Great Financial Crisis (GFC). Virginia was not unique in its efforts to enact plan design changes to address the impacts of the GFC. In fact, following the GFC nearly every state engaged in some form of plan design changes or reforms to its defined benefit retirement plans. Specifically in Virginia, as a legislative compromise adopted in 2012, the Hybrid Retirement Plan's design changes focused on maintaining a lower cost Defined Benefit (DB) plan and pairing it with a Defined Contribution (DC) plan. The combined plan resulted in sharing risk between the employer and employee, lowering the future costs of benefits and enhancing portability.

The Hybrid Retirement Plan became the default for most non-public safety employees hired on or after January 1, 2014. While the employer costs for the hybrid plan are somewhat similar to those of Plan 1 and Plan 2 (DB pension plans), the design of the hybrid plan, and specifically its DC component, shifts a portion of the investment and longevity risk to employees. Thus, the effect of any market downturns or adverse plan experience is shared by employees and employers instead of being solely borne by employers, as is the case with traditional DB plans. In addition, members

of the hybrid plan pay a larger percentage of the DB plan cost, as compared to Plan 1 and Plan 2 members.

While noted in the report, we wish to further emphasize that any proposed changes to the Hybrid Retirement Plan would not only impact state employers and employees but also the Commonwealth's teachers and school divisions as well as employees of counties, cities, towns and other political subdivisions. As a result, ample time and resources would be required to successfully implement any changes.

Outreach and Education

Since the inception of the hybrid plan, VRS has focused on counseling members and educating employers about the plan's features. Starting with the welcome letter and new-employee orientation, we've worked closely with plan record keeper MissionSquare Retirement and now Voya Financial to produce numerous publications, newsletter articles, quarterly statement messages and email campaigns with calls to action to save through voluntary contributions and to take advantage of the employer match. The Hybrid Retirement Plan webpage explains how the plan works in simple terms and points members to Voya's online savings tools. We also implemented an interactive paycheck calculator to help members see how pre-tax savings impact their take-home pay as a nudge toward increased savings. Further, we introduced SmartStep, which encourages regular automatic savings increases, selected by the employee, until the member reaches the maximum. Our award-winning educational campaign around SmartStep demonstrated results in getting hybrid plan members to take active control of their contributions rather than waiting for auto-escalation, which happens every three years by the statutory plan design. Our efforts have resulted in about one quarter of the hybrid plan membership selecting the full 4% on their own.

As of July 1, 2025, 61% of hybrid plan members were making voluntary contributions, and that percentage will grow with the next auto-escalation January 1, 2026. We saw less than 1% of hybrid plan members opting out of the last auto-escalation and expect a similar result in 2026, as auto-escalation has been promoted extensively through a communications campaign to members and employers.

VRS also developed the Hybrid Learning Channel, with short video learning modules that explore the features of the hybrid plan. We actively promote the learning channel with employers and members. In addition, each VRS member receives an annual statement of benefits that provides a retirement savings gap analysis that shows hybrid plan members how they can improve their retirement outlook. The DCP record keeper provides a variety of additional resources, including a Virginia-based team of representatives dedicated to assisting participants in the various VRS DC plans through individual and group meetings as well as webinars.

VRS' efforts at education and outreach have been award-winning and nationally recognized, and they have resulted in member action to save more for retirement. Our team takes pride in the services, tools, education, counseling and outreach we provide. Data substantiates the efficacy of our efforts in this area. While we have an existing video-based Hybrid Learning Channel on our website, we will work collaboratively with DHRM to provide an e-learning course or training video for DHRM to use during its new employee onboarding process. We would plan to offer the same or similar product to our other participating employers as an addition to existing offerings in our employer toolkit. Further, VRS, in conjunction with its employers and plan record keeper, will continue efforts through various channels to encourage those participants who are not maximizing their voluntary contributions to increase their savings and take full advantage of available employer matching funds.

Automatic Features

Although VRS provides extensive education and outreach, behavioral finance suggests that regardless of these efforts, automatic savings features in retirement plans generate the greatest impact on participant behavior. Built into the Hybrid Retirement Plan is an auto-escalation provision by which voluntary contributions increase in 0.5% increments every three years for all members who do not opt out. As noted, the next escalation is scheduled for January 1, 2026. The percentage of hybrid plan members making voluntary contributions decreases in between auto-escalation years because new members join the plan at the default 0% level and are not increased until the next auto-escalation year—unless the individual member makes an active choice to save more. In addition, while the plan requires a 1% mandatory contribution to the DC portion of the hybrid plan, the statute does not require automatic enrollment in the voluntary portion of the plan.

We agree that automatically enrolling participants in the voluntary portion of the plan can improve outcomes if sufficient resources are available. To ensure that participants are accessing all employer matching dollars, auto-enrollment could be required at the maximum 4% of pay or at another lower level. Further, auto-escalating voluntary contributions more frequently for those who are not at the maximum voluntary contribution—with the ability for employees to opt out—would put VRS more in line with other state plans and improve savings rates.

Member Contributions

VRS members in Plan 1, Plan 2 or the Hybrid Retirement Plan can receive similar benefits, as demonstrated by the income-replacement ratios provided in the report. However, to achieve a similar level of retirement income, a hybrid plan member must make voluntary contributions to the DC component in addition to the mandatory employee contributions. Hybrid plan members will need to contribute more of their income to their retirement plan than a Plan 1 or Plan 2 member.

The Hybrid Retirement Plan requires employees to contribute 5% of their salary (4% to the DB component and 1% to the DC component), with an option to make additional voluntary DC contributions up to 4%. Employers contribute an actuarially determined amount to the DB component (12.52% for the state plan for the 2025-2026 biennium) and a mandatory 1% to the DC component, plus matching voluntary contributions up to 2.5%. The DB benefit multiplier and COLA are lower than legacy plans, and the DC portion exposes employees to longevity and investment risks not borne in traditional DB plans. This design reduces employer costs and shifts some risks to employees, who bear higher contribution burdens to achieve similar benefits.

In general, a Plan 1 or Plan 2 member must contribute 5% of pay to their retirement plan to generate a 51% income replacement after a full career. Plan 1 and Plan 2 members pay a lower portion of the cost of their retirement plans. In contrast, a Hybrid Plan Retirement Plan member, depending on how early in their careers they make voluntary contributions, would have to contribute up to 9% of their income during their career to generate the same income-replacement level. As suggested in the JLARC report, one way to address this disparity between plans would be to change the portion of the member contribution required to go into the DB and DC plans.

Prior Legislation and Reviews

During legislative meetings and in similar settings since the implementation of the Hybrid Retirement Plan, VRS has been asked by policymakers how the plan could be enhanced to increase savings and improve outcomes for members. VRS has suggested auto-enrollment, auto-escalation frequency change and adjustment of the member contributions to the DB and DC portions of the Hybrid Retirement Plan.[1] Consistent with the findings in JLARC's report, VRS has long held that automatic features are the most effective way to increase savings. In addition,

[1] As early as one year after the hybrid plan became effective, VRS has been suggesting possible enhancements. *See* HD12 (2015) - Cash Balance Retirement Plans, Virginia Retirement System ("[C]onsideration may be given to making several changes to the Hybrid Retirement Plan. Based on the percentage of the benefit that a VRS Plan 1 or VRS Plan 2 employee is currently paying, a change to the allocation of the member contribution between the defined benefit and defined contribution components of the Hybrid Retirement Plan may be worth exploring. Adding auto-enrollment in voluntary contributions and enhancing the auto-escalation feature would likely encourage greater savings in the defined contribution component of the hybrid plan."); RD171 (2018) - 2017 Executive Summary for the Commission on Employee Retirement Security and Pension Reform (containing comments from the VRS Director regarding the benefits of auto-escalation). *See also* HB 1072 (2016, Jones, C.) (proposed legislation to modify the hybrid plan by (i) increasing the mandatory employer contribution to the DC component from 1% to 2% of creditable compensation (and correspondingly reduce the employer's maximum matching contribution to the DC component by 1%), (ii) increasing the employee's mandatory contribution to the DB component from 1% to 2% of creditable compensation and decreasing the employee's mandatory contribution to the DB defined component to 3%, (iii) reducing the auto-escalation period to two years, and (iv) setting a new employee's voluntary contribution rate to the DC component at 0.5% unless the employee opts out); HB 1967 (2017, Massie) (identical to HB 1072 (2016)).

removing the 4% cap on voluntary contributions to the Hybrid Retirement Plan and increasing it to the IRS limit could reduce complexity for participants.

Summary

In sum, any plan design changes require sufficient time for outreach to and coordination with VRS' more than 800 participating employers, including those who must execute programming and payroll system changes. Further, VRS-participating employers would likely need time to plan for the budgetary impacts of any plan design changes that could increase employer costs.

VRS is focused on serving the Commonwealth's public servants and stands ready to support our employers in implementing legislative changes to improve retirement outcomes for Hybrid Retirement Plan members. We are happy to answer questions and provide any additional information regarding JLARC's proposals contained in this report.

Sincerely,

Patricia S. Bishop
Director

cc: Ms. Kimberly Sarte, Associate Director for Ongoing Oversight and Fiscal Analysis, JLARC
Ms. Alexandra Jansson, Principal Legislative Analyst, JLARC

Appendix D: Descriptions of potential plan design changes

As part of this study, JLARC asked Virginia Retirement System staff to model a series of potential plan design changes largely based on common defined contribution (DC) features in other public hybrid retirement plans. The potential changes show the impacts on the income replacement for state government employees, as well as employer costs. The potential changes were based on state employee characteristics but would apply similarly to other hybrid retirement plan employees (e.g., teachers and local government employees). Each of the potential changes would require legislative action.

For each potential change, there is a brief description of the plan design change, a table showing the design change compared to the current hybrid plan, and a graphic showing the estimated change in income replacement for career employees that would result from the design change. Modified plan elements in the potential change examples are shaded and italicized. Career employee retirees are based on the average entry age of state employees who work long enough (26.5 years) to receive an unreduced retirement benefit from the state by the Rule of 90 (Table D-1). These are illustrative examples, and actual replacement ratios may vary. The potential changes generally modify only one design component at a time to effectively show the impact of each individual design change. Combining multiple plan design changes could result in even greater income replacement ratios.

TABLE D-1
Characteristics for employees used across potential plan design changes

	Career
Average final compensation [a]	$74,725
Starting age [b]	37
Years of service at retirement	26.5 [c]
Age at retirement	63
Investment return	6.0%
Baseline replacement for current hybrid retirement plan (DB+DC+SS)	Social Security – 40% + VRS Benefit – 40% 80%

Note: [a] The average final compensation is the average for state employees in the 2024 plan valuation. [b] To ensure that changes in income replacement reflect only plan design changes and not salary increases, benefits based on years of service were calculated backwards assuming the same approximate retirement age and salary. [c] According to VRS staff, a career state employee in the hybrid retirement plan with the characteristics in Table D-1 would be eligible for a full, unreduced retirement benefit after 26.5 years of service. This is based on the plan's Rule of 90 requirement.
SOURCE: JLARC staff analysis.

Auto-enrolling members at a voluntary contribution level above 0 percent

Auto enrolling employees at a voluntary contribution rate above 0 percent is common across public plans, according to state retirement experts. Other states and public plans tend to auto enroll at the maximum employer match threshold. For example, Georgia, Tennessee, and the federal Thrift Savings Plan (TSP) enroll employees at the contribution rate where the maximum employer match would be met. Opt-out rates for plans where members are enrolled at the maximum match rate are low,

supporting research that has found that employees tend to be passive about their retirement contributions and stay with the default plan design.

Auto-enrolling at 1 percent voluntary contribution

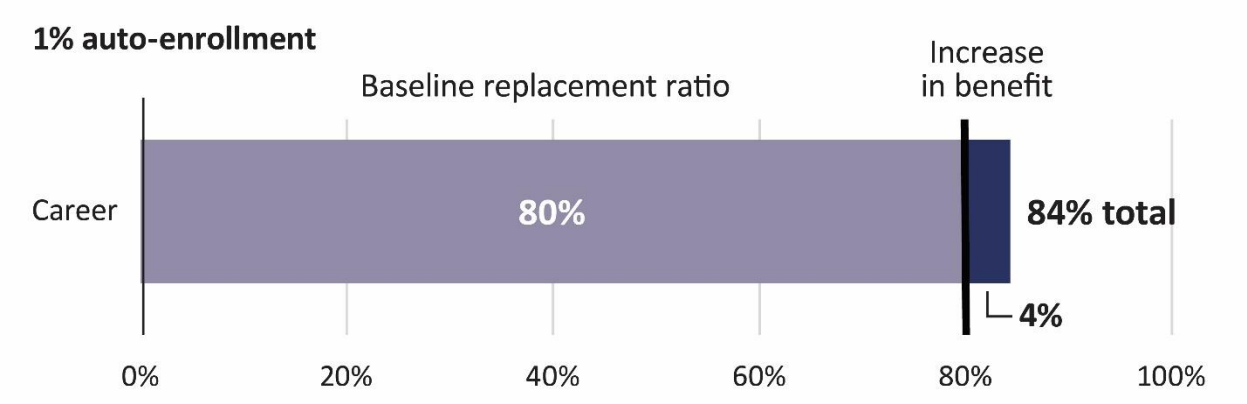
This potential change would set the default enrollment for new hybrid plan members at 1 percent in voluntary contributions rather than 0 percent (Table D-2). In addition to starting to save earlier, employees would receive the full one-to-one employer match for their first 1 percent from their start date (six years sooner than the existing plan). The match structure and escalation pattern would not change, and employees would retain the option to decrease their initial contributions or opt out entirely.

TABLE D-2
Employees are auto enrolled at a 1% voluntary contribution

	Existing Plan	Auto-enroll change
Enrollment level	0.0%	*1.0%*
Escalation	0.5% every 3 years	0.5% every 3 years
Employer match	1:1 for the first 1%, 1:2 for the next 3%	1:1 for the first 1%, 1:2 for the next 3%
Maximum employee voluntary contribution	4%	4%
Maximum employer voluntary contribution	2.5%	2.5%
Employees can opt out	Yes	Yes

SOURCE: JLARC staff analysis.

Figure D-1
Auto-enrolling at a 1 percent voluntary contribution would help career retirees meet adequate replacement ratios



Source: JLARC staff analysis of data provided by VRS.

Auto-enrolling hybrid plan members at 1 percent would have one of the higher impacts on income replacement of the potential changes provided in this study (Figure D-1). If members in this potential

change were enrolled at the maximum voluntary contribution (4 percent), similar to some other public plans, career retirees would achieve income replacement of 90 percent, which is greater than Plan 1 or Plan 2 retirees.

Auto-enrolling at a 0.5 percent voluntary contribution

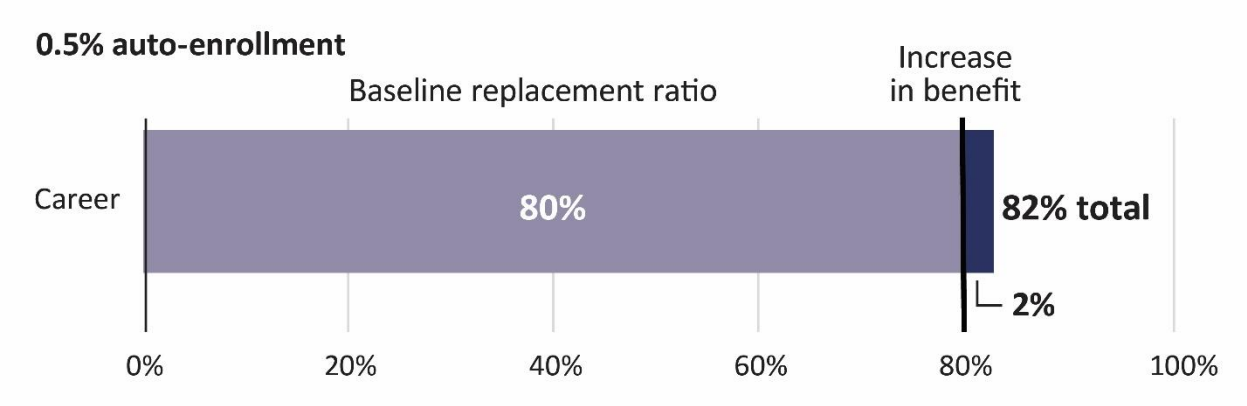
This potential change would set the default enrollment for new hybrid plan members at 0.5 percent in voluntary contributions rather than 0 percent (Table D-3). In addition to starting to save earlier, employees would receive the full one-to-one employer match for their first 1 percent three years from their start date (three years sooner than the existing plan). The match structure and escalation pattern would not change, and employees would retain the option to decrease their initial contributions or opt out entirely.

TABLE D-3
Employees are auto enrolled at a 0.5 percent voluntary contribution

	Existing plan	Auto-enroll change
Enrollment level	0.0%	*0.5%*
Escalation	0.5% every 3 years	0.5% every 3 years
Employer match	1:1 for the first 1%, 1:2 for the next 3%	1:1 for the first 1%, 1:2 for the next 3%
Maximum employee voluntary contribution	4%	4%
Maximum employer voluntary Contribution	2.5%	2.5%
Employees can opt out	Yes	Yes

SOURCE: JLARC staff analysis.

Figure D-2
Auto-enrolling at 0.5 percent voluntary contribution would help career retirees meet adequate replacement ratios



Source: JLARC staff analysis of data provided by VRS.

Auto-enrolling hybrid plan members at 0.5 percent would have a moderate impact on income replacement of the potential changes provided in this study (Figure D-2). Career members would experience an increase of 2 percent in their income replacement compared to the baseline.

Annual auto escalation

Another automatic feature that is effective in increasing retirement saving is auto-escalations of voluntary contributions. Virginia's auto-escalation of 0.5 percent every three years for hybrid plan members is unusually slow. Public retirement plan experts, including the National Association of Government Defined Contribution Administrators and the Center for Retirement Research at Boston College, indicated that the typical automatic escalation is annually until the contribution limit is reached.

Annual 1 percent escalation

With this potential change, the auto escalation would increase to 1 percent annually (compared the statutory plan of 0.5 percent every three years) until employees reach the 4 percent maximum voluntary contribution. Career retirees would achieve income replacement ratios of 87 percent (Figure D-3). This change would have the largest increase in income replacement of the potential changes provided in this study.

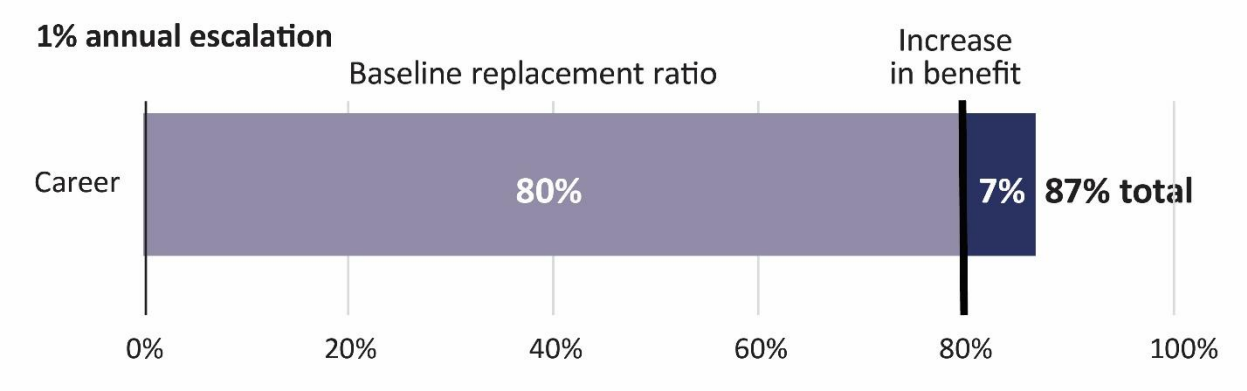
TABLE D-4
Employees are escalated at 1 percent annually

	Existing plan	Auto-escalation change
Enrollment level	0.0%	0.0%
Escalation	0.5% every 3 years	*1% annually*
Employer match	1:1 for the first 1%, 1:2 for the next 3%	1:1 for the first 1%, 1:2 for the next 3%
Maximum employee voluntary contribution	4%	4%
Maximum employer voluntary contribution	2.5%	2.5%
Employees can opt out	Yes	Yes

SOURCE: JLARC staff analysis.

Public retirement plan experts indicate that the most frequent auto escalation schedule for retirement plans is 1 percent annually. This is also the most common choice for VRS members who choose their own escalation pattern, and it is also a common escalation pattern among private sector plans.

Figure D-3
With a 1 percent annual escalation, career employees could experience a significant increase in income replacement



Source: JLARC staff analysis of data provided by VRS.

Annual 0.5 percent escalation

With this potential change, the auto escalation would increase to 0.5 percent annually (compared with the statutory plan of 0.5 percent every three years) until employees reach the 4 percent maximum voluntary contribution. Career retirees would achieve an income replacement of 86 percent (Figure D-5).

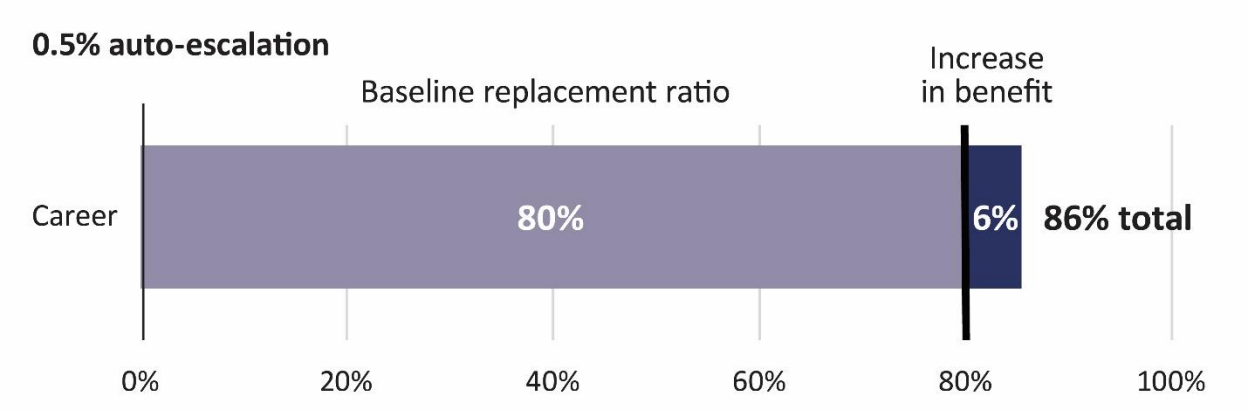
TABLE D-5
Employees are escalated at 0.5% annually

	Existing plan	Auto-escalation change
Enrollment level	0.0%	0.0%
Escalation	0.5% every 3 years	*0.5% annually*
Employer match	1:1 for the first 1%, 1:2 for the next 3%	1:1 for the first 1%, 1:2 for the next 3%
Maximum employee voluntary contribution	4%	4%
Maximum employer voluntary contribution	2.5%	2.5%
Employees can opt out	Yes	Yes

SOURCE: JLARC staff analysis.

With this potential change, employees would reach the maximum voluntary contribution in eight years, compared with the current plan where it takes 24 years to auto-escalate to the maximum 4 percent voluntary contribution. This change would have one of the largest increases in income replacement of the potential changes provided in this study (Figure D-5).

Figure D-4
With a 0.5 percent annual escalation, career employees could achieve measurable increase in income replacement



Source: JLARC staff analysis of data provided by VRS.

3-2 Mandatory contribution split

This potential change would modify the allocation, or split, for the 5 percent mandatory contribution that hybrid plan members must make. Rather than contributing 4 percent to the DB component of their plan and 1 percent to their DC component, this potential change would have employees contribute 3 percent to their DB component and 2 percent to their DC component (Table D-6). This would allow employees to contribute a greater share of their mandatory contribution to their DC plan.

TABLE D-6
Mandatory contribution split of 3 percent/2 percent rather than 4 percent/1 percent

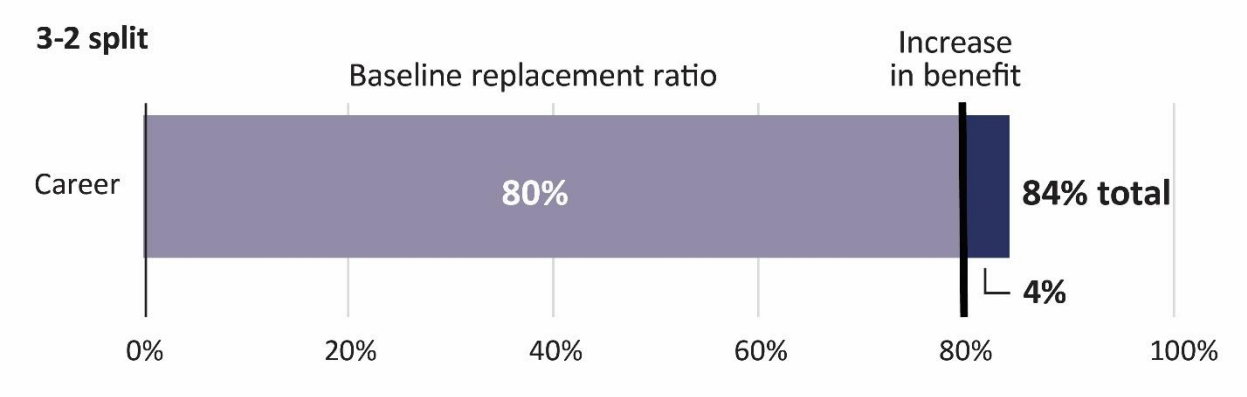
	Existing plan	3-2 Split change
Mandatory employee contribution	4% to DB; 1% to DC	*3% to DB; 2% to DC*
Mandatory employer contribution	Actuarial value DB; 1% DC	*Actuarial value+1% DB; 2% DC*
Voluntary contributions - defined contribution		
Enrollment level	0.0%	0.0%
Escalation	0.5% every 3 years	0.5% every 3 years
Employer match	1:1 for the first 1%, 1:2 for the next 3%	*1:2 for the 3%*
Maximum employee voluntary contribution	4%	*3%*
Maximum employer voluntary contribution	2.5%	*1.5%*
Employees can opt out	Yes	Yes

SOURCE: JLARC staff analysis.

Under this potential change, the state would pick up the additional 1 percent cost to the DB component and contribute another 1 percent toward the DC component (similar to the current matching structure). The employee would receive a one-to-one employer match for their 2 percent in mandatory

DC contributions. There would be no changes to the matching structure or overall contribution caps on the Hybrid 457 account, so the maximum employee contribution would be 3 percent (instead of 4 percent). The employer would contribute a 50 percent match for up to 3 percent in voluntary employee contributions.

Figure D-5
A 3-2 split for mandatory employee contributions would help career retirees achieve adequate replacement ratios



Source: VRS staff actuary.

When this potential change was reported on previously by VRS in 2015, it was determined to have a smaller impact on payroll than some other changes. It would also address the issue that hybrid members pay a higher portion of the normal cost for their DB benefit than Plan 2 members (approximately 60 percent vs. 50 percent). Additionally, it would lower the average voluntary contribution that hybrid plan members need to make across their career to achieve an approximately 80 percent replacement ratio (from 2.0 percent on average under the current plan for a career employee to 1.0 percent on average).

Appendix E: Other public hybrid retirement systems

During this review, JLARC staff reviewed several other public plans where the default statewide employee retirement plan is a hybrid plan. (Some of these are state-only plans and not multiple employer plans like VRS.) A description of each plan examined is described below with a comparison across plans provided at the end of the appendix. The replacement ratios are only illustrative examples, and actual replacement ratios will vary depending on the plan.

Connecticut

The State Employee Retirement System (SERS) implemented the hybrid plan (Tier IV) for most new hires as of July 1, 2017. The member handbook is available at: https://osc.ct.gov/retirement/sers/plan-info/sers-tier-iv/.

TABLE E-1
Key details of Connecticut SERS' Tier IV hybrid retirement plan

Member contribution [a]	Employer contribution	Voluntary contribution or match opportunity	Defined benefit formula [b]	Replacement ratio minus DC [c]	Social Security
5.0% (DB) + 1.0% (DC)	44.4% (DB) + 1.0% (DC)	N/A	1.3% x YOS x AFC	39% + 40% 79%	Yes

SOURCE: Connecticut SERS
[a] Member contribution is the auto-enrollment level. [b] YOS = Years of Service, AFC = Average Final Compensation or Final Average Salary. AFC is based on the highest 3 years of salary. [c] Includes only the benefit level from the DB and Social Security (SS) benefits using the assumptions that YOS is 30 and SS benefit is equal to 40%.

Contributions

Members contribute a fixed 6 percent of their pay: 5 percent to the DB component and 1% to the DC component. Employers contribute an actuarially determined rate to the DB component and 1 percent to the DC component.

Due to risk share, member contribution rates to the DB component may increase by up to 2 percent in years when the pension fund loses value.

Member Education and Outreach

Based on information on their website, SERS has monthly counseling sessions available for members nearing retirement. They also have educational videos available on their website.

Retirement Benefit

Most employees pay into Social Security and, therefore, receive a benefit in addition to their SERS benefit. Members may retire with an unreduced benefit at age 65 with 10 years of service, or 63 with 25 or more years of service. Average Final Compensation is based on the highest 5 years.

The formula for the DB component is: *1.3% x Years of Service x Average Final Compensation.*

Federal Employee Retirement System

Established in 1987, most civilian federal employees are auto enrolled in the Federal Employee Retirement System (FERS). The DB component is the Basic Benefit Plan (BBP), and the DC component is the Thrift Savings Plan (TSP). The member handbooks are available here: https://www.opm.gov/retirement-center/publications-forms/csrsfers-handbook/ https://www.tsp.gov/publications/tspbk08.pdf.

TABLE E-2
Key details of the Federal Employees Retirement System

Member contribution [a]	Employer contribution	Voluntary contribution or match opportunity	Defined benefit formula [b]	Replacement Ratio minus DC [c]	Social Security
4.4% (DB) + 5.0% (DC)	18.4% (DB) + 5.0% (DC)[d]	1:1 for first 3%; 1:2 for next 2% (DC)	1.0% x YOS x AFC	30% + 40% 70%	Yes

SOURCE: FERS and TSP

[a] Member contribution is the auto-enrollment level. [b] YOS = Years of Service, AFC = Average Final Compensation or Final Average Salary. AFC is based on the highest 3 years of salary. [c] Includes only the benefit level from the DB and Social Security (SS) benefits using the same assumptions that YOS is 30 and SS benefit is equal to 40%. [d] The employer minimum contribution to the DC is 1%, but employees are enrolled at the full match for a total of 5%.

Contributions

Members contribute a fixed amount from their pay to the DB component (4.4 percent). Members are auto enrolled in the DC component at 5 percent, which allows them to receive the full employer match. Members are not required to contribute to the DC component but may also contribute more than the 5 percent enrollment rate up to the IRS contribution limit. Employers contribute a minimum of 1 percent to the DC component and then match on top of that one-to-one for the first 3 percent an employee contributes, and half of the next 2 percent for a total of 4 percent matching opportunity. When combined with the 1 percent, employers contribute 5 percent to an employee's DC component.

Members are vested in their DB component after 5 years of service. Members are immediately vested for their own contributions and any employer matching contributions but are only vested in the mandatory employer contributions after three years of service.

Member Education and Outreach

Based on information on their website, FERS members have access to recorded and live webinars to provide information about the TSP. TSP sends a quarterly newsletter to members and has an option to subscribe for plan updates on their website. Agencies are responsible for creating a three-career point (early, mid-, and late career) financial education plan and reporting annually to the Office of Personnel Management.

Retirement Benefit

Members pay into Social Security and, therefore, receive a benefit in addition to the FERS benefit. Members can retire when they reach a minimum retirement age with 30 years of service or at age 60

with 20 years of service. If retiring at age 62 or older with 20 or more years of service, the multiplier increases to 1.1 percent. Average final compensation is based on the three highest years of salary.

The formula for the DB component is: *1.0% x Years of Service x Average Final Compensation.*

Georgia

The Employee Retirement System of Georgia (ERSGA) adopted the Georgia State Employee's Pension and Savings Plan (GSEPS) Tier 3 hybrid plan for employees hired on or after January 1, 2009. The member handbooks are available at: (DB) https://www.ers.ga.gov/post/ers-handbook (DC) https://www.ers.ga.gov/post/peach-state-reserves-psr-handbook.

TABLE E-3
Key details of the GSEPS Tier 3 hybrid plan

Member contribution [a]	Employer contribution	Voluntary contribution or match opportunity	Defined benefit formula [b]	Replacement ratio minus DC [c]	Social Security
1.25% (DB) + 5.0% (DC)	25.51% (DB) + 5.0% (DC)	1:1 for first 5%, graded increase for years 6-13 of service (max 9%)	1.0% x YOS x AFC	30% + 40% 70%	Yes

SOURCE: ERSGA
[a] Member contribution is the auto-enrollment level. [b] YOS = Years of Service, AFC = Average Final Compensation or Final Average Salary. AFC is based on the highest 2 years of salary. [c] Includes only the benefit level from the DB and Social Security (SS) benefits using the same assumptions that YOS is 30 and SS benefit is equal to 40%.

Contributions

Members must contribute a minimum of 2.25 percent of their base pay (1.25 percent to the DB component and 1.0 percent to the DC component). They are enrolled at 6.25 percent (1.25 percent to the DB component and 5 percent to the DC component). Employers must contribute 25.51 percent to the DB component and at least 1.0 percent to the DC component (to match the mandatory employee contribution). Employers will match one-to-one for the first 5 percent of contributions made by members, and so at enrollment, are contributing 5 percent matching. There is a graded match for employees who continue to contribute 5 percent after five years of service. An employer's match will increase by 0.5 percent each year from year six to year 13 of service for a maximum of 9 percent to an employee's 5 percent contribution.

Members are vested in the DB component after 10 years of service, and in the DC component members vest by an additional 20 percent each year until fully vested after five years of service. Members are not eligible for a refund of any employer contributions to the DB component.

Member Education and Outreach

Members are provided an overview of their retirement benefit at onboarding. Approximately five times each year, ERSGA will reach out to members who are not contributing 5 percent to receive the full employer match. During the annual open enrollment period, there is a reminder for employees to check on their contributions, and if they are not contributing the 5 percent, a message about the future impacts appears.

Retirement Benefit

Members pay into Social Security, and therefore, receive a benefit in addition to the ERSGA benefit. Members may retire with an unreduced benefit at age 60 with 10 years of service or after 30 years of service. Average final compensation is the highest 2 years' salary.

The formula for the DB component is: *1.0% x Years of Service x Average Final Compensation.*

Indiana

The Indiana Public Retirement System (INPRS) adopted the Public Employee Retirement Fund (PERF) hybrid retirement plan for employees hired on or after July 1, 2016. Members have a 60-day opportunity at hire to choose a DC only-plan offered at the discretion of employers (MyChoice) instead of the PERF hybrid plan; about 85 percent remain in the hybrid retirement plan. The hybrid member handbook is available at: https://www.in.gov/inprs/files/PERFHybridPlanMemberHandbook.pdf.

TABLE E-4
Key details of the INPRS PERF Hybrid plan

Member contribution[1]	Employer contribution	Voluntary contribution or match opportunity	Defined benefit formula [2]	Replacement ratio minus DC[3]	Social Security
0.0% (DB) + 3.0% (DC)	11.2% (DB) + 0.0% (DC)	N/A	1.1% x YOS x AFC	33% + 40% 73%	Yes

SOURCE: INPRS

[1] Member contribution is the auto-enrollment level. [2] YOS = Years of Service, AFC = Average Final Compensation or Final Average Salary. AFC is based on the highest 5 years of salary. [3] Includes only the benefit level from the DB and Social Security (SS) benefits using the same assumptions that YOS is 30 and SS benefit is equal to 40%.

Contributions

Members contribute a set 3 percent to their DC component and do not contribute to the DB component. Employers pay an actuarial rate (FY26 is 11.2 percent) to the DB component and are not required to contribute to the employee's DC component. However, many employers choose to pay the 3 percent member contribution to the DC component. Members may contribute up to 10 percent to their DC component. Contributions are post-tax and non-Roth. This means that they are taxed before the contribution and any earnings are taxed on withdrawal.

Members are vested after 10 years of service in the DB component and immediately in the DC component.

Member Education and Outreach

Members are provided with information on the retirement benefits through onboarding. Beyond that, INPRS provides counseling, workshops, and quarterly newsletters for members for additional education opportunities. INPRS also sends letters to members at their career milestones and a comprehensive annual statement on their birthday to remind them to think about their retirement savings.

Defined Benefit Formula

Most members pay into Social Security and, therefore, receive a benefit beyond the INPRS benefit. Members are eligible to retire at age 65 with 10 years of service, age 60 with 15 years of service, or by the Rule of 85 at age 55. The average final compensation is based on the highest five years of salary.

The formula for the DB component is: *1.1% x Years of Service x Average Final Compensation.*

Pennsylvania

The hybrid retirement plan of the Pennsylvania State Employee Retirement System (PennSERS) was established in 2019. All members are enrolled in a hybrid plan (Class A-5) but have a 45-day window to irrevocably change to Class A-6 or a straight DC plan. If members do not actively choose the Class A-6 or DC straight DC plan, they remain in Class A-5 for the entirety of their service. The member handbook is available at: https://sers.pa.gov/pdf/SERS-Hybrid-Member_Handbook.pdf. The most recent contribution rates can be found at: https://sers.pa.gov/pdf/Employers/2025-26_Rate_Chart.pdf.

TABLE E-5
Key details of the Pennsylvania SERS Class A-5 hybrid plan

Member contribution [a]	Employer contribution	Voluntary contribution or match opportunity	Defined benefit formula [b]	Replacement ratio minus DC [c]	Social Security
5.09% (DB) + 3.25% (DC)	16.71% (DB) + 2.25% (DC)	Voluntary contributions allowed, no match	1.25% x YOS x AFC	37.5% + 40% 77.5%	Yes

SOURCE: PennSERS.
[1] Member contribution is the auto-enrollment level. [2] YOS = Years of Service, AFC = Average Final Compensation. AFC is based on the highest 5 calendar years of salary. Pennsylvania uses the term Final Average Compensation, but AFC is used for consistency across the report. [3] Includes only the benefit level from the DB and Social Security (SS) benefits using the same assumptions that YOS is 30 and SS benefit is equal to 40%.

Contributions

Members in Class A-5 contribute a fixed amount of their pay: 8.34 percent (5.09 percent goes to the DB component and 3.25 percent goes to the DC component). Voluntary contributions to the DC component are allowed. Members are vested in the DB component after 10 years of service, and in the DC component after three years of service. Employers pay 2.25 percent to the DC component and an actuarial rate into the DB portion which is determined each year.

According to the shared-risk/shared-gain provisions in the Retirement Code, the member contribution rate may increase or decrease based on the investment performance of the PennSERS Fund. The contribution rate for Class A-5 members to the DB component will never increase above 8 percent or drop below 2 percent.

Member Education and Outreach

When new employees are hired, there is a section of onboarding devoted to the retirement system. PennSERS sends a welcome packet and outlines the necessary decisions. Halfway through the 45-day election period, PennSERS sends an email reminder. After the election period, PennSERS sends a class confirmation packet and an email reminder to name beneficiaries if a member has not done so.

After onboarding and the initial election window, PennSERS sends a newsletter twice a year, shares messages on an electronic employee bulletin board, and holds Q&A sessions and lunch and learns to educate members around the retirement process. PennSERS also has social media campaigns to help boost member beneficiary designations and encourage additional savings in a separate 457 account where voluntary contributions are allowed.

Defined Benefit Formula

Most members pay Social Security and, therefore, receive a benefit in addition to their PennSERS benefit. Members can retire without a reduced benefit at age 67 with three years of service or by the Rule of 97 with 35 years of service. The average final salary is the highest five calendar years.

The formula for the Class A-5 DB component is: *1.25% x Years of Service x Final Average Salary.*

Rhode Island

The hybrid retirement plan of the Employee Retirement System of Rhode Island (ERSRI) was established in the Rhode Island Retirement Security Act of 2011. All state employees and teachers hired since July 1, 2012, are enrolled in Schedule B3. The member handbook is available at: https://www.ersri.org/sites/default/files/2025-02/ERSRI%20Member%20Handbook%202025.pdf.

TABLE E-6
Key details of Rhode Island's Hybrid Retirement Plan

Member contribution [a]	Employer contribution	Voluntary contribution or match opportunity	Defined benefit formula [b]	Replacement ratio minus DC [c]	Social Security
3.75% (DB) + 5.0% (DC)	30.91% (DB) + 1.0% (DC)	N/A	1.0% x YOS x AFC	30% + 40% 70%	Yes

SOURCE: Employee Retirement System of Rhode Island
[1] Member contribution is the auto-enrollment level. [2] YOS = Years of Service, AFC = Average Final Compensation or Final Average Salary. AFC is based on the highest 3 years of salary. [3] Includes only the benefit level from the DB and Social Security (SS) benefits using the same assumptions that YOS is 30 and SS benefit is equal to 40%.

Contributions

Members contribute a fixed amount of pay: 8.75 percent (3.75 percent goes to the DB component and 5.0 percent goes to the DC component). Voluntary contributions are not allowed. Members are vested in the DB component after five years of service, and on the employer contributions to the DC component after three years of service. Employers pay 1.0 percent to the DC component and an

actuarial rate into the DB component, which is determined each year. The DC component covers members with less than 20 years of service as of June 30, 2012.

Member Education and Outreach

When new members begin, an overview of the retirement system is part of their onboarding. As members near retirement age, they have the opportunity for individual counseling/planning appointments. ERSRI also has a bi-monthly newsletter for members. For the DC component, the third-party administrator (TIAA) offers benefits counseling appointments for members as well as quarterly joint presentations with ERSRI.

Retirement Benefit

Most members pay Social Security and, therefore, receive a benefit in addition to their ERSRI benefit. Members can retire with an unreduced benefit at age 67 and five years of service. Average Final Compensation is based on the highest three years.

The formula for the DB component is: *1.0% x Years of Service x Average Final Compensation.*

Tennessee

The Tennessee Consolidated Retirement System (TCRS) adopted the hybrid retirement plan for new state employees (including public higher education) and teachers starting July 1, 2014. The member handbook is available at: https://treasury.tn.gov/Portals/0/Documents/Retirement/Forms%20and%20Guides/Active%20Members/HybridMemberGuide.pdf.

TABLE E-7
Key details of Tennessee's hybrid retirement plan

Member contribution [a]	Employer contribution	Voluntary contribution or match opportunity	Defined benefit formula [b]	Replacement ratio minus DC [c]	Social Security
5.0% (DB) + 2.0% (DC)	4.0% (DB) + 5.0% (DC)	1:1 for first $50 from employee monthly	1.0% x YOS x AFC	30% + 40% 70%	Yes

SOURCE: Tennessee Consolidated Retirement System
[a] Member contribution is the auto-enrollment level. [b] YOS = Years of Service, AFC = Average Final Compensation or Final Average Salary. AFC is based on the highest 5 years of salary. [c] Includes only the benefit level from the DB and Social Security (SS) benefits using the same assumptions that YOS is 30 and SS benefit is equal to 40%.

Contributions

Members contribute 5 percent of their pay to their DB component, and there is the opportunity for voluntary contributions to the DC component. If a member elects to make voluntary contributions, the limit for these contributions is the IRS limit. There is a 1-to-1 employer match for the first $50 (flat amount) in voluntary contributions monthly. Members are enrolled in the DC component at a 2 percent voluntary contribution level, which is generally enough to meet the $50 employer match

opportunity. Members are vested in their DB component after five years of service and immediately for the DC component.

If an employee leaves service, they are not eligible for a refund of employer contributions to the DB component, even if vested.

Member Education and Outreach

Employees receive an overview of the retirement plan as part of onboarding. If agencies have higher opt out rates from the employee voluntary contributions, TCRS will do outreach and additional education. TCRS also sends quarterly targeted and personalized emails for members who are not receiving the full match to provide additional education on the importance of making voluntary contributions and remind them that they are not receiving their full employer match. TCRS has a unified call center for questions about both the DB and DC components.

TCRS focuses on having employees envision their ideal retirement lifestyle and the amount they will need to achieve this. The dynamic dashboard shows members if they are on track to meet a replacement ratio that they can set. The DB component is updated annually, and the DC component is updated daily. Plan advisors conduct one-on-one meetings with approximately 15,000 members each year. (TCRS uses their DC plans record keeper as a consolidated source for DB and DC information for call centers and to provide dedicated staff in the field for educational efforts.)

Retirement Benefit

All members pay Social Security and, therefore, receive a benefit in addition to their TCRS benefit. Members can retire with an unreduced benefit at age 65 with five years of service or by Rule of 90. Average Final Compensation is based on the highest five years.

The formula for the DB component is: *1.0% x Years of Service x Average Final Compensation.*

Comparisons

There are a wide range of plan designs for public hybrid retirement plans, including varying contribution, matching, vesting, and benefit formula factors (Table E-8). Across all the plans reviewed, the DC portion is estimated as needing to replace about 10 percent of pre-retirement income. Information on DC account sizes is difficult to estimate across the plans, but most plans felt that their design and performance were meeting the needs of their members.

TABLE E-8
Hybrid retirement plan designs vary but commonalities exist

State	Member contribution [a]	Employer contribution	Voluntary contribution or match opportunity	Defined benefit formula [b]	Replacement ratio minus DC [c]	Social Security
VA	**4.0% (DB) + 1.0% (DC)**	**12.52%(DB) + 1.0% (DC)**	**1:1 first 1%; 1:2 for next 3%**	**1.0% x YOS x AFC**	**30% + 40% 70%**	**Yes**
CT	5.0% (DB) + 1.0% (DC)	44.4% (DB) + 1.0% (DC)	N/A	1.3% x YOS x AFC	39% + 40% 79%	Yes
FERS	4.4% (DB) + 5.0% (DC)	18.4% (DB) + 5.0% (DC)	1:1 for first 3%; 1:2 for next 2%	1.0% x YOS x AFC	30% + 40% 70%	Yes
GA	1.25% (DB) + 5.0% (DC)	25.51% (DB) + 5.0% (DC)	1:1 first 5% of employee, graded increase for years 6-13 of service (max 9%)	1.0% x YOS x AFC	30% + 40% 70%	Yes
IN	0.0% (DB) + 3.0% (DC)	11.2% (DB) + 0.0% (DC)	N/A	1.1% x YOS x AFC	33% + 40% 73%	Yes
PA	5.09% (DB) + 3.25% (DC)	16.71% (DB) + 2.25% (DC)	Voluntary contributions allowed, no match	1.25% x YOS x AFC	37.5% + 40% 77.5%	Yes
RI	3.75% (DB) + 5.0% (DC)	30.91% (DB) + 1.0% (DC)	N/A	1.0% x YOS x AFC	30% + 40% 70%	Yes
TN	5.0% (DB) + 2.0% (DC)	4.0% (DB) + 5.0% (DC)	1:1 for first $50 from employee monthly	1.0% x YOS x AFC	30% + 40% 70%	Yes

NOTE: Based on general state plan employees. Rates and multipliers may vary in other plan types. [a] Member contribution is the auto-enrollment level. [b] YOS = Years of Service, AFC = Average Final Compensation or Final Average Salary. AFC is based on different periods of high salary. [c] Includes only the benefit level from the DB and Social Security (SS) benefits using the assumptions that YOS is 30 and SS benefit is equal to 40%. VA replacement ratio shown here is based on 30 YOS to be consistent with other states. Potential changes in the report are based on 26.5 YOS because the illustrative employee would be eligible for an unreduced benefit by the Rule of 90 at that point.

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