



Virginia
Retirement
System

VRS Overview

Presenter:

Trish Bishop, Director

House Appropriations Committee

General Government Sub-Committee

January 19, 2021





Virginia
Retirement
System

Administration



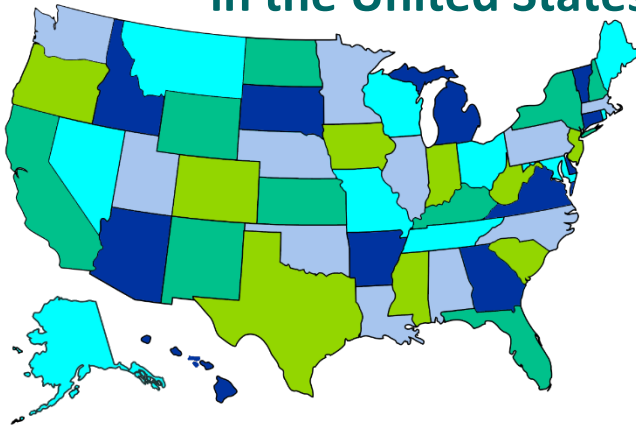


742,143
active and retired members

As of June 30, 2020

18th largest

public or private pension system
in the United States*



41st largest

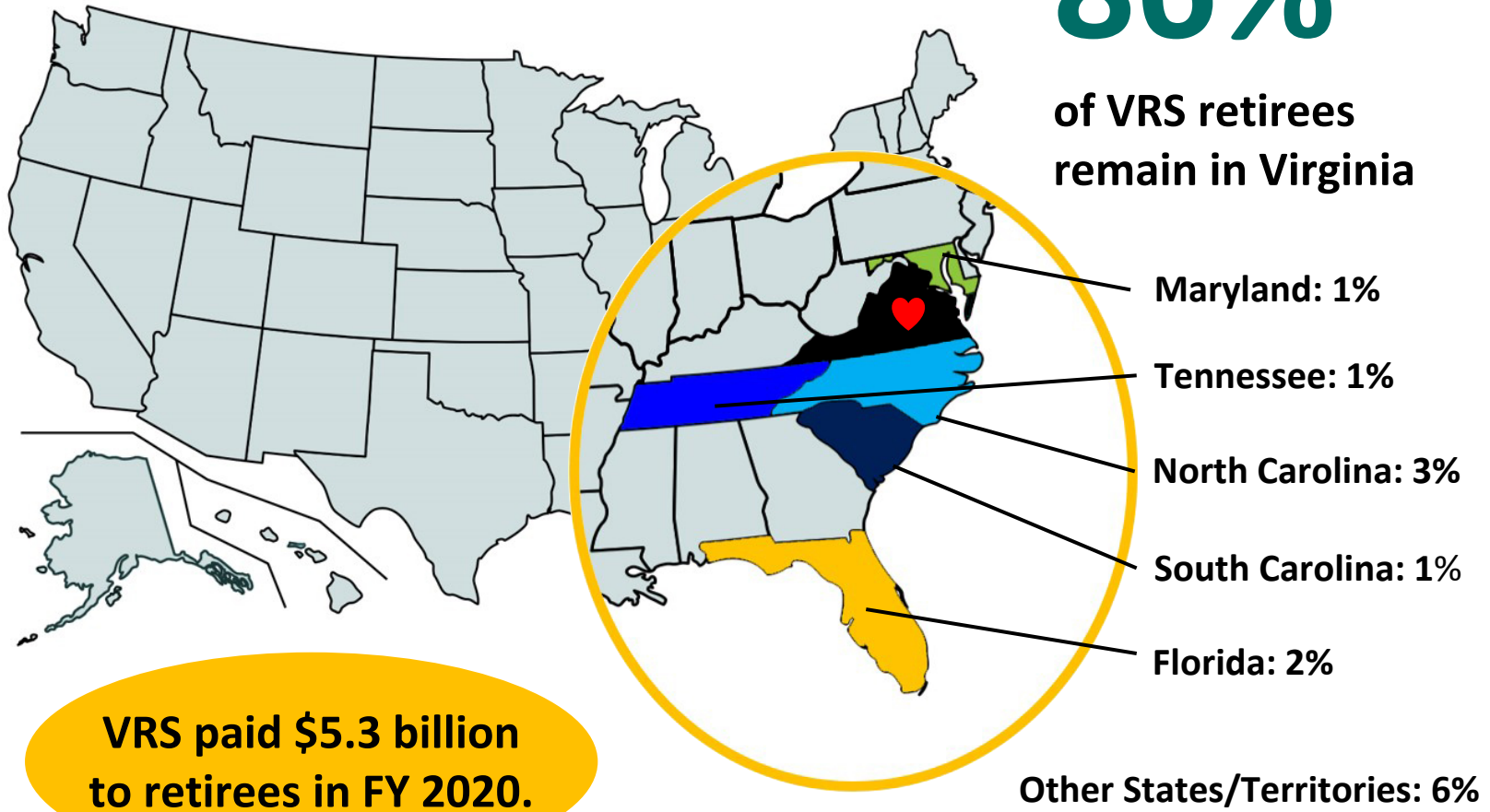
public or private pension system
in the world*

* As ranked by *Pensions & Investments* in 2020

Where VRS Retirees Live

86%

of VRS retirees
remain in Virginia



VRS paid \$5.3 billion
to retirees in FY 2020.

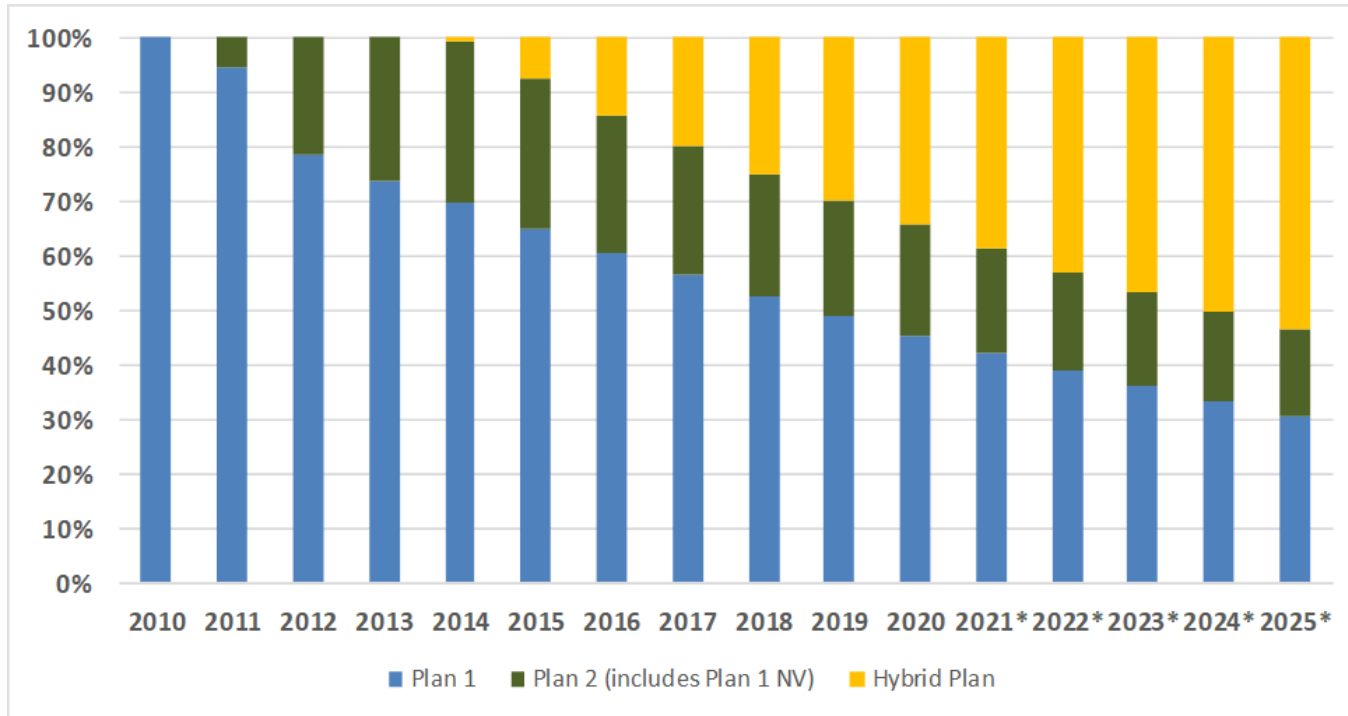
VRS Total Membership as of June 30, 2020



| | Plan 1 | Plan 2 | Hybrid | Total |
|---|----------------|---------------|----------------|----------------|
| Teachers | 68,694 | 30,755 | 51,982 | 151,431 |
| Political Subdivision Employees | 41,681 | 31,421 | 37,199 | 110,301 |
| State Employees | 31,694 | 14,504 | 28,899 | 75,097 |
| State Police Officers' Retirement System (SPORS) | 1,111 | 762 | — | 1,873 |
| Virginia Law Officers' Retirement System (VaLORS) | 2,845 | 5,814 | — | 8,659 |
| Judicial Retirement System (JRS) | 201 | 47 | 199 | 447 |
| Total Active Members | 146,226 | 83,303 | 118,279 | 347,808 |



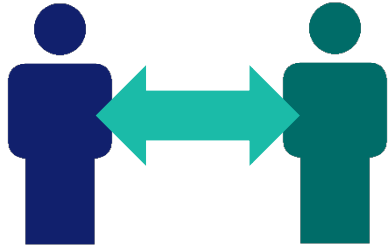
Teacher Active Member Breakdown



* Fiscal years 2021-2025 show projected membership breakdown based on historical turnover experience.

Note: The turnover experienced in the Teacher Plan has been less than the turnover experienced by the State Plan. Thus, the Teacher Plan is migrating to the Hybrid Plan slower than the State Plan.

Hybrid Retirement Plan Impact



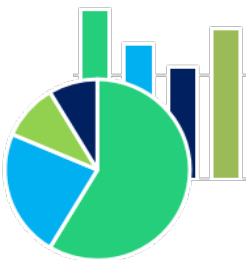
Shares risk between
employer/employee



Increases portability



Reduces employer
investment risk



Reduces employer
longevity risk



Lowers future costs
of the plan

VRS Plan Information





- The Virginia Retirement System is a qualified plan under Internal Revenue Code § 401(a).
- Being a qualified plan provides federal tax advantages to participants and the fund.
- Tax benefits for qualified plans include pre-tax contributions and tax-exempt earnings for the fund's investments.
- There are requirements a plan must meet to maintain its status as a qualified plan.
- If a pension plan does not meet these requirements, it can lose its plan qualification and the related tax benefits.

26 United States Code § 401(a):

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

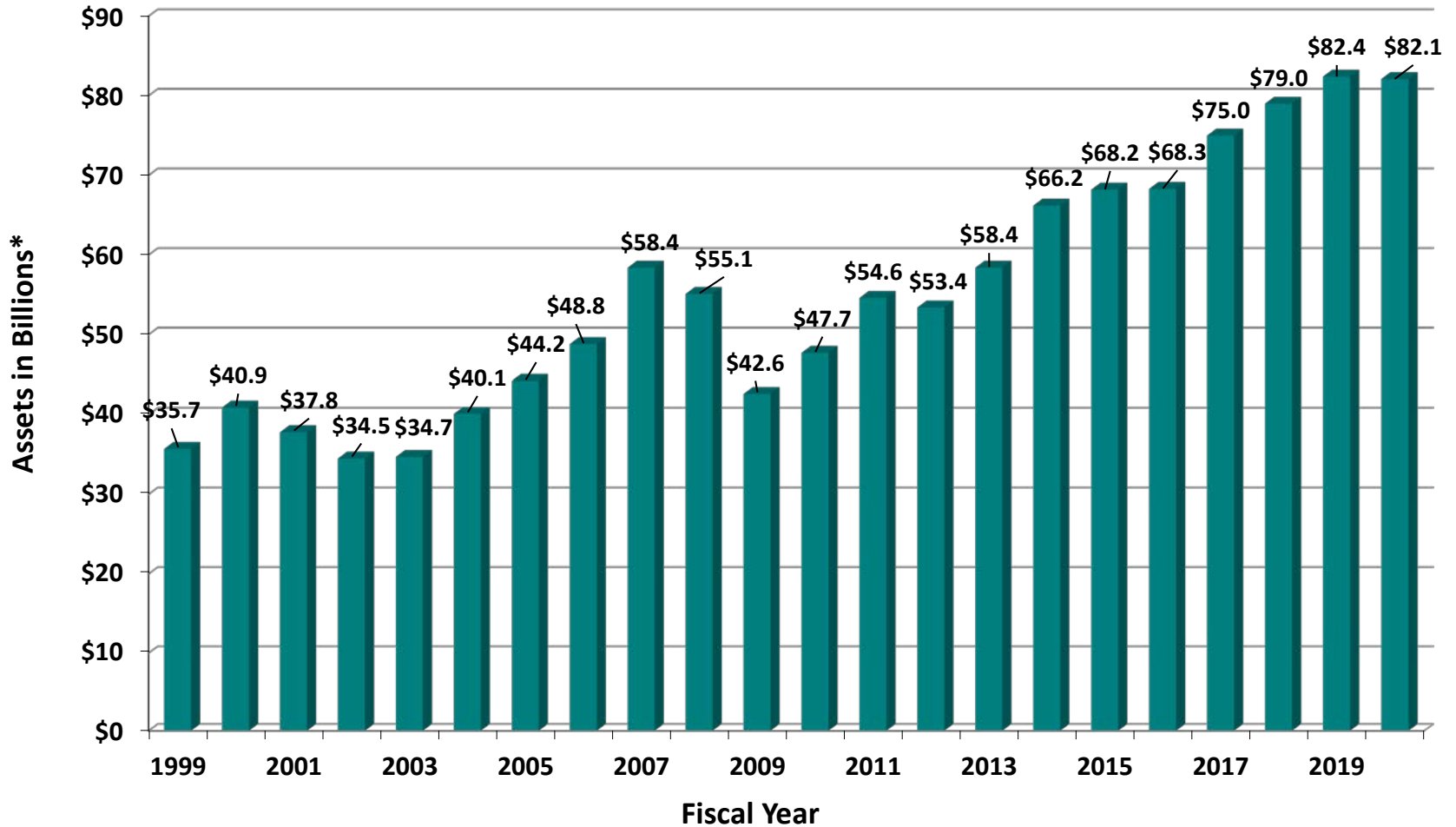
Constitution of Virginia, Article X, Section 11:

- “The funds of the retirement system shall be deemed separate and independent trust funds, shall be segregated from all other funds of the Commonwealth, and shall be invested and administered solely in the interests of the members and beneficiaries thereof.”
- The IRS **exclusive benefit rule** also appears in [§ 51.1-124.4 \(A\)](#) of the *Code of Virginia*.
- The **exclusive benefit rule** requires that VRS trust fund money only be used for the benefit of members and beneficiaries of retirement systems under Title 51.1.

Investments

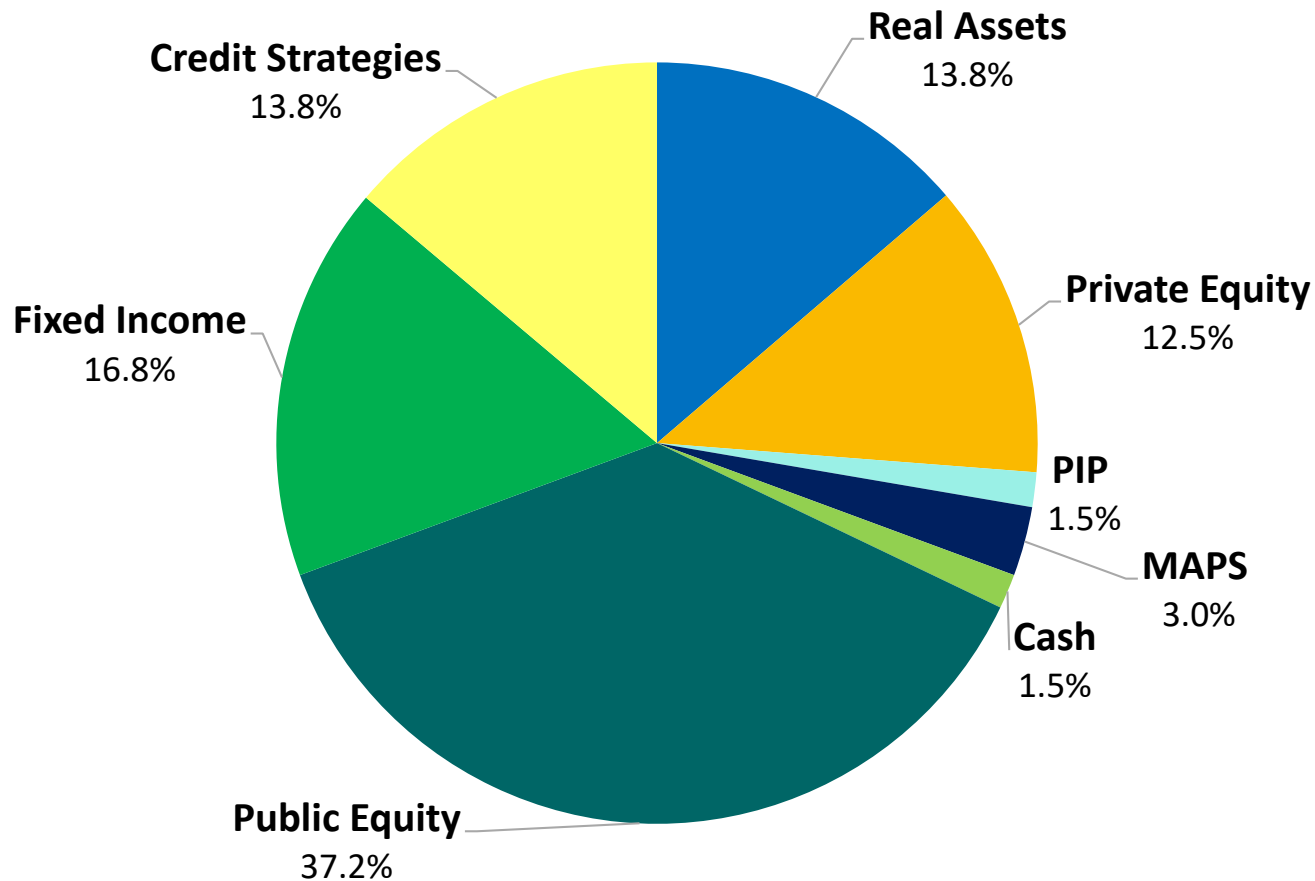


VRS Net Position



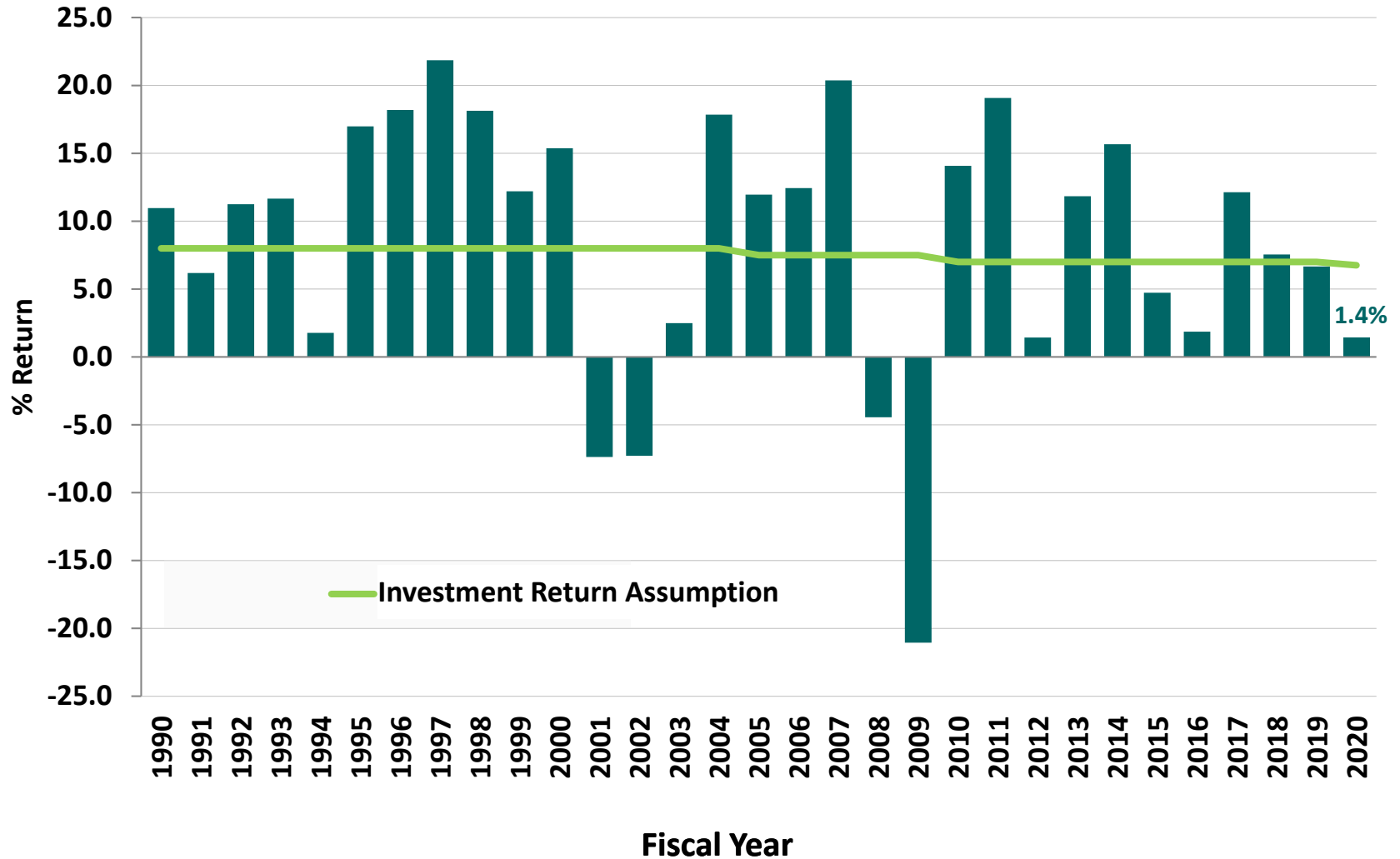
* Values for all years in this table were restated in FY 2020 to reflect the implementation of GASB Statement No. 84.

Total Fund Asset Allocation



Source: Bank of New York Mellon

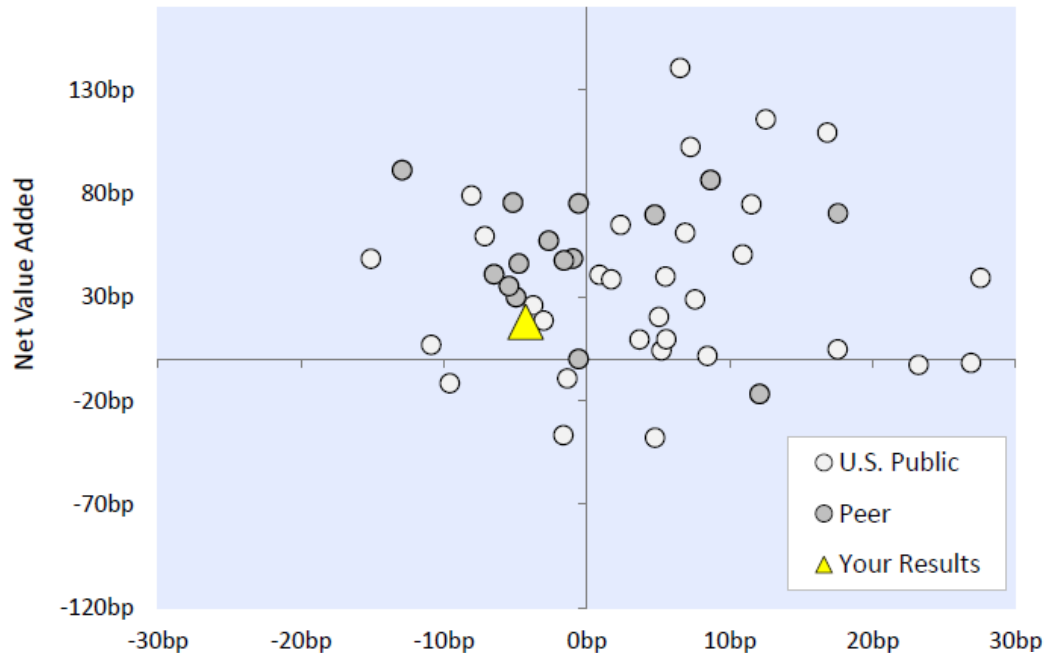
VRS Fiscal Year Returns



VRS: Positive Value-Added, Low-Cost

Your five-year performance placed VRS in the positive value added, low-cost quadrant of the cost effectiveness chart.

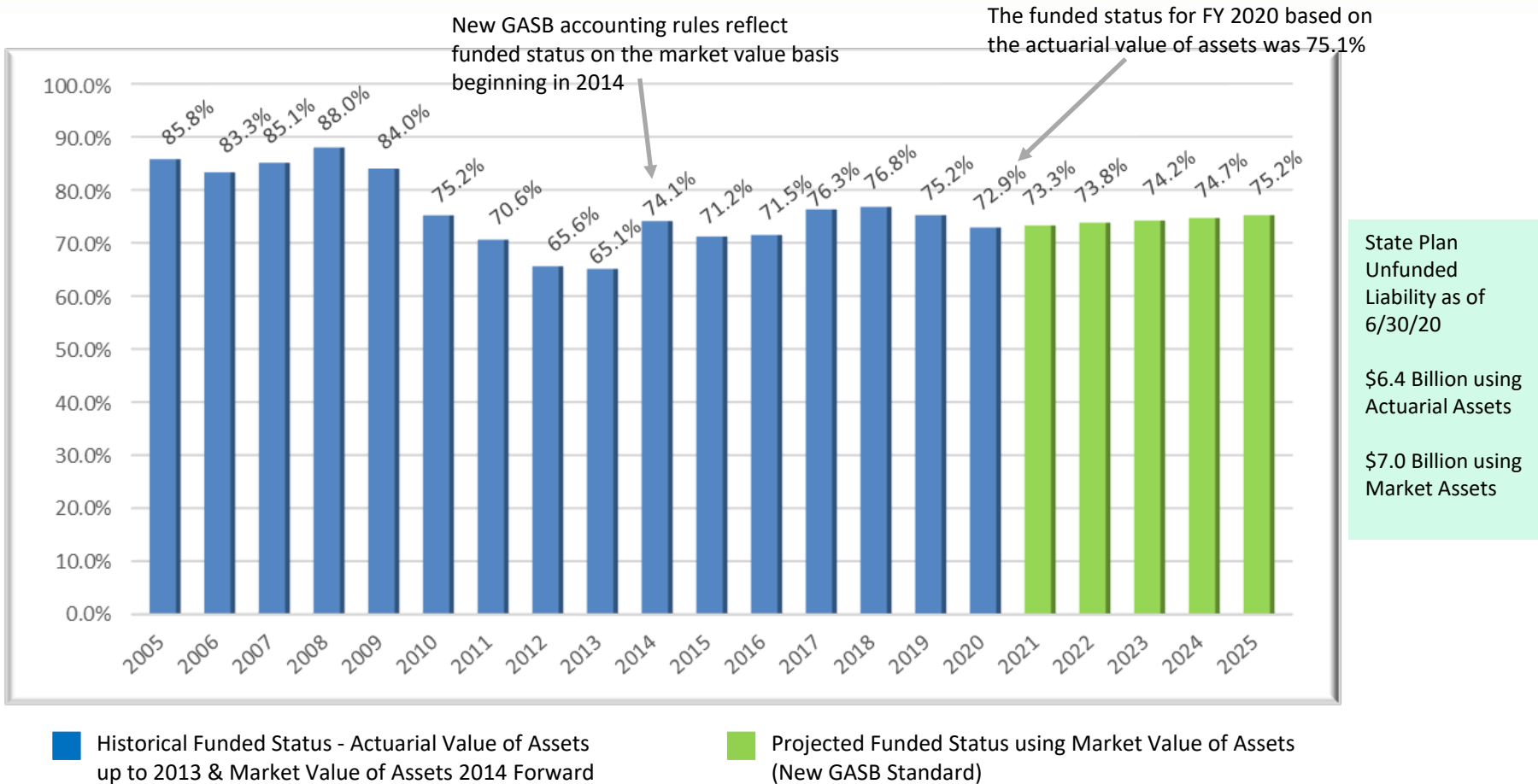
5-Year net value added versus excess cost
(Your 5-year: net value added 18 bps, cost savings 4 bps¹)



Funded Status and Contribution Rates



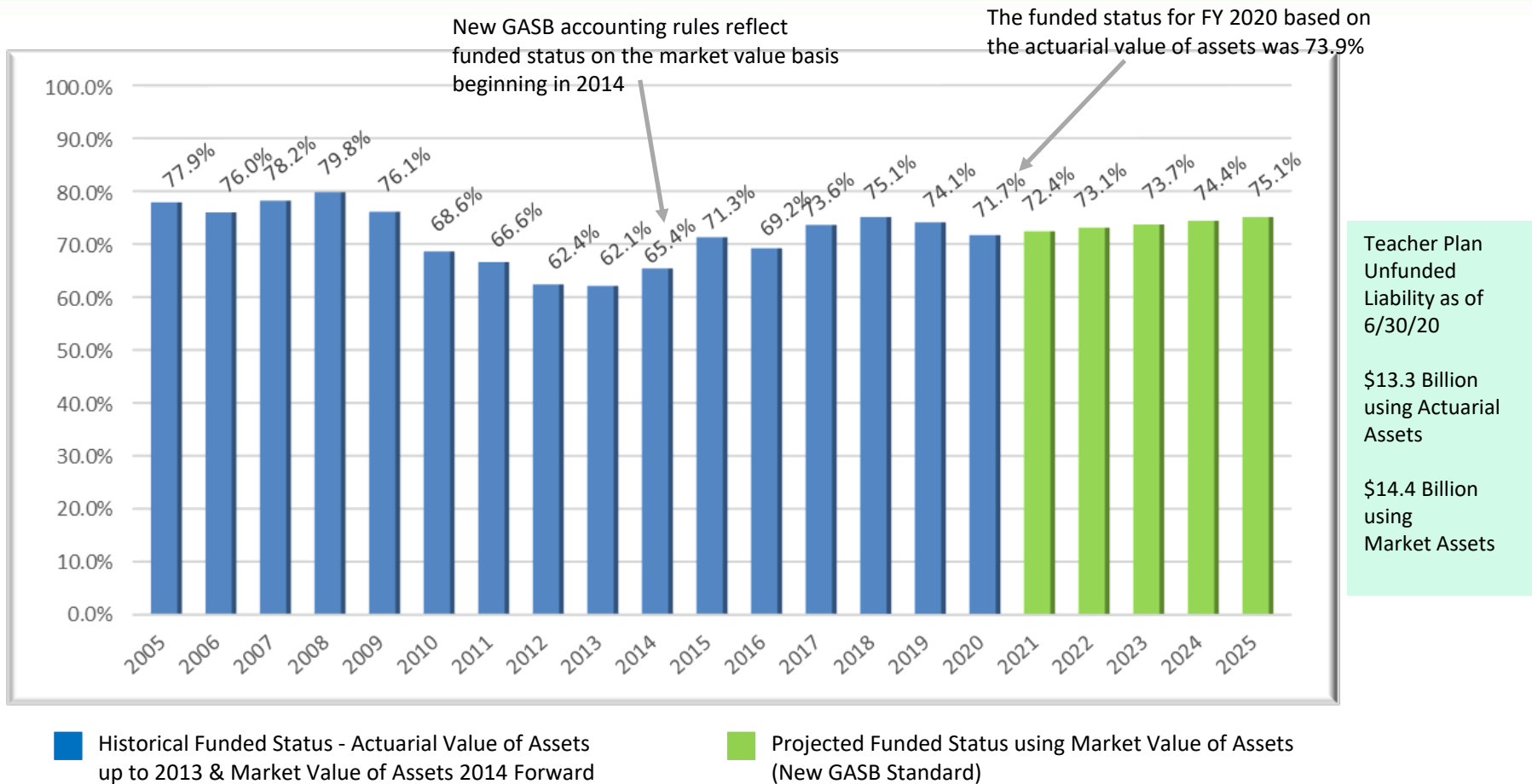
Funded Status: State



Notes:

- Projected years' investment returns assumed to be 6.75% annually with 2.5% inflation rate.
- New GASB Accounting Rules will reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.

Funded Status: Teachers



Notes:

- Projected years' investment returns assumed to be 6.75% annually with 2.5% inflation rate.
- New GASB Accounting Rules will reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.
- Projected funded status does not include proposed infusion of \$61.3 million in June 2021 towards teacher deferred contributions from the 2010-2012 biennium.

Virginia Retirement System

Unfunded Pension Liabilities as of June 30, 2020



| System | UAAL based on AVA (Dollars in Thousands) |
|-------------------------------------|---|
| State | \$6,417,661 |
| Teachers | \$13,278,662 |
| SPORS | \$325,590 |
| VaLORS | \$712,025 |
| Judicial | \$111,633 |
| Total State-Wide Systems | \$20,845,571 |
| | |
| Political Subdivisions in Aggregate | \$3,441,151 |
| Total Fund | \$24,286,722 |

| System | UAAL based on MVA (Dollars in Thousands) |
|-------------------------------------|---|
| State | \$6,981,267 |
| Teachers | \$14,385,554 |
| SPORS | \$351,662 |
| VaLORS | \$758,084 |
| Judicial | \$128,417 |
| Total State-Wide Systems | \$22,604,984 |
| | |
| Political Subdivisions in Aggregate | \$4,076,749 |
| Total Fund | \$26,681,733 |

The Political Subdivisions in Aggregate unfunded liabilities do not include political subdivisions with no active members.

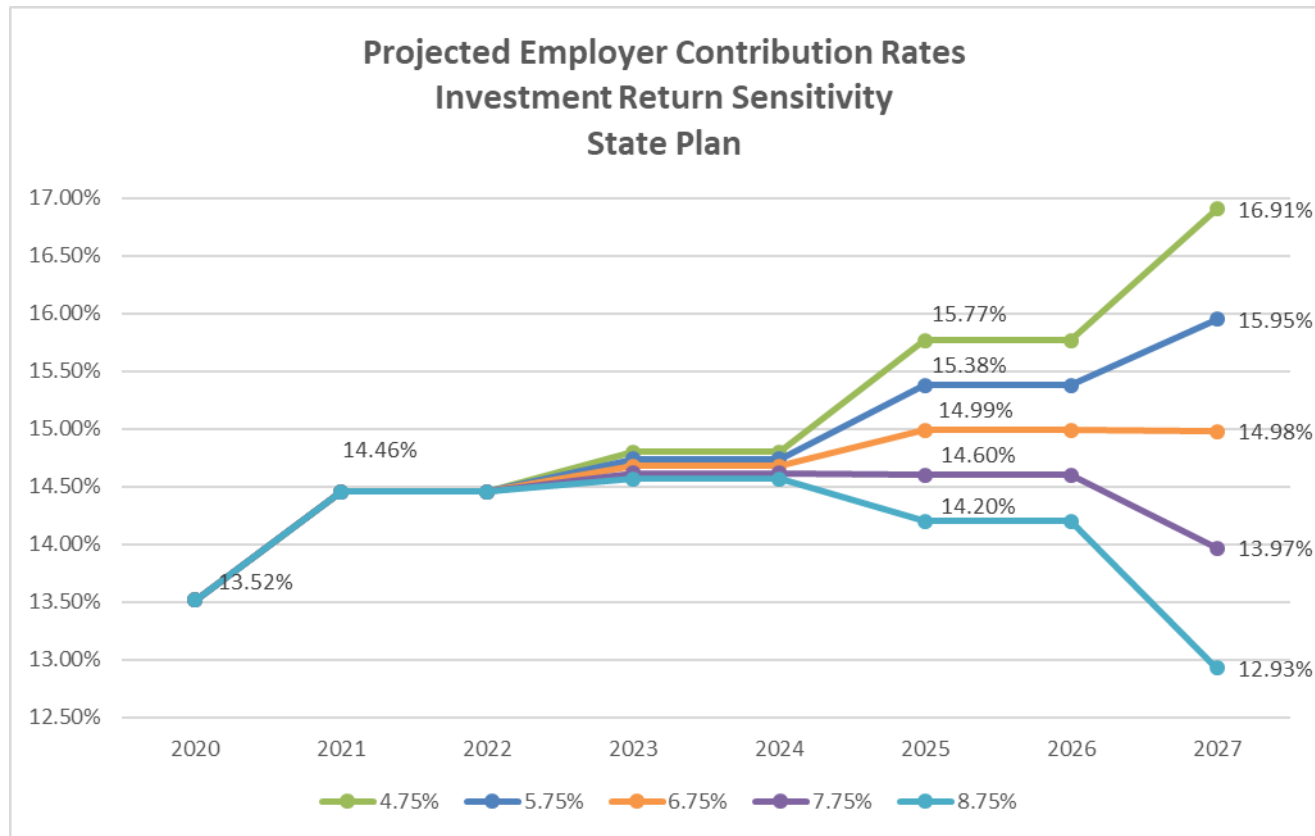
Employer Contribution Rates and Funding Requirements for Statewide Plans



| Plan | Fiscal Year 2021 |
|---|------------------------|
| State | 14.46% |
| SPORS | 26.33% |
| VaLORS | 21.90% |
| JRS | 29.84% |
| Teachers | |
| | 16.62% |
| Total Estimated Employer Contributions | \$2,251,201,000 |
| General Fund | \$966,061,000 |
| Non-General Fund | \$1,285,140,000 |

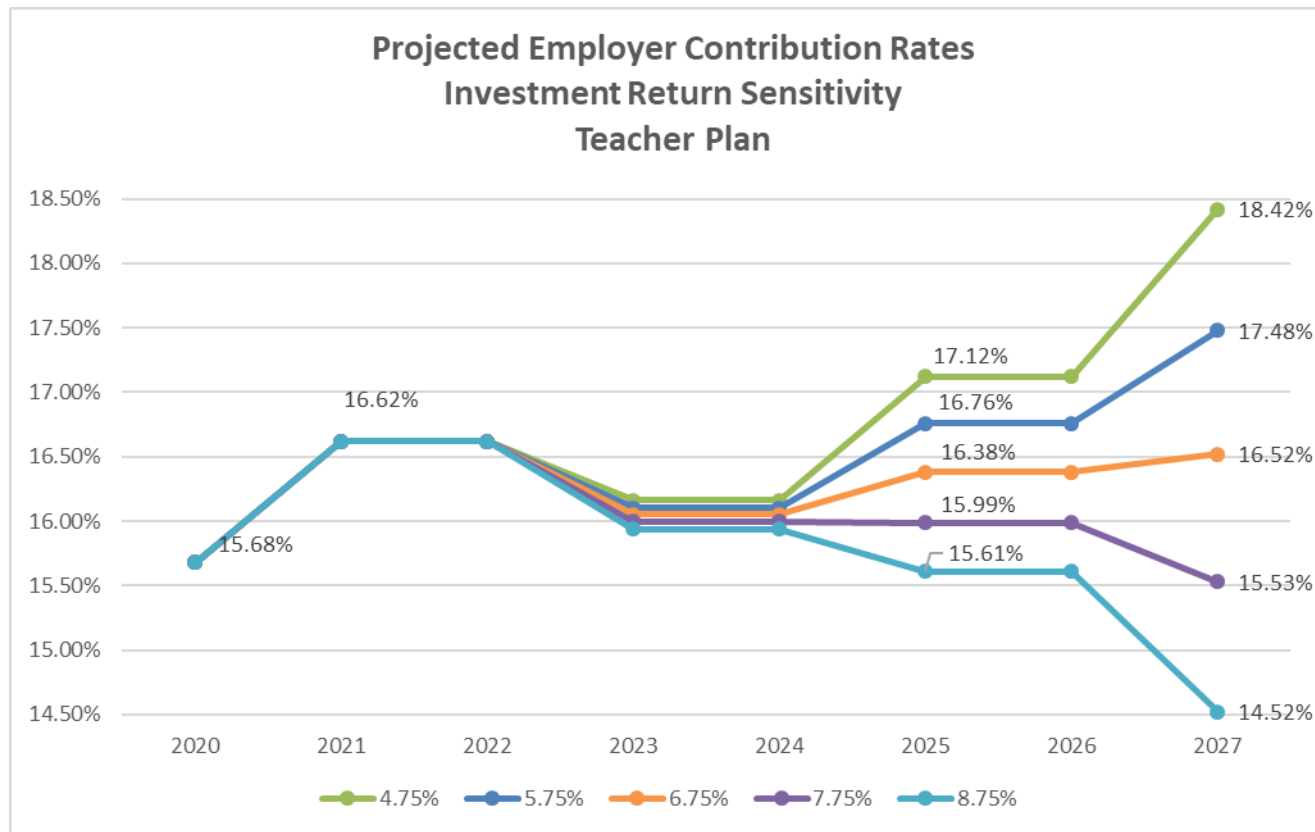
Note: Estimated funding for FY 2021 uses payroll from the 2020 valuation projected forward one year by plan assumptions. Actual funding will be based on actual payrolls in effect at time of billing.

Contribution Rates: State



- Contribution rates are for alternative investment return scenarios only. Liabilities are calculated at 6.75% under all scenarios.
- Contribution rates include an assumed employer match to the defined contribution portion of the Hybrid Plan.
- VRS is currently reviewing demographic and economic assumptions through the quadrennial experience study. Any assumption updates, particularly the mortality assumption, will lead to different expected contribution rates than those shown above beginning with fiscal year 2023.

Contribution Rates: Teachers



- Contribution rates are for alternative investment return scenarios only. Liabilities are calculated at 6.75% under all scenarios.
- Contribution rates include an assumed employer match to the defined contribution portion of the Hybrid Plan.
- VRS is currently reviewing demographic and economic assumptions through the quadrennial experience study. Any assumption updates, particularly the mortality assumption, will lead to different expected contribution rates than those shown above beginning with fiscal year 2023.
- Above projections do not include impacts of Governor’s proposed \$61.3 million infusion to Teacher plan in June 2021.

2010-2021 Deferred Contributions: Teacher Plan



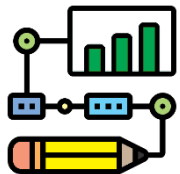
- The Governor's proposed budget infuses additional funds – \$61.3 million – into the Teacher Plan.



- By doing so, the balance of the deferred contributions would be paid off in June 2021 – one year earlier than expected.

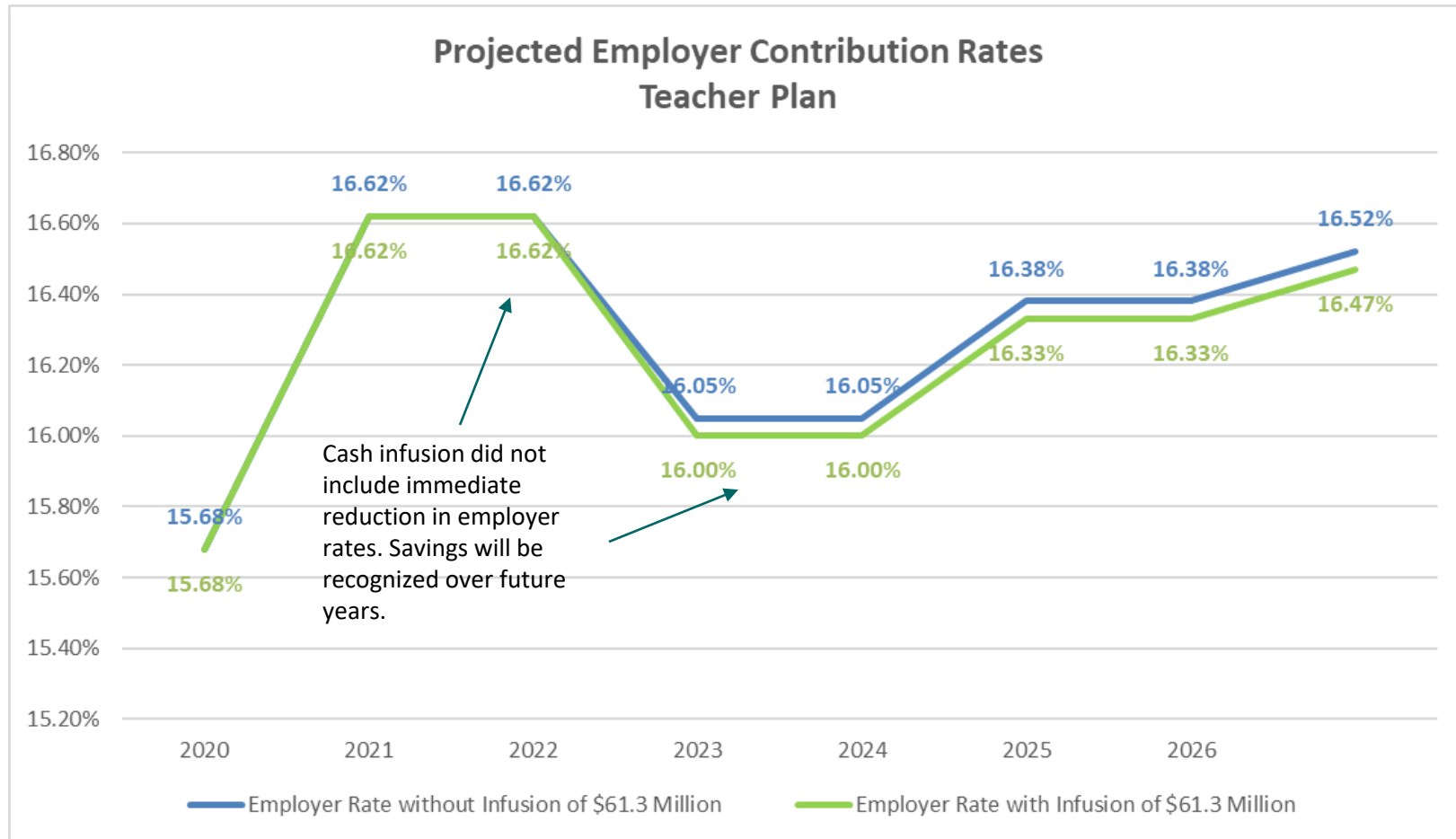


- Paying the remaining balance will be viewed positively by bond-rating agencies, since this is a debt from the last recession.



- It will also:
 - Improve the funded status of the Teacher Plan.
 - Moderate contribution rates going forward.

Contribution Rates: Teachers



Notes:

- Projected years' investment returns assumed to be 6.75% annually with 2.5% inflation rate.
- Assumes additional contribution of \$61.3 million in June 2021 toward deferred contributions from 2010-2012 biennium.

| System | UAAL based on AVA (Dollars in Thousands) |
|-----------------------------|---|
| Group Life | \$1,677,898 |
| HIC State | \$894,542 |
| HIC Teachers | \$1,280,589 |
| VSDP | (\$256,367) |
| | |
| HIC Locals in Aggregate | \$52,204 |
| HIC Constitutional Officers | \$27,069 |
| HIC Social Services | \$12,646 |
| HIC Registrars | \$450 |
| VLDP Teachers | \$360 |
| VLDP Political Subdivisions | \$327 |

| System | UAAL based on MVA (Dollars in Thousands) |
|-----------------------------|---|
| Group Life | \$1,728,029 |
| HIC State | \$899,066 |
| HIC Teachers | \$1,286,380 |
| VSDP | (\$241,350) |
| | |
| HIC Locals in Aggregate | \$52,204 |
| HIC Constitutional Officers | \$27,069 |
| HIC Social Services | \$12,646 |
| HIC Registrars | \$450 |
| VLDP Teachers | \$447 |
| VLDP Political Subdivisions | \$433 |

OPEB Plans: Contribution Rates

| Plan | Current Employer Rate FY 21/22 |
|---|--------------------------------------|
| HIC State | 1.12% |
| HIC Teachers | 1.21% |
| VSDP | 0.61% |
| Group Life | 1.34% |
| HIC Political Subdivisions in Aggregate | 0.59% |
| HIC Constitutional Officers | 0.36% |
| HIC Social Services | 0.38% |
| HIC Registrars | 0.39% |
| VLDP Teachers | 0.47% |
| VLDP Political Subdivisions | 0.83% |

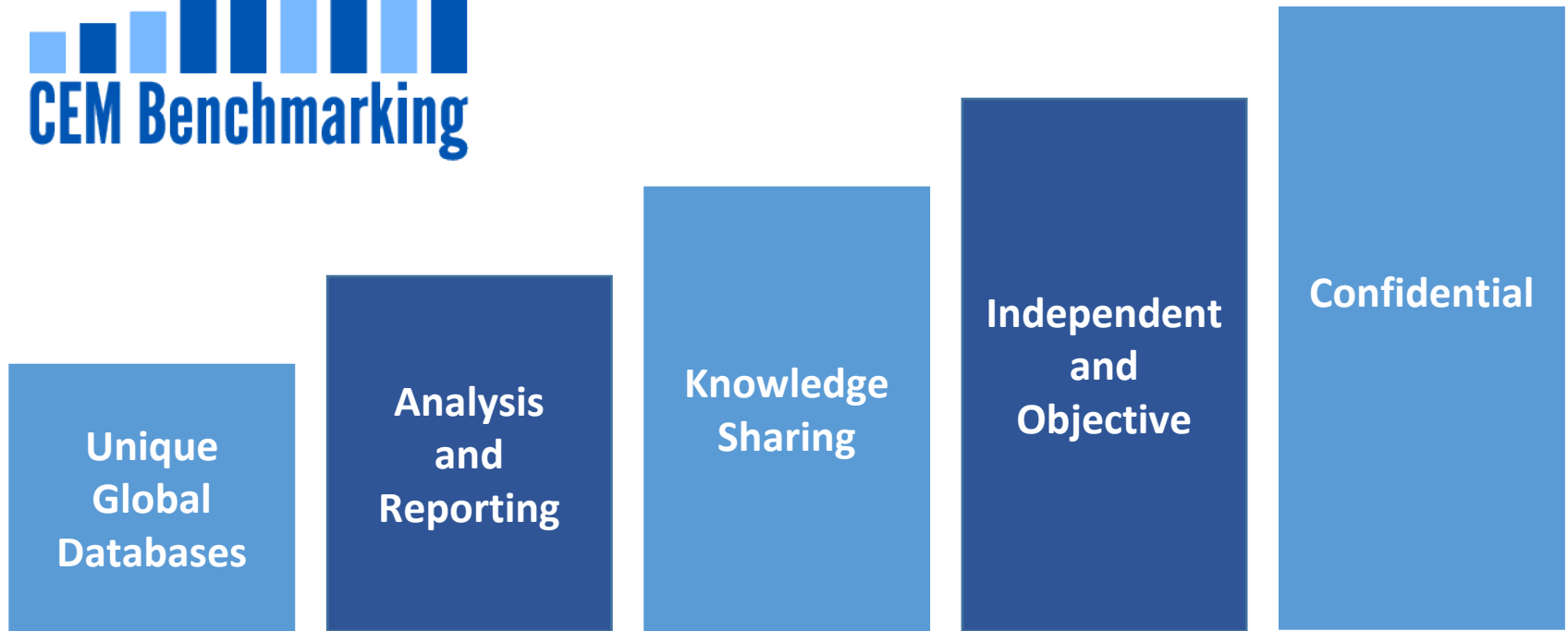
Impact of Budget Proposal on State Health Insurance Credit

- HIC plans are some of the least well-funded plans for several reasons, including:
 - OPEB plans remained pay-as-you-go for longer than pensions and began pre-funding benefits later than pensions
 - Over the years, many contribution rate holidays were provided for the OPEB plans, specifically the HIC
- The unfunded liability of the State HIC plan is \$894 million, so an infusion of \$38.7 million will have an immediate positive impact on the funded status.
 - Based on our preliminary estimates, funded status would be expected to improve by nearly 400 basis points, from 12.7% funded to 16.5% funded.
- Similar to the Teacher plan infusion, the additional funds will help to moderate State HIC rates in future years.

Service Delivery and Cost Comparison



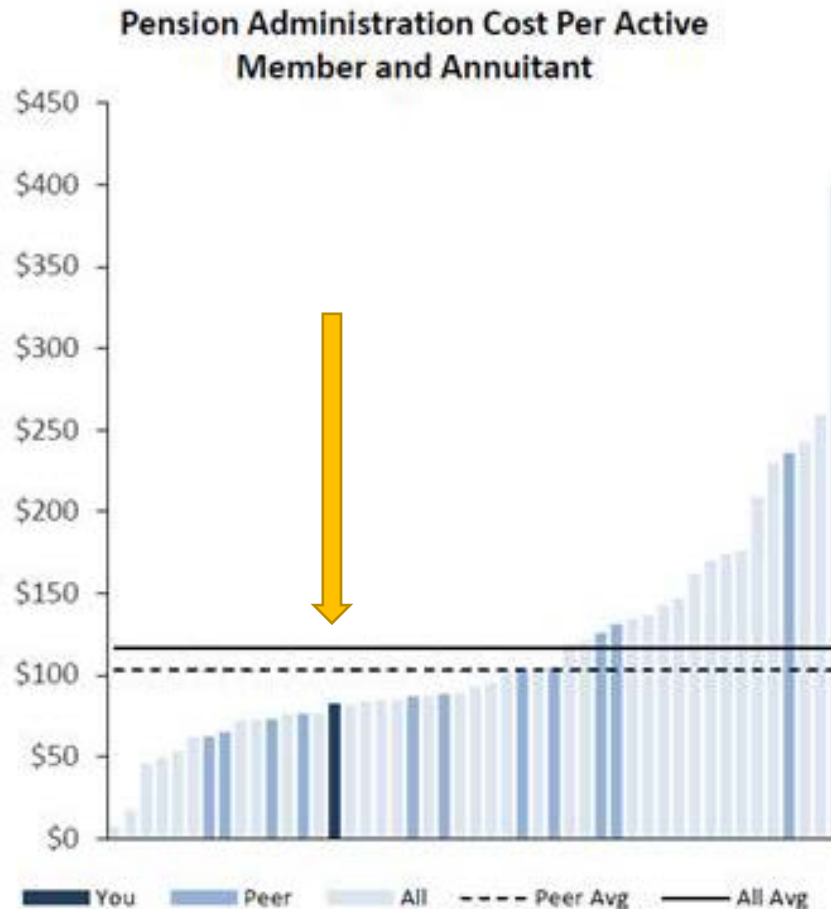
Measurement for Management



CEM Benchmarking helps more than 400 funds worldwide manage costs and optimize performance with objective, actionable benchmarking insight

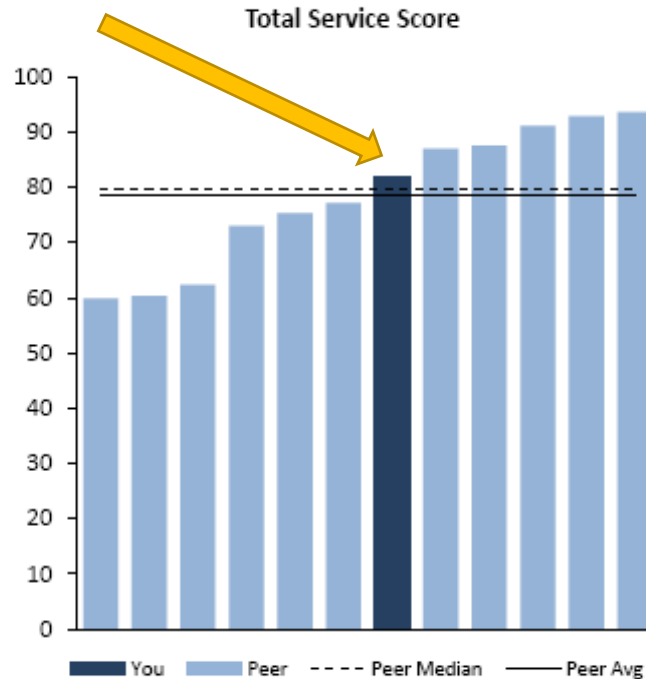
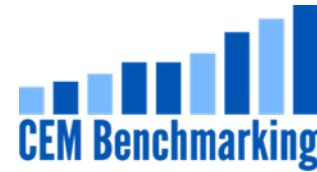
VRS Cost Compared With Peers

Your total pension administration cost of \$81 per active member and annuitant was \$22 below the peer average of \$103.



VRS Service Among Peers

Your total service score was 82. This was above the peer median of 80.

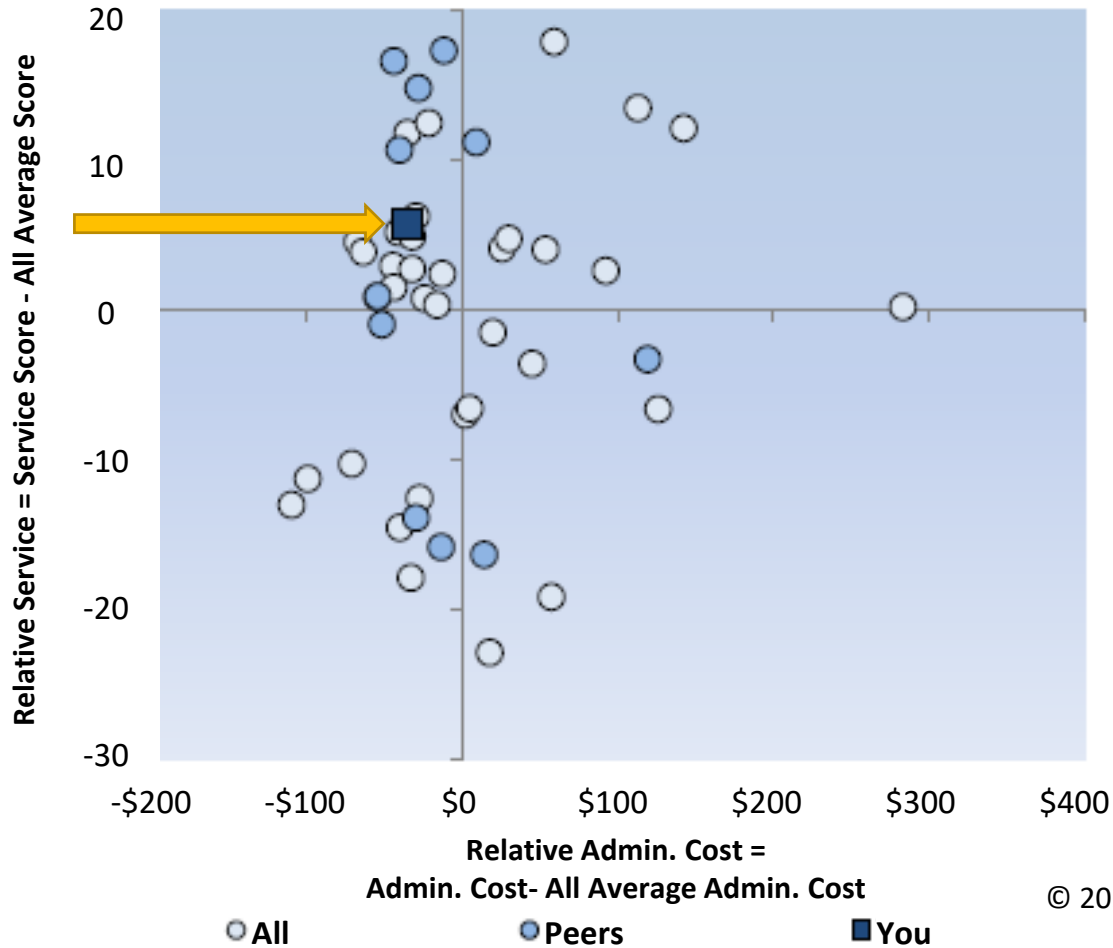


Service is defined from a member's perspective. Higher service means more channels, faster turnaround times, more availability, more choice, better content and higher quality.

Higher service is not necessarily cost-effective. For example, the ability to answer the telephone 24 hours a day is higher service, but not cost effective.

Cost and Service Trends

Relative Service versus Relative Cost



© 2020 CEM Benchmarking Inc.

COVID-19 Impacts



COVID-19 Response Updates

VRS is committed to serving you and continuing business operations during this challenging time.

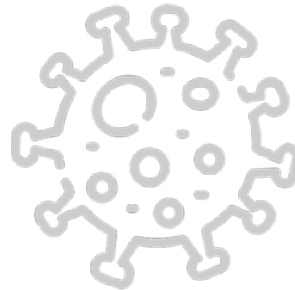


Latest VRS
Updates

CARES Act
Information



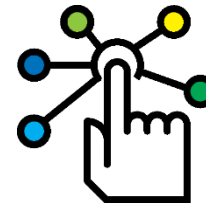
myVRS
Resources



Market
Information



Financial
Wellness
Articles and
Videos



Links

See current COVID-19 response updates at varetire.org.

COVID-19 Impact on Retirements

- While COVID-19 has been an issue since March 2020, it is still too early to see the full impacts it may have on retirement patterns.
 - Information gathered for annual plan valuations as of June 30, 2020, did not show any significant changes in retirements.
 - While retirements from July through September 2020 were higher than last year, they were not historically higher than past years.
-

Teacher Retirements 2017 - 2020 Retired from Active Status

| Quarter | Fiscal Year | | | | |
|-----------------|-------------|-------|-------|-------|-------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| July - Sept | 3,345 | 3,356 | 3,197 | 2,797 | 3,063 |
| Oct - Dec | 208 | 227 | 219 | 237 | |
| Jan - March | 408 | 427 | 387 | 423 | |
| April - June | 210 | 242 | 306 | 300 | |
| Total Fiscal Yr | 4,171 | 4,252 | 4,109 | 3,757 | |

COVID-19 Impact: Group Life Insurance and Disability Claims



- Similar to retirement experience, disability claims during fiscal year 2020 and the first quarter of fiscal year 2021 for both the VSDP and VLDP plans were at or below normal.
- Group Life Insurance claims over the nine-month period covering April through December increased in 2020 to 6,176 claims compared to 5,593 in 2019.
 - We expect the annual volume to increase due to our aging population.
 - The increase included 256 claims related to COVID-19 which represented approximately 4.1% of total claims during this time period.

Online Retirement Update



Superior customer service delivery

- Extensive educational content inside the website and guided counseling reduce the risk of surprises

Simple to use

- Intuitive interaction that leverages information VRS has about the customer to streamline the interaction and minimize data entry

Secure

- Paperless financial transactions demand user identity authentication

Available when the customer wants it

- Available near 24/7



Online Retirement

Video includes important information to prepare members for retirement

myVRS

Home

My History

Manage My Benefits

Retirement Planning

Benefit Estimator

Financial Wellness



Help

Delbert Weader

Logou

Apply for Retirement

Home \ Manage My Benefits \ Apply for Retirement

Are You Ready to Retire?



Congratulations on your years of service and all that you have accomplished as a public service employee. Now it's time to focus on yourself, your loved ones and your goals for the next phase of your life.

Before you apply for retirement, have you created a recent benefit estimate and used the retirement planner to ensure you are on track to retire? Check out those tools before you begin. Also, see the Helpful Links & Resources below for additional information about your benefits.

 [Create a Benefit Estimate](#)



Did you know?

VRS offers free individual retirement counseling onsite at its Richmond office as well as scheduled appointments by phone. Counseling hours are 8:30 a.m. - 4 p.m., Monday through Friday.

Before You Apply

Review Your Compensation History

Our records show your most recent compensation earned as a VRS-covered employee is \$58,567.78.



Remember to Notify Your Employer

Let your employer know when you plan to retire.



Review Your Employment History

Our records show you have 21 yrs, 10 mos of served benefit service.



Purchase Prior Service (PPS)

VRS does not have any prior service indicated on your record; however, you may have unreported eligible service to purchase.



Continue Your Retirement Application

You have a retirement application in progress that has not been submitted to VRS. Click the button below to continue your application.

[Continue Retirement Application](#)

I Want To...

- [Create a Benefit Estimate](#)
- [Plan for Retirement](#)
- [Learn About Purchasing Service](#)
- [View Annual Statements](#)

Helpful Links & Resources

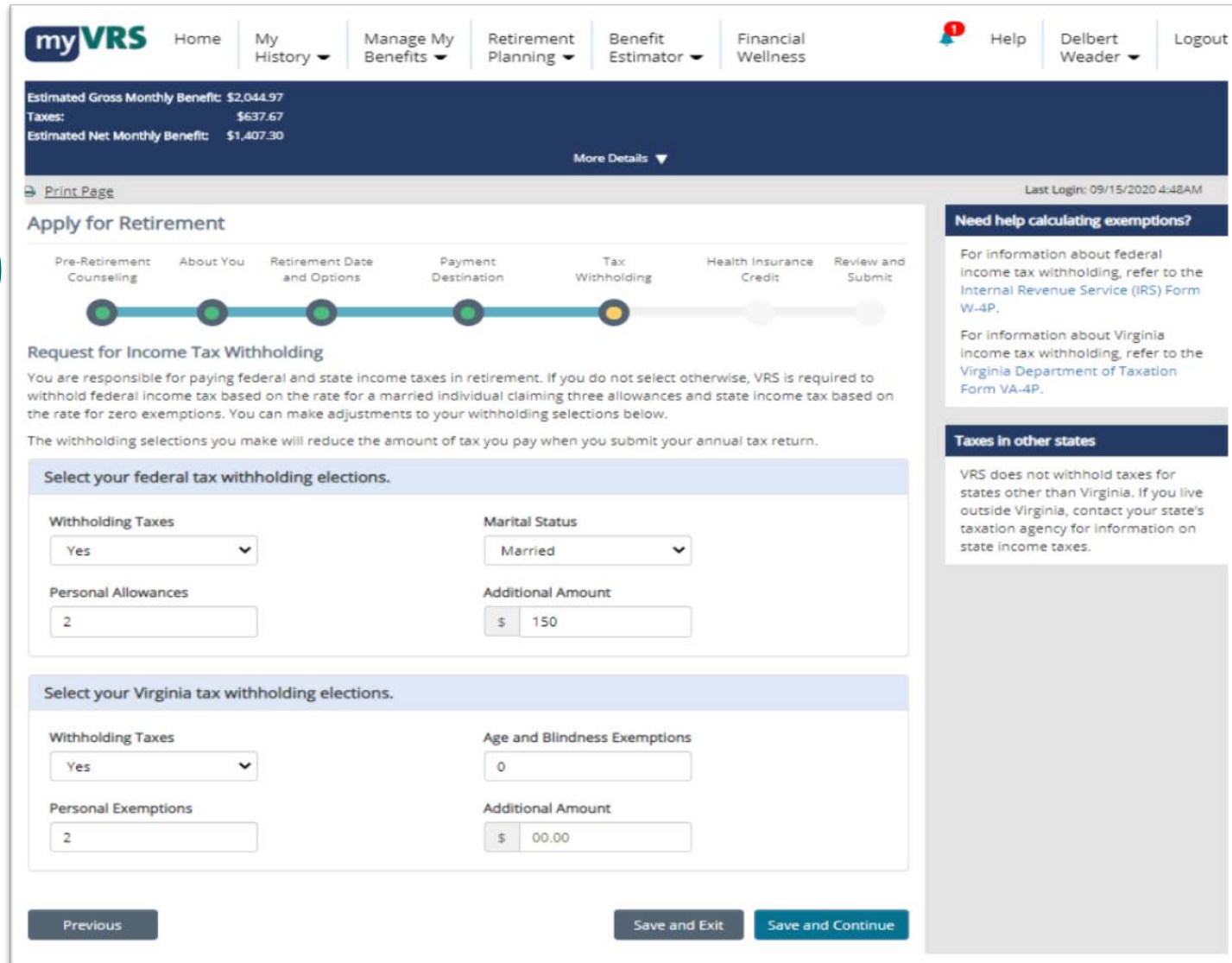
- [Getting Ready to Retire Handbook](#)
- [Retirement Education and Counseling](#)
- [Retirement Readiness Checklist](#)

myVRS Powered by Enrich
FINANCIAL WELLNESS

Tips, tools and time-savers to increase your knowledge.

Key considerations built into the application process

Members can see progress through retirement process.



The screenshot shows the myVRS website interface for the 'Apply for Retirement' process. At the top, there is a navigation menu with links for Home, My History, Manage My Benefits, Retirement Planning, Benefit Estimator, and Financial Wellness. A user profile for 'Delbert Weader' is visible in the top right corner, along with a 'Logout' button and a notification icon. Below the navigation, a summary box displays financial information: Estimated Gross Monthly Benefit: \$2,044.97, Taxes: \$637.67, and Estimated Net Monthly Benefit: \$1,407.30. A 'Print Page' button and 'More Details' link are also present. The main content area is titled 'Apply for Retirement' and features a progress bar with seven steps: Pre-Retirement Counseling, About You, Retirement Date and Options, Payment Destination, Tax Withholding (the current step), Health Insurance Credit, and Review and Submit. Below the progress bar, there is a section for 'Request for Income Tax Withholding' with explanatory text and a note that withholding selections will reduce the amount of tax paid. This section contains two forms: 'Select your federal tax withholding elections' and 'Select your Virginia tax withholding elections'. The federal form includes dropdowns for 'Withholding Taxes' (set to 'Yes') and 'Marital Status' (set to 'Married'), a text input for 'Personal Allowances' (set to '2'), and a text input for 'Additional Amount' (set to '\$ 150'). The Virginia form includes dropdowns for 'Withholding Taxes' (set to 'Yes') and 'Age and Blindness Exemptions' (set to '0'), a text input for 'Personal Exemptions' (set to '2'), and a text input for 'Additional Amount' (set to '\$ 00.00'). At the bottom of the form, there are three buttons: 'Previous', 'Save and Exit', and 'Save and Continue'. On the right side of the page, there are two informational boxes: 'Need help calculating exemptions?' and 'Taxes in other states', both providing links to external resources for more information.

Goal: Provide access to online retirements to members by employer at a controlled pace.

Phased Approach:

- **Phase 1** – Bring employers in one at a time to control volume.
- **Phase 2** – Provide access to small cohorts of employers. This limits the volume of applications but gives us an opportunity to observe natural and real-world use of the new features.
- **Phase 3** – Give access to categories of employers, i.e., all political subdivisions without hazardous duty benefits.
- **Phase 4** – Grant access to the full employer population (except for employers with special circumstances)



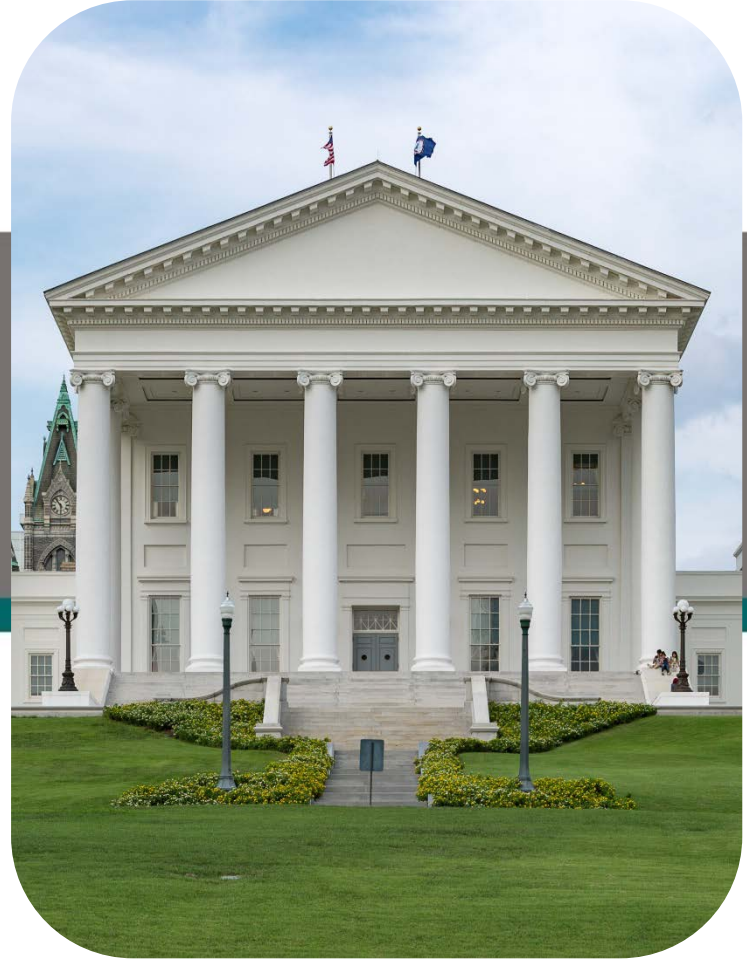
Beneficiary
Management

Retiree
Payment
Maintenance

Retiree Health
Insurance Credit
Maintenance

Survivor Access

2021 Legislation*



2021 VRS-Related Bills

VRS-Requested Bills

| Bill Number | Patron | Description |
|-------------|-------------|---|
| HB 2181 | Mundon King | Makes technical amendments to provisions of the <i>Code of Virginia</i> relating to the Virginia Retirement System to change the required minimum distribution provisions to reflect recent changes in federal law, and conform terminology related to disability retirement. |
| SB 1251 | Newman | |

Return-to-Work Bills

| Bill Number | Patron | Description |
|-------------|----------|--|
| HB 2195 | Leftwich | Provides that a retired law-enforcement officer employed by a local school division as a school security officer on Jan. 1, 2020, who had a bona fide break in service of at least one month between retirement and employment as a school security officer, is not required to have the 12-month break in service that would otherwise be required by law to continue receiving his service retirement allowance while employed full time as a school security officer. |
| SB 1137 | Cosgrove | |
| HB 2264 | Leftwich | Allows a retired law-enforcement officer to continue to receive his service retirement allowance during a subsequent period of full-time employment by a law-enforcement agency as a civilian fingerprint examiner after a 12-month break in service following retirement. |
| SB 1409 | Cosgrove | |

2021 VRS-Related Bills

VaLORS Bills

| Bill Number | Patron | Description |
|-------------|---------|--|
| HB 2097 | O'Quinn | Adds agents of the Department of Corrections Special Investigations Unit to the Virginia Law Officers' Retirement System (VaLORS). The bill provides that such employees will not be eligible to retire under VaLORS unless they have five years of creditable service as a member of VaLORS, the State Police Officers' Retirement System, or an equivalent local system. |

LODA Bills

| Bill Number | Patron | Description |
|-------------|---------|--|
| SB 1137 | DeSteph | Requires that, for any medical review of a claim made pursuant to the provisions of the Line of Duty Act, the Virginia Retirement System shall require that such review be conducted by a doctor, nurse, or psychologist who is licensed in the Commonwealth or a contiguous state. The bill has a delayed effective date of July 1, 2022. |

2021 VRS-Related Bills

Studies

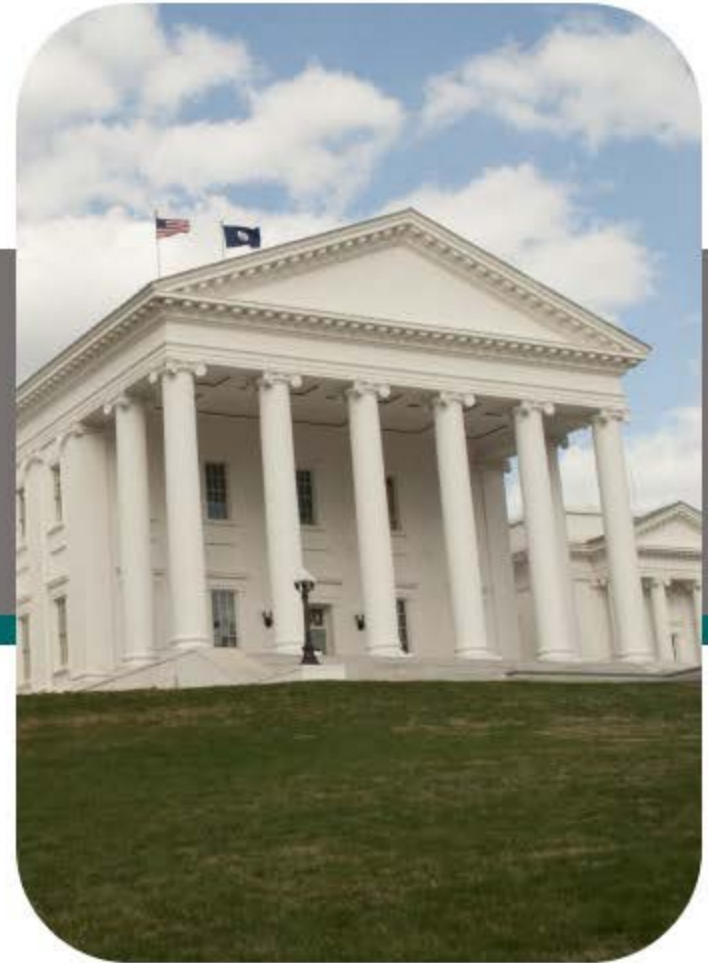
| Bill Number | Patron | Description |
|-------------|--------|---|
| HJ 543 | Helmer | Requests the Department of Social Services to study ways to increase participation in national service. In conducting its study, the Department of Social Services shall consider, among other things, offering retirement service credits for individuals who have completed a year of service in a national service program. |
| HJ 549 | Guy | Directs the Joint Legislative Audit and Review Commission to study the impact of COVID-19 on Virginia's public schools, students, and school employees, including, among other things, determining the impact of the COVID-19 pandemic on staffing levels, including the impact of teacher and school employee retirements and resignations on delivery of instruction and the ability of local school boards to fully staff their needs, employment levels, and local budgets. |
| SJ 308 | Lucas | |

Workers' Compensation Act

Description

Various proposed changes to eligibility in Workers' Compensation Act, such as changes to include COVID-19, hypertension or other diseases or conditions; could have impacts on disability retirement benefits, VSDP/VLDP and LODA benefits.

Budget



2021 Introduced Budget and Requested Amendments



| Item # | Description |
|--------|---|
| 145 | Reduction of FY21 and FY22 VRS retirement appropriation for the Teacher Plan, to reflect a reduction in membership and fewer funded SOQ positions and lower retirement costs. |
| 277 | \$100,000,000 to VRS in FY 2021 to reduce unfunded liabilities of the Teacher Plan and State HIC |
| 477 | Adjust funding for Line of Duty Act (LODA) premiums based on current enrollment |

2021 Member-requested Budget Amendments



Budget amendments without related bills

| Item # | Description |
|---------|---|
| 492 #1h | <p>Require Annual Report on LODA Eligibility Determinations- language only "H. The Virginia Retirement System shall report annually on or before January 1 to the Governor and the Virginia General Assembly the detailed aggregate of eligibility determinations for employees in accordance with § 9.1-400. This report shall tabulate claims data, types of injuries and associated costs with provided benefits. In accordance with § 9.1-408, the name of the employer or employee shall not appear in such publications and all documents to determine eligibility shall remain confidential."</p> <p>Explanation (This amendment requires the Virginia Retirement System to provide an annual report to the Governor and the General Assembly providing statistics and demographic details concerning Line of Duty eligibility determinations.)</p> |



Helping Members Plan for Tomorrow, Today