

VRS Overview

Compensation & Retirement Subcommittee
House Appropriations Committee

Presented by Patricia S. Bishop, VRS Director
January 22, 2024





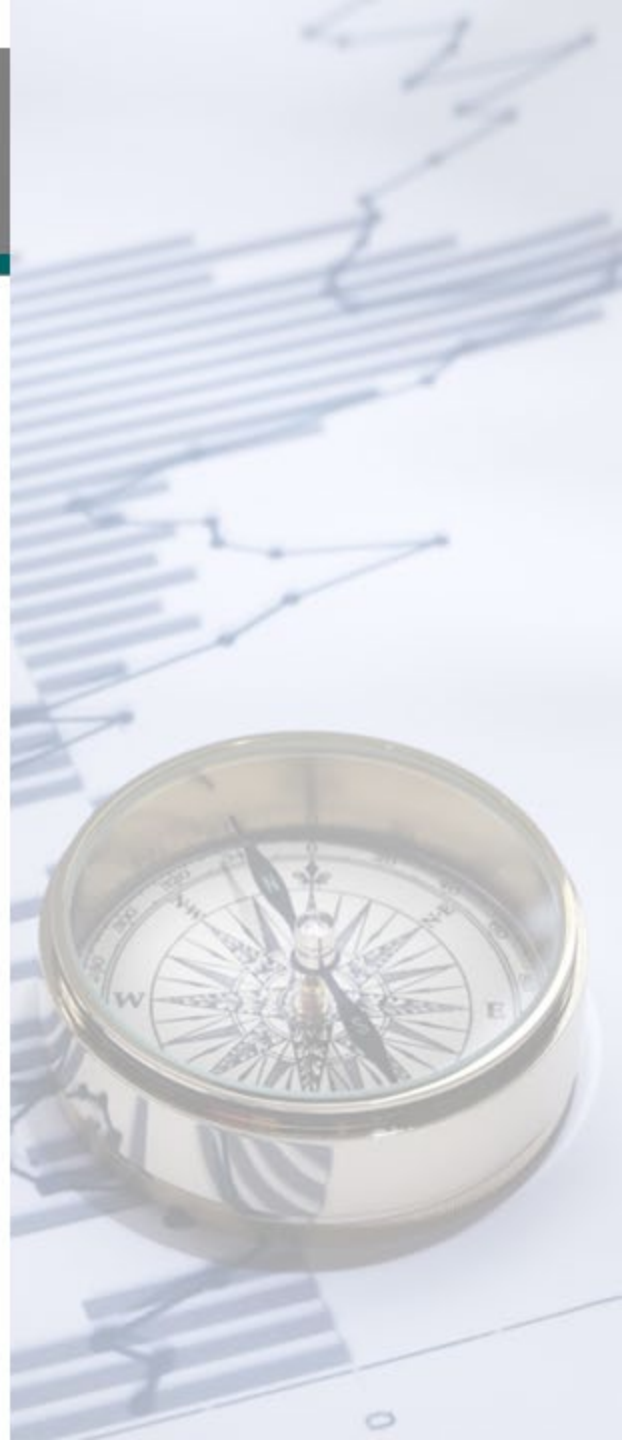
Serving Those Who Serve Others
Helping Members Plan
for Tomorrow, Today



Agenda



- VRS Overview
- Investments
- Contribution Rates and Funded Status
- Hybrid Retirement Plan
- Return-to-Work
- Summary
- 2024 Legislation





Virginia
Retirement
System

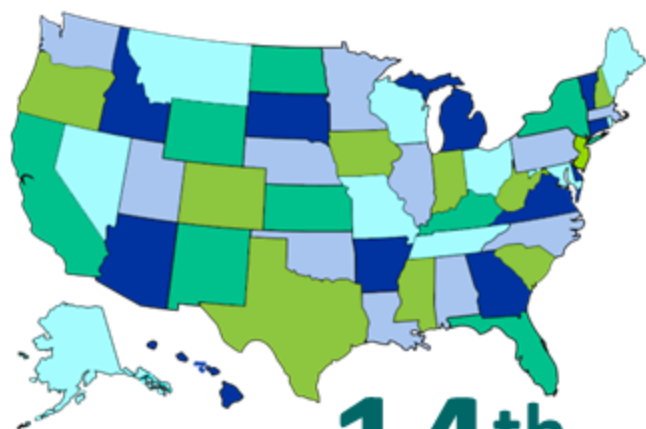
VRS Overview





801,226
active and retired members

As of June 30, 2023



14th largest

public or private pension system
in the United States*

42nd largest

public or private pension system
in the world**



* As ranked by *Pensions & Investments* in 2023

** As ranked by *Pensions & Investments* in 2022

VRS Total Membership as of June 30, 2023



	Plan 1	Plan 2	Hybrid	Total
Teachers	55,568	26,901	71,682	154,151
Political Subdivision Employees	31,794	31,047	50,598	113,439
State Employees	24,761	12,585	39,172	76,518
State Police Officers' Retirement System (SPORS)	919	949	—	1,868
Virginia Law Officers' Retirement System (VaLORS)	1,858	5,561	—	7,419
Judicial Retirement System (JRS)	141	42	273	456
Total Active Members	115,041	77,085	161,725	353,851

Total Active Members
353,851

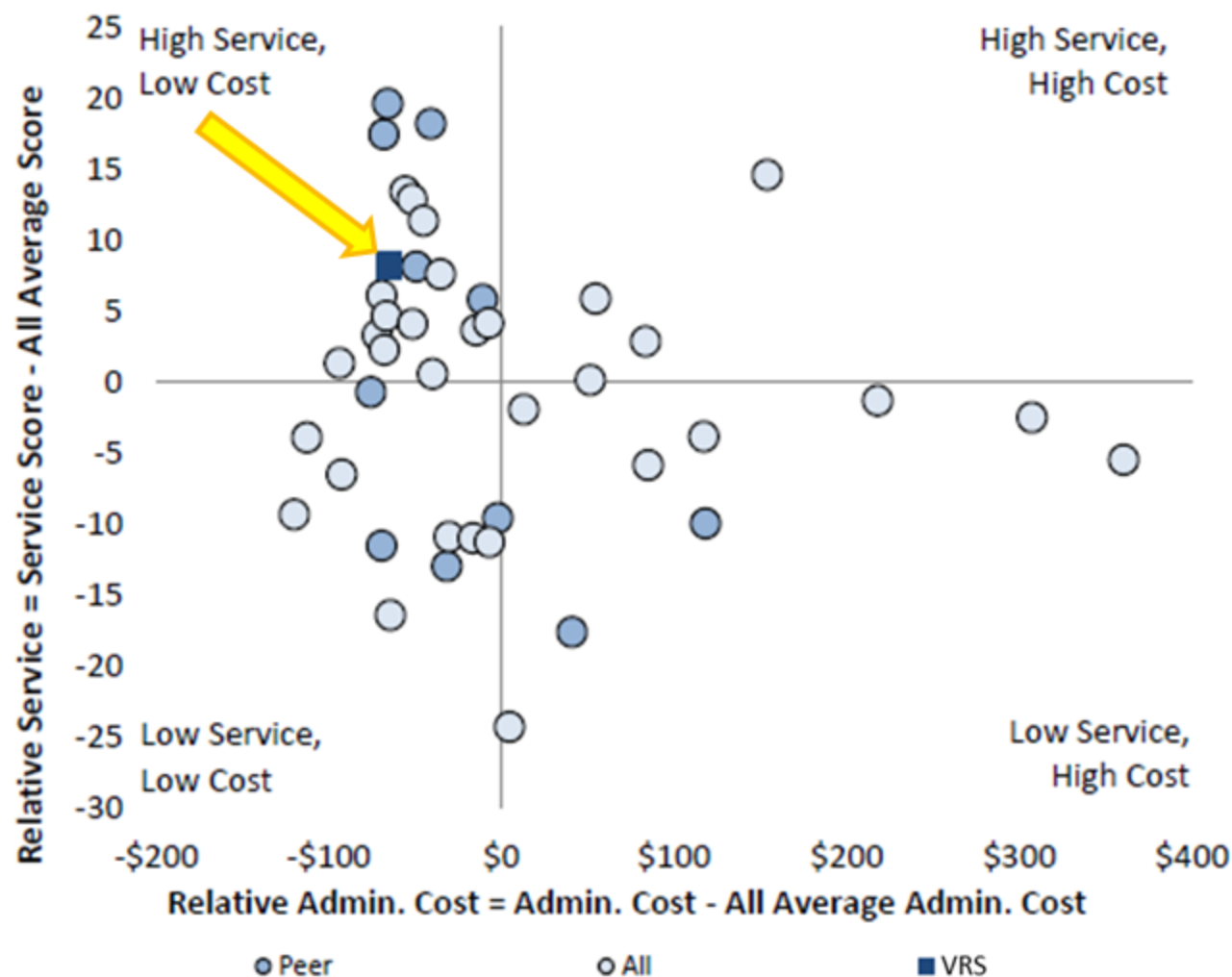
Retirees/
Beneficiaries
239,733

Inactive/Deferred Members
207,642

VRS Total Population
801,226

Service-Cost Relationship

Relationship between VRS service and pension administration cost



Pension Administration Cost

\$74
VRS
SCORE

\$113
PEER
AVERAGE
COST

Total Service Score

83
VRS
SCORE

78
PEER
MEDIAN
SCORE



Virginia
Retirement
System

Investments





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

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



Manage assets with care, skill, prudence and diligence

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

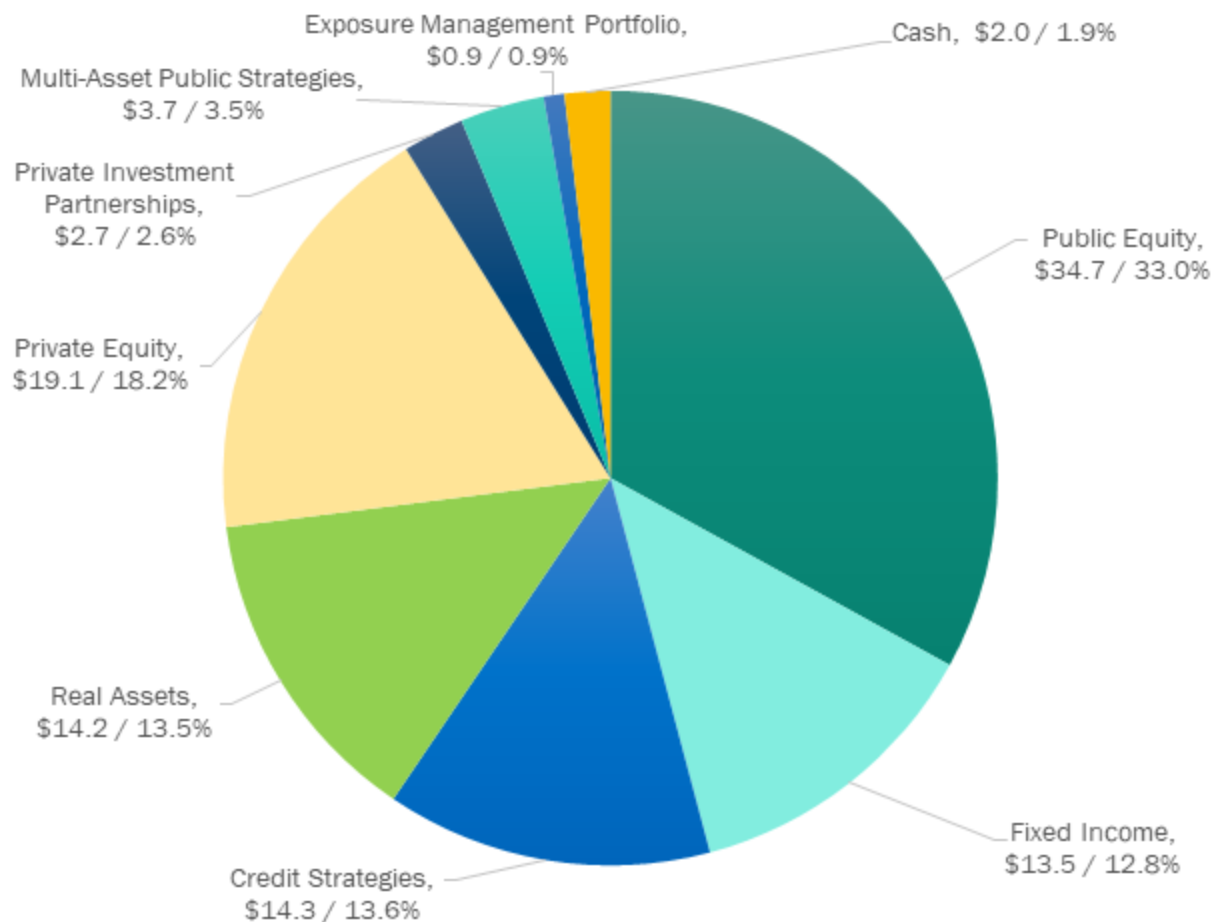


Maintain broadest possible opportunity set in the investment portfolio

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

Asset Allocation as of June 30, 2023

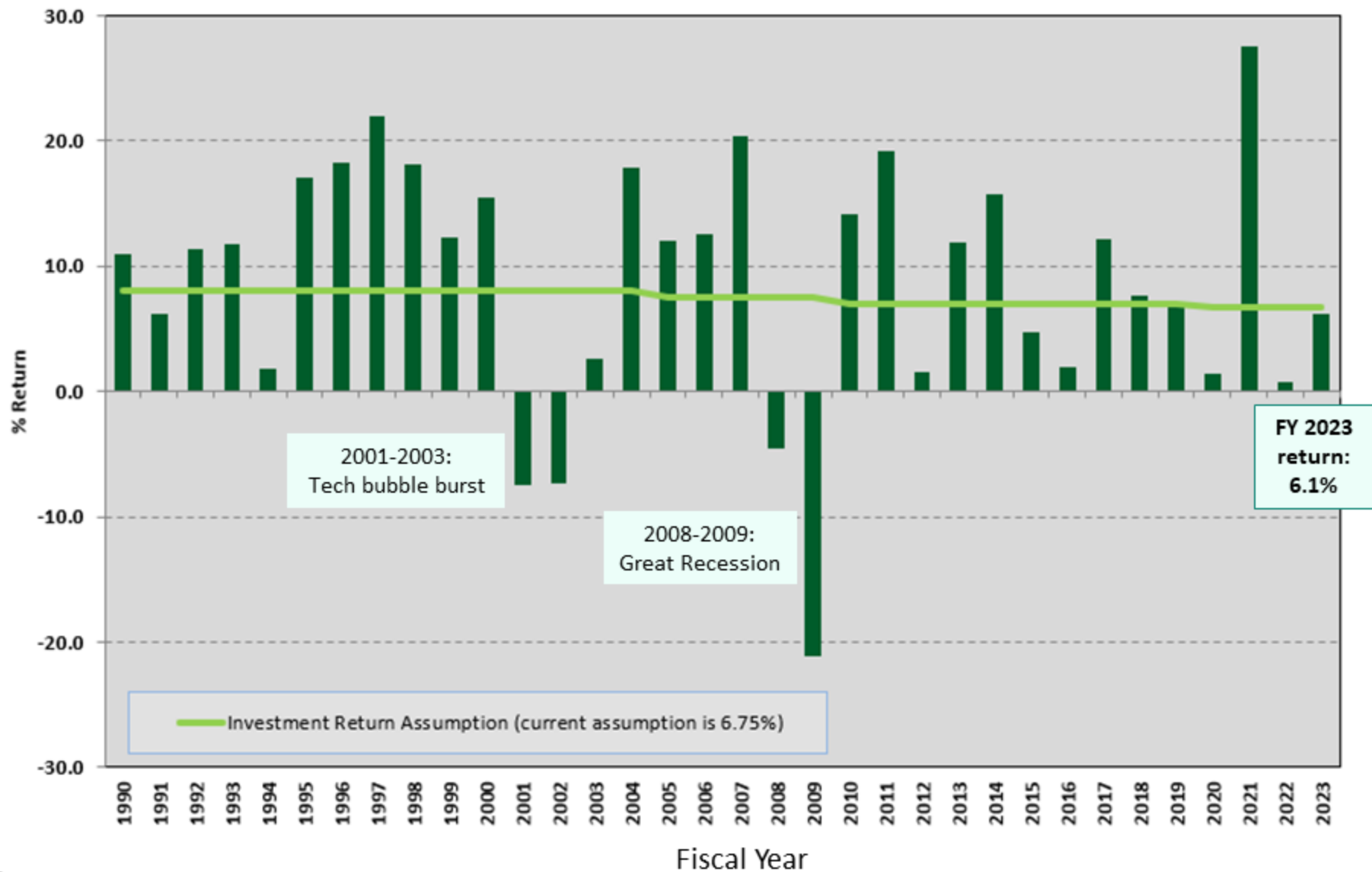
Total Fund Market Value = \$105.0 billion (Dollar Amounts in Billions/Percent of Total Fund)



Difference in totals are due to rounding.

Source: Bank of New York Mellon

VRS Fiscal Year Returns



VRS Invests for the Long Term

	VRS Return (as of June 30, 2023)
1-year	6.1%
3-year	10.8%
5-year	8.0%
10-year	8.2%
15-year	6.8%
20-year	7.9%
25-year	6.8%

Source: Bank of New York Mellon

Contribution Rates and Funded Status





- Contribution rates continue to remain fairly stable.



- Recent infusions and maintaining higher contribution rates have improved plan health and generated long-term savings.



- Meaningful positive steps taken, but unfunded liabilities remain.



- Hybrid Retirement Plan deploys a shared risk model and serves to lower future employer benefit costs.

Separate Payments for DB/DC

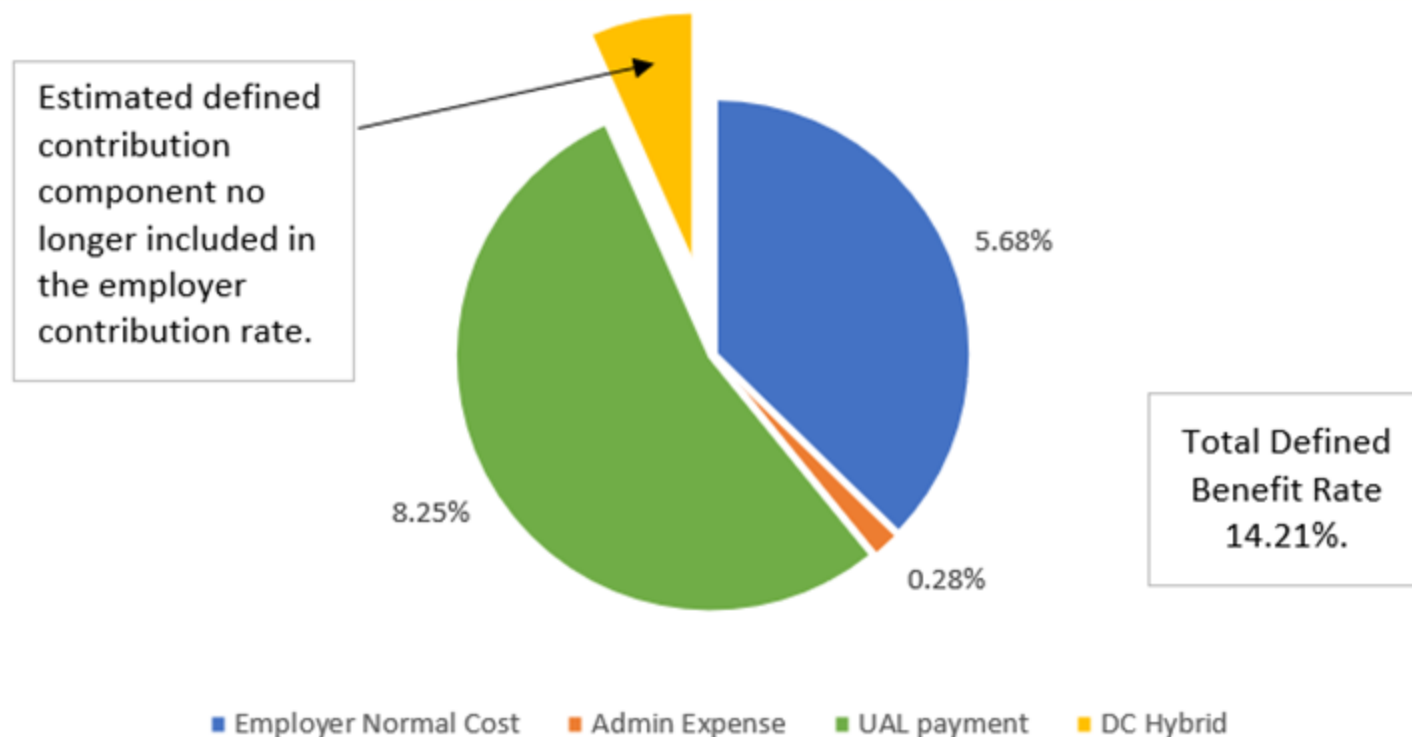
Beginning July 1, 2024,
employers will submit *separate* payments:

Remit defined benefit
contributions
for employees
in all plans
to **VRS**
each month



Remit defined contribution
amounts for hybrid plan
members
to **MissionSquare
Retirement**
each pay period

Employer Contribution Rate – Teacher Plan – Fiscal Years 2025 & 2026



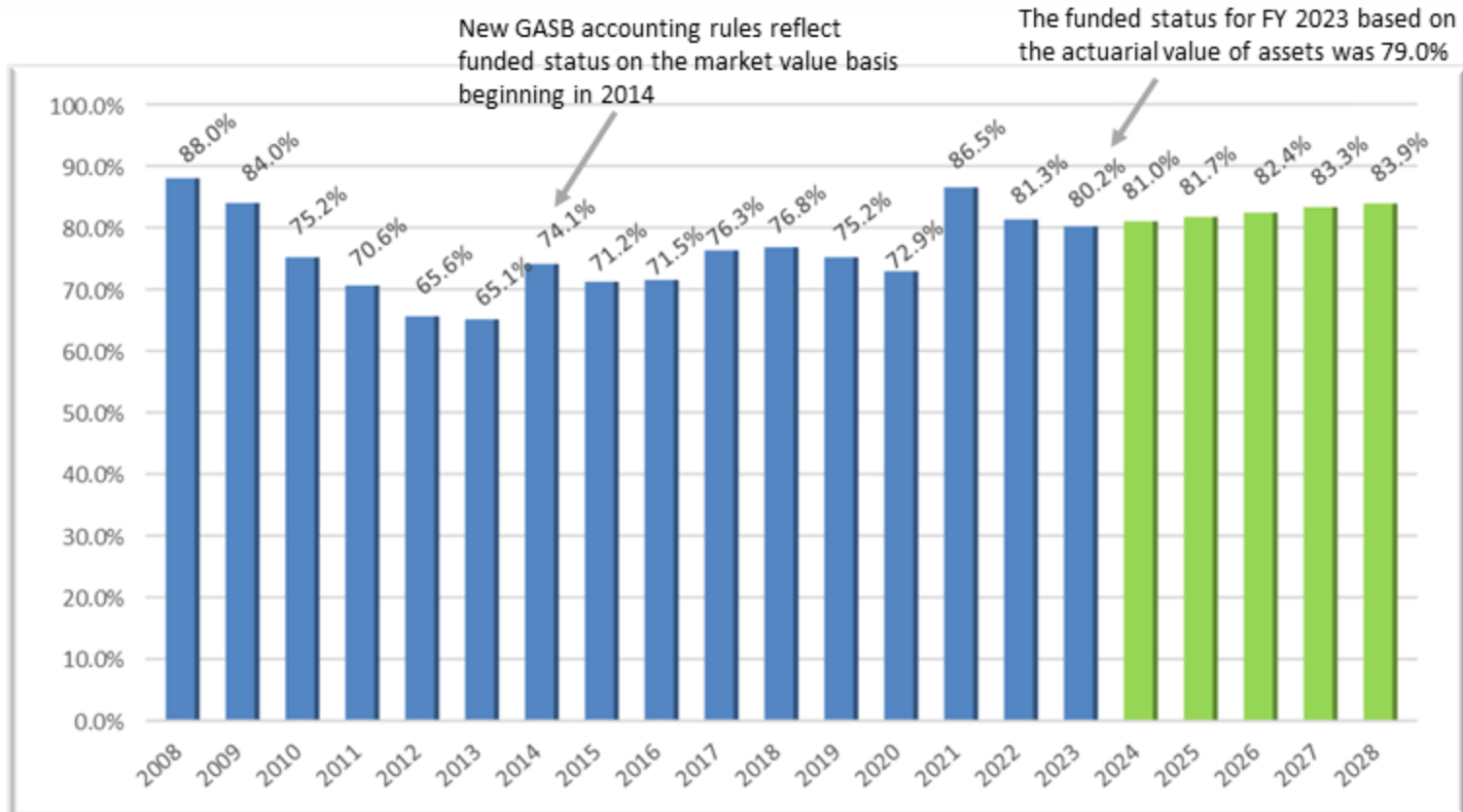
- Effective July 1, 2024, the Board-certified retirement contribution rate no longer includes an amount for expected contributions to the defined contribution component of the Hybrid Retirement Plan.
- In addition to paying the defined benefit rate shown above, the employer is also responsible for funding the employer contributions to the defined contribution plan on behalf of hybrid plan members which will be between 1.0% - 3.5% of a hybrid plan member's payroll depending on the match of employees' voluntary contributions.
- For budgeting purposes, VRS recommends that employers review their most recent MissionSquare remittance related to employer mandatory and matching contributions to the hybrid plan to determine the current funding amount.

VRS Employer Contribution Rates

Plan	FY 2023/2024	FY 2025/2026		
	DB + DC	Board Certified DB Only	Appropriation Act DB Only	Estimated DC
State	14.46%	12.52%	12.52%	1.35%
Teachers	16.62%	14.21%	14.21%	1.02%
SPORS	29.98%	31.32%	31.32%	N/A
VaLORS	24.60%	22.81%	24.60%	N/A
JRS	30.67%	30.66%	30.67%	2.24%

- *The Governor's budget provides higher rates for VaLORS and JRS than VRS Board-certified rates.*
- *The FY 2025-2026 board-certified employer contribution rates are only the defined benefit contribution rate. On July 1, 2024, VRS will separate the defined benefit and defined contribution rates for reporting purposes.*
- *Funding for the employer contributions to the defined contribution plan on behalf of hybrid plan members will be between 1.0% - 3.5% of a hybrid plan member's payroll depending on participant behavior and the employer match of employees' voluntary contributions.*

Funded Status: State



State Plan Unfunded Liability as of 6/30/2023

\$6.1 Billion using Actuarial Assets

\$5.8 Billion using Market Assets

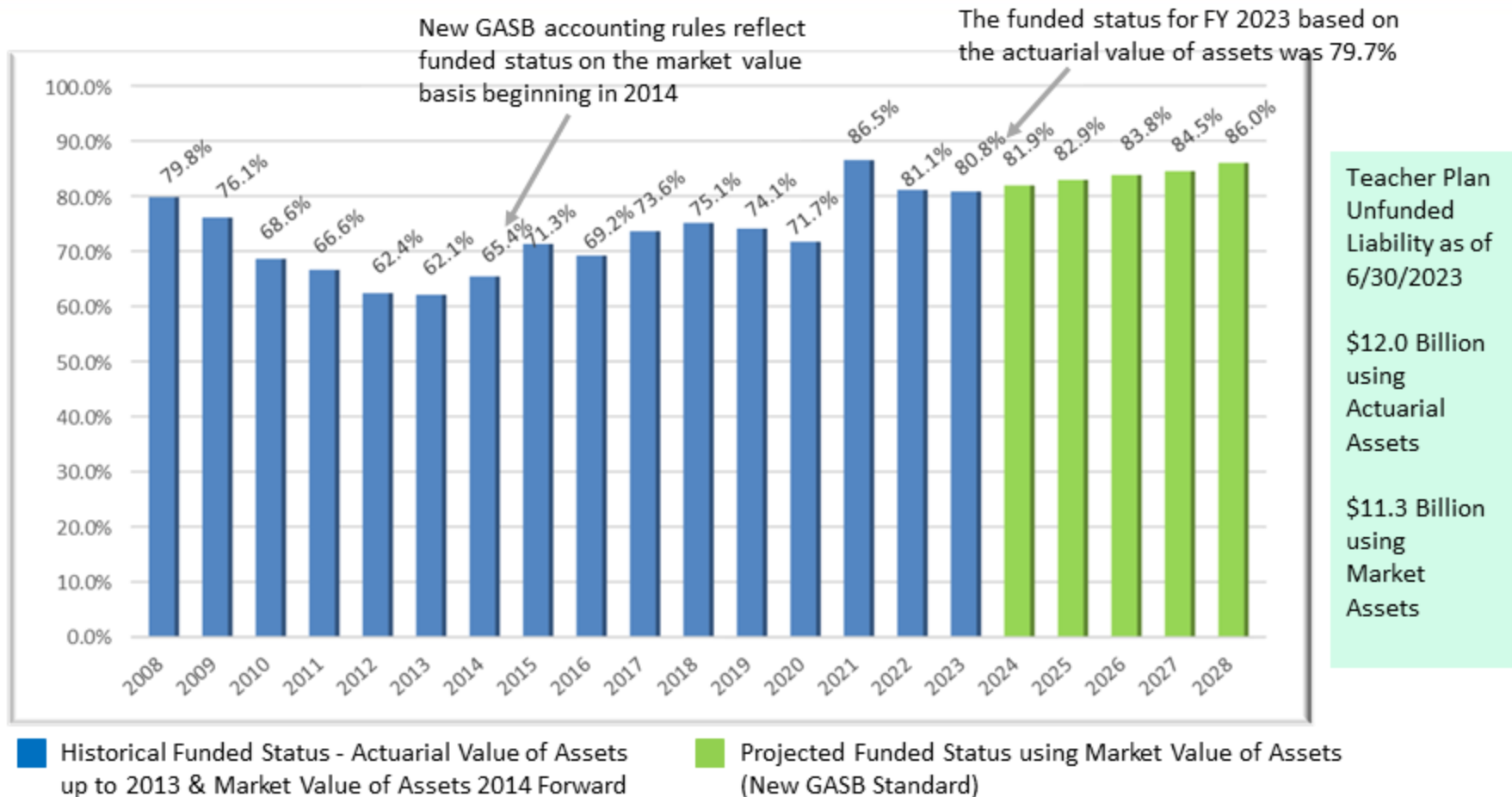
■ Historical Funded Status - Actuarial Value of Assets up to 2013 & Market Value of Assets 2014 Forward

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

Notes:

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

Funded Status: Teachers



Notes:

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

Other Post-Employment Benefits (OPEBs) Contribution Rates by Fiscal Year



Fiscal Year 2025/2026 Employer Contribution Rates

Plan	Board Certified	Appropriation Act
Group Life	1.18%	1.34%
HIC State	0.90%	1.12%
HIC Teachers	1.03%	1.21%
VSDP	0.50%	0.50%
HIC Locals in Aggregate	0.36%	0.36%
HIC Constitutional Officers	0.32%	0.36%
HIC Social Services	0.26%	0.37%
HIC Registrars	0.17%	0.32%
VLDP Teachers	0.45%	0.45%
VLDP Political Subdivisions	0.74%	0.74%

- *The Governor's budget provides higher rates for GLI and state-funded HIC plans than VRS Board-certified rates.*

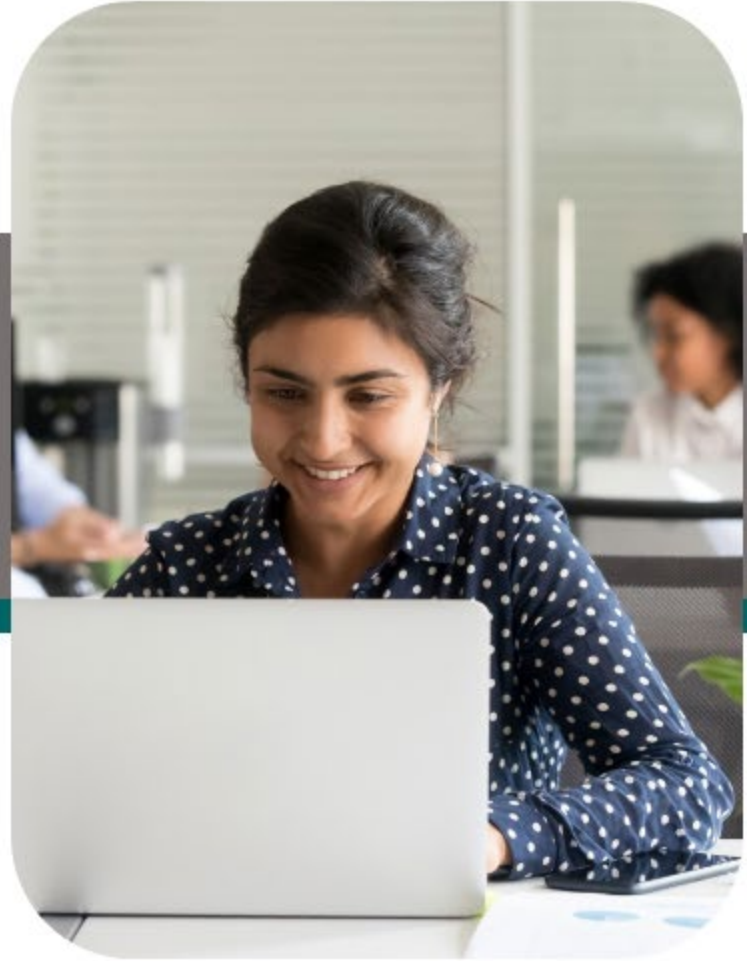
Unfunded OPEB Liabilities and Funded Status by Plan (Dollars in Thousands)



Unfunded OPEB Liabilities and Funded Status by Plan

System	2022		2023	
	UAAL based on AVA (Dollars in Thousands)	Funded Status	UAAL based on AVA (Dollars in Thousands)	Funded Status
Group Life	\$ 1,349,005	63.9%	\$ 1,357,720	66.2%
HIC State	\$ 802,184	21.8%	\$ 797,401	26.2%
HIC Teachers	\$ 1,237,047	15.1%	\$ 1,196,302	18.1%
VSDP	\$ (291,190)	198.6%	\$ (316,522)	202.2%

Hybrid Retirement Plan



Hybrid Retirement Plan

Hybrid Retirement Plan Member Profile as of October 1, 2023



168,116

**Active Hybrid Retirement
Plan members**



Largest Member Group

Teachers

76,215 members
(45%)



Median Salary

\$52,841

Median Age

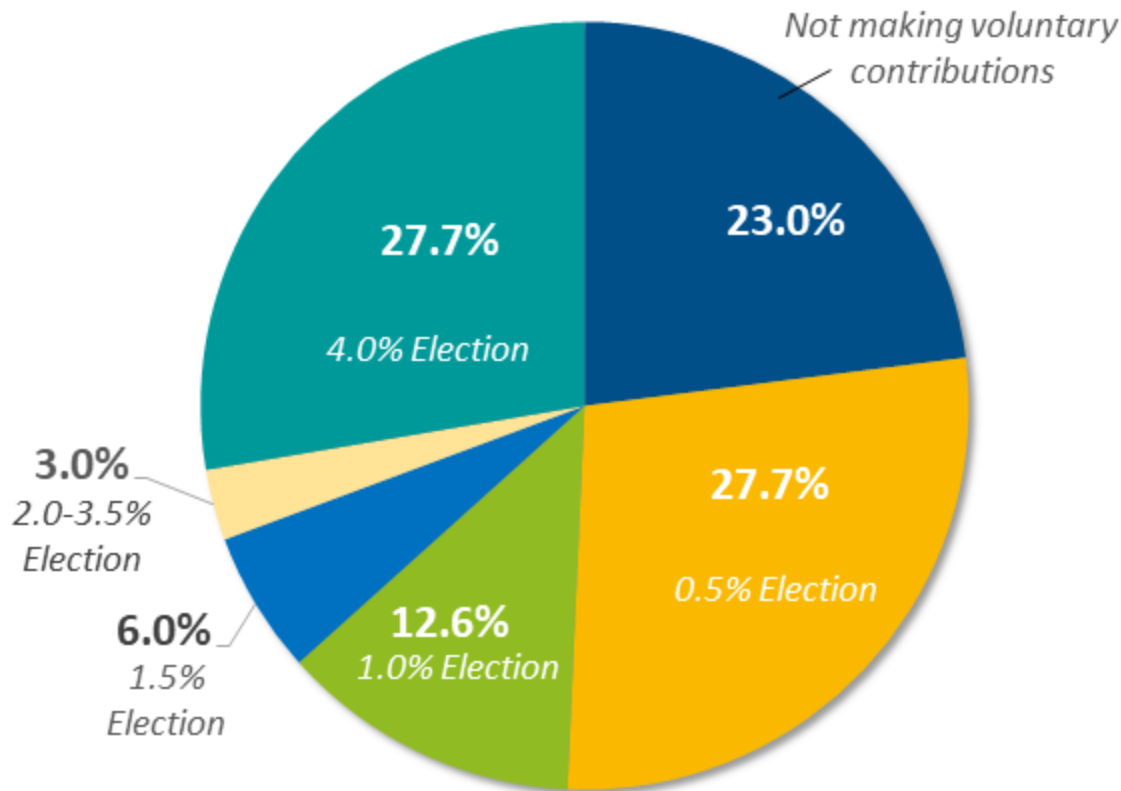
39 years old

Average Years in the Plan

2.95

Hybrid 457 Plan – Voluntary Participation

Voluntary contribution percentages for **all** current hybrid plan members effective October 1, 2023



Voluntary Contribution Percentages

■ 0.0% ■ 0.5% ■ 1.0% ■ 1.5% ■ 2.0-3.5% ■ 4.0%



Change allocation of member contribution:

- from 4% DB/1% DC
- to 3% DB/2% DC



Auto-enroll in voluntary contributions with an opt-out



Accelerate auto-escalation with an opt-out

Return-to-Work



VRS has a fiduciary responsibility to:



Ensure funds
are available
to pay future
benefits



Comply with the
Code of Virginia



Follow IRS rules
such as prohibiting
prearranged
employment
and requiring a
break-in-service,
along with
other rules



Retirees can return to work in **part-time positions** not covered by VRS benefits.

- **No more than 80% of the hours** of a full-time position
- **One-month break-in-service** if employee returns to same employer



Retirees can return to work in **critical shortage positions**.

- Retiree may work full-time
- Positions designated by the Department of Education or a school division based on certain criteria
- Critical shortage positions reassessed every school year



Retired law enforcement officers can return to work full time as school security officers and continue to receive a monthly retirement benefit.

Critical Shortage Positions (July 1, 2023)



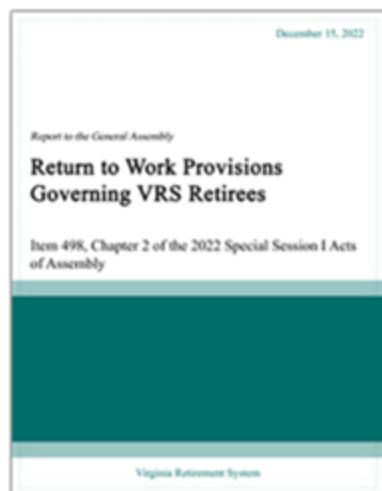
- Break-in-service requirements for critical shortage positions and retiree school security officers set to six months from 12 months.



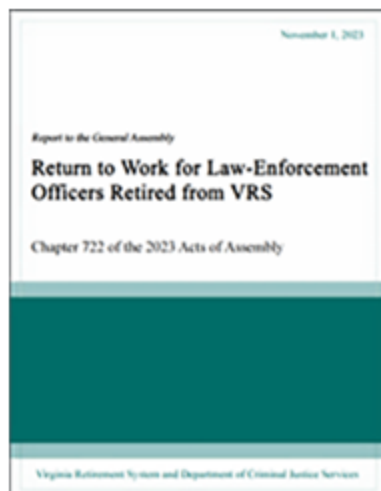
- Specialized student support critical shortage positions added.



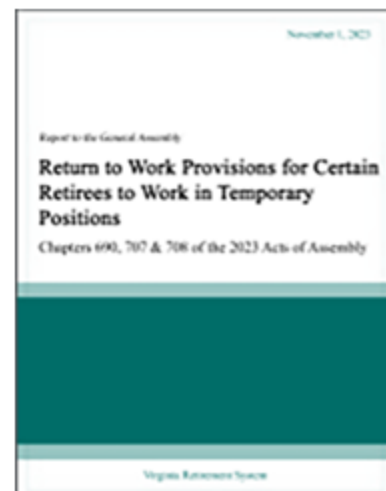
- Employers report critical shortage employees to VRS annually and submit employer contributions for these positions.



2022 Appropriation Act:
The full report is available at [RD856 \(Published 2022\) - Return to Work Provisions Governing Virginia Retirement System \(VRS\) Retirees – December 2022](#).



Nov. 2023 Report: VRS and DCJS, with JLARC, reviewed and analyzed options for allowing law enforcement officers to return to work after retirement while continuing to receive a retirement benefit. [RD578- Return to Work for Law-Enforcement Officers Retired from VRS- Ch. 722 of the 2023 Acts of Assembly- November 1, 2023 report](#)



Nov. 2023 Report:
VRS reviewed options for allowing persons to return-to-work in certain temporary positions during a break in service. [RD577- Return to Work Provisions for Certain Retirees to Work in Temporary Positions- Ch. 690, 707, and 708 of the 2023 Acts of Assembly- November 1, 2023](#)



- VRS return-to-work provisions generally align with other states and provide flexibility.
- IRS requires a complete severance of employment without a prearrangement of reemployment.
- Employers continuing payment of employer contributions is critical; helps moderate the impact of return-to-work programs on the Trust Fund.
- Retaining a break-in-service of sufficient length, such as six months, along with other provisions, helps meet the IRS facts and circumstances test.

Return-to-Work Law Enforcement Report Highlights



- Law enforcement officers are generally eligible for enhanced benefits: (i) early age and service retirement provisions, (ii) a higher retirement multiplier, and (iii) a hazardous duty supplement.
- Enhanced benefits were designed to (i) compensate for the risks, both physical and mental, experienced on the job by law officers and (ii) permit earlier retirement of officers before their ability to perform their duties declines.
 - “The purpose of providing enhanced retirement benefits to employees covered by the SPORS and VaLORS plans is to allow those employees to retire earlier due to the risks they encounter and duties they perform on behalf of the State.”
[RD48 \(Published 2012\) – Joint Legislative Audit and Review Commission, Review of Retirement Benefits for State and Local Government Employees - December 2011 \(virginia.gov\)](#)
- Discussion of return-to-work provisions could include these underlying rationales for the current enhanced benefits for law enforcement officers.



- Hybrid Retirement Plan is the largest active member plan.
 - Creates a shared risk model between employer and employee.
 - Lowered employer benefit plan costs.
- Contribution rates continue to remain fairly stable.
- Recent infusions and maintaining higher contribution rates have improved plan health and generated long-term savings.
- Meaningful positive steps taken, but unfunded liabilities remain.
- Any new plan design changes or benefit enhancements require careful consideration with respect to increasing liabilities and funding requirements.



**Helping members plan for tomorrow,
today**



Virginia
Retirement
System

2024 Legislation



2024 VRS-Related Bills

VRS

Bill Number	Patron	Description
HB 70 SB 458	Bulova Marsden	Allows purchase of prior full-time active-duty military service for members of any branch of the armed services established by the federal government (Space Force). Allows VRS to escheat DC plan accounts to Treasury.

Enhanced Benefits - Local

Bill Number	Patron	Description
HB 38	Clark	Makes local 911 dispatchers eligible to receive hazardous duty benefits upon local election; only applies to service after July 1, 2025; allows localities to also choose whether to provide the benefits for prior dispatcher service.
HB 300	Ballard	
HB 630	Cherry	
SB 328	Jordan	
SB 472	Obenshain	
HB 231	Campbell	Makes local animal control officers eligible to receive hazardous duty benefits upon local election; only applies to service after July 1, 2025.
HB 1438	Wiley	Makes juvenile detention specialists eligible to receive hazardous duty benefits upon local election.
SB 218	Locke	Makes local animal control officers and municipal park rangers eligible to receive hazardous duty benefits upon local election; only applies to service after July 1, 2025.

2024 VRS-Related Bills

Enhanced Benefits - VaLORS

Bill Number	Patron	Description
HB 631	Cherry	Adds VSP and other state law-enforcement agency 911 dispatchers to VaLORS for service after July 1, 2025.
HB 891 HB 1312	Kent Orrock	Adds Department of Conservation and Recreation conservation officers to VaLORS.
HB 675	Runion	Permits the Virginia School for the Deaf and the Blind to have a campus police department. Adds a new employer with existing VRS members to VaLORS if VSDB establishes a campus police department (they do have campus police staff).
HB 1401	Clark	Adds full-time firefighters employed by the Department of Military Affairs to VaLORS for service earned after July 1, 2025.

2024 VRS-Related Bills

Enhanced Benefits - General

Bill Number	Patron	Description
SB 130	Craig	Eliminates the end date for the HD supplement available to eligible members of VaLORS, SPORS, or for local enhanced benefits.

Line of Duty Act

Bill Number	Patron	Description
HB 232 HB 751 SB 466	Campbell Walker Obenshain	Allows private institutions of higher education to opt to participate in LODA for its campus police officers and allows private police departments to opt to participate in LODA for its private police officers.
HB 321 SB 649	McQuinn Salim	Increases the LODA death benefit from \$25,000 to \$100,000 for death caused by occupational cancer, respiratory disease, or hypertension or heart disease
HB 1433	Hodges	Provides that an eligible dependent includes a child that was born or adopted prior to the employee's claim approval date for purposes of an award of continued health insurance under LODA.

2024 VRS-Related Bills

Return-to-Work

Bill Number	Patron	Description
HB 99 HB 1393	Green Jones	Allows retired law-enforcement officers to return to work as a law-enforcement officer after six-month break in service; employer must pay contributions.
SB 548	Craig	One-month break in service for retirees to return to work as a teacher, school administrative employee, or school bus driver in a critical shortage position or as a law-enforcement officer; employer must pay contributions.

2024 VRS-Related Bills

Service Credit

Bill Number	Patron	Description
HB 687 SB 622	O'Quinn Pillion	Allows a full-time public school teacher who concurrently serves as a full-time school bus driver to receive additional VRS service credit for such services.

Judicial Retirement System

Bill Number	Patron	Description
SB 396	McDougle	Raises the retirement multiplier from 1% to 1.7% for persons appointed on or after July 1, 2025, as a judge if age 55 or older at time of appointment.

2024 VRS-Related Bills

Investments

Bill Number	Patron	Description
HB 388	Griffin	Prohibits VRS from making a social investment (an investment based on diversity, equity and inclusion criteria), unless it can demonstrate that the investment will provide a superior rate of return compared to a similar non-social investment.
SB 307	McPike	Primarily an electronic gaming device licensing bill.

2024 VRS-Related Bills

Data Reporting

Bill Number	Patron	Description
HB 655 SB 645	Coyner Aird	Requires the Auditor of Public Accounts to develop criteria for a preliminary determination that a locality may be in fiscal distress.
HB 162	Reid	Requires retirement systems to provide procurement disclosures for all services (or just investment services) provided to the system. Intended to impact school divisions regarding 403(b) plan providers.

2024 VRS-Related Bills

Workgroup/Study

Bill Number	Patron	Description
HB 133 SB 650	Convirs- Fowler Rouse	Creates the Emergency Response Toxic Exposure Grant Fund & Program and includes VRS in the work group to consider eligibility, qualifying emergencies, administration, and investments. Due November 1, 2024.
HJ 53 HJ 56 SJ 9	Batten Cordoza Sturtevant	JLARC study on effect of salaries, employment benefits and other relevant factors on recruiting and retaining teachers.