Biennial VRS Status and Semi-Annual Investment Report December 2014

Profile: Virginia Retirement System Investments as of September 30, 2014

Market value of assets: $65.5 billion

Number of external managers
- Public Equity – 29 managers
- Fixed Income – 0 managers
- Credit Strategies – 26 managers
- Real Assets – 36 managers
- Private Equity – 68 managers
- Strategic Opportunities – 3 managers

Total return on investments

10 years	5 years	3 years	1 year
7.3%	10.1%	12.4%	10.9%

VRS custom benchmark

10 years	5 years	3 years	1 year
6.7%	9.4%	11.8%	10.3%

Number of VRS investment department staff: 70 authorized FTEs (8 vacant)

FY 2014 External and other investment expenses: $333.0 million (50.4 basis points of the total fund)

FY 2014 Investment department operating expenses*: $25.6 million (3.9 basis points)

Investment policy indicators as of September 30, 2014

	Asset allocation	*Asset allocation (% of asset class)*		*Type of management (% of asset class)***	
Asset Class	**% of total assets**	**Domestic**	**Non-U.S.**	**External**	**Internal**
Public Equity**	43.1%	49.0%	51.0%	66.1%	33.9%
Fixed Income	18.5	100.0	0.0	0.0	100.0
Credit Strategies	18.3	80.0	20.0	100.0	0.0
Real Assets	10.4	82.0	18.0	95.3	4.7
Private Equity	8.1	80.7	19.3	100.0	0.0
Strategic Opportunities	0.6	71.0	29.0	100.0	0.0
Cash	1.0	n/a	n/a	100.0	0.0

* Includes allocated overhead expenses.
** Past biennial reports and semi-annual investment reports have presented percentage of external and internal accounts.

Introduction

The Virginia Retirement System (VRS) administers several retirement plans for employees of state and local governments. The two largest plans are the State Employees Plan and the Teachers Plan. Other plans include those for state police officers (SPORS), other Virginia state law officers (VaLORS), judges (JRS), and individual retirement plans for 583 local political subdivisions. VRS manages several other programs in addition to the retirement plans. These include life insurance, sickness and disability programs, and other post-employment benefit programs, such as the retiree health insurance credit program.

VRS serves approximately 645,000 members. As of June 30, 2014, the active membership included 145,421 teachers, 105,374 local government employees, and 90,704 state employees and judges. VRS provided benefits to 177,126 retirees and beneficiaries. In addition, there were 126,243 inactive and deferred members. In fiscal year (FY) 2014, VRS paid $4.3 billion in retirement and other benefits. The retirement system ranks as the nation's 21st largest public or private pension fund.

The Virginia Retirement System Oversight Act (§ 30-78 et seq. of the Code of Virginia) directs the Joint Legislative Audit and Review Commission (JLARC) to provide continuing oversight of VRS, including the preparation of biennial status and semi-annual investment reports. This report includes both the semi-annual investment report for December 2014 and the ninth biennial status report.

Semi-Annual Investment Report

This section of the report provides an overview of the performance of VRS investments as of September 30, 2014, as well as noteworthy changes or initiatives undertaken in the investment department. These include the implementation by the Board of Trustees of a new asset allocation policy, efforts by VRS to increase assets under internal management, and the implementation of a revised compensation policy for VRS investment professionals.

Overview of VRS investment department performance

VRS pays retirement and other benefits to members and their beneficiaries out of the VRS trust fund. As of September 30, 2014, the VRS trust fund held $65.5 billion in assets. For the one-year period from October 1, 2013 to September 30, 2014, the fund achieved a return of 10.9 percent and increased in value by $5.3 billion. External investment expenses in FY 2014 of $333.0 million were $22.3 million greater than expenses for FY 2013. Investment department operating expenses of $25.6 million were $4.4 million higher.

The investment performance of the total trust fund and its individual asset classes have largely outperformed the benchmarks adopted by VRS. The total fund's performance exceeded its benchmark in the one-, three-, five-, and 10-year periods ending September 30, 2014, and has matched the benchmark in the fiscal year-to-date period. Although VRS has largely met or exceeded performance benchmarks, the total fund experienced a small negative return in the first quarter of FY 2015. This was mainly due to weak performance by non-U.S. public equities and

Table 1: Investment performance for period ending September 30, 2014

Program / Performance objective	Fiscal year to date	1 year	3 years	5 years	10 years
Total Fund	−0.1 %	10.9 %	12.4 %	10.1 %	7.3 %
VRS Custom Benchmark	−0.1	10.3	11.8	9.4	6.7
Total Public Equity	−1.2	12.4	17.2	11.2	7.6
Benchmark	−1.3	11.6	16.7	10.4	7.2
Total Investment-Grade Fixed Income	0.1	4.3	3.4	5.3	5.2
Benchmark	0.2	3.9	2.7	4.1	4.8
Total Credit Strategies	−0.9	8.0	10.1	9.2	6.7
Benchmark	−1.1	7.2	8.8	7.6	5.9
Total Real Assets	2.6	13.6	13.3	12.8	9.4
Benchmark	1.8	10.8	11.9	10.5	9.0
Total Private Equity	5.0	24.7	15.5	16.7	14.8
Benchmark	4.9	24.9	17.1	20.7	10.2
Strategic Opportunities	0.3	2.2	n/a	n/a	n/a
Benchmark	0.0	1.7	n/a	n/a	n/a

Source: VRS investment department data, 2014.

certain credit strategies. Despite this recent performance, each of the individual asset classes in the trust fund provided positive returns and outperformed its respective benchmarks for the 10-year period ending September 30, 2014 (Table 1).

Public equity. The public equity program continues to be the largest VRS asset class, constituting 43.1 percent of the portfolio at $28.2 billion. This program consists of equity capital securities, such as stocks, which are invested in publicly traded companies. Public equity investments are typically higher risk investments relative to bonds that are expected to provide long-term capital growth and inflation protection. Both of these expectations assume a long-term time horizon. VRS staff cautioned that the program may not perform as well as the public market overall in periods of substantial gains because the program has more exposure to higher quality stocks, and therefore more stable stocks, than the market as a whole.

For the period ending September 30, 2014, the public equity program outperformed its benchmark for all periods. The public equity program achieved a one-year return of 12.4 percent, 80 basis points greater than its benchmark for that period. Over the 10-year period, the public equity program exceeded its benchmark by 40 basis points. Public equity is the only asset class with the majority of its investments in non-U.S. holdings. Approximately one-third of this program's assets are managed internally.

Investment-grade fixed income. The second largest VRS asset class, the fixed income program, accounts for $12.1 billion of the trust fund's assets, or 18.5 percent of the portfolio as of September 30, 2014. The fixed income program consists of securities that pay a specific interest rate, such as bonds and money market instruments. For the period ending September 30, 2014, the program outperformed its benchmark for all periods except for the fiscal year-to-date period, where it has underperformed by 10 basis points. All of the fixed income assets are invested in U.S. dollar denominated securities.

VRS has steadily increased the internal management of the fixed income portfolio, reaching 100 percent of accounts managed internally as of March 31, 2014. By comparison, only 49.1 percent of fixed income assets were managed internally as of March 31, 2012. VRS plans to continue managing 100 percent of the fixed income portfolio internally for the foreseeable future.

Credit strategies. The third largest VRS asset class, the credit strategies program, held $12.0 billion in assets, or 18.3 percent of the total fund, as of September 30, 2014. The VRS credit strategies program includes investments in broad sub-categories such as rate sensitive, non-rate sensitive, emerging market, and convertible bonds. According to VRS staff, credit strategies are expected to provide good risk-adjusted returns relative to traditional stock and bond investment options. The credit strategies program outperformed its established benchmark in all periods measured by VRS as of September 30, 2014. The majority of VRS's credit strategies (80 percent) are invested domestically, and all accounts are managed externally.

Real assets. The total value of the VRS real assets portfolio as of September 30, 2014, was $6.8 billion, or 10.4 percent of the total fund.* The real assets program includes investments in real estate and infrastructure, as well as natural resources such as timber. This asset class outperformed its benchmark for all periods ending September 30, 2014. The majority of the real assets portfolio (82 percent) is invested domestically, and most accounts are managed externally.

Private equity. As of September 30, 2014 private equity constituted 8.1 percent of the total fund, or $5.3 billion.* Private equity is an alternative to traditional public equity and consists of equity securities for companies that are not listed on public exchanges. Through active equity management, VRS expects to earn a meaningful return on its private equity investments. The private equity program earned higher returns than the public equity program in all but the three-year period ending September 30, 2014.

Other than the fixed income program, private equity was the only program that did not outperform its benchmarks for all of the periods measured by VRS as of September 30, 2014. Specifically, the private equity program's performance exceeded its benchmark in the fiscal-year-to-date and 10-year periods, but underperformed for the one-, three-, and five-year periods ending September 30, 2014. VRS investment staff indicated that private equity tends to lag its benchmark (public stocks plus a margin) in strong public market periods. Most of VRS's private equity assets (80.7 percent) are invested domestically, and all private equity assets are currently managed externally.

*Performance figures for the real assets and private equity programs do not reflect managers' actual valuations of these investments as of September 30, 2014, because this data is subject to lags in reporting inherent in private investments. Instead, performance figures are based on valuations as of June 30, 2014, adjusted for cash flows during the quarter that ended September 30, 2014.

Strategic opportunities. The strategic opportunities portfolio, created in 2012, represents investments that have a compelling potential for competitive returns but do not fit neatly into the five asset classes described above. As of September 30, 2014, the portfolio held $387 million in assets. Individual investments in this portfolio include a global asset allocation hedge fund, a currency management investment, and a joint venture in commercial mortgages. As of September 30, 2014, the strategic opportunities portfolio outperformed its benchmarks for the one-year and fiscal year-to-date periods, which were the only periods in which current investments in the asset class have been active.

VRS is phasing in a new asset allocation policy

VRS is in the second year of a five-year phase-in to a new asset allocation policy for the trust fund. The VRS board adopted the new asset allocation policy following a review, conducted in conjunction with an outside consultant, of its long-term investment objectives, policies, and risk tolerance. The board expects that the new asset allocation policy will allow the VRS portfolio to achieve slightly higher returns at similar risk levels compared to the previous policy.

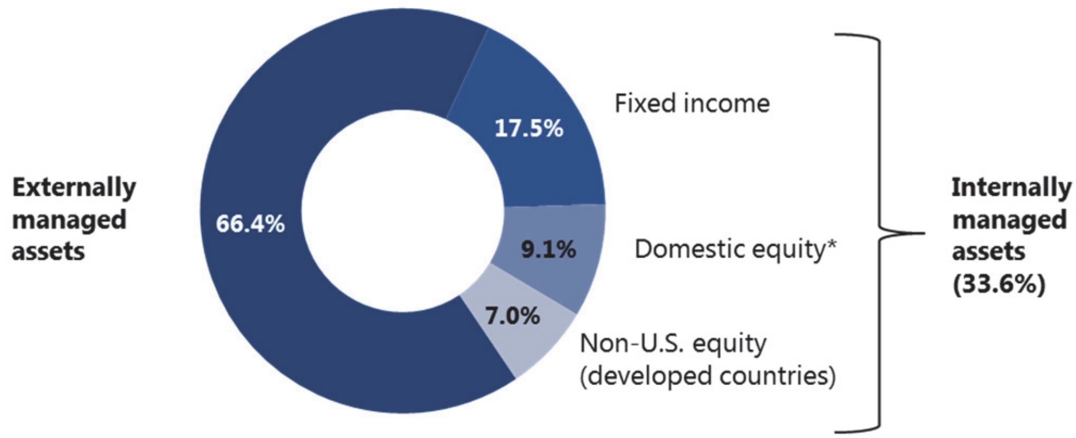
The new asset allocation policy reflects an increase in the proportion of assets allocated to private equity and real assets, and a decrease in the allocation to fixed income and credit strategies. To achieve the new asset mix, the board approved annual targets to be phased in over five years. In June 2014, the board modified its year-two target for private equity (Table 2). The trust fund allocations as of September 30, 2014 currently fall within the allowable range of their year-two targets.

Table 2: Progress made toward new asset allocation

Asset class	Actual allocation	Target year-two allocation*	Target final allocation*
Public equity	43.1%	42.0%	42.0%
Fixed income	18.5	18.5	15.0
Credit strategies	18.3	19.0	15.0
Real assets	10.4	11.5	15.0
Private equity	8.1	8.0	12.0
Strategic opportunities	0.6	0.0	0.0
Cash	1.0	1.0	1.0

Source: Board minutes from December 2012 and February 2013, and VRS investment department data, 2014.
* The year-two target is the allocation to be achieved by the end of FY 2015. The year-two targets for three asset classes were modified in June 2014 to accommodate caution by external managers in making investments in what has become an expensive market environment for private equity. The private equity target was reduced from 9.5% to 8.0% and two other targets were temporarily increased to offset the reduction (credit strategies increased from 18.0% to 19.0% and fixed income increased from 18.0% to 18.5%). The allowable ranges from target are ±5% for public equity, credit strategies, real assets and private equity and –1% to +4% for cash. Fixed income is allowed to range from 15% to 23.5% of the trust fund. Although there is no target allocation for strategic opportunities, it is allowed to be up to 3% of the total fund.

Figure 1: VRS internally and externally managed assets



Source: VRS investment department data, 2014.
* Internally managed domestic equity includes one real asset investment, Monroe REIT Account, valued at $86.8 million. This investment represented 0.4 percent of internally managed assets.

VRS continues to increase assets under internal management, which reduces fees paid to external investment managers

VRS relies on both internal and external managers to invest the trust fund's assets. Several years ago, the VRS board authorized the expansion of its internal asset management group and research support staff. The shift toward greater internal management is intended to provide substantial cost savings to the trust fund by reducing fees paid to external managers while maintaining a high level of return relative to benchmarks.

VRS began increasing the internal management of its fixed income and public equity portfolios in 2010. This involved expanding the VRS internal asset management staff from 10 to 15 investment professionals and doubling the value of internally managed assets. In FY 2010 only $11.7 billion in total assets, or 24.5 percent of the VRS trust fund, was internally managed. By the end of FY 2014, the entire fixed income portfolio and over a third of public equity assets were internally managed. This represented a total of $22.2 billion in assets, which was approximately 33.6 percent of the total trust fund (Figure 1).

VRS staff indicated that the shift toward greater internal management of assets has resulted in substantial cost savings while continuing to provide a high level of return relative to benchmarks. VRS staff estimated that approximately $21 million is saved annually by managing assets internally instead of paying fees to outside managers. These annual savings remain in the fund to be reinvested, which compounds the savings over time. Internally-managed investment portfolios outperformed their benchmarks for the one-, three-, and five-year periods ending June 30, 2014. Most recently, internally managed public equity assets provided a return of 23.9 percent in FY 2014, which was 220 basis points above the benchmark. Fixed income assets provided a 4.9 percent return, which was 60 basis points above the benchmark.

VRS staff are considering increasing internal management of assets as new opportunities arise. In addition to potentially expanding internal management of public equities, VRS staff are exploring whether to internally manage cash, certain credit strategies, and a small portion of private market investments. However, VRS staff plan to continue relying on external managers to handle a substantial portion of the trust fund's assets for the foreseeable future.

VRS revised policy for compensating investment staff

VRS employs investment professionals to manage and oversee the trust fund's asset portfolios. In addition to receiving an annual salary, these professionals have historically had the opportunity to receive cash incentive awards (bonuses) tied to the performance of VRS investments. The use of incentive awards as a regular component of an employee's annual compensation is a standard practice in the finance industry. Forty-four VRS employees, or three-fourths of the positions in the investment department, were eligible to receive incentive awards as part of their total cash compensation in FY 2014.

Compensation policy was revised to better tie incentive awards to investment performance and total cash compensation targets.

The VRS compensation policy for investment professionals is structured on the principle that total cash compensation (the sum of salary plus incentive awards) should equal the median of a peer group of public and private investment professionals. This "target compensation" goal is set forth in the compensation policy approved by the VRS board. Each VRS investment position has its own target compensation dollar amount based on a weighted average of compensation for peer investment professionals in similar positions. The target compensation dollar amounts are reviewed every two years by an outside consultant.

The incentive award component of total cash compensation is intended to encourage high levels of performance. Incentive awards are generally expected to be higher in years when investments perform well and lower in years when investments underperform. The amount of total cash compensation paid to an employee in a given year may lag or exceed target compensation based on whether investment performance resulted in a large or small incentive award.

In 2013, the board revised the compensation policy and restructured how incentive awards are determined. This was done in response to concerns raised by JLARC staff that incentive awards were not clearly tied to investment performance, resulting in VRS investment professionals receiving similar incentive awards regardless of whether investments outperformed benchmarks or provided a large or small absolute return. The revised compensation policy improves upon the former by tying incentive awards directly to investment performance through a clearly defined formula.

Compensation provided under the revised policy appears appropriate, but should be monitored to ensure alignment with long-term goals.

The incentive awards paid under the revised compensation policy have been larger than those made under the prior policy. The overall amount of incentive awards provided to staff grew from $3.7 million in FY 2012 to $4.5 million in FY 2013 and $5.9 million in FY 2014. The increase was partly attributable to the hiring of eight new investment professionals, which increased the number of staff eligible for awards. However, a large portion of the increase was due to the new approach used to calculate the awards. The award amounts are now calculated based mostly on investment performance, and most investments have outperformed their benchmarks by wide margins in the two years since the policy was implemented. The trust fund also experienced a large absolute return in both years. This strong performance has resulted in large individual incentive awards for many investment professionals, especially in FY 2014.

Due to relatively large incentive awards, most VRS investment professionals have been paid total compensation (salary plus incentive awards) above their target compensation levels in each of the past two years. The total cash compensation paid was estimated to be 10 percent above target compensation in FY 2013 and 20 percent above target for FY 2014. Investment professionals in management positions were awarded larger incentives, both by dollar amounts and percent of total cash compensation, than other investment professionals. A greater portion of the compensation paid to management is provided through incentive awards because management are assumed to have a greater influence on investment performance. Due to these larger incentive awards, almost half of management positions received total compensation that was more than 30 percent above their respective target total compensation amounts in FY 2014.

The relatively high levels of compensation paid under the new policy appear reasonable given recent investment performance. Most investments outperformed their benchmarks, and the overall trust fund provided a large absolute return in each of the past two years. VRS staff indicated that smaller incentive awards, and relatively lower total compensation, will be provided in years when investments perform closer to benchmarks and overall returns are not as strong as those recently experienced.

Although compensation paid under the revised policy appears reasonable, long-term trends should be monitored to ensure that the cash paid to investment professionals aligns with VRS's stated compensation goals. If investments regularly outperform their benchmarks by a large margin, and the fund continually provides a large positive return, VRS investment professionals will consistently be paid above their targeted compensation goals. If this occurs, VRS should examine whether appropriate benchmarks and performance thresholds are being used to determine the incentive award component of compensation. Additionally, if management positions appear to be consistently paid at levels that greatly exceed their targets, VRS should examine whether the methodology used to calculate management incentive awards should be adjusted.

VRS has implemented new Hybrid Retirement Plan and changes to Plan 2 membership

The 2012 General Assembly enacted two major changes to the structure of the VRS retirement plans. The purpose of these changes was to reduce future state and local costs and liabilities. First, legislation changed membership in the VRS "Plan 1" and "Plan 2" groups within its traditional defined benefit plans. Plan 1 members who had fewer than five years of service as of January 1, 2013, and were therefore not yet vested, were moved into Plan 2. Plan 2 provides similar but slightly less generous benefits than Plan 1. Second, legislation created a new Hybrid Retirement Plan for most state and local employees hired on or after January 1, 2014. This new plan combines elements of a traditional defined benefit pension with a 401(k)-style defined contribution plan. Only members of the State Employees, Teachers, JRS, and local political subdivision plans are eligible for the Hybrid Plan. Members of the enhanced benefit plans for public safety employees (SPORS, VaLORS, and local plan members receiving enhanced hazardous duty benefits) remain in traditional defined benefit plans. Table 3 summarizes the characteristics of the Plan 1, Plan 2, and Hybrid Plan groups within the State Employees Plan.

Table 3: Description of groups in the State Employees Plan

Group	Type	Risk bearer	Membership criteria[a]	Cost[b]	Income replaced[c]
Plan 1	Defined benefit	Employer	Hired on or before June 30, 2010 & vested by Jan. 1 2013	5% employee 4% employer 9% total	51%
Plan 2	Defined benefit	Employer	Hired July 1, 2010 to Dec 31, 2014 or Hired on or before June 30, 2010 & not vested by Jan. 1 2013	5% employee 3% employer 8% total	49.5%
Hybrid Plan	Defined benefit & contribution	Employer & Employee	Hired on or after Jan 1, 2014 with no prior service	5 to 9% employee[d] 2.5 to 5% employer[d] 7.5 to 14% total[d]	32 to 46%

Source: VRS plan comparison guide, 2014; VRS Hybrid Retirement Plan update, 2014; VRS actuarial valuation reports, 2011 and 2014; VRS membership data, 2014.

Note: Information reported here is only for the State Employees Plan. Other VRS plans have different cost and benefit structures.
[a] As a result of legislation passed by the 2012 General Assembly, Plan 1 members had to be vested as of January 1, 2013. Plan 1 members who were not vested as of that date were converted to Plan 2 membership. [b] Employee cost includes mandatory employee contributions to the defined benefit plan and, for the Hybrid Plan, contributions to defined contribution accounts. Employer cost is the "normal cost" to pay for defined benefits, not including any pre-existing unfunded liabilities, and, for the Hybrid Plan, includes employer matches to defined contribution accounts. The normal cost for the defined benefit varies from year to year and plan to plan. The normal cost used were those reported for the State Employees Plan in the 2011 and 2014 VRS actuarial valuation reports. [c] Estimated amount of pre-retirement income replaced when retiring after 30 years of service with an unreduced benefit for members of the State Employees Plan. The income replaced for state employees in the Hybrid Plan varies depending on the extent to which they make voluntary contributions to their defined contribution accounts. [d] Hybrid Plan members contribute 4% of salary toward their defined benefit component and a minimum 1% to their defined contribution account, for a minimum total of 5% of salary. Employees can make up to an additional 4% voluntary contributions, for a maximum total of 9%. Employers' normal cost for the defined benefit component is 1.5% and they must contribute 1% to the employee's defined contribution account, for a minimum total of 2.5% of salary. Employers provide up to 2.5% in matching contributions to voluntary employee contributions, for a maximum total of 5%.

Hybrid Plan expected to reduce future costs and liabilities

The Hybrid Plan was created in order to reduce the recurring, annual costs of retirement benefits and the liabilities incurred from defined benefits. The Hybrid Plan relies on both defined benefit and defined contribution components to provide retirement income. Employers' annual costs for funding the Hybrid Plan are likely to be lower than for the defined benefit-only plans. The Hybrid Plan's defined benefits are less generous than those offered under the defined-benefit only plans, and so are less costly. The state and other VRS employers continue to bear the risk associated with the defined benefit portion of the Hybrid Plan, but the financial liability incurred per employee is smaller than incurred under the traditional plans. Additionally, most employees are expected to make only limited contributions to their defined contribution accounts. Lower employee contributions result in relatively smaller cash matches from employers, reducing the overall cost of the plan. The risk associated with defined contribution investments is also borne by the employee, which reduces the employer's liability.

VRS staff indicated that the desired cost and liability reductions from the Hybrid Plan will be realized gradually over the long term. The changes apply to recently hired employees, who currently represent a small portion of the VRS plan membership. Hybrid Plan members began to be enrolled on January 1, 2014, and represented only about three percent of state employees and one percent of teachers by the close of the fiscal year. Given the small initial membership, VRS staff estimated that the state avoided $2.8 million in costs for the first six months the Hybrid Plan was in effect.

VRS staff indicated that the impact of the Hybrid Plan on employer costs should be fully realized by 2034, when the vast majority of active employees are expected to be Hybrid Plan members. VRS staff estimate the state will avoid $56.2 million in retirement benefit costs in that year alone. The state will also have avoided substantial costs in the 20 years between now and then as a result of the transition to the Hybrid Plan. The state will continue to avoid costs in the years beyond 2034.

Implementation of Hybrid Plan was a significant undertaking

Implementation of the new Hybrid Plan has been a major undertaking, requiring VRS to engage in several agency-wide initiatives while continuing to conduct its daily operations. The major activities pursued by VRS staff in establishing the Hybrid Plan included:

- rebidding the contract for managing the VRS 457 deferred compensation and 401(a) cash match plans so they could serve as the defined contribution component of the Hybrid Plan;
- implementing a program to allow VRS members to convert to the Hybrid Plan and providing information and counseling to members who considered changing plans;
- establishing the Virginia Local Disability Program (VLDP), modeled after the state's managed disability program, that localities could choose to implement alongside the Hybrid Plan;
- communicating with employers about the impact of the Hybrid Plan on their operations and training them on how to administer it;

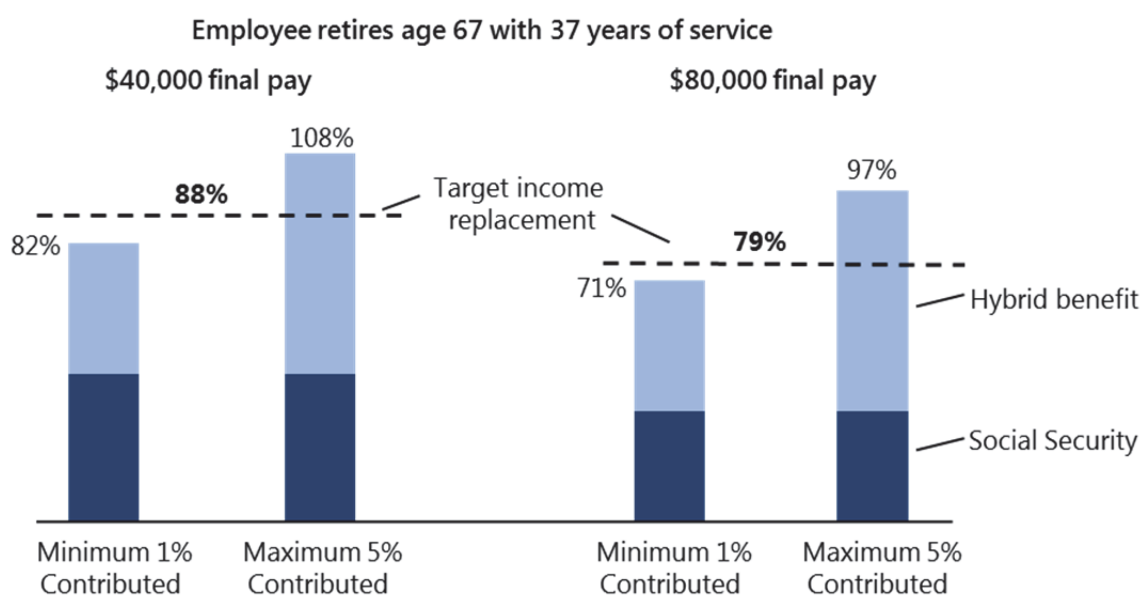
- creating and distributing new educational materials, including publications, websites, and web tools such as the VRS benefits calculator;
- modifying VRS information technology systems to accommodate administration of the Hybrid Plan; and
- hiring new VRS staff to support administration of the Hybrid Plan.

The establishment of the new Hybrid Plan resulted in one-time VRS expenditures of $4.2 million, not including the cost of staff time at VRS and costs incurred by state and local employers that participate in VRS. The additional ongoing costs to VRS for administering the Hybrid Plan are estimated at $1.7 million per year. The Hybrid Plan is different from the existing VRS plans in several ways and requires additional staff resources, such as additional member counselors, to effectively administer and support the plan.

Voluntary member contributions to the Hybrid Plan are low

Member contributions to the defined contribution component of the Hybrid Plan have been lower than expected since the plan was implemented six months ago. VRS assumed that 20 percent of Hybrid Plan members would voluntarily contribute the maximum five percent of salary to their defined contribution account, while the remaining 80 percent would only contribute the minimum one percent that is required under statute. To date, only four percent of Hybrid Plan members have elected to make voluntary contributions, and 96 percent have declined to contribute anything except the mandatory one percent of salary.

Figure 2: Projected income replacement under Hybrid Plan



Source: VRS Hybrid Retirement Plan update, 2014.
Note: Minimum and maximum contribution amounts refer to the amount of salary that is contributed by employees to their defined benefit accounts. Employees are required to contribute a minimum of 1% of salary, and can voluntarily contribute up to a maximum of 5% of salary. Employers match a minimum of 1% and a maximum of 3.5% of the employee's salary. Employer contributions to defined contribution accounts, and the income provided from the defined benefit component of the Hybrid Plan, are factored into calculations of the benefit amounts.

The low rate of voluntary contributions to the defined contribution component of the Hybrid Plan raises concerns that members may not have adequate savings to retire. According to JLARC's 2011 review of retirement benefits, a state employee will need to replace from 79 to 99 percent of income at retirement, depending on salary. Employees who retire with lower salaries need to replace a larger percent of income. Hybrid Plan members who contribute only the minimum required one percent rate throughout their careers will not reach this goal, even after working for 37 years and retiring at age 67 (Figure 2).

To address concerns about the low voluntary contribution rates, VRS has undertaken a communications campaign to promote increased contributions. This campaign includes developing and distributing materials—prepared emails, posters, articles, handouts, and presentations—for VRS employers to use at their organizations. VRS staff are also developing a direct mail campaign to reach out to Hybrid Plan members and encourage contributions. The importance of voluntary contributions is also conveyed in routine communications to members, including emails and newsletters. VRS staff indicated they will monitor voluntary contribution rates closely as membership in the Hybrid Plan continues to grow.

Employer contribution rates are at historical highs but are expected to decline as state funding of VRS plans improves

VRS pension benefits are funded through a combination of investment income, member contributions, and employer contributions. Investment income is earned from VRS asset holdings and varies from year to year depending on investment performance. Member contributions are from active employees enrolled in the retirement plans. Each member of the Hybrid Plan contributes four percent of salary, and all other members contribute five percent of salary. Employer contributions are funds deemed necessary from state and local employers to cover the difference between income from investments and member contributions and the amount required to fully fund pension benefits.

Every two years the VRS actuary calculates the recommended employer contribution. The actuary accounts for (1) the cost of benefits accrued by employees in that year (the "normal cost") and (2) the amount needed to settle "unfunded liabilities" from previously accrued benefits. Starting in FY 2014, the actuary also calculated (3) the estimated employer cash match for the defined contribution component of the Hybrid Plan. Separate employer contribution rates are calculated for the State Employees, Teachers, SPORS, VaLORS, and JRS Plans. Each local political subdivision plan also has its own unique employer contribution rate. Because of changes in plan assumptions and experience, the contribution rates may change from one actuarial valuation to the next.

The VRS board must certify employer contribution rates, and in most cases it has certified the rates recommended by the actuary. The board-certified rates become the official rates that are cited in the Commonwealth's Annual Financial Report. Each year, the governor and General Assembly allocate funds to cover the board-certified rates or some portion thereof.

Employer contribution rates to VRS are at historical highs due to large unfunded liability

The State Employees and Teachers Plans are the two largest VRS plans and have the greatest financial impact on the state. The state provides all employer contributions for the State Employees Plan, and reimburses localities for approximately 40 percent of the cost of retirement benefits for the Teachers Plan. The board-certified employer contribution rates for the State Employees Plan averaged 6.1 percent of payroll for the 20 years from 1993 to 2012, and the rate for the Teachers Plan averaged 8.9 percent. Over the past three years, the rates for these plans have increased substantially above these historical averages. In FY 2015, the board-certified rate for the State Employees Plan was 15.8 percent of payroll, and the rate for the Teachers Plan was 18.2 percent. These rates represent historical highs for the plans.

The increase in employer contribution rates is due to the accrual of large unfunded liabilities in each of the plans. The unfunded liability for the State Employees Plan was estimated at $7.0 billion at the end of FY 2014. Almost three-fourths of the current 15.8 percent rate for the State Employees Plan is to help pay off this liability. Similarly, over two-thirds of the 18.2 percent rate for the Teachers Plan is to pay off its $14.3 billion unfunded liability. If the portions of the rates attributable to these unfunded liabilities are removed, the rates charged for the two plans are well within their historical norms.

Several factors have contributed to the plans' large unfunded liabilities, but one major factor is that the state has generally paid employer contributions that are lower than the rates recommended by the VRS board. In the past 20 years, the board-certified rates for the State Employees Plan have been fully funded in only three years, and the rates for the Teachers Plan have been fully funded only once. According to the most recent data available from the Pew Charitable Trusts, Virginia ranked 47th out of 50 states in terms of the percent of the recommended contributions it paid toward its pension obligations in the period from 2010 to 2012. This included two years when the state deferred its contributions and paid less than half the amount that was certified by the VRS board.

General Assembly enacted legislation requiring full payment of employer contribution rates, and rates are expected to decline in the future

Alongside the pension reforms enacted in 2012, the General Assembly codified a new requirement that it must fully fund the VRS board-certified employer contribution rates by FY 2019. The legislation included a funding schedule for achieving this goal. The schedule requires the legislature to provide funding equal to a growing portion of the board-certified rate each biennium. The General Assembly has adhered to the funding schedule for each of the three years it has been in place (Table 4). The schedule ends in FY 2019, after which the state will be required to pay 100 percent of the board-certified rates in perpetuity.

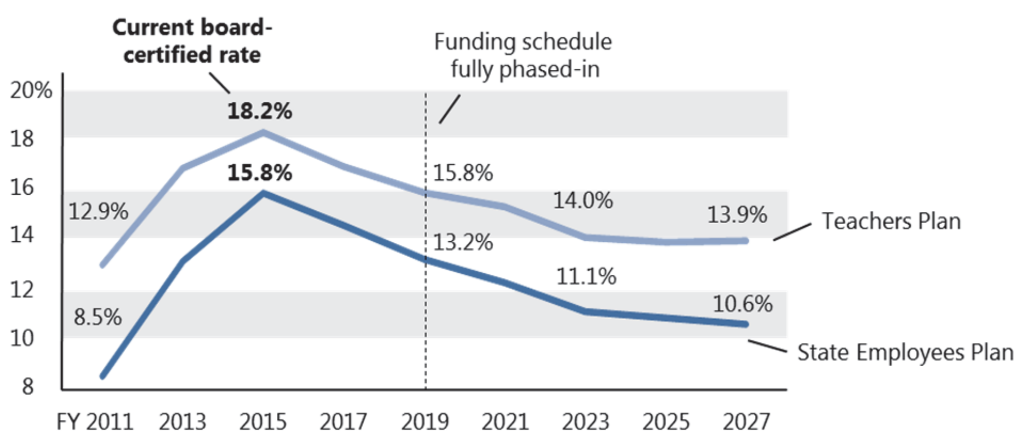
VRS projects that employer contribution rates will peak in FY 2015 and will gradually begin to decline (Figure 3). Rates will remain relatively high in the near future because the state will be paying off the large unfunded liabilities that have accrued over the past decade under each of the state-supported retirement plans. As the unfunded liabilities decrease, rates will also decrease. The current rate forecast is much more favorable than projections made as recently as 2011, which anticipated rates would continue increasing through 2022. The rate forecast has improved due to strong investment performance, which has helped reduce the unfunded liabilities that must be paid off and the anticipated impact of legislative reforms on future costs.

Table 4: Funding schedule met for employer contribution rates

	Biennium (by fiscal year)			
	2013-2014	**2015-2016**	**2017-2018**	**2019-2020**
State Employees Plan				
Funding schedule (Percent of VRS board-certified rate to be funded by General Assembly)	67.02%	78.02%	89.01%	100%
VRS board-certified rate	13.07%	15.80%		
General Assembly enacted rate	8.76%	12.33%	Rates to be determined	
Funding schedule met?	✓	✓ (for 2015)		
Teachers Plan				
Funding schedule (Percent of VRS board-certified rate to be funded by General Assembly)	69.53%	79.69%	89.84%	100%
VRS board-certified rate	16.77%	18.20%		
General Assembly enacted rate	11.66%	14.50%	Rates to be determined	
Funding schedule met?	✓	✓ (for 2015)		

Source: § 51.1-145 of the Code of Virginia; VRS actuarial data, 2012-2014.
Note: The General Assembly has also enacted schedules for fully funding the state's contributions to SPORS, VaLORS, and JRS, and these funding requirements have also been met for FY 2013-FY 2015. There is no funding schedule for local political subdivision plans, as these employers have generally been required to fully fund their board-certified contribution rates.

Figure 3: Board-certified employer contribution rates for State Employees and Teachers Plans



Source: VRS actuarial valuation report, 2014.
Note: Employer contribution rates are expressed as a percent of payroll for positions covered by the plan. Only the rates for the two largest retirement plans are shown, but the trends in rates for the other plans are generally the same.

Funded status of VRS plans has recently improved

The health of a pension plan is commonly measured by its funded status, which is the ratio of plan assets to liabilities. The VRS actuary calculates the funded status of all VRS plans on an annual basis. The funded status of the State Employees and Teachers Plans improved in FY 2014, and continued improvement is expected in future years (Figure 4). This upward trend reverses the steady decline that the plans experienced over the past several years. The other state-supported plans, SPORS, VaLORS, and JRS, experienced an increase in funded status for the second year in a row. The upward trend is expected to continue for these plans as well.

Figure 4: Funded status of State Employees and Teachers Plans

Source: VRS actuarial valuation report, 2014.
*The VRS board lowered the investment return assumption from 7.5% to 7.0% starting in FY 2010, which contributed to the large decrease in the funded status of the VRS plans in that year.
Note: Funded status is reported based on actuarial value of assets, using a five-year smoothing period. Projections assume 7.0% rate of return on investment and 2.5% inflation. Only the funded status for the two largest retirement plans are shown, but the trends in funded status for the other plans are generally the same. Starting with FY 2014, VRS will be reporting the funded status of its plans on financial statements using the market value of assets, as required under new Governmental Accounting Standards Board standards. This report uses the actuarial funded status instead of the market funded status because the actuarial status is a less volatile measure and is more reflective of the approach used to determine VRS funding needs.

In addition to the state-supported plans, VRS administers retirement plans for 583 different local political subdivisions. The average funded status of local plans increased for the second year in a row, from 79 percent in FY 2013 to 84 percent in FY 2014, using a weighted average to account for differences in the size of these plans. The average funded status is expected to continue improving in the coming years. Local plans have maintained an average higher funded status than the state plans because local employers have generally been required to fully fund their plan contribution rates. However, the funded status of any individual local retirement plan may be higher or lower than the group average, depending on its unique member experience.

The funded status of the VRS plans improved in FY 2014 due to strong investment performance. VRS uses a five-year smoothing technique when determining the actuarial value of its assets. This requires VRS to recognize a portion of investment gains and losses experienced in past years. In recent years, the smoothing technique has required VRS to recognize the large investment losses experienced during the 2008-2009 economic recession. Starting with FY 2014, these losses are no longer included when determining the actuarial value of VRS assets. Additionally, investment performance in the five years since the end of the recession has averaged 12.4 percent, well above the assumed 7.0 percent return. These two factors helped to improve the overall funded status of the retirement plans. The funded status of the plans is projected to continue improving if markets continue to perform at or above the assumed 7.0 percent rate of return.

Pension reforms enacted by the legislature are also expected to help improve the future funded status of the VRS plans. As previously noted, the General Assembly enacted legislation requiring the state to fully fund employer contribution rates by FY 2019. Full funding of these rates will help VRS reduce its current unfunded liabilities and avoid accruing new liabilities. The new Hybrid Retirement Plan and the mandated shift of some Plan 1 members into Plan 2 should help reduce future pension-related liabilities. However, the effects of these changes will only be realized as the members in these plans begin to form a larger part of the state and local government workforces.

JLARC quadrennial audit found VRS uses reasonable actuarial methods and assumptions

JLARC retains an actuary to perform an audit of VRS and its consulting actuary every four years, as required under the Code of Virginia. In 2013, JLARC retained Gabriel, Roeder, Smith and Company (GRS) as its independent actuary. GRS conducted its audit of VRS in early 2014 and presented its findings to the Commission at the July meeting.

The purpose of the GRS audit was to independently verify that the results prepared by the VRS actuary, Cavanaugh Macdonald Consulting, are technically sound and conform to the appropriate Actuarial Standards of Practice. To accomplish this, GRS reviewed the 2013 actuarial valuations of the VRS statewide plans, selected local government plans, and three other post-employment benefit plans administered by VRS.

GRS found that the methods used by the VRS actuary were reasonable and based on appropriate assumptions. GRS concluded that the 7.0 percent investment return assumption adopted by the VRS board was both reasonable and appropriate. GRS determined that the board's funding policy, which sets the goal of eventually attaining 100 percent funded status for each of the retirement plans, was also reasonable and appropriate. Finally, GRS found that the reports produced by the VRS actuary generally comply with the Actuarial Standards of Practice

GRS recommended minor modifications to actuarial calculations, which were implemented by the VRS actuary in the recently completed 2014 valuations. The changes had a marginal impact on employer contribution rates. GRS also recommended that VRS require its actuary to produce more comprehensive reports of its experience study findings. VRS indicated that it intends to implement this recommendation with the next experience study in 2017.

VRS considering restructuring of optional retirement plans for higher education

Eligible employees of Virginia's public colleges and universities have the option to participate in the VRS Optional Retirement Plan for Higher Education (ORPHE) instead of the State Employees Plan. Plan selection is a one-time, irrevocable decision that must be made within 60 days after an employee's hire date. Newly-hired employees must select between the ORPHE and the Hybrid Plan for state employees. Employees hired prior to January 1, 2014 could choose between the ORPHE and Plan 1 or Plan 2, depending on their hire date.

The ORPHE is a defined contribution-only plan under which the employer contributes a portion of employee salary to a 401(k)-style retirement account. Depending on an employee's hire date, the employee may also be required to contribute a portion of salary. Virginia offers the ORPHE because defined contribution plans are the norm in the higher education field. Faculty and administration positions are often transitory, and the ORPHE can be appealing because it is more portable than the traditional VRS defined benefit plans or the recently created Hybrid Plan. VRS partners with two private companies to offer a range of investment account options under the ORPHE.

VRS staff are currently reviewing the structure of the ORPHE to identify changes that would improve plan transparency and administration. This review was prompted by staff concerns that the investment and administrative fees charged by its private partners were not readily discernable to members. The federal government now requires defined contribution plans offered by private companies to clearly disclose all fees. VRS staff indicated that they follow this best practice and inform members about fees. However, the fee structures are complicated and may not be clearly understood. Additionally, the ORPHE has grown in assets and participants since it was last restructured 10 years ago. VRS staff indicated that a general review of the plan's administrative efficiency was merited on these grounds as well.

VRS has several goals for restructuring the ORPHE. The primary objectives are to reduce and clearly separate the investment and administrative fees charged by its private partners, improve plan offerings, and simplify investment options for participants. VRS's secondary goals are related to simplifying plan administration, such as "mapping" member assets in closed investment portfolios to ones that are currently active. This involves shifting member assets that currently reside in closed portfolios, such as portfolios offered by providers that VRS no longer partners with, to portfolios that actively receive new contributions. This and other actions will reduce the administrative complexity, and the associated costs, of the ORPHE.

The VRS Defined Contribution Plans Advisory Committee, which includes board members as well as board-appointed citizen members, is overseeing the review of the ORPHE. In addition to the activities of VRS staff, the committee commissioned the Performance Management Group at Virginia Commonwealth University to conduct focus groups with ORPHE members and employers. The objective of this effort was to gain a better understanding of their perceptions of the plan and identify ways the plan could better serve their needs. VRS staff indicated that they expect to present restructuring options to the committee at its December 2014 meeting. Pending committee action, restructuring options will be presented for consideration by the board in early 2015.

VRS has started final phase of modernization project

In 2006, VRS staff received approval from the board to proceed with a project to modernize the agency's technology systems, business processes, and customer services. The project is being conducted in four phases. In phases 1 and 2, VRS developed the modernization project plan and defined business requirements. In phase 3, new technology systems were developed to support core business transactions between VRS and its employers, such as fund transfers and membership reconciliation. Whereas phase 3 focused on employers, phase 4 will develop new technology in support of interactions with VRS members. For example, new systems will be developed that allow members to electronically request refunds, manage beneficiaries, and file for retirement. Once phase 4 is complete, VRS will be able to transition completely from its legacy mainframe system to a new outsourced data center.

The modernization project was originally projected to be completed by July 2013, but was delayed by vendor challenges and legislative reforms of the retirement system. VRS had some difficulty with its single software development vendor, which resulted in phase 3 being completed 12 months behind schedule. These issues also delayed the start of phase 4, most of which was scheduled to occur alongside phase 3, by almost two years. VRS staff then postponed moving forward with phase 4 by an additional 18 months in order to focus on implementing pension reforms enacted by the General Assembly. VRS staff activities during this time included modifying existing technology systems so that VRS could effectively administer the newly created Hybrid Plan.

Phase 4 of the modernization project began in July 2014. VRS staff have adopted a new approach for this phase that is intended to avoid the problems encountered during the last phase. Instead of relying on a single vendor, phase 4 will rely largely on VRS staff and individual contractors with specialized skills Additionally, instead of working to deliver a comprehensive product all at once, development activities will be staggered to deliver the product incrementally as stages are completed. VRS staff indicated that this is an industry best practice for reducing the risks associated with complex information technology projects.

The modernization project is now scheduled to be completed in October 2017, more than four years later than originally planned. VRS staff estimated that the total cost of the project will be approximately $77.1 million. This includes $49.5 million in directly budgeted costs—such as contract labor, hardware, and software—and $27.6 million in internal VRS staff costs. Direct costs are projected to be $3 million more than originally budgeted, mainly due to the delayed implementation of phase 4. VRS staff costs were not originally budgeted, but these costs are also likely higher than they otherwise would have been. VRS staff have had a greater level of involvement in the project than was originally anticipated.

Although modernization has taken longer than expected, VRS's overall performance appears satisfactory. VRS staff have effectively addressed issues as they emerged and developed a reasonable plan for completing the project. Additionally, the project has been carried out during a time when the agency has also been occupied with adapting to major changes to the retirement system.

Other notable events occurring in past two years

In addition to the previously discussed issues, there have been several other notable events involving VRS over the past two years. These events are summarized below.

VRS director provided with additional compensation

In 2012, the VRS board found that the director was being compensated below peers in other U.S. public pension funds. The board sought and received changes in the 2013 Appropriation Act that would allow it to provide the director with supplemental compensation. The board used this new authority to award the director a $50,000 bonus for FY 2013. The bonus was awarded as deferred compensation, deposited in the director's personal retirement account, rather than cash-in-hand. The same bonus was awarded again for FY 2014. VRS staff indicated that this supplemental bonus brings total compensation for the director in line with the median compensation of peers at other major public pension funds.

The director's supplemental bonus is awarded based on the overall performance of VRS as an agency. The board annually approves VRS operating standards, which include standards for customer service, program administration, finance, and audit performance. For example, one customer service standard is to pay out 100 percent of monthly retirement benefits on the first day of the month. VRS met 18 of 20 operating standards in FY 2013 and 20 of 21 in FY 2014. The board also approves broad organizational goals, or "performance outcomes," for each year. For example, in FY 2013 one of VRS's main goals was to complete phase 3 of modernization, and in FY 2014 one of its main goals was to complete implementation of the Hybrid Plan. VRS met all of its organizational goals in FY 2013 and 2014.

VRS transitioned to new management partner for its defined contribution plans for state and local employees

VRS offers state employees and employees of participating localities the option to participate in a 457 deferred compensation plan and a 401(a) employer "cash match" plan. Hybrid Plan members are automatically enrolled in a 401(a) cash match plan, which serves as the defined contribution component of their plan, and may make voluntary contributions to a 457 plan. These and other 401(a) plans are managed by a private party under contract with VRS.

In January 2014, VRS transitioned from ING to a new record keeper, ICMA-RC, for its 457 and 401(a) plans. The award was made after an open competitive bid process. VRS staff indicated that they were able to negotiate comparatively low fees with the new provider, due in large part to the expected growth in plan enrollment from future Hybrid Plan members. ICMA-RC charges account holders an annual $30.50 flat fee, which is on average less than what members were charged using an asset-based fee under the prior contract. VRS staff, along with its defined contribution consultant, indicated that the new fees are also lower than those typically charged by other deferred compensation plan managers.

Board considered having VRS provide investment services to outside parties

In 2013, the VRS board began consideration of a new initiative referred to as "Project Frontier," which would have involved VRS offering investment services to outside entities. One of the purposes of Project Frontier would have been to generate fee revenue that could be used to offset VRS's operating expenses. In June 2014, the board decided to discontinue consideration of Project Frontier based on a market analysis that found the return on investment from the services would likely be less than originally expected.

Several new trustees joined VRS board

Several new trustees have been appointed to the VRS board over the past two years. In 2013, Troilen Gainey Seward and W. Brett Hayes were appointed by the General Assembly Joint Rules Committee. Ms. Seward's term is set to expire in February 2017, and Mr. Hayes' term is set to expire in February 2018. These new members replace outgoing members Raymond B. Wallace, Jr. and John M. Albertine.

In the spring of 2014, two additional new members were appointed to the board. Joseph Montgomery was appointed by the General Assembly Joint Rules Committee, and William Leighty was appointed by the governor. The terms of both members are set to expire in February 2019. These new members replaced outgoing members Collette Sheehy and Edwin T. Burton, III.

New accounting rules for pension plans have started to take effect

The Governmental Accounting Standards Board (GASB) has adopted modifications to its accounting and financial reporting standards. These modifications will affect how VRS and participating employers report their pension liabilities and expenses in the future. According to GASB, the new standards are designed to "improve the decision-usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments." Several of the new standards have already taken effect, and additional standards will be phased in over the next several years (Table 5).

VRS indicated that the new GASB standards will have a substantial impact on state and local financial statements. Significant pension liabilities will be added to financial statements, and the volatility of reported liabilities will increase due to the requirement to report assets based on market value instead of actuarial value. According to GASB, "while this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed." However, the new standards are likely to increase the overall reported liabilities of Virginia's local governments, which may affect their bond ratings and borrowing costs. The Auditor of Public Accounts is examining the impact of these changes and will report findings to JLARC in 2015.

Table 5: New accounting rules for public pension plans

FY 2013

GASB ceased providing guidance on how employers should fund the cost of pension benefits or how pension plan administrators calculate the necessary contributions. In response, pension plans were required to develop their own respective funding policies. The VRS board approved a new funding policy in July 2013 that is consistent with the recommendations of the national Pension Funding Task Force. The new policy is similar to the previous policy, except that VRS instituted a 30-year closed period to amortize its legacy unfunded liability and will amortize any new liabilities over closed 20-year periods.

FY 2014

Pension plans must report unfunded liabilities on financial statements.

Pension plans must value assets on mark-to-market basis on financial statements.

FY 2015 (will impact end of year financial statements)

State and local employers must report unfunded liabilities on financial statements. The mark-to-market basis must be used for determining unfunded liabilities. School division employers will receive an apportioned share of the unfunded liability for the Teachers Plan. Component units within the State Employees and VaLORS Plans will also be required to reflect a portion of those plans unfunded liabilities on their financial statements.

State and local employers will be subject to new auditing standards and testing requirements.

FY 2017 (pending)

An exposure draft of new GASB accounting rules for other post employment benefits (OPEBs) was released in 2014. OPEBs administered by VRS include group life insurance, the Virginia Sickness and Disability Program, the Virginia Local Disability Program, the retiree health insurance credit, Line of Duty Act benefits, and pre-Medicare retiree health insurance. New GASB rules for OPEBs are expected to be similar to pension rules.

FY 2018 (pending)

State and local employers must follow new OPEB accounting rules. State and local employers are expected to receive an apportioned share of OPEB costs and liabilities.

Source: JLARC 2012 Biennial VRS Status and Semi-Annual Investment Report; VRS presentation to JLARC, 2014; VRS board meeting minutes, 2014.

General Assembly enacted legislation making minor changes to VRS retirement plans and benefits programs

The General Assembly enacted legislation in 2013 and 2014 that made minor changes to the VRS retirement plans and benefits (Table 6).

Table 6: VRS-related legislation passed in 2013 and 2014 legislative sessions

2013 Legislative session	
Senate Bill 995	Provided technical amendments necessary to implement pension reforms legislation enacted by the 2012 General Assembly.
House Bill 1532 Senate Bill 854	Provided political subdivisions with the option to elect Plan 1 age and service provisions for all hazardous duty employees in localities that have not adopted enhanced benefits. Provided for a one-time irrevocable election. Also provides that new hazardous duty employees in localities that have elected this option and who are hired after January 1, 2014 will be Plan 2, but with Plan 1 age and service provisions, and will not be covered by the Hybrid Retirement Plan.
Appropriation Act	Reinstates requirement that terminating agencies must pay the VRS costs of any enhanced retirement benefits due for involuntarily separated employees, but allows exceptions if certain conditions are met.
Appropriation Act	Required up to the first $100 million of excess general fund revenues collected for FY 2013 to be used to prefund the 10-year payback of the 2010-2012 deferred contributions.
Appropriation Act	Provided a surcharge cannot be applied to employees in optional retirement plans for higher education or at teaching hospitals other than VCU and UVA Medical Center.
Appropriation Act	Allowed VRS board to supplement the salary of the VRS director without seeking the approval of the governor.
2014 Legislative session	
House Bill 10	Provided that the annual retirement allowance of any person who has served as a judge but retires under a different defined benefit retirement plan shall not exceed 78 percent of the person's average final compensation, unless such person after ceasing to be a judge performs five or more years of creditable service under another defined benefit retirement plan.
House Bill 147 Senate Bill 412	Authorized VRS to develop policies and procedures to allow dentists or oral and maxillofacial surgeons who are independent contractors providing services for the Commonwealth's Medicaid program to participate in the VRS 457 deferred compensation plan. (Provisions effective January 1, 2015, and expire January 1, 2020.)
House Bill 700 Senate Bill 79	Allowed the governing board of an institution of higher education with its own optional retirement plan to set the number of years of service that an employee must have to be entitled to receive all contributions made by the institution. (For employees hired on or after July 1, 2014.)
Senate Bill 87	Made technical amendments to the programs administered by VRS.
Senate Bill 188	Authorized a Roth option in VRS 457 deferred compensation plan. (Effective July 1, 2015.)
House Joint Resolution 103	Directed JLARC to study Virginia's Line of Duty Act.
Appropriation Act	Transferred an additional $18M from Abbott Laboratories settlement to VaLORS and SPORS.
Appropriation Act	Provided spending authority for VRS to implement Roth 457 accounts under SB 188. ($237,000 in one-time costs.)

Source: VRS presentations to the Board of Trustees, 2013 & 2014; Virginia Legislative Information System.

The Joint Legislative Audit and Review Commission publishes this report biennially in fulfillment of the Virginia Retirement System Oversight Act (Chapter 10 of Title 30 of the Code of Virginia), a statute that requires JLARC to oversee and evaluate the Virginia Retirement System and regularly update the legislature on oversight findings.

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