

JLARC Legislator's Guide Virginia Retirement System

2018



About VRS

The Virginia General Assembly maintains a retirement system for state employees and the employees of school divisions and participating political subdivisions as required under the Constitution of Virginia (Article X, § 11).

The Virginia Retirement System (VRS), the nation's 19th largest public or private pension system, administers retirement plans and other benefit programs for nearly 690,000 current and former members. VRS members include most employees in Virginia state and local government, including public school divisions. Members participate in one or more retirement plans, including defined benefit and defined contribution plans, and programs for life insurance, sickness and disability, and other post-employment benefits.

VRS fast facts

MEMBERSHIP as of September 30, 2017



342,226 Actively employed members

203,503 Retired members & beneficiaries

143,910 Inactive and deferred members

689,639 Total

ASSETS as of September 30, 2017



\$76.0 billion

Total VRS trust fund assets

STATE EMPLOYEES AT RETIREMENT* as of June 30, 2017



64 Average age

22 Average years of service

38% Average VRS benefit received as percentage of pay

\$21,643 Average annual benefit at retirement

SOURCE: VRS administration and investment data.

*Shown: State Employees Plan only.

Legislative oversight

The General Assembly makes changes to VRS through legislation. The Senate Finance and House Appropriations Committees are responsible for legislation that affects VRS, including changes to benefits and state contributions to the VRS trust fund. The General Assembly approves the VRS administrative budget and state contributions to the retirement system every year in the Appropriation Act.

Under the Virginia Retirement System Oversight Act, the Joint Legislative Audit and Review Commission (JLARC) oversees and evaluates VRS on an ongoing basis (Title 30, Chapter 10 of the Code of Virginia). JLARC publishes semiannual VRS oversight reports, oversees a quadrennial actuarial audit, and produces other reports as requested. In addition, the Auditor of Public Accounts conducts an annual financial audit of VRS.

State contributions to VRS

STATE CONTRIBUTIONS for FY17



\$1,131 million to retirement plans

\$230 million to other benefit programs

\$1,361 million total state contributions

STATE CONTRIBUTION RATES approved by the General Assembly



Retirement	FY17-FY18
Teachers	16.32%*
State	13.49
VaLORS	21.05
SPORS	28.54
JRS	41.97

SOURCE: 2017 Appropriation Act, Department of Education standards of quality data, and JLARC analysis of VRS financial data.

NOTE: Contribution rates are shown as a percentage of employee salary. Board-certified rates were 100 percent funded for all plans beginning in FY18.

*Increased from 14.66% in FY17 to 16.32% in FY18.

Operations

VRS is an independent agency governed by a board of trustees. The board is responsible for overseeing VRS operations and investments, including oversight of the VRS trust fund, which it does through the assistance of several standing committees. The board appoints a director to lead VRS and a chief investment officer to oversee the VRS trust fund. The board also issues policies and procedures to guide operations, appoints an internal auditor to review agency operations, and employs an actuary to perform annual valuations of VRS plans and programs.

VRS board – nine members

Five members appointed by the **governor**

Two with investment management experience, **one** with employee benefit plan management experience, **one** local government employee or retiree, and **one** public institution of higher education employee or retiree

Four members appointed by the **General Assembly**

Two with investment management experience, **one** state government employee or retiree, and **one** public school division employee or retiree

The VRS director oversees the administrative departments, which manage benefits administration, customer service, finances, public relations, human resources, policy, and IT. The chief investment officer oversees the investment department, which manages the VRS trust fund according to policies set by the board. As an independent agency, VRS is exempt from some personnel and procurement laws and regulations that apply to executive branch agencies.

Nearly all VRS operations are funded through the VRS trust fund; the agency generally does not receive general fund appropriations. VRS operating expenses were \$90 million for FY17. Operating expenses include most agency expenses such as personnel, contracted professional services, communications, and office space. Operating expenses include in-house investment expenses (\$31 million) but do not include payments for outside investment services (\$393 million in FY17). Operating expenses also do not include payments to retirees and beneficiaries (\$5 billion in FY17).

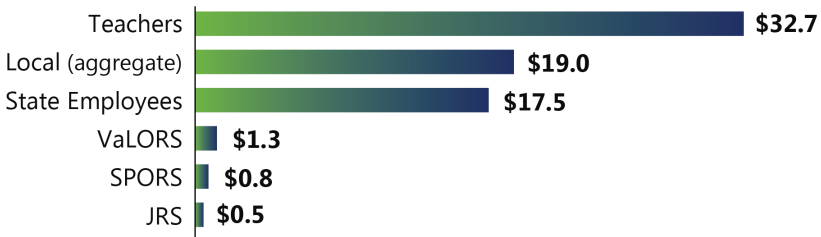
Retirement plans

VRS administers defined benefit retirement plans, also called pension plans, for state and local employees. The two largest plans are the Teachers Plan and the State Employees Plan. Other plans include those for state police officers (SPORS), other Virginia state law officers (VaLORS), judges (JRS), and individual retirement plans for 593 political subdivisions (local). Plan members are divided into three benefit groups, depending on when they were hired: Plan 1, Plan 2, and Hybrid Retirement Plan. Plan 1 and Plan 2 are defined benefit plans. The hybrid plan has both defined benefit and defined contribution components.

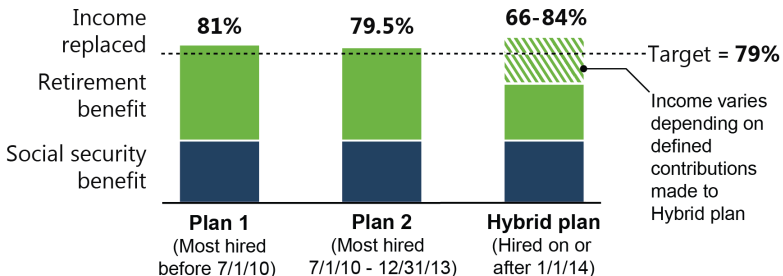
Members with enhanced hazardous duty benefits—public safety officers in SPORS, VaLORS, and just over one-third of local plans—receive relatively higher benefits per year of service and are eligible to retire with fewer years of service. A hazardous duty supplement is available to some members from the date they retire until they reach normal social security retirement age or age 65. Members with enhanced benefits are not eligible to participate in the hybrid plan.

Defined benefit plans at a glance

PLAN SIZE BY TOTAL ASSETS as of June 30, 2017 (\$ billions)



INCOME REPLACEMENT RATIO BY BENEFIT GROUP



SOURCE: VRS plan financial information and actuarial analysis.

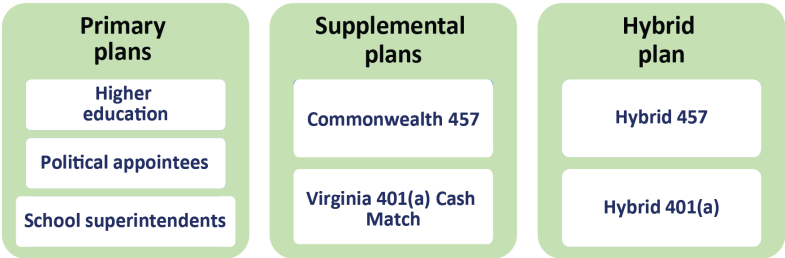
NOTE: Total actuarial value of assets attributable to each plan. Local plan size is the aggregate assets of all 593 plans for political subdivisions. State Employees Plan is larger than the local plans as measured by pension obligation. Income replacement shown is for State Employees Plan member retiring at age 65 with \$55,000 average final compensation and 30 years of service.

VRS also administers eight defined contribution plans. Optional retirement plans for higher education faculty, political appointees, and school superintendents may be selected in lieu of a VRS defined benefit plan or hybrid plan for members in those occupations. The Commonwealth 457 and Virginia 401(a) Cash Match plans are available to most state employees, and some local employees, for supplementing their defined benefit plan. The Hybrid Retirement Plan's defined contribution component is only open to hybrid plan members. About 302,000 state and local employees and about 13,000 higher education employees participate in one or more defined contribution plans. The plans held total assets of \$4.4 billion as of September 30, 2017.

Assets of defined contribution plans are individually owned and held separate from the VRS trust fund. The defined contribution plans are administered by private companies under contract with VRS. These companies charge participants for the investment management and account administration services they provide.

Defined contribution plans at a glance

TYPES OF PLANS



PLAN ASSETS as of September 30, 2017 (\$ millions)



SOURCE: VRS plan financial information.
 NOTE: Supplemental plans also include the Virginia Supplemental Retirement Plan, which is a seldom-used supplemental plan for certain educators.

Other benefits programs

VRS administers several additional benefit programs for members.

Retiree health insurance credit – Provides a reimbursement to offset the cost of health insurance premiums, equal to \$1.50 to \$4 per year of the employee's creditable service each month. Available to retired state employees, teachers, and employees of participating local governments who have at least 15 years of service.

Group life insurance – Provides basic group life insurance for death and dismemberment. Available to state employees, teachers, and employees of participating local governments. Employees have the option to purchase additional coverage for themselves and other family members.

Disability programs – The Virginia Sickness and Disability Program provides eligible state employees with sick leave, family leave, and personal leave, as well as short- and long-term disability benefits and, for eligible employees, long-term care benefits. Some VRS members who are not covered under Virginia Sickness and Disability Program are covered under traditional disability retirement benefits or by college or university benefits.

The Virginia Local Disability Program provides short-term and long-term disability benefits and a long-term care program. It is available to eligible hybrid plan members who are employed by political subdivisions and school divisions. Employees in political subdivisions and school divisions that are members of Plan 1 or Plan 2, or receive enhanced hazardous duty benefits, are covered under the traditional disability retirement plan. Political subdivisions and school divisions that elected to provide comparable coverage do not have to include long-term care.

Line of Duty Act program – Provides health insurance and death benefits for state and local government employees and volunteers who are killed or disabled in the performance of public safety duties. VRS conducts eligibility determinations for the Line of Duty Act program, and VRS manages Line of Duty Act funds for those state agencies and localities that have chosen to pool their funds. The Department of Human Resources Management administers the LODA health insurance benefit.

Other programs – Include voluntary, employee-paid, group long-term care insurance and the Service Award Program for Volunteer Firefighters and Rescue Squad Workers.

Funding

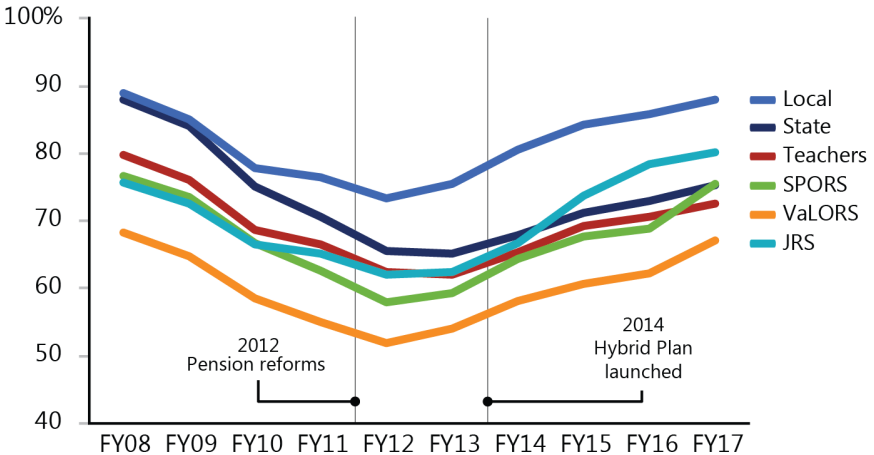
The financial assets used to pay VRS retirement and other benefits are pooled in the VRS trust fund. VRS receives revenues for the fund from three sources: employer contributions, member contributions, and investment income.

Employer contributions come from state agencies, school divisions, and local political subdivisions. The recommended employer contribution rate for each plan is calculated by the VRS actuary every two years. The rate covers the cost of plan benefits and repays outstanding liabilities over a designated period of time. The state pays employer contributions for the State Employees, SPORS, VaLORS, and JRS plans. The state pays about 40 percent of the Teachers Plan costs, and school divisions pay the rest. Each local plan has its own unique employer contribution rate that is paid by the local body.

The health of a pension plan is commonly measured by its funded status, which is the ratio of plan assets to liabilities. The five state-supported plans had a funded status ranging from 67 to 80 percent as of June 30, 2017. Local plans had an aggregate funded status of 88 percent.

Funded status of VRS retirement plans

Ratios of assets
to liabilities



SOURCE: Valuation reports from VRS actuary, Cavanaugh Macdonald.

NOTE: Funded status is reported based on actuarial value of assets.

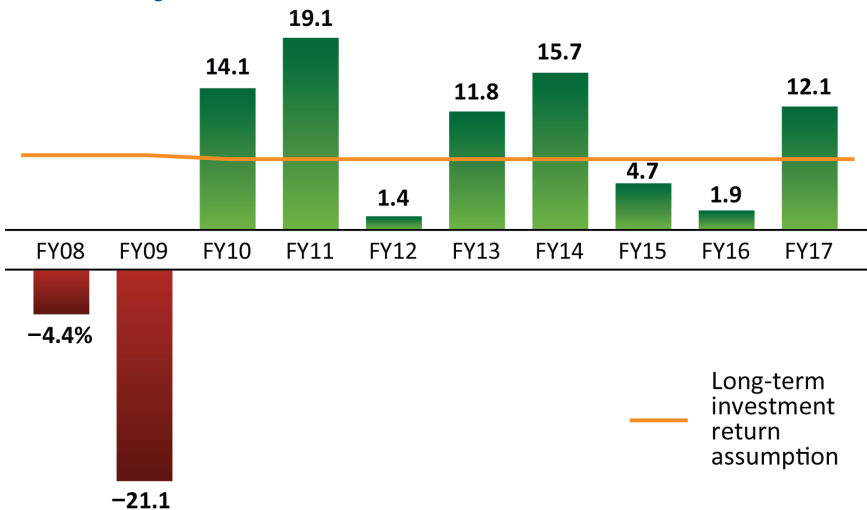
Investments

VRS invests the trust fund's assets to provide additional income to pay for retirement and other benefits. VRS assumes a long-term seven percent rate of return on investments, but actual returns vary from year to year. Historically, investment returns have covered two-thirds of the cost of benefits paid.

Trust fund investments are allocated among different asset classes in order to maximize returns while controlling risks. The asset classes are global public equity (stocks), credit strategies (emerging market debt, high yield, convertible bonds, and bank loans), fixed income (bonds and money market), private equity, and real assets (real estate, infrastructure, natural resources). Asset allocations are set by the VRS board, and investments are managed by the investment department. As of FY17, 35 percent of assets were managed in-house by VRS staff, including all fixed income assets and some public equities and real assets. The remaining 65 percent of assets were managed by external managers under VRS supervision.

Virginia statute places restrictions on how VRS trust fund assets can be used and managed. VRS assets must remain separate and independent from all other state funds and must be administered solely in the interest of the members and beneficiaries of the retirement system (Article X, §11, Constitution of Virginia). The VRS board has broad authority to determine how funds are invested but is required to maintain a diverse investment portfolio and make decisions with "the care, skill, prudence, and diligence" of a "prudent person" (§51.1-124.30, Code of Virginia).

VRS one-year investment returns



SOURCE: VRS annual reports and investment department data.

NOTE: Long-term investment return assumption reduced from 7.5 percent in FY09 to 7.0 in FY10.



For more information on the Virginia Retirement System,
see varetire.org

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