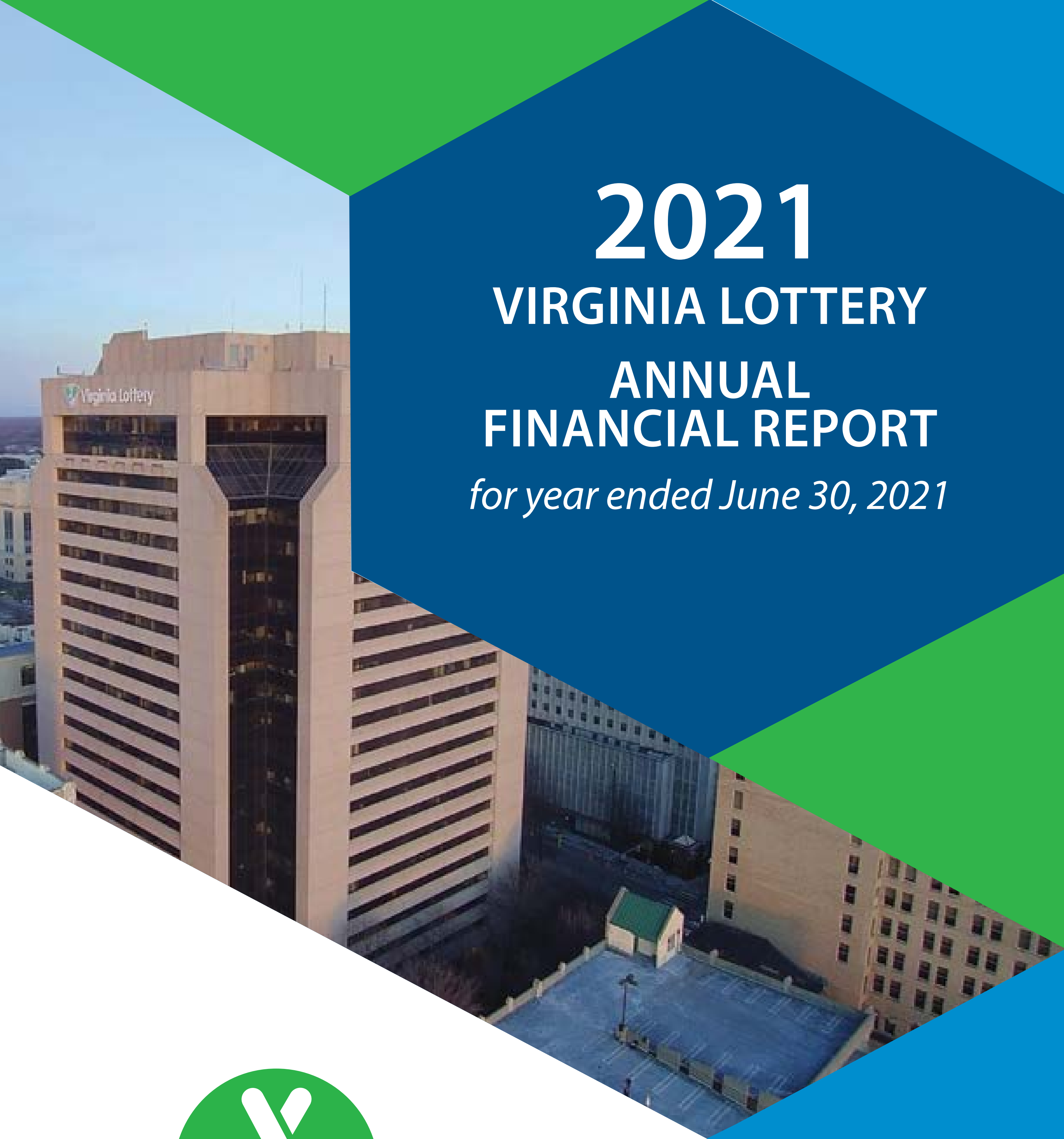

2021
VIRGINIA LOTTERY
ANNUAL FINANCIAL REPORT

for year ended June 30, 2021

VIRGINIA LOTTERY

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Management's Discussion and Analysis

(unaudited)

The Virginia Lottery's Management's Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues and provides an overview of financial activity. All Virginia Lottery Business-type Lottery activity profits are transferred to the Commonwealth of Virginia (Commonwealth) each year in accordance with requirements in the Appropriations Act and the *Code of Virginia*. The Virginia Lottery is also responsible for regulatory oversight of mobile sports betting and land-based casino activity, collecting fees for application and licensure used to support the regulatory programs. These Governmental Gaming activities are also reflected in the financial statements. Please read this MD&A in conjunction with the accompanying financial statements.

Financial Highlights

Virginia Lottery ticket sales totaled $3,259.0 million for Fiscal Year 2021, the highest total ever for Virginia Lottery sales. Net proceeds totaling $766.7 million were earned for the Lottery Proceeds Fund, all of which are constitutionally mandated to support local public education. Highlights of the fiscal year include:

- **Ticket sales increased $1,110.4 million (+51.7%) from last year to $3,259.0 million.**
- **Net income from Business-type Lottery activities totaled $766.8 million, an increase of $172.0 million.**
- **Prize expense for Lottery activities increased $888.6 million (+67.4%) to $2,206.7 million.**
- **With higher sales, Lottery retailers earned $18.6 million (+15.4%) more than last year, with compensation paid to Lottery retailers totaling $139.3 million.**
- **On July 1, 2020, instant-win Lottery games and single-drawing wagers for draw-based Lottery games were legal to purchase on the internet. With the launch of iLottery in FY21, gaming services expenses increased $22.3 million (+59.3%) to $59.9 million.**

Licensed mobile-based sports betting operators began accepting sports wagers in Virginia in late January 2021. The Virginia Lottery collected over $5.5 million in taxes associated with this wagering activity, all of which was deposited into the Commonwealth's General and Problem Gambling Treatment and Support funds. These taxes are not presented in the financial statements; however, the regulatory fund established to collect application and licensure fees associated with Governmental Gaming activities is presented. The Virginia Lottery recorded $11.1 million in these fees during FY21.

Overview of the Financial Statements

The annual financial report of the Virginia Lottery consists of three primary components: government-wide financial statements, fund financial statements, and notes to the financial statements.

The government-wide financial statements report information about the Virginia Lottery as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Lottery's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide financial statements report the Lottery's net position and how it has changed. Net position, the difference between the Lottery's (1) assets and deferred outflows of resources and (2) liabilities and deferred inflows of resources, is one way to measure the Lottery's financial health, or position. The government-wide financial statements of the Lottery are divided into two categories: Business-type Lottery activities and Governmental Gaming activities.

The Business-type Lottery activities of the Virginia Lottery are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used when the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate. The basis of accounting is an accrual basis where revenues are recognized when earned and expenses when incurred, regardless of when cash is exchanged. By law, the Virginia Lottery transfers all Business-type Lottery activity profits to the Commonwealth, specifically to the Lottery Proceeds Fund, each year. As a result, the net position of the Virginia Lottery Business-type Lottery activities consists largely of capital assets (equipment) and U.S. Treasuries held to fund future payments on annuitized Lottery prizes as shown in the Statement of Net Position. To assess the Virginia Lottery's financial position and financial health, the reader of these statements should pay particular attention to changes in operating revenues, expenses, and transfers to the Lottery Proceeds Fund as shown in the Statement of Revenues, Expenses, and Changes in Net Position. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating capital, financing, and investing activities.

The Governmental Gaming activities are accounted for in a special revenue fund, used to account for resources committed for a specific purpose. The fund balance is committed for the regulation of Sports Betting and Casino activities. No casino activities have begun, so this activity is limited to sports betting for this reporting period.

Statement of Net Position

Table 1 reflects the condensed Statement of Net Position.

TABLE 1

	Fiscal Year 2021			Fiscal Year 2020		
	Governmental Gaming Activities	Business-Type Lottery Activities	Total Entity Activities	Governmental Gaming Activities	Business-Type Lottery Activities	Total Entity Activities
Assets and Deferred Outflows of Resources:						
Current Assets	*$4,797.6*	*$267,117.8*	*$271,915.4*	*$ -*	*$199,451.7*	*$199,451.7*
U.S. Treasuries	*-*	*105,776.9*	*105,776.9*	*-*	*108,755.3*	*108,755.3*
Net OPEB Asset	*12.7*	*1,022.9*	*1,035.6*	*-*	*916.3*	*916.3*
Capital Assets, Net of Depreciation	*632.3*	*14,998.5*	*15,630.8*	*-*	*17,829.9*	*17,829.9*
Total Assets	*$5,442.6*	*$388,916.1*	*$394,358.7*	*$ -*	*$326,953.1*	*$326,953.1*
Total Deferred Outflows	*$288.3*	*$9,725.8*	*$10,014.1*	*$ -*	*$7,772.6*	*$7,772.6*
Total Assets and Deferred Outflows of Resources	***$5,730.9***	***$398,641.9***	***$404,372.8***	***$ -***	***$334,725.7***	***$334,725.7***

Table continues on next page

TABLE 1 CONTINUED

	Fiscal Year 2021			Fiscal Year 2020		
	Governmental Gaming Activities	Business-Type Lottery Activities	Total Entity Activities	Governmental Gaming Activities	Business-Type Lottery Activities	Total Entity Activities
Liabilities and Deferred Inflows of Resources:						
Current Liabilities	*$549.2*	*$281,303.3*	*$281,852.5*	*$ -*	*$216,563.4*	*$216,563.4*
Noncurrent Liabilities	*$1,253.3*	*$146,625.2*	*$147,878.5*	*$ -*	*$146,090.8*	*$146,090.8*
Total Liabilities	*$1,802.5*	*$427,928.6*	*$429,731.1*	*$ -*	*$362,654.3*	*$362,654.3*
Total Deferred Inflows	*$50.8*	*$3,419.9*	*$3,470.7*	*$ -*	*$4,873.2*	*$4,873.2*
Total Liabilities and Deferred Inflows of Resources	***$1,853.4***	***$431,348.4***	***$433,201.8***	***$ -***	***$367,527.5***	***$367,527.5***
Net investment in capital assets	*$632.3*	*$14,998.5*	*$15,630.8*	*$ -*	*$17,829.9*	*$17,829.9*
Unrestricted	*3,232.5*	*(48,727.9)*	*(45,495.4)*	*-*	*(51,548.0)*	*(51,548.0)*
Restricted OPEB	*12.7*	*1,022.9*	*1,035.6*	*-*	*916.3*	*916.3*
Total Net Position	***$3,877.5***	***($32,706.5)***	***($28,829.0)***	***$ -***	***($32,801.8)***	***($32,801.8)***

($ in thousands, differences due to rounding)

Current assets and liabilities for the Governmental Gaming Activities primarily reflect cash and accounts payable liabilities for the Fund. For the Business-Type Lottery activities, current assets and liabilities are primarily cash, accounts receivable, accounts payable, prizes payable and profits due to the Lottery Proceeds Fund.

Current assets and liabilities increased by $72.5 million and $65.3 million respectively due to the change in cash balances on hand and the start-up of Governmental Gaming Activities. Fiscal year-end 2021 cash was higher due to increase in lottery ticket sales and resulting net income. Lottery U.S. Treasuries declined $3.0 million and consist of U.S. Treasury STRIPS purchased to fund individual jackpot and "For Life" prizes, as winners continue to receive their annuity prizes.

Non-current assets are primarily investments in U.S. Treasuries to fund future prize payments won by annuity prize recipients, as well as capital assets comprised of equipment and technology assets. Non-current liabilities represent the obligations due to annuity prize recipients beyond one year, as well as pension and OPEB liabilities.

Deferred inflows of resources decreased by $1.4 million due to the change in investment earnings set aside for future pension and other post-employment retiree benefit liabilities.

Deferred outflows of resources increased by $2.2 million due to changes in the overall allocation of pension liability associated with agency covered employees, including the differences between projected and actual earnings on pension plan investments and contributions subsequent to the June 30, 2020 measurement date.

The $2.2 million decrease in capital assets reflects the change in value of these assets, primarily consisting of equipment to sell products in licensed retailer locations across Virginia, and also includes assets in support of the Governmental Gaming Activities.

Since the Virginia Lottery transfers all Business-type Lottery profits to the Commonwealth each fiscal year, changes in assets do not reflect the results of its operating activities. Those results are discussed later in this document.

Statement of Governmental Fund Revenues, Expenditures, & Changes in Fund Balance

Table 2 summarizes the Governmental Fund revenues, expenditures and changes in fund balance.

TABLE 2	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Change
License and Application Fees	*$11,134.2*	*$ -*	*$11,134.2*
General and Administrative Expenses	*(6,879.4)*	*-*	*(6,879.4)*
Interest Income	*10.0*	*-*	*10.0*
Beginning Fund balance, July 1, 2020	*$ -*	*$ -*	*$ -*
Ending Fund balance, June 30, 2021	*$4,264.8*	*$ -*	*$4,264.8*

($ in thousands, differences due to rounding)

Governmental Fund Activity

The Virginia Lottery performs regulatory licensing and oversight of mobile sports betting and land-based casino activities. This oversight includes the establishment, collection, and use of application and licensure fees from applicants and regulated entities. $11.1 million in application and license fees was collected during this first year of the regulatory oversight functions. From these fees, over $6.8 million in expenses in support of this regulatory function were incurred. Expenses include staff and contractual services in support of the regulatory programs. The ending $4.3 million fund balance will support ongoing regulatory oversight functions.

Statement of Enterprise Fund Revenues, Expenses, & Changes in Net Position

Table 3 summarizes the Enterprise Fund revenues, expenses and change in net position.

TABLE 3	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Change
Sales	*$3,259.0*	*$2,148.6*	*$1,110.4*
Prizes	*(2,206.7)*	*(1,318.1)*	*(888.6)*
Retailer Compensation	*(139.3)*	*(120.7)*	*(18.6)*
Gaming Services and ticket printing	*(59.9)*	*(37.6)*	*(22.3)*
Operating Expenses	*(87.4)*	*(79.9)*	*(7.5)*
Income from Operations	*765.6*	*592.4*	*173.2*
Non-Operating Revenues (net)	*1.2*	*2.5*	*(1.3)*
Net Income	*766.8*	*594.9*	*171.9*
Transferred to the Lottery Proceeds Fund	*(699.4)*	*(586.6)*	*(112.8)*
Due from (to) the Lottery Proceeds Fund	*(67.3)*	*(8.8)*	*(58.5)*
Beginning Net Position, July 1, 2020	*($32.8)*	*($32.2)*	*($0.6)*
Ending Net Position, June 30, 2021	*($32.7)*	*($32.8)*	*$0.1*

($ in millions, differences due to rounding)

Sales

Virginia Lottery products fall into three major categories: instant-win scratch games, retail terminal generated games where results depend on the outcome of a random drawing process, and digital instants purchased by registered players within the geographical borders of Virginia. Scratch games are games in which players scratch off tickets to reveal whether they have won and include $1, $2, $3, $5, $10, $20, and $30 product offerings. Retail terminal games are games for which players purchase wagers for a chance to win prizes either instantly or from a subsequent drawing. Retail terminal games include Pick 3, Pick 4, Cash 5, Mega Millions, Powerball, Print 'n Play, Cash4Life®, Bank a Million, Virginia's New Year's Millionaire Raffle, and draw-based Keno. Beginning in July 2020, the internet iLottery platform offers Mega Millions, Powerball, Cash4Life®, and Pick 3 for single- or multiple-draw purchases, and digital instant games (eInstants) at a variety of price points and prize offerings. Digital eInstants represent the largest iLottery activity.

Table 4 compares sales for each Lottery product for fiscal years 2021 and 2020. Total sales revenue for Fiscal Year 2021 was higher, primarily from the new digital instants category available through iLottery.

TABLE 4	Fiscal Year 2021	Fiscal Year 2020	Change
Scratch Retail Sales	*$1,302.1*	*$1,166.8*	*11.6%*
Retail and Online Sales:			
Pick 3	*$390.3*	*$336.9*	*15.8%*
Pick 4	*376.1*	*322.4*	*16.6%*
Cash 5	*38.7*	*32.2*	*20.1%*
Print 'n Play	*61.7*	*75.5*	*(18.2%)*
Keno	*46.2*	*-*	*N/A*
eInstants (iLottery)	*758.3*	*-*	*N/A*
e-games (MobilePlay)	*-*	*2.3*	*N/A*
Virginia's New Year's Millionaire Raffle	*10.0*	*7.5*	*33.3%*
Bank a Million	*11.4*	*11.7*	*(2.5%)*
Cash4Life®	*31.3*	*27.4*	*14.1%*
Powerball	*103.4*	*76.1*	*35.9%*
Mega Millions	*129.5*	*89.8*	*44.2%*
Total Retail and Online Sales	*$1,956.9*	*$981.8*	*99.3%*
Total Sales	***$3,259.0***	***$2,148.6***	***51.7%***

($ in millions, differences due to rounding)

Scratch Game sales (40% of total sales) were higher than Fiscal Year 2020. Sales of all Lottery products, but particularly scratch games, were negatively affected in Fiscal Year 2020 by the growth of unregulated skill game machine presence in retail establishments that also sell Lottery products, and the retail interruptions from the COVID-19 health crisis late in Fiscal Year 2020. The regulation of skill games during Fiscal Year 2021, and the resumption of more routine activities possible through effective health protocols, supported the resumption of scratch game sales growth.

Daily Game total sales (Pick 3, Pick 4, and Cash 5) represented 25% of total product sales for the fiscal year and an increase of $113.5 million in sales from the prior year.

Mega Millions (4% of total sales) experienced higher sales, which were up $39.7 million from last year's total. This product is a multistate lotto-style game with long odds of winning the jackpot. Sales in this product are extremely dependent on the growth of the advertised jackpot, with sales increasing as jackpots exceed $500 million. During Fiscal Year 2021, there were seven jackpots won by seven winning tickets. Currently, 44 states, plus the District of Columbia and the U.S. Virgin Islands, sell Mega Millions.

Powerball (3% of total sales) experienced an increase in sales, which were up $27.34 million from last year. This product is similar to Mega Millions, a lotto-type game with long odds of winning the jackpot. During Fiscal Year 2021, there were seven jackpots won by seven winning tickets. Currently, 44 states plus the District of Columbia, Puerto Rico and the U.S. Virgin Islands, sell Powerball.

Print 'n Play is an instant-win computer terminal product line that plays similarly to a scratch game. There were a variety of games in this category during Fiscal Year 2021. The Print 'n Play portfolio of games represents 2% of total sales; though sales declined $13.7 million (18%) from the prior year, Fiscal Year 2021 was the second highest annual sales total for the Print 'n Play category.

Keno is a retail terminal-generated game where a player chooses how much to wager per drawing and chooses how many numbers to try to match. With random-number generated drawings every 4 minutes during sales hours (except during system processing time), prizes range from $1 to $100,000 on a $1 wager. Because players may wager up to $10 per bet, a wager can win up to $1 million. Keno launched on August 3, 2020, and generated $46.2 million in sales in its first year.

Virginia's New Year's Millionaire Raffle is a retail terminal-generated game with a limited offering of tickets and prizes. There is one Raffle drawing each year, and the winners are announced on January 1. Raffle sales represent less than 1% of total product sales. The number of Raffle tickets available was increased to 500,000 for the Fiscal Year 2021 Raffle drawing, which resulted in an increase of $2.5 million in sales (33%) over the prior year.

Cash4Life® tickets are offered at $2 per wager. Cash4Life® has a top prize of $1,000 a day for life and a second prize of $1,000 a week for life. Sales for the game increased $3.9 million, or 14%, compared to last year. Cash4Life® sales totaled $31.3 million in Fiscal Year 2021, which represented 1% of total product sales. During Fiscal Year 2021, New York, New Jersey, Pennsylvania, Maryland, Tennessee, Indiana, Florida, Georgia, Missouri, and Virginia sold Cash4Life®.

Bank a Million tickets are offered at $2 per wager, and players can choose to split that wager among up to four sets of numbers. Players try to match six numbers from a field of 40 to win a take-home top prize of $1,000,000 on a single $2 wager after the typical required tax withholdings (over $1.4 million gross prize value). Bank a Million sales totaled $11.4 million in Fiscal Year 2021, which represented less than 1% of total product sales.

MobilePlay digital games were offered in Fiscal Year 2020 to legally offer digital games to customers while on the premises of a licensed Lottery retailer. These products were discontinued at the end of Fiscal Year 2020 with the legal introduction of internet Lottery sales. The launch of iLottery eInstants in July 2020 resulted in first year sales of $758.3 million, which represented just over 23% of total product sales in the initial year of offering. eInstant games are available in a variety of play styles, and players can choose various wager amounts from $0.10 up to $20 or more to instantly win prizes.

Expenses

Prizes are the largest expense for the Virginia Lottery and vary with sales fluctuations and player luck. Nearly $0.68 of every sales dollar went toward prizes during Fiscal Year 2021, which was higher than the $0.61 of every sales dollar during the previous year. This change is consistent with the introduction of eInstants with higher prize payout rates as well as the growth in higher price-point scratch sales. In total, prize expense increased by nearly $889 million or more than 67% in Fiscal Year 2021.

A summary of the Business-type Lottery expenses for the fiscal years ending June 30, 2021, and June 30, 2020, is shown in Table 5.

Lottery Business-Type Expenses

TABLE 5	**Fiscal Year 2021**		**Fiscal Year 2020**		**Change**	
	$	**%**	**$**	**%**	**$**	**%**
Prize expense	*$2,206.8*	*88.5%*	*$1,318.1*	*84.7%*	*$888.7*	*67.4%*
Retailer compensation	*139.3*	*5.6%*	*120.7*	*7.8%*	*18.6*	*15.4%*
Operating expenses	*87.4*	*3.5%*	*79.9*	*5.1%*	*7.5*	*9.5%*
Instant Ticket & Gaming Services	*59.9*	*2.4%*	*37.6*	*2.4%*	*22.3*	*59.3%*
Total	***$2,493.5***	***100%***	***$1,556.3***	***100%***	***$937.2***	***60.2%***

($ in millions, differences due to rounding)

Retailer compensation expenses increased as a result of higher sales in Fiscal Year 2021. The overall retailer compensation rate was about the same as the prior year (5.6% of retail sales).

Operating expenses increased more than $7 million in Fiscal Year 2021. The Lottery has statutory authority to use up to 10% of sales for the administration of Business-type Lottery activities; however, these costs represented less than 5% of sales for the fiscal year.

Gaming services costs increased significantly in Fiscal Year 2021. These services are a combination of contractual arrangements constructed primarily as percentage of sales agreements which include expenses associated with the printing, warehousing, and distribution of scratch tickets. Total gaming services costs increased primarily due to the start of iLottery activities and associated costs in Fiscal Year 2021.

Other Income

TABLE 6	Fiscal Year 2021	Fiscal Year 2020	% Change
Interest Income	*$712.8*	*$2,103.2*	*(66.1%)*
Net Other Income	*511.5*	*404.3*	*26.5%*
Total	***$1,224.3***	***$2,507.5***	***(51.2%)***

($ in thousands, differences due to rounding)

Interest income is earned primarily on cash balances held and invested by the Virginia Department of Treasury on behalf of the Virginia Lottery. As Table 6 shows, interest income declined in Fiscal Year 2021 due to lower earnings rates.

Net other income is derived from securities lending income, as well as various fees assessed to retailers for licensing and processing fees, penalties for failure to remit monies owed when due, and other miscellaneous sources. Net other income grew over 26% percent in Fiscal Year 2021.

Net Income, and Transfers to the Lottery Proceeds Fund

In Fiscal Year 2021, net income from enterprise Business-type Lottery activities of the Virginia Lottery totaled $766.8 million. $699.4 million of Fiscal Year 2021 operating profits were transferred to the Lottery Proceeds Fund during the year, as established by the Appropriations Act. An amount of residual operating profits totaling $67.2 million is due to the Lottery Proceeds Fund and will be transferred in Fiscal Year 2022.

Total Net Position

Total net position presents the financial position of the Virginia Lottery for both the Governmental Gaming activities and the Business-type Lottery activities. All Business-type Lottery activity profits are constitutionally dedicated to Virginia public education, and profits are transferred to the Lottery Proceeds Fund as established by the Appropriations Act. The negative Net Position of the Lottery enterprise fund at year end reflects the Lottery's portion of net pension and other post-employment benefits liabilities. The Net Position of the Governmental Gaming activities reflects resources available to support the ongoing programs to which these resources are dedicated.

Statement of Cash Flows

The Statement of Cash Flows, summarized in Table 7, presents detailed information pertaining to the cash activity of the Virginia Lottery during the year. The first part of the statement reflects operating cash flows and shows the net cash provided by operating activities of the Virginia Lottery. Receipts from the sale of tickets and related services totaled $3,253.4 million. Uses of cash include payment of prizes to winners ($2,183.7 million) and payments to retailers, suppliers, and employees for goods and services ($262.0 million). The net cash provided by operating activities of $807.7 million represents a 38.7% increase compared to the reflectprior year.

The cash flows from the non-capital financing activities portion of the statement reflect the $732.7 million used for non-capital financing activities, the major portion of which is the $708.2 million in total transfers from the Virginia Lottery during the year. This amount represents the $699.4 million initial estimate of Fiscal Year 2021

Virginia Lottery profits for transfer to the Lottery Proceeds Fund prior to July 1, 2021, and the $8.8 million transfer of residual Fiscal Year 2020 profits. The Lottery also repaid the $25.0 million Treasury Loan taken from its available line of credit in Fiscal Year 2020.

Cash flows from capital financing activities reflect the purchase of capital and intangible assets acquired during the period ($4.0 million).

The $8.4 million in cash flows from investing activities reflect purchases of U.S. Treasuries to fund win-for-life Virginia Lottery winners ($3.6 million) and proceeds from maturing U.S. Treasuries previously purchased to fund Virginia Lottery winners ($11.3 million), and interest income on cash balances ($0.7 million). The net increase in cash flows from all activities totaled $79.4 million.

Statement of Cash Flows

TABLE 7

	Fiscal Year 2021	Fiscal Year 2020	% Change
Cash flows from:			
Operating activities	*$807.7*	*$582.2*	*38.7%*
Non-capital financing activities	*(732.7)*	*(588.0)*	*(24.6%)*
Capital financing activities	*(4.0)*	*(12.0)*	*66.6%*
Investing activities	*8.4*	*0.1*	*8300.0%*
Net change in cash	*$79.4*	*($17.7)*	*547.7%*
Ending cash and cash equivalents	***$89.2***	***$9.8***	***809.3%***

($ in millions, differences due to rounding)

Potentially Significant Factors Impacting Next Year

Virginia's gaming landscape changed significantly during 2020 with legislative approval of several expanded gaming options, including online sports wagering, development of as many as five land-based commercial casinos, and authorization for at least one additional year for as many as 10,000 previously unregulated skill machines to be licensed by the Virginia Alcoholic Beverage Control Authority to operate in retail settings. The 2020 General Assembly placed regulatory oversight for sports wagering and casino gaming with the Virginia Lottery, and also authorized the Lottery to begin offering many of its products online effective July 1, 2020. These changes authorized during Fiscal Year 2020 became realities during Fiscal Year 2021 with the start of online sports wagering in January 2021 and the successful referenda for four land-based casinos. However, additional changes are anticipated in the coming years.

Expanded gaming will continue to increase the activity directly managed and executed by the Lottery and create additional competition for traditional Lottery products. Virginia Lottery enterprise profits are constitutionally dedicated to public education, and tax revenues from sports betting, casino activity and skill-machine activity have been legislatively designated for other state and local priorities. Some land-based casino operations are expected to begin late in Fiscal Year 2022, and additional licensed sports betting operators will begin operations.

Finally, there is pending litigation surrounding the legislative ban on skill machines, the outcome of which could affect the sale of Lottery products and resulting profits from operations.

Contacting the Virginia Lottery

This financial report is designed to provide the legislative and executive branches of government, the public, and other interested parties with an overview of the financial results of the Virginia Lottery's activities and to demonstrate the Virginia Lottery's accountability for its revenues. If there are any questions about this report or any Virginia Lottery financial issue, please contact the Director of Finance at the Virginia Lottery, 600 E. Main St., Richmond, VA 23219.

Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 15, 2021

The Honorable Glenn Youngkin
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

Virginia Lottery Board
Virginia Lottery

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major enterprise fund, and the remaining fund information of the **Virginia Lottery** as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Virginia Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major enterprise fund, and the remaining fund information of the Virginia Lottery as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Relationship to the Commonwealth of Virginia

As discussed in Note 1A, the basic financial statements of the Virginia Lottery are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, the major enterprise fund, and the aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the Virginia Lottery. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2021, and the changes in its financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

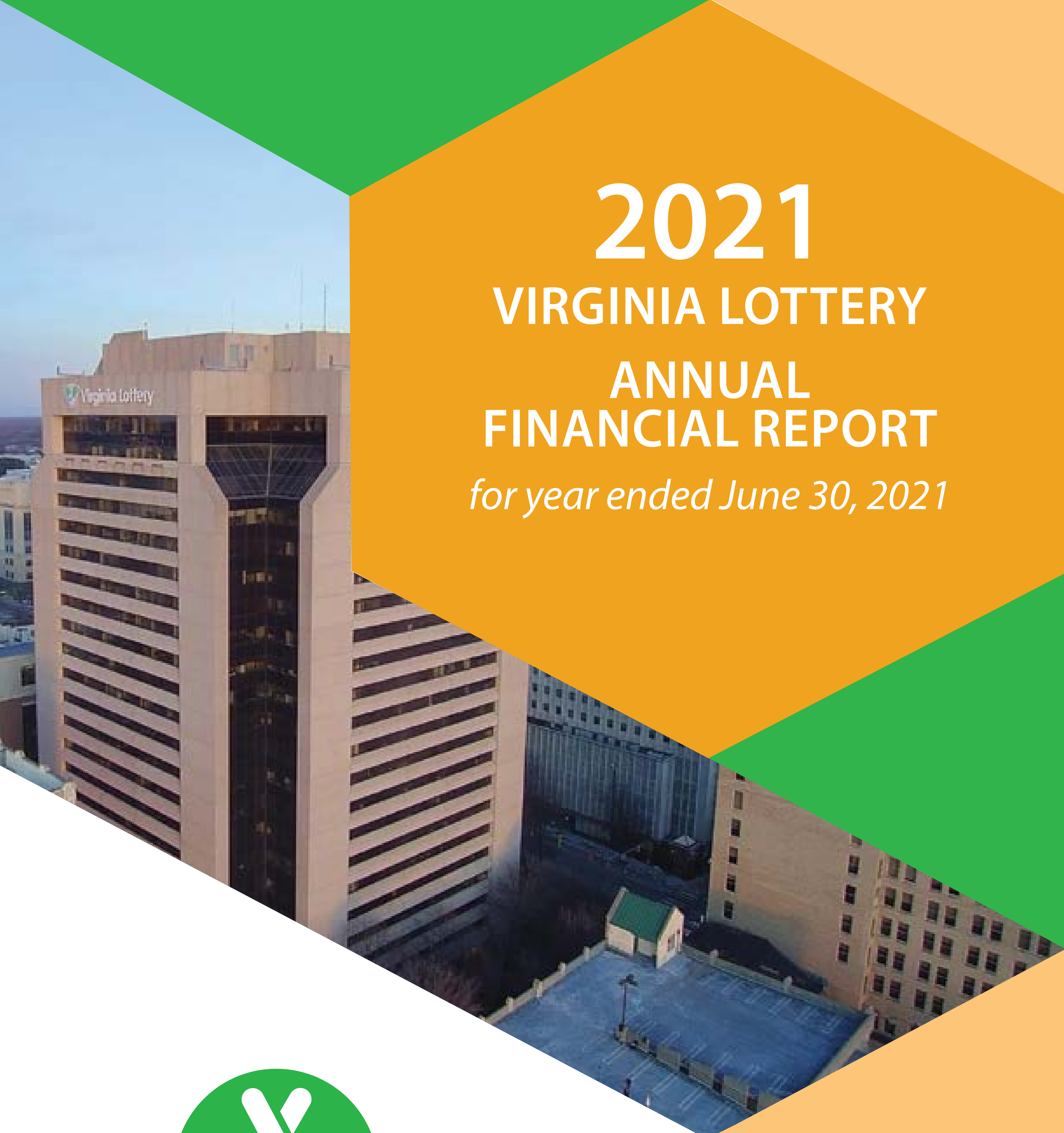
Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 3 through 10; the Schedule of Virginia Lottery's Share of Net Pension Liability, the Schedule of Virginia Lottery Contributions to VRS State Employee Retirement Plan, and the Virginia Lottery Notes to Required Supplementary Information on pages 75 through 76; the Schedule of Virginia Lottery's Share of Net OPEB Liability, the Schedule of Virginia Lottery's Contributions, and the Virginia Lottery Notes to Required Supplementary Information for the Health Care Insurance Credit, Group Life Insurance, Disability Insurance, and Line of Duty Act programs on pages 77 through 87; and, the Schedule of Virginia Lottery's Share of Total OPEB Liability and the Virginia Lottery Notes to the Required Supplementary Information for the Pre-Medicare Retiree Healthcare program on page 87. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2021, on our consideration of the Virginia Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Virginia Lottery's internal control over financial reporting and compliance.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

LDJ/clj



2021
VIRGINIA LOTTERY
ANNUAL FINANCIAL REPORT

for year ended June 30, 2021

VIRGINIA LOTTERY™

VIRGINIA LOTTERY: STATEMENT OF NET POSITION (audited)

As of June 30, 2021

ASSETS & DEFERRED OUTFLOWS OF RESOURCES	Govermental Gaming Activities	Business-Type Lottery Activites	Total Entity Activities
Current Assets:			
Cash and Cash Equivalents (2)	$4,797,551	$89,198,655	$93,996,206
Cash Held as Collateral: (2)			
Lottery Securities Lending	-	65,270,048	65,270,048
Treasury Securities Lending	-	7,788,267	7,788,267
Accounts Receivable	-	90,529,212	90,529,212
Instant Ticket Inventory (4)	-	2,421,155	2,421,155
Prepaid Expenses	-	753,676	753,676
Short-term U.S. Treasuries (2)	-	11,156,790	11,156,790
Total Current Assets	4,797,551	267,117,803	271,915,354
U.S. Treasuries (2)	-	105,776,861	105,776,861
Net OPEB Asset (16)	12,738	1,022,908	1,035,646
Capital Assets (3)			
Equipment and Intangible Assets	685,237	39,887,835	40,573,072
Less: Accumulated Depreciation/Amortization	(52,910)	(24,889,351)	(24,942,261)
Net Capital Assets	632,327	14,998,484	15,630,811
TOTAL ASSETS	$5,442,616	$388,916,056	$394,358,672
Deferred outflows related to pension (12)	$269,649	$8,130,617	$8,400,266
Deferred outflows related to OPEB (16)	18,627	1,595,220	1,613,847
TOTAL DEFERRED OUTFLOWS	$288,276	$9,725,837	$10,014,113
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	**$5,730,892**	**$398,641,893**	**$404,372,785**
LIABILITIES & DEFERRED INFLOWS OF RESOURCES			
Current Liabilities:			
Accounts Payable (11)	$532,753	$29,883,905	$30,416,658
Due to the Lottery Proceeds Fund (6)	-	67,283,046	67,283,046
Accrued Compensated Absences (7)	16,422	1,515,558	1,531,980
Obligations Under Securities Lending: (2)			
Lottery	-	65,270,048	65,270,048
Treasury	-	7,788,267	7,788,267
Prizes Payable: (8)			
U.S. Treasuries Prizes Payable - Current	-	11,156,790	11,156,790
Other Prizes Payable	-	96,868,613	96,868,613
Unearned Revenue	-	1,537,107	1,537,107
Total Current Liabilities	549,175	281,303,334	281,852,509
Noncurrent Liabilities:			
U.S. Treasuries Prizes Payable (8)	-	105,776,861	105,776,861
Net Pension Liability (12)	1,114,683	33,610,644	34,725,327
OPEB Liability (16)	77,842	6,424,759	6,502,601
Accrued Compensated Absences (7)	60,846	812,953	873,799
TOTAL LIABILITIES	$1,802,546	$427,928,551	$429,731,097
Deferred Inflows related to pension (12)	$13,892	$418,874	$432,766
Deferred Inflows related to OPEB (16)	36,926	3,000,999	3,037,925
TOTAL DEFERRED INFLOWS	$50,818	$3,419,873	$3,470,691
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	**$1,853,364**	**$431,348,424**	**$433,201,788**
NET POSITION:			
Net Investment in Capital Assets	$632,327	$14,998,484	$15,630,811
Unrestricted	3,232,463	(48,727,923)	(45,495,460)
Restricted OPEB	12,738	1,022,908	1,035,646
TOTAL NET POSITION	**$3,877,528**	**$(32,706,531)**	**$(28,829,003)**

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA LOTTERY: STATEMENT OF ACTIVITIES (audited)

For Fiscal Year Ended June 30, 2021

		PROGRAM REVENUES	NET (EXPENSE) REVENUE & CHANGES IN NET POSITION		
FUNCTIONS / PROGRAMS	*Expenses*	*Charges for Services*	*Govermental Activities*	*Business-Type Activites*	*Total*
Governmental:					
Gaming Activities	*$7,266,713*	*$11,134,206*	*$3,867,493*	*$-*	*$3,867,493*
Business-Type:					
Lottery Activities	*2,493,372,298*	*3,258,976,012*	*-*	*765,603,714*	*765,603,714*
Total	*2,500,639,011*	*3,270,110,218*	*3,867,493*	*765,603,714*	*769,471,207*
General Revenues					
Interest Income			*10,035*	*712,788*	*722,823*
Other Income			*-*	*511,535*	*511,535*
Transferred to the Lottery Proceeds Fund			*-*	*(699,449,757)*	*(699,449,757)*
Due from (to) the Lottery Proceeds Fund			*-*	*(67,283,046)*	*(67,283,046)*
Total General Revenues and Transfers			*10,035*	*(765,508,480)*	*(765,498,445)*
Change in Net Position			*3,877,528*	*95,234*	*3,972,762*
Net Position - July 1			*-*	*(32,801,765)*	*(32,801,765)*
Net Position - June 30			*$3,877,528*	*$(32,706,531)*	*$(28,829,003)*

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA LOTTERY: GOVERNMENTAL FUNDS BALANCE SHEET (audited)

As of June 30, 2021

		Gaming Fund
ASSETS		
Cash and Cash Equivalents (2)		*$ 4,797,551*
TOTAL ASSETS		***$ 4,797,551***
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts Payable (11)		*380,995*
Accrued Payroll Payable (11)		*151,758*
FUND BALANCE:		
Committed		*$ 4,264,798*
TOTAL FUND BALANCE		***$ 4,264,798***
TOTAL LIABILITIES AND FUND BALANCE		***$ 4,797,551***
Amounts reported for governmental gaming activities in the Statement of Net Position are different because:		
Capital Assets (net of accumulated amortization/depreciation) are not financial resources and, therefore, are not reported in the funds		*632,327*
Net other postemployment asset is not a financial resource and, therefore, is not reported in the funds		*12,738*
Long-term liabilities are not due and payable in the current period and; therefore, are not reported in the funds. Those liabilities consist of:		
Compensated absences	*(77,268)*	
Net pension liability	*(1,114,683)*	
Net OPEB liabilities	*(77,842)*	*(1,269,793)*
Deferred outflows related to pension are not required to be reported in the funds but are required to be reported at the government-wide level		*269,649*
Deferred outflows related to other postemployment activities are not required to be reported in the funds but are required to be reported at the government-wide level		*18,627*
Deferred inflows to pension are not required to be reported in the funds but are required to be reported at the government-wide level		*(13,892)*
Deferred inflows other postemployment activities are not required to be reported in the funds but are required to be reported at the government-wide level		*(36,926)*
NET POSITION OF GOVERNMENTAL GAMING ACTIVITIES		***$ 3,877,528***

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA LOTTERY: STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCE (audited)

For Fiscal Year Ended June 30, 2021

		Gaming Fund
Revenues:		
License and Application Fees		$ 11,134,206
Interest Income		10,035
Total Revenues		11,144,241
Expenditures:		
General and Administrative		6,879,443
Net change in fund balance		4,264,798
Fund balance, July 1, 2020		-
Fund balance, June 30, 2021		$ 4,264,798

Amounts reported for governmental gaming activities in the Statement of Activities are different because:

Net increase (decrease) in fund balance of governmental fund:		4,264,798

Governmental funds report capital outlays as expenditures; however, on the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as amortization/depreciation expense. This amount represents the difference between amortization/depreciation expense and capital outlay expenditures. The details of this difference are as follows:

Capital outlay	685,237	
Amortization/Depreciation expense	(52,910)	632,327

Some expenses (recoveries) reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of these differences are as follows:

Compensated absences		(77,268)
Other post-employment benefits:		
Net OPEB asset	12,738	
Net OPEB liability	(77,842)	
Deferred outflows related to OPEB	18,627	
Deferred inflows related to OPEB	(36,926)	(83,403)
Pension:		
Net pension liability	(1,114,683)	
Deferred outflows related to pension	269,649	
Deferred inflows related to pension	(13,892)	
		(858,926)
CHANGE IN NET POSITION OF GOVERNMENTAL GAMING ACTIVITIES		$ 3,877,528

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA LOTTERY: STATEMENT OF NET POSITION - ENTERPRISE FUND (audited)

As of June 30, 2021

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	
Current Assets:	
Cash and Cash Equivalents (2)	*$ 89,198,655*
Cash Held as Collateral: (2)	
Lottery Securities Lending	*65,270,048*
Treasury Securities Lending	*7,788,267*
Accounts Receivable	*90,529,212*
Instant Ticket Inventory (4)	*2,421,155*
Prepaid Expenses	*753,676*
Short-term U.S. Treasuries (2)	*11,156,790*
Total Current Assets	*267,117,803*
U.S. Treasuries (2)	*105,776,861*
Net OPEB Asset (16)	*1,022,908*
Capital Assets (3)	
Equipment and Intangible Assets	*39,887,835*
Less: Accumulated Depreciation/Amortization	*(24,889,351)*
Net Capital Assets	*14,998,484*
TOTAL ASSETS	*$ 388,916,056*
Deferred outflows related to pension (12)	*$ 8,130,617*
Deferred outflows related to OPEB (16)	*1,595,220*
TOTAL DEFERRED OUTFLOWS	*$ 9,725,837*
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	***$ 398,641,893***
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Current Liabilities:	
Accounts Payable (11)	*$ 29,883,905*
Due to the Lottery Proceeds Fund (6)	*67,283,046*
Accrued Compensated Absences (7)	*1,515,558*
Obligations Under Securities Lending: (2)	
Lottery	*65,270,048*
Treasury	*7,788,267*
Prizes Payable: (8)	
U.S. Treasuries Prizes Payable - Current	*11,156,790*
Other Prizes Payable	*96,868,613*
Unearned Revenue	*1,537,107*
Total Current Liabilities	*281,303,334*
Nonurrent Liabilities:	
U.S. Treasuries Prizes Payable (8)	*105,776,861*
Net Pension Liability (12)	*33,610,644*
OPEB Liability (16)	*6,424,759*
Accrued Compensated Absences (7)	*812,953*
TOTAL LIABILITIES	*$ 427,928,551*
Deferred inflows related to pension (12)	*$ 418,874*
Deferred inflows related to OPEB (16)	*3,000,999*
TOTAL DEFERRED INFLOWS	*$ 3,419,873*
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	***$ 431,348,424***
NET POSITION	
Net investment in capital assets	*$ 14,998,484*
Unrestricted	*(48,727,923)*
Restricted	*1,022,908*
TOTAL NET POSITION	***$(32,706,531)***

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA LOTTERY: STATEMENT OF ENTERPRISE FUND REVENUES, EXPENSES, & CHANGES IN NET POSITION (audited)

For Fiscal Year Ended June 30, 2021

Operating Revenues:	
Ticket Sales	*$ 3,258,976,012*
Less:	
Prize Expense	*2,206,746,751*
Retailer Compensation	*139,282,384*
Instant Ticket & Gaming Services	*59,912,682*
Gross Margin	*853,034,195*
Operating Expenses:	
Advertising and Promotion	*34,038,661*
General and Administrative	*46,543,627*
Depreciation	*6,848,193*
Total Operating Expenses	*87,430,481*
Income from Operations	*765,603,714*
Non-Operating Revenues:	
Interest Income	*712,788*
Net Other Income	*511,535*
Total Non-Operating Revenues	*1,224,323*
Net Income (6)	*766,828,037*
Transferred to the Lottery Proceeds Fund	*(699,449,757)*
Due from (to) the Lottery Proceeds Fund	*(67,283,046)*
Total Net Position, July 1, 2020	*(32,801,765)*
Net Position, June 30, 2021	*$ (32,706,531)*

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA LOTTERY: STATEMENT OF CASH FLOWS (audited)

For the Year Ended June 30, 2021

Cash flows from operating activities:	
Cash received from ticket sales	*$ 3,253,434,597*
Cash payments for prizes	*(2,183,706,828)*
Discounts for retailer compensation	*(139,282,384)*
Cash payments to supplier of instant and online services	*(55,022,562)*
Cash payments to suppliers of other goods and services	*(21,466,679)*
Cash payments to employees for services	*(35,906,003)*
Cash payments to the Literary Fund for unclaimed prizes (10)	*(10,323,581)*
Net cash provided by operating activities	*807,726,560*
Cash flows from noncapital financing activities:	
Proceeds from other income	*511,535*
Repayment of Treasury Loan	*(25,000,000)*
Transfers to the Lottery Proceeds Fund	*(708,231,123)*
Net cash used by noncapital financing activities	*(732,719,588)*
Cash flows from capital financing and related activities:	
Acquisition of capital assets	*(4,027,515)*
Net cash used for capital financing activities	*(4,027,515)*
Cash flows from investing activities:	
Purchase of U.S. Treasuries	*(3,634,965)*
Proceeds from maturing U.S. Treasuries	*11,327,000*
Interest proceeds from cash balances	*712,788*
Net cash provided by investing activities	*8,404,823*
Net increase in cash and cash equivalents	*79,384,280*
Cash and cash equivalents at July 1	*9,814,375*
Cash and cash equivalents at June 30	*89,198,655*
Reconciliation of operating income to net cash provided by operating activities:	
Income from operations	*765,603,714*
Adjustments to reconcile operating income to net cash:	
Depreciation	*6,848,193*
Accreted interest on U.S. Treasuries	*(4,754,340)*
Pension expense, net of employer contributions	*657,192*
OPEB recovery, net of employer contributions	*(752,426)*
Changes in assets, liabilities and deferred inflows/outflows:	
(Increase) in accounts receivable	*(5,109,194)*
Decrease in instant ticket inventory	*4,890,120*
(Increase) in prepaid expenses	*(72,858)*
Increase in accounts payable	*13,061,397*
Increase in current prizes payable	*30,772,660*
(Decrease) in unearned revenue	*(432,221)*
(Decrease) in accrued compensated absences	*(7,280)*
(Decrease) in noncurrent prizes payable	*(2,978,397)*
Net cash provided by operating activities	*$ 807,726,560*
Non-cash investing, capital and financing activities:	
Loss on Disposal of capital assets	*$ 10,722*

The accompanying Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

(as of June 30, 2021)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Lottery (originally State Lottery Department) was established by Chapter 531 of the 1987 Acts of Assembly and operates as an Independent agency in accordance with the provisions of Chapter 40 of Title 58.1 of the *Code of Virginia*. The 2020 Acts of Assembly contained significant revisions to the scope of the Virginia Lottery responsibilities, adding Sports Betting as Article 2 of Chapter 40, and establishing Chapter 41 outlining responsibilities for the regulation of specific approved casino gaming in Virginia.

The Virginia Lottery continues to operate lottery games, including multi-state games and iLottery offerings, with the financial activity reported as an enterprise activity. The Virginia Lottery participates in three multi-state games (Mega Millions, Powerball and Cash4Life®). Mega Millions and Powerball member lotteries include California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, Ohio, Virginia, Washington and the Multi-State Lottery (MUSL) Group. Cash4Life® member lotteries include Florida, Georgia, Indiana, Maryland, Missouri, New Jersey, New York, Pennsylvania, Tennessee and Virginia. The financial activity included in the financial statements reflects only Virginia's portion of these multistate games. Separate agreed-upon procedures reports are issued for Cash4Life®, Mega Millions, and Powerball.

In addition to the enterprise activity, the financial statements include governmental fund activity associated with the regulation of sports betting (which began in January 2021) and will include activity associated with the regulation of casino gaming in the future. The taxes assessed on these regulated activities are not reported in these financial reports but are accounted for as part of the Commonwealth's General and Problem Gambling Treatment and Support funds.

A separate report is prepared for the Commonwealth, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Virginia Lottery is an agency of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

B. Measurement Focus and Basis of Accounting

The accompanying financial statements are presented using the accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The Virginia Lottery's entity-wide and enterprise fund financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the full accrual basis revenues are recognized when earned and expenses when incurred. Online ticket revenue, which includes sales of tickets generated through Lottery terminals and purchases over the internet by registered players, is recognized as corresponding drawings are held. Instant ticket revenue, which includes sales of instant-win preprinted tickets, is recognized when tickets are activated for sale to the public by retailers. Revenue for internet sales of Instants, which are instant-win digital games, is recognized when games are purchased.

The Virginia Lottery's governmental fund financial statements have been prepared using the current resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current expenditures. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Virginia Lottery considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized when liabilities are incurred; however, expenditures related to compensated absences are recorded only when the payment is due.

C. Deferred Outflows/Inflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources have a positive effect on net position similar to assets. Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position similar to liabilities. Contributions subsequent to the measurement date for Pensions and Other Post-Employment Benefits (OPEB) are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year. Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension or OPEB liability will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate. Differences resulting from a change in proportion of the collective net pension and OPEB liabilities will be recognized in pension and OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow as appropriate. Differences between projected and actual earnings on pension and OPEB plan investments will be recognized in pension or OPEB expense over the closed five-year period and may be reported as a deferred outflow or inflow as appropriate. Differences resulting from changes in assumptions on pension plan or OPEB investments will be recognized in pension or OPEB expense over the estimated remaining service life of employees subject to the plan.

D. Revenue and Expense Classifications

In the enterprise fund statements, operating revenues and expenses include activities related to the sale of lottery tickets. Operating expenses include prizes to winners, compensation to retailers, and ticket-printing costs. Non-operating revenues and expenses include activities that have the characteristics of investing transactions and capital and non-capital financing activities as defined by Governmental Accounting Standards Board (GASB) Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34. Additionally, non-operating revenues include interest income from its cash balances held with the Treasurer of Virginia.

In the governmental fund statements, revenues and expenditures include activities related to the issuance of sports betting licenses. Expenditures also include the indirect cost of shared personnel services and rent, which represents supporting services of the Virginia Lottery in its regulation of sports betting. Expenditures that are attributable to one or more fund or supporting services of the Virginia Lottery include departments of the Executive Director, General Counsel, Internal Audit and Security, Administration, Finance, Public Affairs and Community Relations and Information Technology Services. Shared service costs are allocated to the funds using a methodology based on the proportional headcount of direct-allocated full time employees for each fund.

E. Fund Accounting

The main activities of the Virginia Lottery are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

The Gaming activities of the Virginia Lottery are accounted for in a special revenue fund. The special revenue fund accounts for transactions related to resources received and used for a committed or specific purpose. The Virginia Lottery's Gaming Fund accounts for financial resources related to the regulation of sports betting and casino activities. The Fund balance in the special revenue fund is committed to the operation of these activities. With the implementation of GASB No. 54, the fund balance classifications are reported as Non-spendable, Restricted, Committed, Assigned, and Unassigned. The Committed fund balance includes amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority through enabling legislation. The highest level of decision authority for the Commonwealth is the General Assembly and the Governor of Virginia.

F. Cash, Cash Equivalents and U.S. Treasuries

The Virginia Lottery's cash and cash equivalents are considered to be cash on hand, cash with the Treasurer of Virginia and deposits.

Statutes authorize the Virginia Lottery to invest in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the Virginia Lottery may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's, Incorporated; overnight term or open repurchase agreements; and money market funds comprised of U.S. Treasuries, which are otherwise legal U.S. Treasuries of the Virginia Lottery.

U.S. Treasuries, both current and long-term, consist of U.S. Treasury STRIPS purchased to fund individual jackpot and "For Life" prizes. U.S. Treasuries are valued at cost plus accrued interest, not at fair-market value, because it is management's intention to hold these U.S. Treasuries to maturity to match the future payment obligations to winners.

G. Capital Assets

Equipment, property and intangible assets are capitalized and depreciated/amortized on a straight-line basis over their estimated useful lives and are valued at historical or amortized cost. The Virginia Lottery capitalizes all equipment and property assets that have a cost or value equal to or greater than $5,000 and an expected useful life of more than one year. The capitalization threshold for intangible assets is the value equal to or greater than $100,000 of the cost. Capital asset depreciation has been provided over the estimated useful lives using the straight-line method annually as follows:

	Estimated Useful Life in Years
Machinery, Furniture, and Equipment	3 - 15
Intangibles	3 - 10

H. Significant Contracts

The Virginia Lottery has contracted with vendors for the majority of the gaming systems and supplies.

The Virginia Lottery competitively executed a contract with International Game Technology PLC (IGT) to provide and operate the gaming system and network effective beginning October 28, 2017. IGT has established a facilities-management agreement with the Lottery through which IGT installs and manages retailer equipment and manages transaction-processing systems to record transactions originating throughout the Commonwealth. IGT also provides various professional services, software development and testing support, backup data processing, and a comprehensive satellite communications network to support gaming-systems operations. Primarily a percentage of sales agreement, IGT will receive 0.7840% of total net sales that are processed through the IGT system, 0.4375% of net instant game ticket sales for the warehousing and distribution of scratch tickets and has a total estimated contract value of $213,000,000 for the 7-year contract period.

The Virginia Lottery has contracted with IGT Corporation, as of July 1, 2020, for the printing of scratch tickets. IGT receives a fee of 0.48% of the net scratch game tickets distributed and then activated by retailers. The total estimated contract value is $30,000,000 for the 6-year contract period.

The Virginia Lottery has amended its contract with NeoPollard Interactive LLC (NPI) for the development and support of iLottery online gaming effective beginning July 1, 2020. NPI receives an Instant Games Content Fee of 5% of Net Gaming Revenue for all online Instant games provided by NPI, plus a System Fee of 10.80% of Net Gaming Revenue for all wagering transactions processed except for draw-based games designed with prize payouts of 60% or less. For those draw-based games, NPI receives a Content Fee of 4.95% of gross sales. The total estimated contract value is $40,000,000 for a 6-year contract period.

I. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan is a single-employer pension plan that is treated like a cost-sharing plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Other Post-Employment Benefits

State Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) State Employee Health Insurance Credit Program is a single-employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees. For purposes of measuring the net State Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee Health Insurance Credit Program OPEB, and the State Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Health Insurance Credit Program; and the additions to/deductions from the VRS State Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

VRS Disability Insurance Program

The Virginia Retirement System (VRS) Disability Insurance Program (Virginia Sickness and Disability Program) is a single-employer plan that is presented as a multiple-employer, cost-sharing plan. The Disability Insurance Program was established pursuant to §51.1-1100 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The Disability Insurance Program is a managed-care program that provides sick, family and personal leave and short-term and long-term disability benefits for State Police Officers, state employees, and VaLORS employees. For purposes of measuring the net Disability Insurance Program OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to the Disability Insurance Program OPEB, and Disability Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Disability Insurance Program OPEB Plan and the additions to/deductions from the VRS Disability Insurance Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple-employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined-benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pre-Medicare Retiree Healthcare Plan

Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial-reporting purposes. This program was established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management. After retirement, the Virginia Lottery no longer subsidizes the retiree's premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

Line of Duty Act Program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The Line of Duty Act Program was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, which provides the authority under which benefit terms are established or may be amended. The Line of Duty Act Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net Line of Duty Act Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Line of Duty Act Program OPEB, and Line of Duty Act Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Line of Duty Act Program OPEB Plan and the additions to/deductions from the VRS Line of Duty Act Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Accounts Receivable

The Lottery has an accounts receivable account that consists of proceeds from ticket sales by its retailers. Retailers have from one to three weeks from the activation of those tickets for sale to transfer funds to the Lottery for the sale of those tickets. All Lottery retailers have a surety bond to protect Lottery assets, and funds collected by retailers on behalf of the Lottery are legal trust funds. Uncollected receivables are virtually non-existent.

2. CASH AND CASH EQUIVALENTS AND U.S. TREASURIES

Cash and cash equivalents represent cash with the Treasurer of Virginia and deposits. Cash with the Treasurer of Virginia is held pursuant to Section 2.2-1800, et seq., *Code of Virginia*. These funds are held in pooled accounts and, accordingly, are not categorized as to credit risk as defined by GASB Statement 40. Cash on deposit is held in demand deposit accounts maintained for prize payments and is covered by federal depository insurance with the balance in excess of this insurance collateralized in accordance with the Virginia Security for Public Deposits Act. Under this Act, banks holding public deposits in excess of FDIC limits pledge collateral to the Department of the Treasury based on the provisions of the Security for Public Deposits Act and Treasury policies. As of June 30, 2021, the total cash and cash equivalents equaled $93,996,206. This included petty cash on hand of $1,007.

In accordance with the State Treasurer and the Virginia Lottery's investment policy, funds are invested in U.S Treasury obligations for the purpose of payment of deferred prizes to winners. The U.S. Treasuries held for future prize payments are available for lending to broker-dealers and other entities (borrowers) for cash collateral that will be returned for the same securities in the future.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the state and Virginia Lottery will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All security loan agreements are collateralized at loan inception at no less than 100 percent of market value by cash or U.S. government obligations and adjusted to market daily, at a minimum, to cover market value fluctuations. Collateral cash is invested in accordance with the investment policies of the State Treasury Board of the Commonwealth of Virginia, and credit rating categories are detailed as part of this footnote. Management assumes reasonable credit risk in the U.S. Treasuries, and fluctuations in market conditions may value the invested cash Collateral less than the original investment.

Interest Rate Risk - Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. The U.S. Treasuries in prize annuities are subject to fluctuations in fair value due to interest rate risk, but these bonds are held to maturity to satisfy annual installment obligations to the prize winners. The fair value at maturity is the face value of the bonds, regardless of the fluctuations in the value during the time period that the U.S. Treasuries are outstanding.

U.S. Treasuries consist of the following:

	Credit Rating: ***Unrated***
Prize annuities:	
Treasury bonds	*$116,933,651*

U.S Treasuries:	*Less than 1 year*	*1-5 years*	*6-10 years*	*11-20 years*	*Over 20 years*
Prize annuities:					
Treasury bonds(1)	*11,156,790*	*45,704,948*	*35,785,628*	*17,813,014*	*6,473,271*

(1) Virginia Lottery prize annuities of U.S. Treasuries are insured or registered, or for which the securities are held by the Virginia Lottery or its safekeeping agent in the Virginia Lottery's name. All annuities of U.S. Treasuries are made through the U.S. government and agency securities that are explicitly guaranteed by the U.S. government.

Securities Lending

Securities Lending – Collateral for securities lending reported on the statement of net position represents cash collateral received by the Lottery that is subsequently reinvested through the State Treasury's securities lending program. The Commonwealth's policy is to record unrealized gains and losses for the State Treasury's securities lending program in the General Fund in the Commonwealth's basic financial statements.

When the Commonwealth realizes gains or losses, or when it determines that a security is other than temporarily impaired, the State Treasury allocates the actual gains and losses to the affected agencies for recording. Detailed information related to the credit risk of these investments and the State Treasury's securities lending program is available on a statewide level in the Commonwealth of Virginia's Annual Comprehensive Financial Report.

3. CAPITAL ASSETS

The following schedule presents the changes in capital assets.

	Balance as of July 1, 2020	Additions	Reductions	Balance as of June 30, 2021
BUSINESS-TYPE LOTTERY ACTIVITIES:				
Equipment Assets	$27,580,651	$2,627,515	$(1,714,668)	$28,493,498
Intangible Assets	9,994,337	1,400,000	-	11,394,337
Total Equipment and Intangible Assets	$37,574,988	$4,027,515	$(1,714,668)	$39,887,835
Less: Accumulated Depreciation/ Amortization for Assets	19,745,054	6,848,193	(1,703,896)	24,889,351
Net Capital Assets	$17,829,934	$(2,820,678)	$(10,772)	$14,998,484
GOVERNMENTAL GAMING ACTIVITIES:				
Intangible Assets	$-	$685,237	$-	$685,237
Total Intangible Assets	$-	$685,237	$-	$685,237
Less: Accumulated Amortization for Assets	-	52,910	-	52,910
Net Capital Assets	$-	$632,327	$-	$632,327

4. INSTANT-TICKET INVENTORY

Inventories are valued at actual cost and are expensed over the life of each game as instant-win scratch tickets are activated for sale by retailers.

5. LINE OF CREDIT

The State Comptroller has provided the Virginia Lottery with a line of credit not to exceed $56 million in accordance with Section 3-2.03 of the 2021 Appropriation Act, 2021 Special Session 1 Virginia Acts of Assembly – Chapter 552 to fund administrative and operating expenses in the event unreserved cash is insufficient to cover these short-term costs. There were no outstanding borrowings during the year ended June 30, 2021.

6. DUE FROM/ (TO) THE LOTTERY PROCEEDS FUND

The amount due from/(to) the Lottery Proceeds Fund represents Virginia Lottery net income payable to the Commonwealth of Virginia's Lottery Proceeds Fund in accordance with the 2021 Appropriation Act, 2021 Special Session 1 Virginia Acts of Assembly – Chapter 552, and Section 58.1-4022.1, *Code of Virginia*. The Lottery Proceeds Fund is a special non-reverting fund established solely for the purpose of public education in the Commonwealth. For the year ended June 30, 2021, the net income for transfer to the Lottery Proceeds Fund was $766,732,803, with a net income transfer through June 30 of $699,449,757 and a balance due to the Lottery Proceeds Fund of $67,283,046.

The total amount of $766,732,803 transferred/due to the Lottery Proceeds Fund is based on the Lottery's Net Income prior to adjustments made to General and Administrative Expenses for changes in Pension due to

GASB 68 ($1,467,451), changes in OPEB due to GASB 75 (-$660,630), and the Pension/OPEB allocation to Gaming Governmental Activities (-$902,055). The changes in Pension due to GASB 68 and the changes in other post-employment benefit expenses due to GASB 75 represent the net effect of the adjustment necessary to record the Pension and OPEB related activity under GASB 68 and GASB 75 respectively. The Virginia Lottery made an allocation of $902,055 from Lottery Activities to Gaming Governmental Activities to account for the allocation of Pension and Other Post-Employment Benefits for dedicated gaming employees. This adjustment represents the net effect of the allocations necessary to record pension and OPEB related activity under GASB 68 and GASB 75 in the appropriate fund. The net adjustment made to Operating Expenses was (-$95,234). While this adjustment increases the Net Income shown on the financial statements, it does not affect the total amount due to the Lottery Proceeds Fund.

7. COMPENSATED ABSENCES

Compensated absences represent the amounts of vacation, sick and compensatory leave earned by employees of the Virginia Lottery but not taken at June 30, 2021. Compensated absences were calculated in accordance with GASB Statement 16, *Accounting for Compensated Absences*. The amount reflects all earned leave payable under the Virginia Lottery's leave payout policies. Information on the Commonwealth's leave policy is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

	Balance as of July 1, 2020	Increases	Decreases	Balance as of June 30, 2021	Due Within One year
Business-Type Lottery Activities	$2,335,791	1,783,614	(1,790,894)	$2,328,511	$1,515,558
Governmental Gaming Activities	-	92,590	(15,322)	77,268	16,422
	$2,335,791	1,876,204	(1,806,216)	$2,405,779	$1,531,980

8. PRIZES PAYABLE

Jackpot prize annuities are paid in 20, 25, 26, or 30 installments. The first installment is paid on or about the day the prize is claimed. The subsequent annual payments are funded with U.S. Treasury STRIPS purchased by the Virginia Lottery following a winner's irrevocable election of an annuity option. Jackpot winners also have the option of accepting their winnings in a lump sum cash payout. "For Life" prizes payable represents estimated prizes payable monthly, quarterly, or annually for the life of the winner based on life expectancy tables from the Virginia Bureau of Insurance and funded with a pool of U.S. Treasury STRIPS.

U.S. Treasuries prizes payable represents the future annual prize payments valued at cost plus accrued interest (current value of securities held to maturity) of the investment securities funding the payments.

U.S. Treasuries Prizes Payable
Balance as of June 30, 2021

	Jackpot	Instant For Life	Online For Life	Total
Due within one year	$5,650,948	$3,710,129	$1,795,713	$11,156,790
Due in subsequent years	34,992,786	43,343,852	27,440,223	105,776,861
Total (current value)	40,643,734	47,053,981	29,235,936	116,933,651
Add: Interest to maturity	10,936,266	18,423,019	8,662,064	38,021,349
Total at Maturity	$51,580,000	$65,477,000	$37,898,000	$154,955,000

Other prizes payable represents prizes won but not yet claimed, from drawings or other games which may or may not have ended, and where these prizes are redeemable for up to 180 days after the drawing or game end. "For Life" prizes, for which bonds have not yet been purchased, are also reported as other prizes payable.

Prizes payable increases when jackpot winners select annuities and securities are purchased. Prizes payable decreases when securities mature to pay prior jackpot winners.

The following schedule presents the changes in U.S. Treasuries prizes payable.

Balance As Of July 1, 2020	Increases	Decreases	Balance As Of June 30, 2021
$119,871,345	$3,634,965	$6,572,659	$116,933,651

9. OPERATING LEASE COMMITMENTS

The Virginia Lottery is committed under various operating lease agreements. The operating leases are for customer service centers. Expenses under operating lease agreements were $623,214 for the year ended June 30, 2021. A summary of future obligations under these agreements as of June 30, 2021, follows:

Year Ending June 30 Obligation	Operating Lease Principal
2022	$628,303
2023	634,030
2024	353,210
2025	160,751
2026	89,751
2027	30,186
Total	$1,896,231

10. LITERARY FUND AND SETOFF DEBT COLLECTION PAYMENTS

Prizes unclaimed after 180 days are paid to the Literary Fund of the Commonwealth. Payments totaled $10,323,581 for the year ended June 30, 2021.

The Virginia Lottery participates in the Setoff Debt Collection Act whereby certain prize payments are withheld to set-off state obligations the prizewinner owes. Payments totaled $4,849,585 for the year ended June 30, 2021. The Literary Fund and state debt setoff payments are reported as prize expense on the financial statements.

Monetary penalties related to Gaming activity are paid to the Literary Fund of the Commonwealth. Payments totaled $150,000 for the year ended June 30, 2021.

11. ACCOUNTS PAYABLE

Accounts payable consisted of the following as of June 30, 2021:

	Business-Type Lottery Activites	Governmental Gaming Activites
Voucher Payable	$18,325,536	$380,995
Expired Prizes Payable	3,857,098	-
Player Wallets Payable	4,416,116	-
Payroll Payable	3,260,534	151,758
Player Tax Withholdings	24,621	-
Total Accounts Payable	$29,883,905	$532,753

12. PENSION PLAN

General Information about the Pension Plan

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

Plan 1	***Plan 2***	***Hybrid Retirement Plan***
About Plan 1 *Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.*	***About Plan 2*** *Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.*	***About the Hybrid Retirement Plan*** *The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.* • *The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.* • *The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
Plan 1	**Plan 2**	**Hybrid Retirement Plan**
		• *In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.*
Eligible Members *Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.* ***Hybrid Opt-In Election*** *VRS Plan 1 members could make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.* *The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.* *If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.*	***Eligible Members*** *Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.* ***Hybrid Opt-In Election*** *Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.* *The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.* *If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.*	***Eligible Members*** *Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:* • *State employees** • *Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.* ****Non-Eligible Members*** *Some employees are not eligible to participate in the Hybrid Retirement Plan.* *Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

Plan 1	*Plan 2*	*Hybrid Retirement Plan*
Retirement Contributions *State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.*	***Retirement Contributions*** *Same as Plan 1.*	***Retirement Contributions*** *A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.*
Service Credit *Service credit includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine the member's eligibility for retirement and to calculate the member's retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.*	***Service Credit*** *Same as Plan 1.*	***Service Credit*** ***Defined Benefit Component:*** *Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine the member's eligibility for retirement and to calculate the member's retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.* ***Defined Contributions Component:*** *Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

Plan 1	*Plan 2*	*Hybrid Retirement Plan*
Vesting *Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.* *Members are always 100% vested in the contributions that they make.*	***Vesting*** *Same as Plan 1.*	***Vesting*** ***<u>Defined Benefit Component:</u>*** *Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit.* *Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.* ***<u>Defined Contributions Component:</u>*** *Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.* *Members are always 100% vested in the contributions that they make.* *Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.* • *After two years, a member is 50% vested and may withdraw 50% of employer contributions.* • *After three years, a member is 75% vested and may withdraw 75% of employer contributions.* • *After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.* *Distribution is not required, except as governed by law.*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

Plan 1	Plan 2	Hybrid Retirement Plan
Calculating the Benefit *The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.*	***Calculating the Benefit*** *See definition under Plan 1.*	***Calculating the Benefit*** ***<u>Defined Benefit Component:</u>*** *See definition under Plan 1.* ***<u>Defined Contribution Component:</u>*** *The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.*
Average Final Compensation *A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.*	***Average Final Compensation*** *A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.*	***Average Final Compensation*** *Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.*
Service Retirement Multiplier ***VRS:*** *The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.*	***Service Retirement Multiplier*** ***VRS:*** *Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.*	***Service Retirement Multiplier*** ***<u>Defined Benefit Component:</u>*** ***VRS:*** *The retirement multiplier for the defined benefit component is 1.00%.* *For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.* ***<u>Defined Contribution Component:</u>*** *Not applicable.*
Normal Retirement Age ***VRS:*** *Age 65*	***Normal Retirement Age*** ***VRS:*** *Normal Social Security retirement age.*	***Normal Retirement Age*** ***<u>Defined Benefit Component:</u>*** ***VRS:*** *Same as Plan 2.* ***<u>Defined Contribution Component:</u>*** *Members are eligible to receive distributions upon leaving employment, subject to restrictions.*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

Plan 1	*Plan 2*	*Hybrid Retirement Plan*
Earliest Unreduced Retirement Eligibility ***VRS:*** *Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.*	***Earliest Unreduced Retirement Eligibility*** ***VRS:*** *Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.*	***Earliest Unreduced Retirement Eligibility*** ***<u>Defined Benefit Component:</u>*** ***VRS:*** *Normal Social Security retirement age and have at least five years (60 months) of creditable service or when age and service equal 90.* ***<u>Defined Contribution Component:</u>*** *Members are eligible to receive distributions upon leaving employment, subject to restrictions.*
Earliest Reduced Retirement Eligibility ***VRS:*** *Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.*	***Earliest Reduced Retirement Eligibility*** ***VRS:*** *Age 60 with at least five years (60 months) of creditable service.*	***Earliest Reduced Retirement Eligibility*** ***<u>Defined Benefit Component:</u>*** ***VRS:*** *Age 60 with at least five years (60 months) of creditable service.* ***<u>Defined Contribution Component:</u>*** *Members are eligible to receive distributions upon leaving employment, subject to restrictions.*
Cost-of-Living Adjustment (COLA) in Retirement *The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.* ***<u>Eligibility:</u>*** *For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.* *For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.*	***Cost-of-Living Adjustment (COLA) in Retirement*** *The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%) for a maximum COLA of 3%.* ***<u>Eligibility:</u>*** *Same as Plan 1*	***Cost-of-Living Adjustment (COLA) in Retirement*** ***<u>Defined Benefit Component:</u>*** *Same as Plan 2* ***<u>Defined Contribution Component:</u>*** *Not applicable* ***<u>Eligibility:</u>*** *Same as Plan 1 and Plan 2*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

Plan 1	Plan 2	Hybrid Retirement Plan
Exceptions to COLA Effective Dates: *The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:* • *The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.* • *The member retires on disability.* • *The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).* • *The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.* • *The member dies in service, and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit.* *The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.*	***Exceptions to COLA Effective Dates:*** *Same as Plan 1*	***Exceptions to COLA Effective Dates:*** *Same as Plan 1 and Plan 2*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
Plan 1	**Plan 2**	**Hybrid Retirement Plan**
Disability Coverage *Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.* *Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement.* *VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.*	***Disability Coverage*** *Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.* *Most state employees are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement.* *VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.*	***Disability Coverage*** *State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP) and are not eligible for disability retirement.* *Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.*
Purchase of Prior Service *Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.*	***Purchase of Prior Service*** *Same as Plan 1*	***Purchase of Prior Service*** ***<u>Defined Benefit Component:</u>*** *Same as Plan 1, with the following exception:* • *Hybrid Retirement Plan members are ineligible for ported service.* ***<u>Defined Contribution Component:</u>*** *Not applicable*

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each state agency's contractually required contribution rate for the year ended June 30, 2021, was 14.46% of covered employee compensation for employees in the VRS State Employee Retirement Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Virginia Lottery to the VRS State Employee Retirement Plan were $3,138,204 and $2,716,986 for the years ended June 30, 2021, and June 30, 2020, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the Virginia Lottery reported a liability of $34,725,327 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The Virginia Lottery's proportion of the Net Pension Liability was based on the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the Virginia Lottery's proportion of the VRS State Employee Retirement Plan was 0.47931% as compared to 0.47457% at June 30, 2019.

For the year ended June 30, 2021, the Virginia Lottery recognized pension expense of $4,700,287 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2019, and June 30, 2020, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2021, the Virginia Lottery reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	$393,892	$353,364
Net difference between projected and actual earnings on pension plan investments	2,701,434	-
Change in Assumption	1,442,536	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	724,200	79,402
Employer contributions subsequent to the measurement date	3,138,204	-
Total	**$8,400,266**	**$432,766**

$3,138,204 reported as deferred outflows of resources related to pensions resulting from the Virginia Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30	Total
FY 2022	$1,144,329
FY 2023	$1,854,146
FY 2024	$963,716
FY 2025	$867,105
FY 2026	-

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2019, using the Entry Age Normal actuarial cost method and the following assumptions applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

Inflation	Salary Increases, Including Inflation	Investment Rate Of Return
2.50%	3.50% – 5.35%	6.75%, net of pension plan investment expenses, including inflation*

** Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.*

Mortality Rates

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Update to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Increase rate from 14% to 25%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2020, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

State Employee Retirement Plan	
Total Pension Liability	*$26,014,925*
Plan Fiduciary Net Position	*18,770,068*
Employers' Net Pension Liability (Asset)	***$7,244,857***
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	*72.15%*

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the system's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension system investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension system investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	***Long-Term Target Asset Allocation***	***Arithmetic Long-Term Expected Rate Of Return***	***Weighted Average Long-Term Expected Rate Of Return****
Public Equity	*34.00%*	*4.65%*	*1.58%*
Fixed Income	*15.00%*	*0.46%*	*0.07%*
Credit Strategies	*14.00%*	*5.38%*	*0.75%*
Real Assets	*14.00%*	*5.01%*	*0.70%*
Private Equity	*14.00%*	*8.34%*	*1.17%*
MAPS - Multi-Asset Public Strategies	*6.00%*	*3.04%*	*0.18%*
PIP-Private Investment Partnership	*3.00%*	*6.49%*	*0.19%*
Total	***100.00%***		***4.64%***
		Inflation	*2.50%*
		*Expected Arithmetic Nominal Return**	***7.14%***

** The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.*

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes, and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2020, the rate contributed by the Virginia Lottery for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Virginia Lottery's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Virginia Lottery's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 6.75%, as well as what the Virginia Lottery's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

VIRGINIA LOTTERY'S PROPORTIONATE SHARE OF THE VRS STATE EMPLOYEE RETIREMENT PLAN NET PENSION LIABILITY

1% Decrease (5.75%)	*Current Discount Rate (6.75%)*	*1% Increase (7.75%)*
$49,213,659	*$34,725,327*	*$22,543,126*

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at http://varetire.org/pdf/publications/2020-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

13. RISK MANAGEMENT

The Virginia Lottery is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Virginia Lottery participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management, and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Virginia Lottery pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Annual Comprehensive Financial Report.

14. CONTINGENCIES

The Virginia Lottery is currently not named as a party in any legal proceedings.

15. COLLECTIONS OF SPORTS BETTING TAXES

During the year ended June 30, 2021, the Virginia Lottery collected $5,557,054 in Sports Betting taxes. These funds are deposited by the Lottery directly with the Treasurer of Virginia for credit to the General Fund of the Commonwealth and the Problem Gambling Treatment and Support Fund and are not available to the Lottery to meet current needs and are not included in the financial statements.

16. OTHER POST-EMPLOYMENT BENEFITS

The Virginia Lottery participates in post-employment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program.

General Information about the State Employee Health Insurance Credit Program

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Health Insurance Credit Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the State Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
Eligible Employees The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.
Benefit Amounts The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees: • **At Retirement** – For State employees who retire, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount. • **Disability Retirement** – For State employees, other than State Police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher. For State Police officer employees with a non-work-related disability who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher. For State Police officer employees with a work-related disability, there is no benefit provided under the State Employee Retiree Health Insurance Credit Program if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.
Health Insurance Credit Program Notes: • The monthly Health Insurance Credit benefit cannot exceed the individual's premium amount. • Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2021 was 1.12% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Virginia Lottery to the VRS State Employee Health Insurance Credit Program were $261,017 and $250,111 for the years ended June 30, 2021 and June 30, 2020, respectively.

State Employee Health Insurance Credit Program OPEB Liabilities, State Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to State Employee Health Insurance Credit Program OPEB

At June 30, 2021, the Virginia Lottery reported a liability of $2,723,816 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2020, and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The Virginia Lottery's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the Virginia Lottery's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2020, the Virginia Lottery's proportion of the VRS State Employee Health Insurance Credit Program was 0.29671% as compared to 0.29211% at June 30, 2019.

For the year ended June 30, 2021, the Virginia Lottery recognized VRS State Employee Health Insurance Credit Program OPEB expense of $242,849. Since there was a change in proportionate share between measurement dates, a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the Virginia Lottery reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	*$1,134*	*$40,876*
Net difference between projected and actual earnings on State HIC OPEB program investments	*13,402*	*-*
Change in assumptions	*45,377*	*12,912*
Changes in proportion	*118,412*	*53,542*
Employer contributions subsequent to the measurement date	*261,017*	*-*
Total	***$439,342***	***$107,330***

$261,017 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Virginia Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30	Total
FY 2022	$5,972
FY 2023	$7,628
FY 2024	$19,425
FY 2025	$30,630
FY 2026	$7,340
Thereafter	$-

Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2019, using the Entry Age Normal actuarial cost method and the following assumptions applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

Inflation	Salary Increases, Including Inflation		Investment Rate Of Return
2.50%	General state employees	3.50% – 5.35%	6.75%, net of pension plan investment expenses, including inflation*
	SPORS employees	3.50% – 4.75%	
	VaLORS employees	3.50% – 4.75%	
	JRS employees	4.50%	

** Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation.*

Mortality Rates-General State Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 14% to 25%*
Discount Rate	*Decrease from 7.00% to 6.75%*

Mortality rates – SPORS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 60% to 85%*
Discount Rate	*Decrease from 7.00% to 6.75%*

Mortality rates – VaLORS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Decreased rate from 50% to 35%*
Discount Rate	*Decrease from 7.00% to 6.75%*

Mortality rates – JRS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement: RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Decreased rates at first retirement eligibility*
Withdrawal Rates	*No change*
Disability Rates	*Removed disability rates*
Salary Scale	*No change*
Discount Rate	*Decrease from 7.00% to 6.75%*

Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the VRS State Employee Health Insurance Credit Program are as follows (amounts expressed in thousands):

State Employee HIC OPEB Plan	
Total State Employee HIC OPEB Liability	*$1,043,382*
Plan Fiduciary Net Position	*125,378*
State Employee Net HIC OPEB Liability (Asset)	***$918,004***
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability	*12.02%*

The total State Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net State Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate Of Return	Weighted Average Long-Term Expected Rate Of Return
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP-Private Investment Partnership	3.00%	6.49%	0.19%
Total	**100.00%**		**4.64%**
		Inflation	2.50%
		Expected Arithmetic Nominal Return*	7.14%

** The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY 2020 actuarial valuations provide a median return of 6.81%.*

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2020, the rate contributed by the Virginia Lottery for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2020, on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

Sensitivity of the Virginia Lottery's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the Virginia Lottery's proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 6.75%, as well as what the Virginia Lottery's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

VIRGINIA LOTTERY'S PROPORTIONATE SHARE OF THE VRS STATE EMPLOYEE HIC OPEB PLAN NET HIC OPEB LIABILITY

1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
$3,018,267	$2,723,816	$2,470,442

State Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

General Information about the VRS Disability Insurance Program

Plan Description

All full-time and part-time permanent salaried state employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) hired on or after January 1, 1999 are automatically covered by the Disability Insurance Program (VSDP) upon employment. The Disability Insurance Program also covers state employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for disability retirement. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

The specific information for Disability Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
Eligible Employees The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund was established January 1, 1999, to provide short-term and long-term disability benefits for non-work-related and work-related disabilities. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS, SPORS and VaLORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP). • State employees hired before January 1, 1999 who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement. • Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.

(Table continued on next page)

Benefit Amounts The Virginia Sickness and Disability Program (VSDP) provides the following benefits for eligible employees: • **Leave** – Sick, family and personal leave. Eligible leave benefits are paid by the employer. • **Short-Term Disability** – The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer. • **Long-Term Disability (LTD)** – The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program (VSDP) OPEB Plan. • **Income Replacement Adjustment** – The program provides for an income replacement adjustment to 80% for catastrophic conditions. • **VSDP Long-Term Care Plan** – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.
Disability Insurance Program (VSDP) Plan Notes: • Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels. • A state employee who is approved for VSDP benefits on or after the date that is five years prior to his or her normal retirement date is eligible for up to five years of VSDP benefits. • Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.

Cost-of-Living Adjustment (COLA)
• During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
  • Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase [up to 4%] up to a maximum COLA of 5%).
  • Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase [up to 2%] up to a maximum COLA of 3%).
• For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  • 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.
• For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  • 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.

Contributions

The contribution requirements for the Disability Insurance Program (VSDP) are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Disability Insurance Program (VSDP) for the year ended June 30, 2021 was 0.61% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the Disability Insurance Program (VSDP) from the Virginia Lottery were $136,202 and $126,079 for the years ended June 30, 2021 and June 30, 2020, respectively.

Disability Insurance Program (VSDP) OPEB Liabilities (Assets), VSDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the VSDP OPEB

At June 30, 2021, the Virginia Lottery reported a liability (asset) of ($1,035,646) for its proportionate share of the Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2020 and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Liability (Asset) was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The Virginia Lottery's proportion of the Net VSDP OPEB Liability (Asset) was based on the Virginia Lottery's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the Virginia Lottery's proportion was 0.46928% as compared to 0.46702% at June 30, 2019.

For the year ended June 30, 2021, the Virginia Lottery recognized VSDP OPEB expense of $95,399. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the Virginia Lottery reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	$97,381	$214,909
Net difference between projected and actual earnings on VSDP OPEB plan investments	70,457	-
Change in assumptions	13,804	42,524
Changes in proportionate share	13,950	25,315
Employer contributions subsequent to the measurement date	136,202	-
Total	**$331,794**	**$282,748**

$136,202 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Virginia Lottery's contributions subsequent to the measurement date will be recognized as an adjustment of the Net VSDP OPEB Liability (Asset) in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense (recovery) in future reporting periods as follows:

Year Ended June 30	Total
FY 2022	($25,276)
FY 2023	($6,378)

(Chart continued on next page)

Year Ended June 30	Total
FY 2024	($4,960)
FY 2025	($5,032)
FY 2026	($21,370)
Thereafter	($24,140)

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2019, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

Inflation	Salary Increases, Including Inflation		Investment Rate Of Return
2.50%	General state employees	3.50% – 5.35%	6.75%, net of investment expenses, including inflation*
	SPORS employees	3.50% – 4.75%	
	VaLORS employees	3.50% – 4.75%	

** Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.*

Mortality Rates-General State Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%
Discount Rate	Decrease from 7.00% to 6.75%

Mortality rates – SPORS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 60% to 85%*
Discount Rate	*Decrease from 7.00% to 6.75%*

Mortality rates – VaLORS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Decreased rate from 50% to 35%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Net VSDP OPEB Liability (Asset)

The net OPEB asset (NOA) for the Disability Insurance Program (VSDP) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, NOA amounts for the Disability Insurance Program (VSDP) are as follows (amounts expressed in thousands):

Virginia Sickness and Disability Program	
Total VSDP OPEB Liability	*$269,531*
Plan Fiduciary Net Position	*490,220*
VSDP Net OPEB Liability (Asset)	***($220,689)***
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	*181.88%*

The total VSDP OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB asset is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	*Long-Term Target Asset Allocation*	*Arithmetic Long-Term Expected Rate Of Return*	*Weighted Average Long-Term Expected Rate Of Return*
Public Equity	*34.00%*	*4.65%*	*1.58%*
Fixed Income	*15.00%*	*0.46%*	*0.07%*
Credit Strategies	*14.00%*	*5.38%*	*0.75%*
Real Assets	*14.00%*	*5.01%*	*0.70%*
Private Equity	*14.00%*	*8.34%*	*1.17%*
MAPS - Multi-Asset Public Strategies	*6.00%*	*3.04%*	*0.18%*
PIP-Private Investment Partnership	*3.00%*	*6.49%*	*0.19%*
Total	***100.00%***		***4.64%***
		Inflation	*2.50%*
		*Expected Arithmetic Nominal Return**	*7.14%*

** The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.*

Discount Rate

The discount rate used to measure the total VSDP OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2020, the rate contributed by participating employers to the VSDP OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VSDP OPEB Program's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VSDP OPEB liability.

Sensitivity of the Virginia Lottery's Proportionate Share of the Net VSDP OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the Virginia Lottery's proportionate share of the net VSDP OPEB liability (asset) using the discount rate of 6.75%, as well as what the state agency's proportionate share of the net VSDP OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

VIRGINIA LOTTERY'S PROPORTIONATE SHARE OF THE VSDP NET OPEB LIABILITY (ASSET)

1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
($944,914)	*($1,035,646)*	*($1,117,091)*

VSDP OPEB Fiduciary Net Position

Detailed information about the Disability Insurance Program (VSDP) Fiduciary Net Position is available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

General Information about the Group Life Insurance Program

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for the Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

(Table continued on next page)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City School Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.
Benefit Amounts The benefits payable under the Group Life Insurance Program have several components. • **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit. • **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: • Accidental dismemberment benefit • Safety belt benefit • Repatriation benefit • Felonious assault benefit • Accelerated death benefit option
Reduction in Benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was $8,616 as of June 30, 2021.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% X 60%) and the employer component was 0.54% (1.34% X 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2021 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the Virginia Lottery was $125,847 and $111,316 for the years ended June 30, 2021, and June 30, 2020, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2021, the Virginia Lottery reported a liability of $1,739,262 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2020, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the Virginia Lottery's proportion was 0.10422% as compared to 0.10227% at June 30, 2019.

For the year ended June 30, 2021, the Virginia Lottery recognized GLI OPEB expense of $70,484. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the Virginia Lottery reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	$111,558	$15,622
Net difference between projected and actual earnings on GLI OPEB program investments	52,246	-
Change in assumptions	86,983	36,317
Changes in proportionate share	58,806	31,504
Employer contributions subsequent to the measurement date	125,847	-
Total	**$435,440**	**$83,443**

$125,847 reported as deferred outflows of resources related to the GLI OPEB resulting from the Virginia Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	Total
FY 2022	$30,356
FY 2023	$45,110
FY 2024	$60,432
FY 2025	$66,808
FY 2026	$21,358
Thereafter	$2,086

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2019, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

Inflation	Salary Increases, Including Inflation		Investment Rate Of Return
2.50%	*General state employees*	*3.50% – 5.35%*	*6.75%, net of investment expenses, including inflation**
	Teachers	*3.50% – 5.95%*	
	SPORS employees	*3.50% – 4.75%*	
	VaLORS employees	*3.50% – 4.75%*	
	JRS employees	*4.50%*	
	Locality-General employees	*3.50% – 5.35%*	
	Locality-Hazardous Duty	*3.50% – 4.75%*	

** Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of the OPEB liabilities.*

Mortality Rates-General State Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 14% to 25%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Mortality Rates-Teachers

Pre-Retirement: RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020.

Post-Retirement: RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement: RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement age from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Mortality rates – SPORS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 60% to 85%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Mortality rates – VaLORS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Decreased rate from 50% to 35%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Mortality rates – JRS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement: RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Decreased rates at first retirement eligibility*
Withdrawal Rates	*No change*
Disability Rates	*Removed disability rates*
Salary Scale	*No change*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered retirement rates at older ages and extended final retirement age from 70 to 75*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each age and service year*
Disability Rates	*Lowered disability rates*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 14% to 20%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered retirement rates at older ages and extended final retirement age from 70 to 75*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each age and service year*
Disability Rates	*Lowered disability rates*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 14% to 15%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered retirement rates at older ages*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each age and service year*
Disability Rates	*Increased disability rates*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 60% to 70%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each age and service year*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Decreased rate from 60% to 45%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2020, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

Group Life Insurance OPEB Program	
Total GLI OPEB Liability	*$3,523,937*
Plan Fiduciary Net Position	*1,855,102*
GLI Net OPEB Liability (Asset)	***$1,668,835***
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	*52.64%*

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	***Long-Term Target Asset Allocation***	***Arithmetic Long-Term Expected Rate Of Return***	***Weighted Average Long-Term Expected Rate Of Return****
Public Equity	*34.00%*	*4.65%*	*1.58%*
Fixed Income	*15.00%*	*0.46%*	*0.07%*
Credit Strategies	*14.00%*	*5.38%*	*0.75%*
Real Assets	*14.00%*	*5.01%*	*0.70%*
Private Equity	*14.00%*	*8.34%*	*1.17%*
MAPS - Multi-Asset Public Strategies	*6.00%*	*3.04%*	*0.18%*
PIP-Private Investment Partnership	*3.00%*	*6.49%*	*0.19%*
Total	***100.00%***		***4.64%***
		Inflation	*2.50%*
		*Expected Arithmetic Nominal Return**	***7.14%***

**The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.*

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance, and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2020, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Virginia Lottery's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the Virginia Lottery's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

VIRGINIA LOTTERY'S PROPORTIONATE SHARE OF THE GROUP LIFE INSURANCE PLAN NET OPEB LIABILITY

1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
$2,286,393	$1,739,262	$1,294,940

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at **http://www.varetire.org/pdf/publications/2020-annual-report.pdf** or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare.

The following are eligibility requirements for Virginia Retirement System retirees:

- You are a retiring state employee who is eligible for a monthly retirement benefit from the Virginia Retirement System (VRS), and
- You start receiving (do not defer) your retirement benefit immediately upon retirement*, and
- Your last employer before retirement was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- You enroll no later than 31 days from your retirement date.

** For VRS retirees, this means that your employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to your retirement date. Some faculty members may also be eligible if they are paid on an alternate pay cycle but maintain eligibility for active coverage until their retirement date.*

Effective January 1, 2017**, the following are eligibility requirements for Optional Retirement Plan (ORP) retirees:

- You are a terminating state employee who participates in one of the qualified Optional Retirement Plans, and
- Your last employer before termination was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of your termination, and
- You meet the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that you would have been eligible for on your date of hire had you not elected the ORP, and
- You enroll in the State Retiree Health Benefits Program no later than 31 days from the date you lose coverage (or lose eligibility for coverage) in the State Health Benefits Program for active employees due to your termination of employment.

*** This change applies to ORP terminations effective January 1, 2017, or later. Eligibility for those who terminated employment prior to January 1, 2017, should be determined based on the policy in place at the time of their termination.*

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes and is administered by the Department of Human Resource Management. There were approximately 4,400 retirees and 90,000 active employees in the program as of June 30, 2020. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2020. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 6.75% for medical and pharmacy and 4.0% for dental. The ultimate trend rates used were 4.50% for medical and pharmacy and 4.0% for dental.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 2020 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.34 years
Discount Rate	2.21%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 6.75% to 4.50% Dental: 4.00%
Year of Ultimate Trend	2029
Mortality	Mortality rates vary by participant status

(Table continued on next page)

Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females setback 1 year
Post-Retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date, which is June 30, 2020.

Changes of Assumptions: The following actuarial assumptions were updated since the June 30, 2019, valuation based on recent experience:

- Spousal Coverage – reduced the rate from 25% to 20%
- Retiree Participation – reduced the rate from 50% to 45%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect modified mortality improvement projection scale BB, including age over 65 in pre-retirement mortality base rates.

No excise tax has been reflected due to the SECURE Act. Among the provisions was a repeal of three taxes and fees that were originally intended to help fund the Affordable Care Act (ACA): i) the excise tax on high-cost health plans (Cadillac tax); ii) the annual fee on health insurance providers; and iii) the medical device excise tax.

The trend rates were updated based on economic conditions as of June 30, 2020. Additionally, the discount rate was decreased from 3.51% to 2.21% based on the Bond Buyers GO 20 Municipal Bond Index.

Pre-Medicare Retiree Healthcare OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

At June 30, 2021, the Virginia Lottery reported a liability of $1,865,505 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of $568.8 million. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2020, and was determined by an actuarial valuation as of June 30, 2020. The Virginia Lottery's proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on the Virginia Lottery's healthcare premium contributions to include the October premium holiday amounts as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2020, the Virginia Lottery's proportion was 0.32796% as compared to 0.31700% at June 30, 2019. For the year ended June 30, 2021, the Virginia Lottery recognized Pre-Medicare Retiree Healthcare OPEB expense of ($440,778).

At June 30, 2021, the Virginia Lottery reported deferred outflows of resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	*$-*	*$949,801*
Change in assumptions	*-*	*1,527,504*
Changes in proportion	*186,362*	*51,310*
Sub Total	*186,362*	*2,528,615*
Amounts associated with transactions subsequent to the measurement date	*$121,474*	*N/A*
Total	***$307,836***	***$2,528,615***

$121,474 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year Ended June 30	Total
FY 2022	($680,098)
FY 2023	($680,098)
FY 2024	($565,311)
FY 2025	($295,008)
FY 2026	($103,408)
Total Thereafter	($18,330)

Sensitivity of the Virginia Lottery's Share of the OPEB Liability to Changes in the Discount Rate

The following presents the Virginia Lottery's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 2.21%, as well as what the Virginia Lottery's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.21%) or one percentage point higher (3.21%) than the current rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
OPEB Liability	$1,963,041	$1,865,505	$1,766,647

Sensitivity of the Virginia Lottery's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Virginia Lottery's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the healthcare cost trend rate of 6.75% decreasing to 4.50%, as well as what the Virginia Lottery's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (5.75% decreasing to 3.50%) or one percentage point higher (7.75% decreasing to 5.50%) than the current rate:

	1% Decrease (5.75% decreasing to 3.50%)	Trend Rate (6.75% decreasing to 4.50%)	1% Increase (7.75% decreasing to 5.50%)
OPEB Liability	$1,672,273	$1,865,505	$2,092,139

General Information about the Line of Duty Act Program

Plan Description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS) or the Virginia Law Officers' Retirement System (VaLORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in Fiscal Year 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

The specific information for the Line of Duty Act Program (LODA), including eligibility, coverage and benefits is set out in the table below:

LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS
Eligible Employees The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS) or the Virginia Law Officers' Retirement System (VaLORS).
Benefit Amounts The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals: • **Death** – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: • $100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. • $25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date. • An additional $20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.
• **Health Insurance** – The Line of Duty Act program provides health insurance benefits. • Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program. • Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2021 was $717.31 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019, and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the Virginia Lottery were $5,738 and $5,646 for the years ended June 30, 2021 and June 30, 2020, respectively.

Line of Duty Act Program (LODA) OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB

At June 30, 2021, the Virginia Lottery reported a liability of $174,018 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2020 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The Virginia Lottery's proportion of the Net LODA OPEB Liability was based on the Virginia Lottery's actuarially determined pay-as-you-go employer contributions to the

LODA OPEB plan for the year ended June 30, 2020, relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2020, the Virginia Lottery's proportion was 0.04155% as compared to 0.03155% at June 30, 2019.

For the year ended June 30, 2021, the Virginia Lottery recognized LODA OPEB expense of $19,165. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021, the Virginia Lottery reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual experience	$18,472	$23,725
Net difference between projected and actual earnings on LODA OPEB plan investments	-	247
Change in assumptions	46,586	10,844
Changes in proportionate share	28,639	973
Employer contributions subsequent to the measurement date	5,738	-
Total	**$99,435**	**$35,789**

$5,738 reported as deferred outflows of resources related to the LODA OPEB resulting from the Virginia Lottery's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

Year Ended June 30	Total
FY 2022	$7,311
FY 2023	$7,357
FY 2024	$7,406
FY 2025	$7,420
FY 2026	$7,435
Thereafter	$20,979

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2019, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2020.

(Table continued on next page)

Inflation	Salary Increases, Including Inflation	Medical Cost Trend Rates Assumptions	Year Of Ultimate Trend Rate	Investment Rate Of Return
2.50%	*General state employees N/A SPORS employees N/A VaLORS employees N/A Locality employees N/A*	*Under Age 65 7.00% – 4.75% Ages 65 and older 5.375% – 4.75%*	*Under Age 65 Fiscal Year ended 2028 Ages 65 and older Fiscal Year ended 2023*	*2.21% including inflation**

** Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 2.21% was used since it approximates the risk-free rate of return.*

Mortality Rates-General State Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement age from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 14% to 25%*

Mortality rates – SPORS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

(Table continued on next page)

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 60% to 85%*

Mortality rates – VaLORS Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Decreased rate from 50% to 35%*

Mortality rates – Largest Ten Locality Employers With Public Safety Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

(Table continued on next page)

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered retirement rates at older ages*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each year age and service year*
Disability Rates	*Increased disability rates*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 60% to 70%*

Mortality rates – Non-Largest Ten Locality Employers With Public Safety Employees

Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service year*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Decreased rate from 60% to 45%*

Net LODA OPEB Liability

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the Line of Duty Act Program (LODA) are as follows (amounts expressed in thousands):

Line of Duty Act Program	
Total LODA OPEB Liability	*$423,147*
Plan Fiduciary Net Position	*4,333*
LODA Net OPEB Liability (Asset)	***$418,814***
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	*1.02%*

The total LODA OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on the LODA OPEB Program's investments was set at 2.21% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 6.75% assumption. Instead, the assumed annual rate of return of 2.21% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date of June 30, 2020.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 2.21%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2020, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

Sensitivity of the Virginia Lottery's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the Virginia Lottery's proportionate share of the net LODA OPEB liability using the discount rate of 2.21%, as well as what the Virginia Lottery's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.21%) or one percentage point higher (3.21%) than the current rate:

VIRGINIA LOTTERY'S PROPORTIONATE SHARE OF THE LODA NET OPEB LIABILITY

1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
$206,557	$174,018	$149,491

Sensitivity of the Virginia Lottery's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the Line of Duty Act Program (LODA) contains a provision for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the Virginia Lottery's proportionate share of the net LODA OPEB liability using a health care trend rate of 7.00% decreasing to 4.75%, as well as what the Virginia Lottery's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.00% decreasing to 3.75%) or one percentage point higher (8.00% decreasing to 5.75%) than the current rate:

VIRGINIA LOTTERY'S PROPORTIONATE SHARE OF THE LODA NET OPEB LIABILITY

	1% Decrease (6.00% decreasing to 3.75%)	Current Discount Rate (7.00% decreasing to 4.75%)	1% Increase (8.00% decreasing to 5.75%)
OPEB Liability	$143,832	$174,018	$213,502

LODA OPEB Plan Fiduciary Net Position

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2020 *Comprehensive Annual Financial Report (Annual Report)*. A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at **http://www.varetire.org/pdf/publications/2020-annual-report.pdf** or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Combining Schedule of OPEB Liabilities, OPEB Expense, Deferred Inflows of Resources and Deferred Outflows of Resources OPEB Plans Related to OPEB Plan

	GLI (VRS)	HIC (VRS)	LODA (VRS)	VSDP (VRS)	Total OPEB (VRS)	Medicare (DHRM)	Total OPEB
Deferred Outflows	$435,440	$439,342	$99,435	$331,794	$1,306,011	$307,836	$1,613,847
Net OPEB Asset	N/A	N/A	N/A	1,035,646	$1,035,646	N/A	$1,035,646
Net OPEB Liability	1,739,262	2,723,816	174,018	N/A	$4,637,096	1,865,505	$6,502,601
Deferred Inflows	83,443	107,330	35,789	282,748	$ 509,310	2,528,615	$3,037,925
OPEB Expense/ (Recovery)	70,484	242,849	19,165	95,399	$ 427,897	(440,778)	$ (12,881)

Required Supplementary Information

Schedule of Virginia Lottery's Share of Net Pension Liability VRS State Employee Retirement Plan For the Measurement Dates June 30, 2020, 2019, 2018, 2017, 2016, 2015, and 2014

	2020	2019	2018	2017	2016	2015	2014
Lottery's Proportion of the Net Pension Liability (Asset)	0.47931%	0.47457%	0.45501%	0.46150%	0.46485%	0.45999%	0.42957%
Lottery's Proportionate Share of the Net Pension Liability (Asset)	$34,725,327	$29,991,555	$24,633,000	$26,894,000	$30,637,000	$28,163,000	$24,049,000
Lottery's Covered Payroll	$20,096,050	$19,014,564	$18,184,907	$18,021,090	$20,478,783	$20,478,783	$17,124,458
Lottery's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	172.80%	157.73%	135.46%	147.90%	169.04%	158.50%	140.44%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.15%	75.13%	77.39%	75.33%	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2020 is the seventh year for this presentation, only seven years of data are available. However, additional years will be included as they become available.

Schedule of Virginia Lottery Contributions to VRS State Employee Retirement Plan For the Years Ended June 30, 2015 through 2021

	2021	2020	2019	2018	2017	2016	2015
Contractually Required Contribution	*$3,138,204*	*$2,716,986*	*$2,570,769*	*$2,453,144*	*$2,431,045*	*$2,525,034*	*$2,161,142*
Contributions in Relation to Contractually Required Contribution	*$3,138,204*	*$2,716,986*	*$2,570,769*	*$2,453,144*	*$2,431,045*	*$2,525,034*	*$2,161,142*
Contribution Deficiency (Excess)	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
Lottery's Covered Payroll	*$21,702,656*	*$20,096,050*	*$19,014,564*	*$18,184,907*	*$18,021,090*	*$20,478,783*	*$17,527,510*
Contributions as a Percent of Covered Payroll	*14.46%*	*13.52%*	*13.52%*	*13.49%*	*13.49%*	*12.33%*	*12.33%*

Virginia Lottery Notes to Required Supplementary Information For the Year Ended June 30, 2021

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement age from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year, age, and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No change*
Line of Duty Disability	*Increased rate from 14% to 25%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Schedule of Virginia Lottery's Share of Net OPEB Liability
Health Insurance Credit Program (HIC)
For the Measurement Dates of June 30, 2020, 2019, 2018, and 2017

	2020	2019	2018	2017
Lottery's Proportion of the Net HIC OPEB Liability (Asset)	*0.29671%*	*0.29211%*	*0.27872%*	*0.28574%*
Lottery's Proportionate Share of the Net HIC OPEB Liability (Asset)	*$2,723,816*	*$2,696,383*	*$2,543,000*	*$2,602,000*
Lottery's Covered Payroll	*$21,377,009*	*$19,930,427*	*$18,783,390*	*$18,184,464*
Lottery's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	*12.74%*	*13.53%*	*13.54%*	*14.31%*
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	*12.02%*	*10.56%*	*9.51%*	*8.03%*

Schedule is intended to show information for 10 years. Since 2020 is the fourth year for this presentation, only four years of data are available. However, additional years will be included as they become available.

Schedule of Virginia Lottery's Contributions
Health Care Insurance Credit Program (HIC)
For the Years Ended June 30, 2018 through 2021

	2021	2020	2019	2018
Contractually Required Contribution	*$261,017*	*$250,111*	*$233,186*	*$221,644*
Contributions in Relation to Contractually Required Contribution	*$261,017*	*$250,111*	*$233,186*	*$221,644*
Contribution Deficiency (Excess)	*$0*	*$0*	*$0*	*$0*
Lottery's Covered Payroll	*$23,305,089*	*$21,377,009*	*$19,930,427*	*$18,783,390*
Contributions as a Percent of Covered Payroll	*1.12%*	*1.17%*	*1.17%*	*1.18%*

Virginia Lottery Notes to Required Supplementary Information
For the Year Ended June 30, 2021

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

General State Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 14% to 25%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

SPORS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 60% to 85%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

VaLORS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each age and service year through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Decreased rate from 50% to 35%*
Discount Rate	*Decrease from 7.00% to 6.75%*

JRS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Decreased rates at first retirement eligibility*
Withdrawal Rates	*No Change*
Disability Rates	*Removed Disability Rates*
Salary Scale	*No Change*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Schedule of Virginia Lottery's Share of Net OPEB Asset
Disability Insurance Program (VSDP)
For the Measurement Dates of June 30, 2020, 2019, 2018, and 2017

	2020	2019	2018	2017
Lottery's Proportion of the Net VSDP OPEB Asset	0.46928%	0.46702%	0.45086%	0.45917%
Lottery's Proportionate Share of the Net VSDP OPEB Asset	($1,035,646)	($916,271)	($1,015,000)	($943,000)
Lottery's Covered Payroll	$20,335,323	$18.867,097	$17,786,364	$18,184,464
Lottery's Proportionate Share of the Net VSDP OPEB Asset as a Percentage of its Covered Payroll	(5.09%)	(4.86%)	(5.71%)	(5.19%)
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Asset	181.88%	167.18%	194.74%	186.63%

Schedule is intended to show information for 10 years. Since 2020 is the fourth year for this presentation, only four years of data are available. However, additional years will be included as they become available.

Schedule of Virginia Lottery's Contributions
Disability Insurance Program (VSDP)
For the Years Ended June 30, 2018 through 2021

	2021	2020	2019	2018
Contractually Required Contribution	$136,202	$126,079	$116,976	$117,390
Contributions in Relation to Contractually Required Contribution	$136,202	$126,079	$116,976	$117,390
Contribution Deficiency (Excess)	$0	$0	$0	$0
Lottery's Covered Payroll	$22,328,197	$20,335,323	$18,867,097	$17,786,364
Contributions as a Percent of Covered Payroll	0.61%	0.62%	0.62%	0.66%

Virginia Lottery Notes to Required Supplementary Information
For the Year Ended June 30, 2021

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

General State Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement age from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 14% to 25%*
Discount Rate	*Decrease from 7.00% to 6.75%*

SPORS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 60% to 85%*
Discount Rate	*Decrease from 7.00% to 6.75%*

VaLORS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Decreased rate from 50% to 35%*
Discount Rate	*Decrease from 7.00% to 6.75%*

Schedule of Virginia Lottery's Share of Net OPEB Liability
Group Life Insurance Program (GLI)
For the Measurement Dates of June 30, 2020, 2019, 2018, and 2017

	2020	2019	2018	2017
Lottery's Proportion of the Net GLI OPEB Liability (Asset)	*0.10422%*	*0.10227%*	*0.09914%*	*0.10177%*
Lottery's Proportionate Share of the Net GLI OPEB Liability (Asset)	*$1,739,262*	*$1,664,205*	*$1,506,000*	*$1,532,000*
Lottery's Covered Payroll	*$21,406,870*	*$19,940,153*	*$18,947,692*	*$18,184,464*
Lottery's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	*8.12%*	*8.35%*	*7.95%*	*8.42%*
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	*52.64%*	*52.00%*	*51.22%*	*48.86%*

Schedule is intended to show information for 10 years. Since 2020 is the fourth year for this presentation, only four years of data are available. However, additional years will be included as they become available.

Schedule of Virginia Lottery's Contributions
Group Life Insurance Program (GLI)
For the Years Ended June 30, 2018 through 2021

	2021	2020	2019	2018
Contractually Required Contribution	*$125,847*	*$111,316*	*$103,689*	*$98,528*
Contributions in Relation to Contractually Required Contribution	*$125,847*	*$111,316*	*$103,689*	*$98,528*
Contribution Deficiency (Excess)	*$0*	*$0*	*$0*	*$0*
Lottery's Covered Payroll	*$23,305,075*	*$21,406,870*	*$19,940,153*	*$18,947,692*
Contributions as a Percent of Covered Payroll	*0.54%*	*0.52%*	*0.52%*	*0.52%*

Virginia Lottery Notes to Required Supplementary Information
For the Year Ended June 30, 2021

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

General State Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 14% to 25%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Teachers:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

SPORS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 60% to 85%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

VaLORS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Decreased rate from 50% to 35%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

JRS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Decreased rates at first retirement eligibility*
Withdrawal Rates	*No Change*
Disability Rates	*Removed disability rates*
Salary Scale	*No Change*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Largest Ten Locality Employers - General Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered retirement rates at older ages and extended final retirement age from 70 to 75*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each age and service year*
Disability Rates	*Lowered disability rates*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 14% to 20%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Non-Largest Ten Locality Employers - General Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered retirement rates at older ages and extended final retirement age from 70 to 75*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each age and service year*
Disability Rates	*Lowered disability rates*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 14% to 15%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Largest Ten Locality Employers - Hazardous Duty Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered retirement rates at older ages*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each age and service year*
Disability Rates	*Increased disability rates*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 60% to 70%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Non-Largest Ten Locality Employers - Hazardous Duty Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each age and service year*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Decreased rate from 60% to 45%*
Discount Rate	*Decrease rate from 7.00% to 6.75%*

Schedule of Virginia Lottery's Share of Net OPEB Liability
Line of Duty Act Program (LODA)
For the Measurement Dates of June 30, 2020, 2019, 2018, and 2017

	2020	2019	2018	2017
Lottery's Proportion of the Net LODA OPEB Liability (Asset)	*0.04155%*	*0.03155%*	*0.03196%*	*0.03156%*
Lottery's Proportionate Share of the Net LODA OPEB Liability (Asset)	*$174,018*	*$113,197*	*$100,00*	*$83,000*
*Lottery's Covered-Employee Payroll**	*$775,624*	*$747,297*	*$630,840*	*$615,758*
*Lottery's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll**	*22.44%*	*15.15%*	*15.85%*	*13.48%*
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	*1.02%*	*0.79%*	*0.60%*	*1.30%*

**The contributions for the Line of Duty Act Program are based on the number of participants in the program using a per capita based contribution versus a payroll-based contribution. Therefore, covered employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan.*

Schedule is intended to show information for 10 years. Since 2020 is the fourth year for this presentation, only four years of data are available. However, additional years will be included as they become available.

Schedule of Virginia Lottery's Contributions
Line of Duty Act Program (LODA)
For the Years Ended June 30, 2018 through 2021

	2021	2020	2019	2018
Contractually Required Contribution	*$5,738*	*$5,646*	*$4,235*	*$3,404*
Contributions in Relation to Contractually Required Contribution	*$5,738*	*$5,646*	*$4,235*	*$3,404*
Contribution Deficiency (Excess)	*$0*	*$0*	*$0*	*$0*
*Lottery's Covered-Employee Payroll**	*$761,849*	*$775,624*	*$747,297*	*$630,840*
*Contributions as a Percent of Covered-Employee Payroll**	*0.75%*	*0.73%*	*0.57%*	*0.54%*

**The contributions for the Line of Duty Act Program are based on the number of participants in the program using a per capita based contribution versus a payroll-based contribution. Therefore, covered employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan.*

Virginia Lottery Notes to Required Supplementary Information
For the Year Ended June 30, 2021

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General State Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered rates at older ages and changed final retirement from 70 to 75*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 14% to 25%*

SPORS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Increased rate from 60% to 85%*

VaLORS Employees:

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each year age and service through 9 years of service*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Decreased rate from 50% to 35%*

Employees In The Largest Ten Locality Employers With Public Safety Employees

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Lowered Retirement rates at older ages*
Withdrawal Rates	*Adjusted termination rates to better fit experience at each age and service year*
Disability Rates	*Increased Disability Rates*
Salary Scale	*No Change*
Line of Duty Disability	*Increase rate from 60% to 70%*

Employees In The Non- Largest Ten Locality Employers With Public Safety Employees

Mortality Rates (Pre-Retirement, Post-Retirement Healthy, and Disabled)	*Updated to a more current mortality table – RP-2014 projected to 2020*
Retirement Rates	*Increased age 50 rates and lowered rates at older ages*
Withdrawal Rates	*Adjusted rates to better fit experience at each age and service year*
Disability Rates	*Adjusted rates to better match experience*
Salary Scale	*No Change*
Line of Duty Disability	*Decrease rate from 60% to 45%*

Schedule of Virginia Lottery's Share of Total OPEB Liability Pre-Medicare Retiree Healthcare Program (PMRH) For the Fiscal Year Ended June 30, 2021

	2018*	2019*	2020*	2021*
Lottery's proportion of the collective total OPEB Liability	*0.31768%*	*0.31257%*	*0.31700%*	*0.32796%*
Lottery's proportionate share of the collective total OPEB liability	*$4,126,329*	*$3,143,351*	*$2,152,045*	*$1,865,505*
Lottery's covered-employee payroll	*$19,163,238*	*$20,499,286*	*$22,175,258*	*$23,520,849*
Lottery's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	*21.53%*	*15.33%*	*9.70%*	*7.93%*

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only four years of data are available. However, additional years will be included as they become available.

**The amounts presented have a measurement date of the previous fiscal year end.*

Virginia Lottery Notes to Required Supplementary Information For the Year Ended June 30, 2021

There are no assets accumulated in a trust to pay related benefits.

Changes of benefit terms – There have been no changes to the benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following actuarial assumptions were updated since the June 30, 2019 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 25% to 20%
- Retiree Participation - reduced the rate from 50% to 45%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB, including age over 65 in pre-retirement mortality base rates.

No excise tax has been reflected due to the SECURE Act. Among the provisions was a repeal of three taxes and fees that were originally intended to help fund the Affordable Care Act (ACA): i) the excise tax on high-cost health plans (Cadillac tax); ii) the annual fee on health insurance providers; and iii) the medical device excise tax.

The trend rates were updated based on economic conditions as of June 30, 2020. Additionally, the discount rate was decreased from 3.51% to 2.21% based on the Bond Buyers GO 20 Municipal Bond Index.