
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on October 14, 2021 in Richmond, Virginia with the following members participating:

Board members:

O’Kelly E. McWilliams, III, Chair
Joseph W. Montgomery, Vice Chair
Hon. J. Brandon Bell, II
John M. Bennett
Michael P. Disharoon
William A. Garrett
Dr. Susan T. Gooden, Ph.D.
W. Brett Hayes
Troilen G. Seward, Ed.S.

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, John Alouf, Rory Badura, Parham Behrooz, Ty Bowers, Caroline Cardwell, Deardrian Carver, Jeanne Chenault, Michael Cooper, Harriet Covey, Juanita Cribbs, Kevin Cronin, Sara Denson, Valerie Disanto, Jon Farmer, Laurie Fennell, Josh Fox, JT Grier, Kelly Hiers, Dane Honrado, KC Howell, Robert Irving, Wendy Jenkins, Kristina Koutrakos, LaShaunda King, Matthew Kubisiak, Matt Lacy, Chung Ma, Curt Mattson, Steve McClelland, Walker Noland, Greg Oliff, Angela Payne, Steve Peterson, Paula Reid, Mark Rein, Dan Schlussler, Michael Scott, Jillian Sherman, Virginia Sowers, Dan Whitlock, Cindy Wilkinson and Demory Williamson.

Guests:

Larry Langer, Alisa Bennett, and Brad Wild, Cavanaugh Macdonald Consulting, LLC; Elizabeth Myers, Office of the Attorney General; Adam Rosatelli, Senate Finance and Appropriations Committee; Michael Jay, House Appropriations Committee; Zach Borgerding and Justin Ferrell, Auditor of Public Accounts; Latosha Johnson, Department of Planning and Budget; Jamie Bitz, Joint Legislative Audit and Review Commission; Tyler Sanders, University of Richmond; Bea Snidow, Virginia Education Association; Alex Gottschalk, City of Virginia Beach; Charity Zellmer, Virginia Beach City Schools; Janet Areson, Virginia Municipal League; Lauren Albanese, Financial Investment News; Jennifer O’Dell, Laborers International Union of North America; Cyril Espanol and Aaron Weitzman, PEI Media; and Steff Chavez, Mandate Wire.

The meeting convened at 1:00 p.m.

Opening Remarks

O’Kelly E. McWilliams, III, called the meeting to order and welcomed everyone to the October 14, 2021 meeting of the Virginia Retirement System Board of Trustees.

Approval of Minutes

Upon Ms. Seward's motion, with a second by Mr. Montgomery, the VRS Board of Trustees approved the minutes of the September 21, 2021 meeting.

Report of the Chief Investment Officer

Ron Schmitz, Chief Investment Officer, began his report with a market overview and discussed asset allocation, total fund portfolio performance and tracking error, concluding that risk measures are all within Board-approved levels. Next, Mr. Schmitz discussed the New Investment and Terminations report, the Diverse Investment Manager Engagement (DIME) report, and the External Investment Manager Referral report.

Mr. McWilliams thanked Mr. Schmitz for his report.

Report of the Benefits and Actuarial Committee

The Board received the report of the Benefits and Actuarial Committee and placed it on file.

APPROVAL OF MINUTES

Mr. Garrett began his report by noting the Committee approved the minutes of its September 1, 2021 meeting.

2021 ACTUARIAL VALUATION RESULTS FOR FIVE STATEWIDE RETIREMENT PLANS, GROUP LIFE INSURANCE, STATE AND TEACHER RETIREE HEALTH INSURANCE CREDIT, AND THE VIRGINIA SICKNESS AND DISABILITY PROGRAM (INCLUDES SELF-FUNDED LONG-TERM CARE)

Larry Langer and Alisa Bennett from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, presented the June 30, 2021 actuarial valuations for the Five Statewide Retirement Plans (Teachers, State Employees, JRS, SPORS, and VaLORS). In addition, the results of the Other Post-Employment Benefit Programs (OPEBs), including Group Life Insurance, Health Insurance Credit, and the Virginia Sickness and Disability Program, which includes self-funded Long-Term Care, were presented.

Key points from the presentation include:

- The June 30, 2021 valuations are used to set the contribution rates for fiscal years 2023 and 2024.
- Since the previous valuation, there have been several significant changes to assumptions and plan experience that differed from what was assumed, which will impact future contribution rates. Factors impacting the results include:
 - Assumption changes
 - Investment return
 - Salary increases
 - Demographic changes

- The most significant change was to the mortality assumptions, which included moving to a generational mortality improvement scale. This generally increased liabilities for pension plans and had mixed results on OPEB plans.
- The 2021 investment return of 27.5% had an immediate positive impact on funded status on the market value of asset basis. The investment gain is phased in over a five-year period due to actuarial smoothing of assets for funding calculations.
- The Governor's budget included 5% salary increases for State employees and 8% salary increases for SPORS members, along with additional compression increases for eligible SPORS members.
- Headcounts for the State, Teachers, and VaLORS plans decreased from the prior year. There were generally more terminations, deaths and refunds than expected, and fewer new hires. This may be due in part to the state being under a hiring freeze for much of the valuation period.
- In addition, two plans received additional funding provided by the budget in June 2021. The Teacher plan received an ad-hoc contribution of \$61.3 million, which was applied to the 10-year deferred contribution balance, and the State HIC plan received an ad-hoc contribution of \$38.7 million.

Upon a motion by Mr. Garrett, with a second by Mr. Bennett, the VRS Board of Trustees approved the following action:

Request for Board Action 2021-09-23: After considering the recommendations of its actuary, the Board certifies the rates for the five Statewide Retirement Plans (State Employees, Teachers, JRS, SPORS, and VaLORS) and the associated OPEBs; Group Life Insurance (GLI); Health Insurance Credit (HIC); and the Virginia Sickness and Disability Program (VSDP), including self-funded Long-Term Care, all effective July 1, 2022.

INFORMATION ITEM

Rory Badura, Senior Staff Actuary, provided a brief overview of strategies to enhance funding, which included shortening amortization periods for legacy unfunded liabilities, using level dollar rather than percentage of pay amortization, as well as maintaining higher rates following years in which the plan has favorable plan experience.

B&A Committee Meeting Schedule:

- November 15, 2021 at 1:00 p.m. (Local Valuations and Line of Duty Act)

Mr. McWilliams thanked Mr. Garrett for his report.

Mr. McWilliams noted that staff prepared a letter communicating the contribution rates for the statewide plans to be submitted to the Governor and the Chairs of the House Appropriations and the Senate Finance and Appropriations committees.

Operational Update Series: Financial Wellness

Ms. Bishop next introduced Deardrian Carver, Chief Customer Relations Officer, and Virginia Sowers, Communications Strategy Manager, who presented an overview of VRS' Financial Wellness Program.

Ms. Carver advised that VRS partnered with iGrad, a San Diego-based financial technology company, to develop practical and interactive content that is self-paced and tailored to VRS member personas. Since its launch in 2017, the Financial Wellness Program continues to expand and engage members and retirees with short articles, videos, educational games, calculators and visual graphics. Users can browse a variety of topics such as budgeting, saving and taxes, as well as tools to customize credit card or student loan pay down plans. Content is continuously refreshed and personalized to an individual's designated retirement plan and life-stage, including educational resources for retirees to maintain financial health in their post-retirement years.

Ms. Sowers provided an overview of the Public Relations and Customer Relations teams' promotional and outreach efforts. Users can easily access the Financial Wellness Program through a link on the VRS website. The program is promoted through frequent posts on social media, in-person and virtual webinars, and highlights in employer, member, and retiree newsletters. Through collaboration with the Department of Human Resource Management, the Financial Wellness Program is regularly included in the DHRM newsletter that is distributed to all state employees each month. Ms. Sowers reported that VRS received Eddy Awards in 2019 and 2021 after the success of the program was recognized by *Pensions and Investments Magazine*.

Mr. McWilliams thanked Ms. Carver and Ms. Sowers for their presentation.

Legislative Package for the 2022 General Assembly Session

Cindy Wilkinson, Director of Policy, Planning and Compliance, presented the proposed legislative package for the 2022 General Assembly Session to the Board. She advised that the proposal would streamline the administration of each component of the Hybrid Retirement Plan by separating the defined benefit and defined contribution rates. The proposal includes separating the defined contribution component of the Hybrid Plan from the total employer rate, which is currently a blend of defined benefit and defined contribution rates. This would reduce the administrative burden of reconciliation efforts as the Hybrid Plan becomes the dominant retirement plan. Members would also have increased flexibility to change voluntary contribution amounts more often and those contributions would be invested more quickly.

Ms. Wilkinson advised that the proposed legislation would be introduced in the 2022 General Assembly session with a delayed implementation date of July 1, 2024, to allow for communications and implementation for both VRS and participating employers.

Mr. McWilliams thanked Ms. Wilkinson for her presentation.

Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the VRS Board of Trustees approved the proposed legislative package for the 2022 General Assembly Session.

Report of the Director

Trish Bishop, VRS Director, reviewed the New Coverage Elections and an update on the Agency Roadmap for FY 2022. She advised that all projects are progressing as planned apart from a scheduling delay related to the Cloud Migration project. Staff will continue to monitor these projects and provide updates as they become available.

Ms. Bishop advised that VRS received an award of merit from the Virginia Public Relations Society Awards Program for the “Abide by the Guide” campaign and the redesign of the agency website. In addition, VRS received an award of excellence for the Financial Wellness Backpack Series that targets younger members to emphasize the importance of saving for the future. VRS was awarded the Certificate of Achievement for Excellence in Financial Reporting for the 39th consecutive year by the Government Finance Officers Association of the United States and Canada (GFOA). Lastly, Ms. Bishop noted that VRS received an award from the Commonwealth of Virginia Campaign (CVC) for the “Why I Give” video that focused on giving back to the community and serving those who serve others.

Mr. McWilliams thanked Ms. Bishop for her report.

Other Business

Lastly, Mr. McWilliams reviewed the upcoming meeting schedule:

- Investment Advisory Committee – November 10th at 10:00 a.m.
- Benefits and Actuarial Committee – November 15th at 1:00 p.m.
- Administration and Personnel Committee – November 16th at 12:30 p.m.
- Board of Trustees – November 16th at 1:00 p.m.

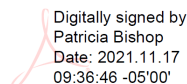
Adjournment

There being no further business and following a motion by Mr. Montgomery, with a second by Mr. Garrett, the VRS Board of Trustees agreed to adjourn the meeting at 2:23 p.m.



Chair

Patricia
Bishop



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Patricia Bishop
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Secretary

Report

The Benefits and Actuarial Committee met on October 13, 2021 and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its September 1, 2021 meeting.

2021 ACTUARIAL VALUATION RESULTS FOR FIVE STATEWIDE RETIREMENT PLANS, GROUP LIFE INSURANCE, STATE AND TEACHER RETIREE HEALTH INSURANCE CREDIT, AND THE VIRGINIA SICKNESS AND DISABILITY PROGRAM (INCLUDES SELF-FUNDED LONG-TERM CARE)

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- In addition, two plans received additional funding provided by the budget in June 2021. The Teacher plan received an ad-hoc contribution of \$61.3 million, which was applied to the 10-year

deferred contribution balance, and the State HIC plan received an ad-hoc contribution of \$38.7 million.

Mr. Langer and Ms. Bennett will provide a summary presentation to the Board.

Following some discussion, the Committee recommended approval of the following action to the full Board of Trustees:

Request for Board Action: *Certify the contribution rates for the Five Statewide Retirement Plans and associated OPEBs effective for FY 2023 and FY 2024.*

INFORMATION ITEM

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B&A Committee Meeting Schedule:

- November 15, 2021 at 1:00 p.m. (Local Valuations and Line of Duty Act)

Submitted to the Board of Trustees on October 14, 2021.

William Garrett Digitally signed by William Garrett
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William A. Garrett, Chair
Benefits and Actuarial Committee