
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on June 15, 2023, in Richmond, Virginia with the following members participating:

Board members:

A. Scott Andrews, Chair (*remotely under § 2.2-3708.3(B)(1)*)

Hon. J. Brandon Bell, II

John M. Bennett

Michael P. Disharoon (*remotely under § 2.2-3708.3(B)(3)*)

Susan T. Gooden, Ph.D.

W. Brett Hayes (*remotely under § 2.2-3708.3(B)(4)*)

Jessica L. Hood

Lindsey K. Pantele

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Stephen Adelaar, John Alouf, Advait Apte, Rory Badura, Daniel Ball, Parham Behrooz, Erica Billingslea, Kevin Bliss, Ty Bowers, Tim Brown, Jessica Budd, Caroline Cardwell, Jeanne Chenault, Michael Cooper, Perry Corsello, David Cotter, Juanita Cribbs, Sara Denson, Michael Desai, Valerie Disanto, Laurie Fennell, Laura Fields, Antonio Fisher, Katherine Grawe, JT Grier, Mehtab Haleem, Kelly Hiers, Dane Honrado, KC Howell, Robert Irving, Wendy Jenkins, LaShaunda King, Kristina Koutrakos, Brian Lackey, Matt Lacy, Ryan LaRochelle, Liliane Nixon, Chung Ma, Jennifer MacKnight, Curt Mattson, Kidus Molla, Joyce Monroe, Walker Noland, Angela Payne, Steve Peterson, Vera Pleasants, Matt Priestas, Laura Pugliese, Paula Reid, Andrew Ringle, Robert Robinson, Jummai Sarki-Hurd, Dan Schlussler, Kristy Scott, Michael Scott, Virginia Sowers, Viet Tran, Scott Weaver, Rachel Webb, Leslie Weldon, Dan Whitlock, and Cindy Wilkinson.

Guests:

Jamie Bitz, Joint Legislative Audit and Review Commission; Tom Cassara and Mike Faulkner, Agilis; Denise Fortune and Gavin Gruenberg, Voya Financial; Gary Gammon and Erin Rodriguez, Auditor of Public Accounts; Emily Grimes, Department of Planning and Budget; Carolina LaMonica, MissionSquare; Madeline Katz, Mandate Wire; Mitchell King and Brigid Schutsky, BlackRock; Matthew McCue, Financial Investment News; Elizabeth Myers, Office of the Attorney General; Andrew Ness, SageView; Bea Snidow, Virginia Education Association; Mike Tweedy, Senate Finance and Appropriations Committee; and Tom Astin.

The meeting convened at 1:00 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the June 15, 2023, meeting of the Virginia Retirement System Board of Trustees. After noting the meeting was being held in accordance with § 2.2-3708.3(B)(1), § 2.2-3708.3(B)(3) and § 2.2-3708.3(B)(4) of the *Code of Virginia* and the VRS Remote Meeting Attendance Policy, Mr. Andrews took a roll call for attendance:

Mr. Bell: Present

Mr. Bennett: Present
Mr. Disharoon: Present
Dr. Gooden: Present
Mr. Hayes: Present
Ms. Hood: Present
Ms. Pantele: Present
Mr. Andrews: Present

Approval of Minutes

Upon a motion by Mr. Bennett, with a second by Ms. Pantele, the VRS Board of Trustees approved the minutes from its April 20, 2023, meeting, upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

Report of the Chief Investment Officer

Andrew Junkin, Chief Investment Officer, introduced Tim Brown, who joins VRS as part of the Pension Real Estate Association Foundation summer internship. Next, Mr. Junkin began his report with a market overview and discussed asset allocation, total fund performance and tracking error, concluding that risk measures are within Board-approved levels. Mr. Junkin then reviewed the New Investments and Terminations report.

Next, Mr. Junkin reviewed the recommended changes to the benchmarks for Credit Strategies, Private Equity, and Private Investment Partnerships.

Request for Board Action 2023-06-08: The VRS Board of Trustees approves the recommended benchmarks for Credit Strategies, Private Equity, and Private Investment Partnerships.

Upon a motion by Mr. Bennett, with a second by Ms. Pantele, the VRS Board of Trustees approved the action upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

Mr. Andrews thanked Mr. Junkin for his report.

Asset Liability Modeling Discussion

Mr. Junkin introduced Tom Cassara and Mike Faulkner with Agilis, who led a discussion on asset liability management (ALM). Mr. Cassara provided a brief overview of the long-term and short-term goals and objectives of the ALM study. Mr. Cassara then reviewed the current and alternative portfolios and noted the current portfolio is well diversified and is well-positioned to meet the current long term expected rate of return of 6.75%.

Next, Mr. Cassara reviewed the alternative portfolio outcomes, which included equity allocation changes, diversification and adding leverage. He advised that adding further diversification, including the potential of adding leverage, is expected to be more efficient than the current portfolio regarding managing risk. Of the portfolios with increased diversification, the Leveraged Diversification portfolio was the only portfolio that did not result in an expected increase in contributions versus the current portfolio.

Mr. Faulkner discussed the results of the stress test, which examined how each portfolio compares under four alternative economic scenarios. Mr. Faulkner noted the results show the current allocation and the alternative asset allocations are efficient and viable options. To further reduce potential risk, Mr. Faulkner noted additional diversification will help reduce risk, however such diversification may increase expected required contributions. Mr. Faulkner stated the use of leverage to achieve diversification generally mitigates this increase in cost.

Next, Mr. Junkin provided an overview of key principles and next steps, including an evaluation of alternative portfolio options and implementation roadmap. Mr. Junkin advised that modest changes to the asset allocation provide for more resiliency to uncertainty and downside scenarios and liquidity management becomes increasingly more important as complexity is introduced into the portfolio.

Request for Board Action 2023-06-9: The VRS Board of Trustees approves the FY 2024 Defined Benefit Plan Strategic Asset Allocation and Allowable Ranges, effective July 1, 2023.

Upon a motion by Mr. Bennett, with a second by Ms. Pantele, the VRS Board of Trustees approved the action upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

Request for Board Action 2023-06-10: The VRS Board of Trustees selects and approves the long-term defined benefit plan strategic asset allocation of Option 4: Leverage Diversify (also labeled as Alternative Portfolio (5) Leveraged Diversification in the Agilis/VRS Staff Presentation). Staff will recommend for the

Board's further approval an implementation plan which will include a transition plan, allowable ranges, and a total fund tracking error range to be determined at an upcoming Board meeting.

Upon a motion by Mr. Bennett, with a second by Ms. Pantele, the VRS Board of Trustees approved the action upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

Report of the Defined Contribution Plans Advisory Committee

The Board received the report of the Defined Contribution Plans Advisory Committee (DCPAC) and placed it on file.

ADMINISTRATION

Administrative Reports & Communications

Mr. Bell began his report by noting staff provided an overview of the DC Plans, as well as an update on administrative reports for the first quarter of 2023. An overview of assets and accounts across the various defined contribution plans, as well as account trends, was also provided.

Staff advised the Committee that assets and accounts, taken across all plans in totality, were both up since year end. The increase is primarily related to the impact of auto escalation in the Hybrid Retirement Plan.

Staff provided details of the age-based catch-up contributions of the SECURE 2.0 federal legislation and the challenges it poses to the administration of DC plans. An update was provided on the Hybrid Plan rate separation, which will be effective July 1, 2024. Employer support is being provided to assist with this transition. Further, staff provided details on ORPHE and upcoming DC Plans events, including the TD Ameritrade/Schwab transition.

INVESTMENTS

Performance Reports

Staff provided an overview of the April 30, 2023, performance reports to the DCPAC, including the unbundled DC plans investment options and the bundled TIAA investment menu for ORPHE.

VRS Primary Pension Plans Basic Characteristics

As part of staff's ongoing DC retirement income product/solution discussion, staff provided the Committee with a high-level overview of some of the key features found within the various VRS primary pension plans. Primary pension plan benefits serve as a foundational source of a member's retirement

income and therefore, understanding these benefits helps set the stage for evaluating DC retirement income products/solutions in a holistic manner for VRS members.

OTHER BUSINESS

COV 457 Plan

Staff provided an overview of the proposed 457 Plan Document amendments. These amendments will, among other provisions, authorize VRS to suspend elective age-based catch-up deferrals to the plan for participants age 50 or older for any year, beginning in 2024. In addition, these amendments eliminate the first day of the month rule for initial elections, allow automatic pre-tax contributions to become effective as soon as administratively practicable, and update the Plan Document to reflect the current required minimum distribution age and maximum amount of elective deferrals under federal law. The Committee approved a motion to recommend the RBA to the Board.

Request for Board Action 2023-06-11: The Virginia Retirement System Board of Trustees approves the amended and restated Commonwealth of Virginia 457 Deferred Compensation Plan (Plan), effective July 1, 2023.

Upon a motion by Mr. Bell, with a second by Dr. Gooden, the VRS Board of Trustees approved the action upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

DISCUSSION OF NEW IDEAS

No new ideas were presented.

2023 MEETINGS

The DCPAC will meet at 1:00 p.m. on the following dates:

- Thursday, September 7th
- Thursday, November 30th

Additionally, the ORPHE Annual Employer Update will be scheduled for September 2023 (TBD) and will appear on the DCPAC agenda as an upcoming event. This is not a DCPAC meeting; however, members may attend if interested.

RECOMMENDATION FOR DC PLANS THIRD-PARTY ADMINISTRATOR

Staff and outside consultant, Andrew Ness of SageView, provided comments on the RFP process and an analysis of proposals in closed session. After the Committee returned to open session, the Committee

unanimously voted to recommend that the Board approve the Request for Board Action recommending Voya Financial as the DC Plans Third-Party Administrator. The new contract will be effective January 1, 2025.

Mr. Bell advised that VRS consulted with SageView to develop the recordkeeping Request for Proposal (RFP) for the VRS defined contribution plans and provide an analysis on proposals received. SageView representative Andrew Ness reviewed the bidders and provided background information and statistics on each organization. An evaluation committee was established to review the proposals and conduct interviews with the finalists and provide the results to the DCPAC.

Mr. Bell thanked Mr. Ness for his presentation.

Request for Board Action 2023-06-12: The Virginia Retirement System Board of Trustees accepts the recommendation of the Defined Contribution Plans Advisory Committee (DCPAC) for Voya to serve as the Board of Trustees' third-party record keeper for the VRS defined contribution plans subject to negotiation of a contract.

Upon a motion by Mr. Bell, with a second by Dr. Gooden, the VRS Board of Trustees approved the action upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

Mr. Andrews thanked Mr. Bell for his report.

Report of the Administration, Finance and Talent Management Committee

The Board received the report of the Administration, Finance and Talent Management Committee and placed it on file.

APPROVAL OF MINUTES

Mr. Andrews began his report by noting the Committee approved the minutes of its April 20, 2023, meeting.

DISCUSSION AND CONSIDERATION OF FY 2024 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES

Michael Cooper reviewed the proposed Agency Performance Outcomes (APOs) and operational measures for FY 2024. Mr. Cooper noted that APOs are considered stretch goals for the organization, requiring input across all business units, and operational measures reflect the agency's day-to-day business operations.

Staff proposes five APOs for FY 2024, each with multiple subcomponents. Sixteen operational measures are also proposed for the fiscal year. To satisfy the requirements for the gainsharing bonus, staff must accomplish four of the five APOs and 13 of the 16 operational measures.

Request for Board Action 2023-06-13: The VRS Board of Trustees approves the FY 2024 Agency Performance Outcomes (APOs) and Agency Operational Measures.

Upon a motion by Mr. Andrews, with a second by Mr. Disharoon, the VRS Board of Trustees approved the action upon the following roll call vote:

Mr. Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: Aye
Mr. Hayes: Aye
Ms. Hood: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

CUSTOMER EXPERIENCE INITIATIVE UPDATE

Mr. Cooper next presented an update on the agency's customer experience initiative. The agency worked with its consultants, KPMG and ICMI, to evaluate its current customer experience program and identify opportunities for enhancement. Staff has developed a roadmap to implement the new enhancements over the next several years, including two APOs for FY 2024.

BUDGET UPDATE

Jon Farmer, Budget and Performance Reporting Manager, provided an update on the FY 2023 budget. Mr. Farmer advised the Committee that VRS began the fiscal year with approximately \$119 million and through April 2023 has expended approximately \$83 million. Mr. Farmer noted that the agency is on track to conclude the fiscal year with an estimated \$11.3 million in unexpended appropriation.

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. Bennett began his report by noting the Committee approved the minutes of its February 7, 2023, meeting.

ELECTION OF COMMITTEE VICE CHAIR

The Committee unanimously approved the nomination of Lindsey K. Pantele to serve as Vice Chair.

INFORMATION ITEMS

Actuarial Principles 101

Rory Badura, Senior Staff Actuary, gave a presentation on actuarial principles and the valuation process for the VRS defined benefit plans that included overviews of actuarial terminology, the VRS funding policy, and development of contribution rates and funded ratios.

Group Life Insurance

Robert Irving, Customer Services Director, presented the proposed premium rate recommendation for basic life and optional life from Securian for fiscal year 2024, the group life insurance third-party administrator.

There is no change to the basic maximum premium rates. Mortality experience and future expectation increased from last year driven by retirees; however, given the three-year pricing horizon, the rates will be held at their current level.

Mortality experience and future expectation on the optional plan remain good. The adjusted loss ratio of 80.1% over the last five-year period (2018-2022) allows VRS to offer a 5% overall premium rate reduction effective July 1, 2023, and are guaranteed through June 30, 2024.

Consistent with Securian's rate setting principles for the optional plan, the rate changes reflect experience by age band in order to have equity in pricing among the various age brackets.

Upcoming B&A Committee

- Wednesday, October 18 at 1:00 p.m.
- Thursday, November 16 at 10:00 a.m.

Mr. Andrews thanked Mr. Bennett for his report.

Report of the Audit and Compliance Committee

The Board received the report of the Audit and Compliance Committee and placed it on file.

APPROVAL OF MINUTES

In Mr. Montgomery's absence, Mr. Andrews noted the Committee approved the minutes of its March 29, 2023, meeting.

STATUS UPDATE ON THE 2022 EMPLOYER ASSURANCES REVIEW

The Auditor of Public Accounts (APA) reported the Employer Assurances Review, covering GASB Statements No. 68 and 75, was progressing as planned. The APA indicated they should conclude their work over the Pension and Other Post-Employment Benefit plans and issue the related opinions during the month of July.

ENTRANCE WITH THE APA FOR THE VRS 2023 ANNUAL COMPREHENSIVE FINANCIAL REPORT AUDIT

The Committee held its annual entrance conference with the APA to review the approach and scope of the examination of VRS' Annual Comprehensive Financial Report for the Fiscal Year Ending June 30, 2023.

AUDIT REPORTS

The Committee received two audit reports.

- The review of *Service Retirements* determined sufficient controls are in place to support retirement application processing and that the associated processes are working as intended. There were no formal recommendations as a result of this review.
- The *Review of VRS' Master Custodian* determined that a general assessment found an appropriate operating environment and controls associated with the recordkeeping and safeguarding of assets held by the master custodian. Further, the review determined that VRS and the master custodian had complied with the contractual agreement and related amendments. There were no formal recommendations as a result of this review.

INTRODUCTION OF THE IAA IPPF EVOLUTION

The Committee was provided with an overview of the Institute of Internal Auditors' (IIA) current project to update its *International Professional Practices Framework (IPPF)*, and how the VRS Internal Audit Department is providing feedback for the project and preparing for the changes.

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

The Audit Director shared there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General or other sources during the period of February 1, 2023, through April 30, 2023.

Management's Quarterly Travel Expenses and Per Diem Report

The Committee received Management's Quarterly Travel Expenses and Per Diem report.

Next Committee Meeting

The Committee's next meeting is scheduled for Wednesday, September 20, 2023, at 10:00 a.m.

Report of the Director

Ms. Bishop began her report with an update on the agency roadmap for FY 2023, noting all projects are progressing as planned, and expressed her appreciation to staff for their hard work and collaborative efforts to achieve these milestones. Ms. Bishop then reviewed the new Employer Coverage Elections.

Ms. Bishop advised that since its implementation in December of 2020, VRS has received a total of 31,478 service retirement applications of which 7,814, or 25%, were submitted online through myVRS. In addition, 43% of the July 1, 2023 retirement applications were submitted via myVRS.

Next, Ms. Bishop provided the Board with the following announcements:

- VRS received a Communicator Award of Distinction from the Academy of Interactive and Visual Arts (AIVA) for the Hybrid Retirement Plan Auto-Escalation Campaign.
- VRS ranked #8 in the Top 10 Agencies for the Commonwealth of Virginia Campaign (CVC) for donations during the 2022 campaign.

- During May 8-15, VRS celebrated Virginia Public Service Week to recognize staff for their commitment, dedication and service to the Commonwealth and to VRS.
- The Joint Legislative Audit and Review Commission will hold its annual meeting on July 10, 2023, at 10:00 a.m. Ms. Bishop, Mr. Junkin and Mr. Andrews will be presenting the annual VRS agency update.
- Ron Stokes, Senior Operations Analyst, was recognized by NBC12 Acts of Kindness for helping individuals reduce their debt by more than \$900,000 through financial wellness classes in the community.

DPB Deficit Provision Acknowledgement Form

Ms. Bishop noted that annually VRS and other state agencies are required to confirm that their obligations and expenditures do not exceed their appropriations. She advised that VRS expenditures and obligations did not exceed appropriations. The reporting form specifically states that each member of the Board has been provided with a copy of the notice. The executed form will be sent to the Department of Planning and Budget.

Mr. Andrews thanked Ms. Bishop for her report.

Other Business

Lastly, Mr. Andrews noted the July 13 Board meeting has been cancelled and the Investment Advisory Committee will meet on August 23, 2023.

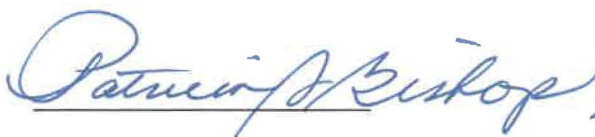
Adjournment

Upon a motion by Mr. Bennett, with a second by Ms. Pantele, the VRS Board of Trustees unanimously agreed to adjourn the meeting*.

There being no further business, the meeting concluded at 2:27 p.m.



Chair



Secretary

**Dr. Gooden exited the meeting at 2:26 p.m. and was not present for this vote.*

Report

The Defined Contribution Plans Advisory Committee (DCPAC) convened on June 1, 2023, at 1:00 p.m. and took up the following matters:

WELCOME AND INTRODUCTION

Senator Bell welcomed Committee members, Board members, agency officials, representatives from stakeholder groups, and other members of the public joining in person and through electronic means, to the DCPAC.

ADMINISTRATION

Administrative Reports & Communications

Staff provided an overview of the DC Plans, as well as an update on administrative reports for the first quarter of 2023. An overview of assets and accounts across the various defined contribution plans, as well as account trends, was also provided.

Staff advised the Committee that assets and accounts, taken across all plans in totality, were both up since year end. The increase is primarily related to the impact of auto escalation in the Hybrid Retirement Plan.

Staff provided details of the age-based catch-up contributions of the SECURE 2.0 federal legislation and the challenges it poses to the administration of DC plans. An update was provided on the Hybrid Plan rate separation, which will be effective July 1, 2024. Employer support is being provided to assist with this transition. Further, staff provided details on ORPHE and upcoming DC Plans events, including the TD Ameritrade/Schwab transition.

INVESTMENTS

Performance Reports

Staff provided an overview of the April 30, 2023 performance reports to the DCPAC, including the unbundled DC plans investment options and the bundled TIAA investment menu for ORPHE.

VRS Primary Pension Plans Basic Characteristics

As part of staff's ongoing DC retirement income product/solution discussion, staff provided the Committee with a high-level overview of some of the key features found within the various VRS primary pension plans. Primary pension plan benefits serve as a foundational source of a member's retirement income and therefore, understanding these benefits helps set the stage for evaluating DC retirement income products/solutions in a holistic manner for VRS members.

OTHER BUSINESS

COV 457 Plan

Staff provided an overview of the proposed 457 Plan Document amendments. These amendments will, among other provisions, authorize VRS to suspend the right to make elective age-based catch-up deferrals to the plan for participants age 50 or older for any year beginning in 2024.

In addition, these amendments eliminate the first day of the month rule for initial elections, allow automatic pre-tax contributions to become effective as soon as administratively practicable, and update the Plan Document to reflect the current required minimum distribution age and maximum amount of elective deferrals under federal law. The Committee approved a motion to recommend the RBA to the Board.

DISCUSSION OF NEW IDEAS

No new ideas presented.

2023 MEETINGS

Senator Bell confirmed the remaining DCPAC meeting dates in 2023, all at 1:00 p.m.:

- Thursday, September 7th
- Thursday, November 30th

Additionally, the ORPHE Annual Employer Update will be scheduled for September 2023 (TBD) and will appear on the DCPAC agenda as an upcoming event. This is not a DCPAC meeting; however, members may attend if interested.

RECOMMENDATION FOR DC PLANS THIRD-PARTY ADMINISTRATOR

Staff and outside consultant, Andrew Ness, provided comments on the RFP process and an analysis of proposals in closed session. After the Committee returned to open session, the Committee unanimously voted to recommend that the Board approve the Request for Board Action recommending Voya Financial as the DC Plans Third-Party Administrator. The new contract will be effective January 1, 2025.

There was no other business to come before the Committee.

Submitted to the Board of Trustees on June 15, 2023.



J. Brandon Bell, Chair
Defined Contribution Plans Advisory Committee

Report

The Administration, Finance and Talent Management Committee met on June 13, 2023, and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its April 20, 2023, meeting.

DISCUSSION AND CONSIDERATION OF FY 2024 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES

Michael Cooper reviewed the proposed Agency Performance Outcomes (APOs) and operational measures for FY 2024. Mr. Cooper noted that APOs are considered stretch goals for the organization, requiring input across all business units, and operational measures reflect the agency's day-to-day business operations.

Staff proposes five APOs for FY 2024, each with multiple subcomponents. Sixteen operational measures are also proposed for the fiscal year. To satisfy the requirements for the gainsharing bonus, staff must accomplish four of the five APOs and 13 of the 16 operational measures.

The Committee recommends approval of the following action to the full Board:

Request for Board Action: *The Board approves the FY 2024 Agency Performance Outcomes (APOs) and Operational Measures.*

CUSTOMER EXPERIENCE INITIATIVE UPDATE

Mr. Cooper next presented an update on the agency's customer experience initiative. The agency worked with its consultants, KPMG and ICMI, to evaluate its current customer experience program and identify opportunities for enhancement. Staff has developed a roadmap to implement the new enhancements over the next several years, including two APOs for FY 2024.

BUDGET UPDATE

Jon Farmer, Budget and Performance Reporting Manager, provided an update on the FY 2023 budget. Mr. Farmer advised the Committee that VRS began the fiscal year with approximately \$119 million and through April 2023 has expended approximately \$83 million. Mr. Farmer noted that the agency is on track to conclude the fiscal year with an estimated \$11.3 million in unexpended appropriation.

Submitted to the Board of Trustees on June 15, 2023.



A. Scott Andrews, Chair
Administration, Finance and Talent Management Committee

Report

The Benefits and Actuarial Committee met on June 14, 2023, and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its February 7, 2023, meeting.

ELECTION OF COMMITTEE VICE CHAIR

The Committee unanimously approved the nomination of Lindsey K. Pantele to serve as Vice Chair.

INFORMATION ITEMS

Actuarial Principles 101

Rory Badura, Senior Staff Actuary, gave a presentation on actuarial principles and the valuation process for VRS defined benefit plans that included overviews of actuarial terminology, the VRS funding policy, and development of contribution rates and funded ratios.

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There is no change to the basic maximum premium rates. Mortality experience and future expectation increased from last year driven by retirees; however, given the three-year pricing horizon, the rates will be held at their current level.

Mortality experience and future expectation on the optional plan remain good. The adjusted loss ratio of 80.1% over the last five-year period (2018-2022) allows us to offer a 5% overall premium rate reduction effective July 1, 2023, and are guaranteed through June 30, 2024.

Consistent with Securian's rate setting principles for the optional plan, the rate changes reflect experience by age band in order to have equity in pricing among the various age brackets.

Upcoming B&A Committee Meetings

- Wednesday, October 18 at 1:00 p.m.
- Thursday, November 16 at 10:00 a.m.

Submitted to the Board of Trustees on June 15, 2023.



John M. Bennett, Chair
Benefits and Actuarial Committee

Report

The Audit and Compliance Committee met on June 13, 2023. Mr. Montgomery welcomed committee members, board members, agency officials, representatives from stakeholder groups and other members of the public joining in person and through electronic means. The committee discussed the following:

APPROVAL OF MINUTES

The committee approved the minutes of its March 29, 2023, meeting.

STATUS UPDATE ON THE 2022 EMPLOYER ASSURANCES REVIEW

The Auditor of Public Accounts (APA) reported the Employer Assurances Review, covering GASB Statements No. 68 and 75, was progressing as planned. The APA indicated they should conclude their work over the Pension and Other Post-Employment Benefit plans and issue the related opinions during the month of July.

ENTRANCE WITH THE APA FOR THE VRS 2023 ANNUAL COMPREHENSIVE FINANCIAL REPORT AUDIT

The Committee held its annual entrance conference with the APA to review the approach and scope of the examination of VRS' Annual Comprehensive Financial Report for the Fiscal Year Ending June 30, 2023.

AUDIT REPORTS

The committee received two audit reports.

- The review of *Service Retirements* determined sufficient controls are in place to support retirement application processing and that the associated processes are working as intended. There were no formal recommendations as a result of this review.
- The *Review of VRS' Master Custodian* determined that a general assessment found an appropriate operating environment and controls associated with the recordkeeping and safeguarding of assets held by the master custodian. Further, the review determined that VRS and the master custodian had complied with the contractual agreement and related amendments. There were no formal recommendations as a result of this review.

INTRODUCTION OF THE IIA IPPF EVOLUTION

The Committee was provided with an overview of the Institute of Internal Auditors' (IIA) current project to update its *International Professional Practices Framework (IPPF)*, and how the VRS Internal Audit Department is providing feedback for the project and preparing for the changes.

MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

The Audit Director shared there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General or other sources during the period of February 1, 2023, through April 30, 2023.

Management's Quarterly Travel Expenses and Per Diem Report

The committee received Management's Quarterly Travel Expenses and Per Diem report.

Next Committee Meeting Date

The committee's next meeting is scheduled for Wednesday, September 20, 2023, at 10 a.m.

Respectfully submitted to the Board of Trustees on June 15, 2023.



A. Scott Andrews, Committee Member and Board Chair
Audit and Compliance Committee