

Minutes

The Defined Contribution Plans Advisory Committee (DCPAC) of the VRS Board of Trustees convened on June 1, 2023, with the following members present:

Brandon Bell, Chair
Susan T. Gooden, Vice Chair
Ravindra Deo
C. Matt Harris
Shannon Irvin* (in accordance with § 2.2-3708.3(B)(3))
Rick Larson
Brenda Madden
Arun Muralidhar* (in accordance with § 2.2-3708.3(B)(3))
David Winter

VRS Board of Trustees:

John Bennett*

VRS Staff:

Trish Bishop, Ty Bowers*, Jessica Budd*, Jeanne Chenault, Michael Cooper, David Cotter, Valerie Disanto*, Jon Farmer*, Antonio Fisher, Josh Fox*, Kelley Harlow*, Kelly Hiers, KC Howell, Robert Irving, Brian Lackey*, Ryan LaRochelle, Joyce Monroe*, Laura Pugliese, Jennifer Schreck, Jacob Schwartz*, Kristy Scott*, Michael Scott, Ashley Spradley*, Bridgette Watkins, Rachel Webb, Leslie Weldon, Cindy Wilkinson, and Tanya Williams*.

Guests:

Brian McCleave, Empower Retirement; Andrew Ness, SageView Advisors; Jamie Bitz, JLARC; Lauren Albanese*, Financial Investment News.

**Attended remotely*

The meeting convened at 1:00 p.m.

Opening Remarks

Brandon Bell, Chair of the DCPAC, welcomed Committee members, Board members, VRS staff, representatives from other stakeholder groups and members of the public.

Approval of Minutes

Upon a motion by Dr. Gooden, with a second by Mr. Winter, the Committee unanimously voted to approve the minutes of the March 30, 2023, meeting of the Defined Contribution Plans Advisory Committee.

Administrative Reports and Communications

Kelly Hiers, DC Plans Administrator, provided an update on the VRS Defined Contribution Plans for the first quarter, ending March 31, 2023. Ms. Hiers shared the total assets under management across all DC plans over time. Ms. Hiers noted plan assets and accounts were both up since year end. Assets across all plans total approximately \$7.4 billion. Total accounts are close to 600,000. This increase is primarily related to the impact of auto-escalation in the Hybrid Retirement Plan.

Ms. Hiers shared that VRS received the Communicator Award of Distinction from the Academy of Interactive and Visual Arts for the Hybrid Auto-Escalation Campaign. VRS also submitted for a National Association of Government Defined Contribution Administrators (NAGDCA) award and the Pensions & Investments (P&I) award.

Ms. Hiers shared specific details of the SECURE 2.0 federal legislation as it pertains to age-based catch-up contributions. This provision has provided implementation challenges for public retirement plans and cannot be implemented within the allowed timeframe. VRS will be requesting plan document amendments to allow for flexibility with implementation of this provision.

Ms. Hiers provided an update regarding the Hybrid Retirement Plan rate separation legislation implementation. This initiative separates the employer contribution rates into two separate rates: the Defined Benefit rate and the Defined Contribution rate. VRS is beginning outreach related to this change since it will require system updates for employers. This initiative simplifies Defined Contribution plans administration, reduces the need for employer reconciliations, and allows members to make monthly contribution changes. The rate separation becomes effective July 1, 2024.

Ms. Hiers provided an update on total assets and accounts in the COV 457 and Virginia Cash Match plans through March 31, 2023, noting that assets increased 5%. Ms. Hiers also provided a review of total assets and accounts in the Hybrid Retirement Plan for the first quarter of 2023. Assets increased 13% and accounts 17%, largely due to auto-escalation.

Ms. Hiers shared an update on the status of the 2023 auto-escalation in the Hybrid Retirement Plan. Over 100,000 members were auto-escalated on January 1, 2023. About 93% remained at the auto-escalated contribution rate. Over 2% further increased their voluntary contribution and over 1.5% increased their voluntary contribution to the maximum. Less than 1% decreased their voluntary contribution percentage. Mr. Winter asked if this was consistent with past years. Ms. Hiers confirmed these numbers were consistent with past years.

Ms. Hiers provided a brief overview of the Optional Retirement Plan for Higher Education. Assets in this plan are held with MissionSquare and TIAA, with the majority held by TIAA. Assets were up 5%, but accounts were slightly down. Ms. Hiers noted it is not unusual for accounts to be slightly down in the first quarter due to hiring practices and retirement patterns.

Ms. Hiers concluded with a review of upcoming events. The TD Ameritrade-Charles Schwab transition will be occurring in September for participants in the Self-Directed Brokerage Account.

Mr. Bell thanked Ms. Hiers for her presentation.

DC Plans Investments Update

Laura Pugliese, Portfolio Manager of Defined Contribution Plans, began with a follow-up to questions from the last meeting regarding the Retirement Research Center's (RRC) 2022 Profiling Retiree Spending Study. The RRC did not find regional data meaningful enough to segment the data into regions and their sample size was not large enough to review by race. The RRC asked the same questions in multiple ways to determine accuracy with self-reporting. In response to a question regarding the sample size, Ms. Pugliese noted that she believed it was about 2,000.

Ms. Pugliese provided a high-level overview of the markets and reviewed the April 30, 2023, performance reports, including the unbundled DC plans investment options and the bundled TIAA ORPHE Retirement Choice (RC) investment menu options.

Ms. Pugliese provided an update on the TIAA ORPHE investment changes. The transition to lower share classes for the BlackRock LifePath Index Funds and the BlackRock Russell 2500 Index Fund took place on May 31, 2023. Mr. Bell inquired about the DCPAC's role, if any, in overseeing of external managers. Ms. Pugliese responded that according to policy documents, the CIO is responsible for the hiring and termination of managers. Mr. Bell asked if there was any regular timeline for the review of managers. Ms. Bishop responded that investments fall outside the Public Procurement Act so there is more flexibility and staff performs regular due diligence in reviewing performance. Mr. Howell added that VRS is constantly reviewing its investment products and monitoring the market for competitiveness and mentioned staff performs annual due diligence with the investment managers.

Ms. Pugliese provided an overview of the characteristics of VRS' primary pension plans as a background for DCPAC members. Mr. Winter asked if the highest average compensation typically happens at the end of a member's career. Ms. Pugliese said it may not be the case and it must be consecutive which is important for the calculation. Mr. Howell added that education is important for members to understand their benefits. Mr. Deo asked what percentage of participants annuitize their DC plan funds. Ms. Hiers said the rates are low.

Mr. Bell thanked Ms. Pugliese for her presentation.

Other Business

COV 457 Plan Amendments

Cindy Wilkinson, Director of Policy and Planning, informed the Committee of the proposed changes to the Commonwealth of Virginia 457 Deferred Compensation Plan Document. Mr. Winter inquired if the age-based catch-up provisions would be a good policy if the implementation wasn't so difficult. Ms. Bishop responded that it is generally a good policy and VRS would be happy to administer it but cannot given the current circumstances. Mr. Deo noted he agreed that it is a good policy. Ms. Bishop added that the complexities of the policy can cause confusion for participants which can prevent usage. Ms. Hiers added that it is even more complicated for Hybrid Retirement Plan participants due to the structure of supplemental voluntary contributions.

Upon a motion by Dr. Gooden, with a second by Mr. Deo, the Committee unanimously recommended approval of the Request for Board Action regarding the Amended and Restated Commonwealth of Virginia 457 Deferred Compensation Plan:

Request for Board Action: Approve Amended and Restated 457 Deferred Compensation Plan Document

Discussion of New Ideas

There were no new ideas brought before the committee.

Upcoming Defined Contribution Plans Advisory Committee Meetings

Mr. Bell confirmed the remaining DCPAC meeting dates for 2023. The next meeting of the DCPAC will take place on September 7, 2023, with the last meeting on November 30th. All meetings will be held at 1:00 p.m.

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

DC Plans Record Keeper RFP Update (Closed Session)

Dr. Gooden moved, with a second by Mr. Larson, that the Virginia Retirement System Defined Contribution Plans Advisory Committee convene a closed meeting under the Virginia Freedom of Information Act to discuss and consider the award of a public contract involving the expenditure of public funds, including interviews of bidders or offerors, and discussion of the terms or scope of such contract, where discussion in an open session would adversely affect the bargaining position or negotiating strategy of the public body, pursuant to the exemption in *Code of Virginia* § 2.2-3711(A)(29). The committee unanimously voted to enter into closed session.

Reconvene Meeting

Upon return to open meeting, Dr. Gooden offered, with a second by Mr. Deo, the following resolution certifying the closed session:

WHEREAS, the Virginia Retirement System Defined Contribution Plans Advisory Committee convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, § 2.2-3712 of the Code of Virginia requires a certification by this Committee that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, that the Committee certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Committee.

The Committee approved the resolution upon the following roll call vote:

- Mr. Deo – Aye
- Ms. Irvin – Aye
- Mr. Larson – Aye
- Ms. Madden – Aye
- Dr. Muralidhar – Aye
- Mr. Harris – Aye
- Mr. Winter – Aye
- Dr. Gooden – Aye
- Senator Bell – Aye

DC Plans Record Keeper RFP

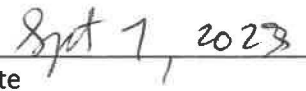
Upon a motion by Dr. Gooden, with a second by Ms. Madden, the Committee unanimously voted to recommend approval of the Request for Board Action recommending Voya Financial as the DC Plans Third-Party Administrator effective January 1, 2025:

Request for Board Action: Accept the DCPAC's Recommendation for a DC Plans Third-Party Administrator.

Adjournment

Upon a motion by Mr. Winter, with a second by Ms. Madden, the Committee unanimously voted to adjourn the meeting at 3:12 p.m.


Chair


Date