



April 16, 2021

**MEMORANDUM**

**TO:** VRS Board of Trustees

**FROM:** Patricia S. Bishop  
Director

**RE:** Agenda Materials for April 20<sup>th</sup> Board Meeting

Enclosed are the agenda materials for the April 20<sup>th</sup> Board meeting that begins at 1:00 p.m.

Pursuant to Item 4-0.01 of Chapter 56 of the 2020 Special Session I Acts of Assembly, the Virginia Retirement System Board of Trustees will convene electronically on April 20<sup>th</sup> at 1:00 p.m. Registration is required to observe this meeting electronically by telephone or webinar. Meeting materials will be available in Directors Desk and the GoToWebinar meeting space at the time of the meeting.

Board members have been registered by staff. Please save your invitation email that you received upon registration or save the contents to your calendar so that you have easy access to the meeting link. In the email you can click on “add to calendar.” The email is sent from “VRS Board Meeting.” You will receive a reminder prior to the meeting. If you need the invitation resent, please contact Jillian Sherman at [jsherman@varetire.org](mailto:jsherman@varetire.org) at least one hour prior to the meeting.

Members of the public and staff who have not been pre-registered should please follow the directions in the link below to register for the electronic meeting <https://attendee.gotowebinar.com/register/628669276973248527>. Instructions for signing up to provide public comment, as required under Item 4-0.01 of Chapter 1289, are included in the meeting registration.

Listed below is a recap of the remaining meetings scheduled for this month:

<b>Meeting</b>	<b>Date</b>	<b>Location</b>
Administration and Personnel Committee	Monday, April 19 <sup>th</sup> , 10:00 a.m.	To be held via GoToWebinar Webinar ID: 964-051-347
Benefits and Actuarial Committee	Monday, April 19 <sup>th</sup> , 1:00 p.m.	To be held via GoToWebinar Webinar ID: 875-010-763
Board of Trustees	Tuesday, April 20 <sup>th</sup> , 1:00 p.m.	To be held via GoToWebinar Webinar ID: 450-071-283

Thanks, and I look forward to speaking with you soon.

Attachments

cc: The Honorable Aubrey Layne, Secretary of Finance  
Joe Flores, Office of the Secretary of Finance  
June Jennings, Office of the Secretary of Finance  
Craig Burns, Department of Taxation  
Michael Jay, House Appropriations Committee  
Adam Rosatelli, Senate Finance Committee  
Zack Borgerding, Auditor of Public of Accounts  
Jon Howe, Department of Planning and Budget  
Dean Lynch, VA Association of Counties  
Katie Boyle, VA Association of Counties  
Jeremy Bennett, VA Association of Counties  
Shane Riddle, VA Education Association  
Bea Snidow, VA Education Association  
Rick Fowler, VGEA  
Marshall Terry, VGEA  
Jamie Bitz, Joint Legislative Audit & Review Commission  
Kimberly Sarte, Joint Legislative Audit & Review Commission  
Hal Greer, Joint Legislative Audit & Review Commission  
Elizabeth Bushnell Myers, Office of the Attorney General  
Jessica Ackerman, VA Municipal League  
Lawrence Kochard, VRS Investment Advisory Committee  
Bonnie Atwood, VA Retired Teachers Association



## Board of Trustees Meeting

GoToWebinar

Tuesday, 4/20/2021

1:00 - 4:00 PM ET

### I. Public Comment

### II. Approve Minutes

- **February 16, 2021**

*Board Minutes 2.16.21 - Page 5*

### III. Report of the Investment Advisory Committee

### IV. Report of the Investment Policy Committee

*Report of the IPC - Page 14*

- **RBA – Approve Revised Defined Benefit Plan Investment Belief Statements**

*RBA - Approve Revised DB Plan Investment Belief Statements - Page 15*

*Investment Belief Statements - Redline - Page 16*

*Investment Belief Statements - Clean - Page 20*

### V. Report of the Chief Investment Officer

*Asset Allocation Report 2.28.21 - Page 23*

*Daily Asset Allocation Report 4.12.21 - Page 24*

*Performance Summary 2.28.21 - Page 25*

*Plan Tracking Error - Page 26*

*New Investments and Terminations - Page 27*

*DIME Quarterly Summary - QE 3.31.21 - Page 28*

*Manager Referral Quarterly Summary - QE 3.31.21 - Page 34*

### VI. Report of the Audit and Compliance Committee

*Report of the A&CC - Page 35*

### VII. Report of the Defined Contribution Plans Advisory Committee

*Report of the DCPAC - Page 37*

### VIII. Report of the Administration and Personnel Committee

*Report of the A&PC - Page 40*

- **RBA – Reappointment of DCPAC Members**

*RBA - Reappointment of DCPAC Members - Page 42*

*Resume for Shannon Irvin - Page 43*

*Bio for Rick Larson - Page 46*

*Bio for David Winter - Page 47*

- **RBA – Review and Approve Revised FY 2021 Agency Performance Outcome (APO) #4**

*RBA - Approve Revised APO #4 - Page 48*

*Revised APO 4 Final Draft - Clean and Redline - Page 49*

*FY21 APO Status Update - March - Page 51*

### IX. RBA – Approve Revised Pay Plans

*Memo on Salary Increases and Pay Scales - Page 56*

*RBA - Approve Revised Pay Plans - Page 57*

*Administrative Pay Plan - Redline - Page 58*

*Administrative Pay Plan - Clean - Page 68*

*Investment Professionals Pay Plan - Redline - Page 78*

*Investment Professionals Pay Plan - Clean - Page 96*

*VRS Investment Operations and Administration Pay Plan - Redline - Page 114*

*VRS Investment Operations and Administration Pay Plan - Clean - Page 126*

**X. Report of the Benefits and Actuarial Committee**

*Report of the B&AC - Page 138*

- **Presentation of Experience Study Results: Cavanaugh MacDonald Consulting, LLC**

*Experience Study Presentation \_Board - Page 140*

- **RBA – Review and Approve Recommended Changes to Plan Assumptions and Methods**

*RBA - Approve Changes to Plan Assumptions and Methods - Page 154*

**XI. Report of the Director**

*FY 2021 Agency Roadmap Update - March - Page 158*

*Director's Report - Page 160*

---

## Minutes

An electronic meeting of the Virginia Retirement System Board of Trustees was held on February 16, 2021 in accordance with § 2.2-3708.2(A)(3) of the *Code of Virginia* and in accordance with guidance provided in § 4-0.01 of Chapter 56 of the 2020 Special Session I Acts of Assembly, with the following members participating:

Board members participating:

O’Kelly E. McWilliams, III, Chair  
Joseph W. Montgomery, Vice Chair  
Hon. J. Brandon Bell, II  
Michael P. Disharoon  
William A. Garrett  
Susan T. Gooden, Ph.D.  
Wallace G. Harris, Ph.D.  
W. Brett Hayes (*entered at 1:12 p.m.*)  
Troilen G. Seward, Ed.S.

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, Stephen Adelaar, John Alouf, Rory Badura, Parham Behrooz, Jeanne Chenault, Tom Coleman, Michael Cooper, Perry Corsello, Harriet Covey, Juanita Cribbs, Sara Denson, Valerie Disanto, Jordan Evans, Barry Faison, Laurie Fennell, Brian Goodman, Katherine Grawe, JT Grier, Dane Honrado, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Kristina Koutrakos, Matt Lacy, Chung Ma, Curt Mattson, Steve McClelland, Greg Oliff, Angela Payne, Steve Peterson, Laura Pugliese, Paula Reid, Jummai Sarki-Hurd, Dan Schlussler, Michael Scott, Jillian Sherman, Grace Wheaton, Dan Whitlock and Cindy Wilkinson.

Guests participating were:

Elizabeth Myers, Assistant Attorney General, Office of the Attorney General; Bea Snidow, Virginia Education Association; Justin Ferrell, Auditor of Public Accounts; Adam Reese, Pageant Media; Latosha Johnson, Department of Planning and Budget; Jamie Bitz, Joint Legislative Audit and Review Commission; Rachel Furash, Goldman Sachs; Lauren Albanese, Financial Investment News; Steff Chavez, Mandate Wire; and Kevin Sullivan, Newton Investment Management.

The meeting convened at 1:08 p.m.

### Opening Remarks

O’Kelly E. McWilliams, III called the meeting to order and welcomed everyone to the February 16, 2021 meeting of the Virginia Retirement System Board of Trustees.

Mr. McWilliams noted that given the current circumstances related to COVID-19, the Board is unable to meet in person and, therefore, is using electronic means to hold the meeting. The meeting is being held in accordance with § 2.2-3708(A)(3) of the *Code of Virginia* and § 4-0.01 of Chapter 56 of the 2020 Special Session I Acts of Assembly as they relate to conducting business during the pandemic.

---

Next, Mr. McWilliams took attendance with the following roll call of each of the trustees\*:

Mr. Bell: Here  
Mr. Disharoon: Here  
Mr. Garrett: Here  
Dr. Gooden: Here  
Mr. Harris: Here  
Mr. Montgomery: Here  
Ms. Seward: Here  
Mr. McWilliams: Here

*\*Mr. Hayes was not present at this time.*

#### **Public Comment**

In accordance with § 4-0.01 of Chapter 56 of the 2020 Special Session I Acts of Assembly, the Board of Trustees opened the floor for public comment. Mr. McWilliams noted that no members of the public registered to comment at the electronic meeting.

#### **Approve Minutes**

Upon Ms. Seward's motion, with a second by Mr. Montgomery, the VRS Board of Trustees approved the minutes of the December 10, 2020 meeting upon the following roll call vote\*:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Garrett: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

*\*Mr. Hayes was not present for this vote.*

#### **Report of the Chief Investment Officer**

Mr. Schmitz 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. He then reviewed historical statistics on growth and value performance with the Board. Next, Mr. Schmitz discussed the New Investment and Terminations report and the Diverse Investment Manager Engagement (DIME) report, formerly the Women and Minorities (WaM) 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. Harris began his report by noting the Committee approved the minutes of its November 16, 2020 meeting.

## STATUTORY COST OF LIVING ADJUSTMENTS

### Virginia Sickness and Disability Program

Rory Badura, Senior Staff Actuary, presented the recommendations of Cavanaugh Macdonald Consulting, LLC, the Plan Actuary, regarding statutory annual adjustments to Virginia Sickness and Disability Program (VSDP) creditable compensation for members on long-term disability. For VSDP, Mr. Badura advised that the Plan Actuary recommends an increase in the creditable compensation for VRS pension benefit purposes of 2.12%, effective July 1, 2021. In addition, a cost of living adjustment (COLA) in the amount of 1.23% shall be applied to long-term disability (LTD) benefit payments for Plan 1, Plan 2, and Hybrid Retirement Plan members who have been recipients for one year. The calculations were reviewed by VRS staff and Internal Audit.

***Request for Board Action 2021-02-02: Effective July 1, 2021 the following increases shall apply:***

- *The creditable compensation used in calculating the member's average final compensation at retirement shall be increased in the amount of 2.12% for a Plan 1, Plan 2 or Hybrid member who has been the recipient of long-term disability (LTD) benefits for at least one year under the Virginia Sickness and Disability Program (VSDP); and*
- *A cost of living adjustment of 1.23% shall be applied to the net LTD benefit payment for Plan 1, Plan 2 and Hybrid members.*

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

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Garrett: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Hayes: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

### Virginia Local Disability Program

Mr. Badura advised that the Plan Actuary recommends an increase in the creditable compensation of 4.00% for each recipient of long-term disability (LTD) benefits under the Virginia Local Disability Program (VLDP) effective July 1, 2021. The VLDP plan does not provide for a COLA on LTD benefits

being received. The calculations for the increase in creditable compensation were reviewed by VRS staff and Internal Audit.

***Request for Board Action 2021-02-01: Effective July 1, 2021, each recipient of LTD benefits under the Virginia Local Disability Program (VLDP) who has been receiving LTD benefits for at least one calendar year, and who ultimately retires directly from LTD, will have their creditable compensation at date of disability increased by an amount set by the Board to be used in determining the member's average final compensation for disability retirement. The recommendation applicable to July 1, 2021 is an increase of 4.00% to be applied to a recipient's creditable compensation.***

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

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Garrett: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Hayes: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

#### INFORMATION ITEMS

##### 2021 COLAs Called for Under Statute Not Requiring Board Approval

Mr. Badura noted that, by statute, VRS cost of living increases are based on the consumer price index for all items, all urban consumers, as published by the Bureau of Labor Statistics of the U.S. Department of Labor. Mr. Badura advised that the COLA increase of 1.23% is applicable to eligible Plan 1, Plan 2 and Hybrid Plan members, effective July 1, 2021. This figure was calculated by the VRS Plan Actuary, Cavanaugh Macdonald Consulting, LLC, and verified by VRS and Internal Audit staff. The COLA did not require action by the Committee.

Mr. Badura also advised that in accordance with the requirements of the *Code of Virginia*, the Hazardous Duty Supplement is increased biennially using applicable cost of living adjustments published by the Social Security Administration since the last applicable increase. The biennial Social Security increase of 2.92% resulted in an increase in the annual Hazardous Duty Supplement from \$14,244 to \$14,664 for fiscal year 2021. The increase in the Hazardous Duty Supplement did not require action by the Committee. The calculations were reviewed by VRS and Internal Audit staff.

The Group Life Insurance Program minimum benefit for members retired with at least 30 years of service is to be increased by the same COLA applicable to VRS Plan 2 members, or 1.23%, effective July 1, 2021. The new minimum life insurance payout effective July 1, 2021 will be \$8,722. The Group



---

Life Insurance Program minimum did not require action by the Committee. The calculations were reviewed by VRS staff and Internal Audit.

2021 Legislative Update

Ms. Wilkinson provided the Committee with an update on VRS-related legislation in the 2021 Regular and Special General Assembly sessions.

B&A Committee Meeting Schedule

- April 19, 2021 at 1:00 p.m.
- June 9, 2021 at 1:00 p.m.
- October 13, 2021 at 10:00 a.m.
- November 15, 2021 at 1:00 p.m.

Mr. McWilliams thanked Mr. Harris for his report.

**Report of the Administration and Personnel Committee**

The Board received the report of the Administration and Personnel Committee and placed it on file.

APPROVAL OF MINUTES

Mr. McWilliams began his report by noting the Committee approved the minutes of its October 13, 2020 meeting.

REAPPOINTMENT OF IAC MEMBERS AND IAC CHAIRPERSON

Mr. Schmitz reviewed the four members of the Investment Advisory Committee whose terms are set to expire. Larry Kochard, Michael Beasley, Tom Gayner and Rod Smyth are eligible for reappointment and have expressed interest in continuing to serve on the Committee. In addition, Mr. Kochard's term as Chair of the Committee is also set to expire. He is eligible for reappointment for another two-year term and has agreed to accept reappointment.

***Request for Board Action 2021-02-03: The Board approves the reappointment of Michael Beasley, Tom Gayner, Larry Kochard and Rod Smyth to the IAC for two-year terms, as well as the reappointment of Larry Kochard as the Chair of the IAC, also for a two-year term.***

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

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Garrett: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Hayes: Aye  
Mr. Montgomery: Aye

Ms. Seward: Aye  
Mr. McWilliams: Aye

#### BUDGET UPDATE

Mr. Faison provided an update on the agency's budget performance year-to-date. Mr. Faison explained that projections as of December 31, 2020 indicate an unexpended balance at fiscal year-end of approximately \$10.7 million which, if realized, will be returned to the Fund as a result of planned reductions in spending due to impacts of the pandemic during FY 2021.

The Committee briefly discussed the impact of the COVID-19 pandemic on staff training and professional development. Ms. Bishop noted that the pandemic has allowed staff to participate in remote training that in some cases would otherwise not have been possible in the past due to additional time needed for, and expenses related to, travel. In addition, high level discussion took place regarding planning and considerations related to the opportunities for flexibility with respect to both returning to the office and continuation of remote work.

Following Mr. McWilliams' report, Mr. Schmitz provided the Board with details on the rationale behind the newly renamed DIME report. He noted there were no changes to the data; however, the scope of the report was broadened to include companies owned by disabled service veterans.

#### **Legislative Update**

Ms. Wilkinson reviewed the VRS-related legislation presented in the 2021 Regular and Special General Assembly sessions.

#### **Report of the Director**

Ms. Bishop began her report with the New Coverage Elections and an update on the VRS Agency Roadmap for FY 2021. She advised that all projects are progressing as planned or have been completed, with the exception of the Upgrade to Angular Framework and Cardinal Payroll Implementation projects. Staff continues to monitor these projects and will provide updates as they become available.

Ms. Bishop announced that two of VRS' communication campaigns were first place winners of the annual Eddy Awards sponsored by Pensions and Investments magazine. VRS and TIAA submitted a joint entry for the ORPHE 2020 plan changes, which include the migration of 3,100 accounts and updated investment options for participants which improve the structure of the plans overall. The second award recognized VRS' collaborative efforts with Enrich on the myVRS Financial Wellness Program's ongoing campaign to engage members in reducing financial stress by improving money-management skills and financial knowledge.

Ms. Bishop made several other announcements including the extension of remote working through the end of FY 2021 and that the December 9<sup>th</sup> Board meeting was rescheduled to December 7<sup>th</sup> at 9:30 a.m. followed by the annual Board Retreat.

Mr. McWilliams thanked Ms. Bishop for her report.

---

**Litigation Update (Closed Session)**

Mr. Harris then moved, with a second by Mr. Montgomery, that the Virginia Retirement System Board of Trustees convene a closed session for consultation with legal counsel regarding specific legal matters requiring the provision of legal advice by such counsel, pursuant to the consultation with legal counsel exemption at *Code of Virginia* § 2.2-3711(A)(8).

The closed meeting convened upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Garrett: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Hayes: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

Upon return to open meeting, Mr. Harris moved, with a second by Dr. Gooden, the following resolution:

WHEREAS, the Virginia Retirement System Board of Trustees 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, *Code of Virginia* § 2.2-3712 requires a certification by the Board that such a closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, that the Board 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 Board.

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

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Garrett: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Hayes: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

Ms. Seward moved, with a second by Mr. Harris, that the Board of Trustees recommend that the Office of the Attorney General take steps to explore participation in and sign onto, if advisable, the amicus brief discussed in the closed meeting.

The Board approved the motion upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Garrett: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Hayes: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

#### **Other Business**

Mr. McWilliams noted the following upcoming meetings:

- Audit and Compliance Committee – March 16, 2021
- Investment Advisory Committee – April 14, 2021
- Defined Contribution Plans Advisory Committee – April 15, 2021
- Benefits and Actuarial Committee – April 19, 2021
- Board of Trustees – April 20, 2021

Lastly, Mr. McWilliams noted that the annual Board retreat, usually held in March, has been rescheduled to December 7<sup>th</sup> and December 8<sup>th</sup>.

#### **Adjournment**

Upon a motion by Mr. Montgomery, with a second by Mr. Bell, the Board agreed to adjourn the meeting upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Garrett: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Hayes: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

There being no further business, the meeting concluded at 3:05 p.m.

---

Chair

---

Secretary

## Report

Pursuant to § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 56 of the 2020 Special Session I Acts of Assembly, the Investment Policy Committee convened electronically on March 24, 2021 at 1:00 p.m. and took up the following matters:

### **APPROVAL OF MINUTES**

The Committee approved the August 13, 2019 meeting minutes, as well as the minutes of the following Brown Bag Lunch meetings: November 20, 2019, February 13, 2020 and November 17, 2020.

### **DISCUSSION AND REVIEW OF INVESTMENT BELIEF STATEMENTS**

The IPC met to discuss the Investment Belief Statements previously adopted in 2015 as a prelude. Staff had made some minor edits to the original document to improve grammar and clarity as well as to better organize the statements for cohesive flow.

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

***Request for Board Action:*** *The VRS Board of Trustees approves the revisions to the VRS Defined Benefit Plan Investment Belief Statements.*

Submitted to the Board of Trustees on April 20, 2021.

---

O'Kelly E. McWilliams, III, Chair  
Investment Policy Committee



## Approve Revisions to VRS Defined Benefit Plan Investment Belief Statements.

---

### Requested Action

The VRS Board of Trustees approves revisions to the VRS Defined Benefit Plan Investment Belief Statements.

### Description/Background

In 2015 the VRS Board of Trustees, through its Investment Policy Committee, completed a rigorous process with an outside consultant, Pension Consulting Alliance (PCA), to codify into a legacy document the Board's Investment Belief Statements. PCA surveyed all Board members, Investment Advisory Committee members, and key senior investment staff members regarding sixty-six beliefs statements under ten topical headings. Each survey participant scored the statements and provided comments. PCA reviewed the statement scores and looked for areas of agreement and areas of disagreement. PCA then discussed the survey results with the participants. The product of the discussions resulted in thirteen Investment Belief Statements.

The attached document reflects clarifications to the Investment Beliefs Statements and the document remains consistent with the Statements approved by the Board in 2015. The Investment Advisory Committee has reviewed and discussed the changes and supports their approval.

### Rationale for Requested Action

The VRS Defined Benefit Plan Investment Belief Statements are intended to help guide the strategic management of the VRS investment portfolio. These Investment Belief Statements represent a high-level framework for making decisions that often require balancing multiple, often competing, factors and issues. The Investment Belief Statements provide context for VRS actions and reflect VRS values, with a focus on VRS maintaining its long-term commitment to provide benefits to its participants.

### Authority for Requested Action

The Board adopts these Investment Belief Statements pursuant to its duty to oversee investments under the standard set forth in *Code of Virginia* § 51.1-124.30. Moreover, *Code of Virginia* § 51.1-124.22 authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1.

The above action is approved.

---

O'Kelly E. McWilliams, III, Chairman  
VRS Board of Trustees

---

Date

# Virginia Retirement System (VRS) Defined Benefit Plan Investment Belief Statements

Approved by the Board of Trustees: \_\_\_\_\_, 2021

---

## I. Introduction

VRS strives to be consistent with the fiduciary obligations outlined in the Code of Virginia, which require the Virginia Retirement System Board of Trustees (Board) to invest the assets of the Fund with care, skill, prudence and diligence, while diversifying investments to minimize the risk of large losses. The Board, therefore, developed these Investment Beliefs to guide the strategic management of the VRS investment portfolio. The VRS Board of Trustees (Board) developed Investment Beliefs to guide the strategic management of the VRS investment portfolio. These Investment Beliefs represent a high-level framework for making decisions that require balancing multiple and competing factors. In addition, the Investment Beliefs provide context for VRS actions and reflect VRS values, with a focus on maintaining the long-term commitment to provide benefits to participants.

## II. VRS Investment Belief Statements

The Board developed the following Investment Belief Statements to guide its decisions and provide an anchor to the stated goals and objectives.

### Goals and Objectives

- 1) The primary objective of the VRS investment portfolio is to achieve the highest level of return for a given level of risk over the long term.
- 2) With respect to VRS' investments, the VRS Board has two key roles:
  - a. Establish the overall level of investment risk for the Fund:
    - i. Total Risk (range of outcomes that the VRS total portfolio is likely to experience). Total risk is determined largely by the Strategic Allocation Policy as set by the Board. Total risk is the larger of the two risks.
    - ii. Relative Risk (range of outcomes in relation to Strategic Allocation Policy benchmark). Once the Board establishes this range, staff is expected to add value over the investment performance policy



benchmark by an amount commensurate with that amount of relative risk allowed. While material, relative risk is typically a fraction of total risk.

- b. Establish and monitor investment guidelines that are then delegated to staff to implement consistent with the risks above.
- 3) As VRS conducts its investment activities, it seeks to strike a balance among three competing objectives:
  - a. Achieving Long-Term Funding Progress – In order to achieve long-term funding goals, VRS must allocate to asset classes and strategies that take advantage of equity and illiquidity risk factors. Such allocations introduce volatility into the Fund.
  - b. Avoiding Short-Term Drawdown Risk – Higher exposures to equity and liquidity risk increase the probability of large short-term mark-to-market declines in the Fund’s value. However, investment strategies to avoid shortfall risk may lead to a reduced long-term investment return, increasing the likelihood of falling short of long-term funding goals.
  - c. Avoiding Contribution Volatility – Short-term mark-to-market declines in the Fund’s value can cause intermediate term increases in required contribution rates. However, investment strategies that seek to reduce volatility may lead to a reduced long-term investment return, thus requiring higher overall contribution rates and raising long-term costs for employers.

#### **VRS Access and Structural Advantages**

- 4) In order to achieve the necessary long-term returns, VRS focuses on two premiums that typically reward long-term investors: the equity risk premium and the illiquidity risk premium. Both risk premiums vary over short to intermediate periods; however, over longer horizons, both risk premiums have historically produced positive returns.
- 5) VRS has the size and capabilities to pursue global opportunities, which offer a vast array of investments across a wide spectrum of domestic and international markets.
- 6) Diversification can take the form of exposure or time:
  - a) Multiple asset classes/risk premiums enhance the return-risk tradeoff of VRS’ investment portfolio, particularly over short-to-intermediate horizons.
  - b) Vintage year diversification, as well as dollar-cost averaging, in and out of investments helps mitigate the impact of market volatility.

- 7) Portfolio management is an active and dynamic process. Market inefficiencies exist in varying degrees across and within all asset classes in which VRS invests. Using both internal and external management capabilities, VRS can add value exploiting these inefficiencies.

### **Staff Implementation Parameters**

- 8) VRS has the governance structure, staffing and resources to leverage the cost savings associated with managing assets in-house. Given these attributes, staff should continue to explore further expansion of internal capabilities in areas that leverage staff's expertise in a cost-effective manner.
- 9) VRS has a long history of investment innovation and the Board encourages staff to continue to explore, access and implement creative investment approaches and strategies. Staff is expected to monitor new initiatives closely, and the Board recognizes that not all may develop into permanent strategies.
- 10) Costs (management fees, commissions, transaction costs, etc.) related to managing the VRS investment program are significant and have a material impact upon long-term performance. As an experienced, large-scale investor, VRS will seek to maximize its negotiating leverage to manage its assets in a cost-effective manner.
- 11) VRS believes it is difficult to successfully add value by making frequent, large scale shifts between major asset classes; however, smaller-scale shifts and tilts across asset class segments can add incremental value when based on sound relative value judgments.
- 12) Leverage is a financial tool that can be utilized in a prudent and thoughtful manner to help balance risk exposures, and in turn, enhance the risk/return profile of a portfolio.
- 13) VRS' Investment Staff develops, strengthens and retains its intellectual capital, so that it can remain successful through industry leadership and innovation. This is primarily advanced by collaboration among asset class and functional area teams. Secondly, external relationships with like-minded global partners are identified and cultivated to broaden investment reach. With both internal and external personnel, success is based on cooperation, trust and transparency.

# Virginia Retirement System (VRS) Defined Benefit Plan Investment Belief Statements

Approved by the Board of Trustees: \_\_\_\_\_, 2021

---

## I. Introduction

VRS strives to be consistent with the fiduciary obligations outlined in the Code of Virginia, which require the Virginia Retirement System Board of Trustees (Board) to invest the assets of the Fund with care, skill, prudence and diligence, while diversifying investments to minimize the risk of large losses. The Board, therefore, developed these Investment Beliefs to guide the strategic management of the VRS investment portfolio. These Investment Beliefs represent a high-level framework for making decisions that require balancing multiple and competing factors. In addition, the Investment Beliefs provide context for VRS actions and reflect VRS values, with a focus on maintaining the long-term commitment to provide benefits to participants.

## II. VRS Investment Belief Statements

The Board developed the following Investment Belief Statements to guide its decisions and provide an anchor to the stated goals and objectives.

### Goals and Objectives

- 1) The primary objective of the VRS investment portfolio is to achieve the highest level of return for a given level of risk over the long term.
- 2) With respect to VRS' investments, the VRS Board has two key roles:
  - a. Establish the overall level of investment risk for the Fund:
    - i. Total Risk (range of outcomes that the VRS total portfolio is likely to experience). Total risk is determined largely by the Strategic Allocation Policy as set by the Board. Total risk is the larger of the two risks.
    - ii. Relative Risk (range of outcomes in relation to Strategic Allocation Policy benchmark). Once the Board establishes this range, staff is expected to add value over the investment performance policy benchmark by an amount commensurate with that amount of relative risk allowed. While material, relative risk is typically a fraction of total risk.

- b. Establish and monitor investment guidelines that are then delegated to staff to implement consistent with the risks above.
- 3) As VRS conducts its investment activities, it seeks to strike a balance among three competing objectives:
  - a. Achieving Long-Term Funding Progress – In order to achieve long-term funding goals, VRS must allocate to asset classes and strategies that take advantage of equity and illiquidity risk factors. Such allocations introduce volatility into the Fund.
  - b. Avoiding Short-Term Drawdown Risk – Higher exposures to equity and liquidity risk increase the probability of large short-term mark-to-market declines in the Fund’s value. However, investment strategies to avoid shortfall risk may lead to a reduced long-term investment return, increasing the likelihood of falling short of long-term funding goals.
  - c. Avoiding Contribution Volatility – Short-term mark-to-market declines in the Fund’s value can cause intermediate term increases in required contribution rates. However, investment strategies that seek to reduce volatility may lead to a reduced long-term investment return, thus requiring higher overall contribution rates and raising long-term costs for employers.

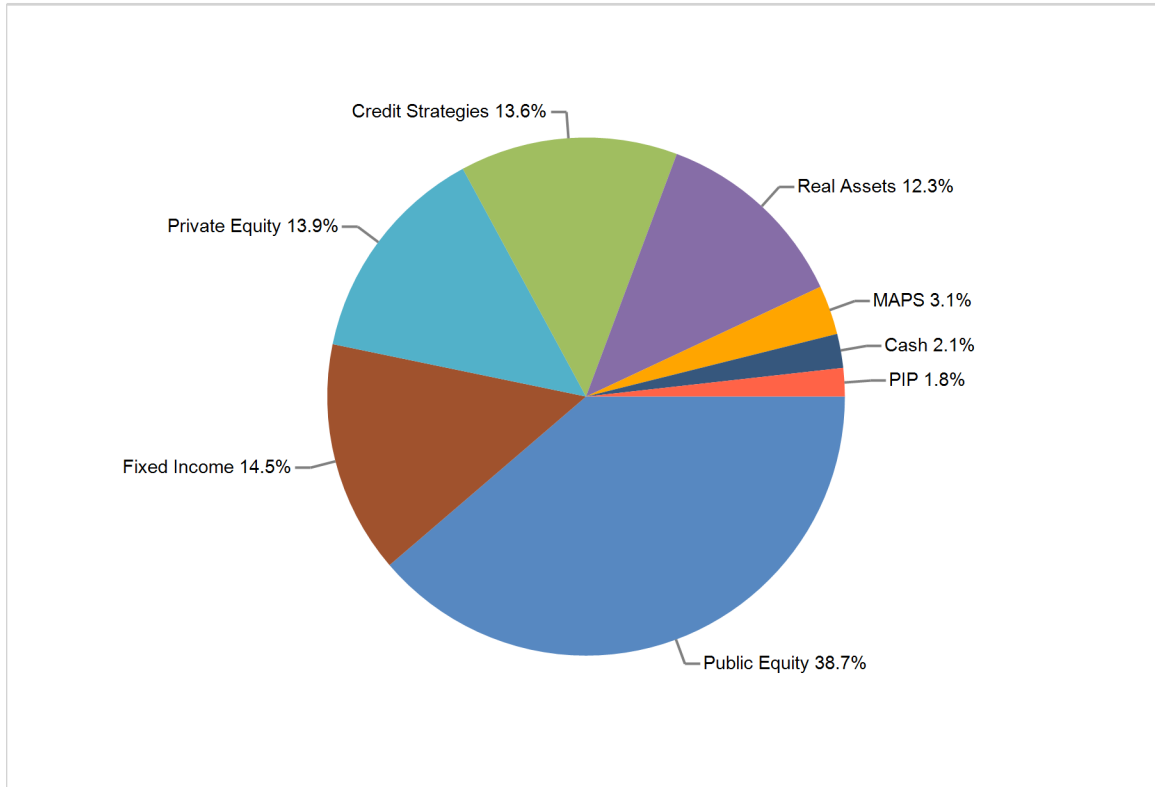
#### **VRS Access and Structural Advantages**

- 4) In order to achieve the necessary long-term returns, VRS focuses on two premiums that typically reward long-term investors: the equity risk premium and the illiquidity risk premium. Both risk premiums vary over short to intermediate periods; however, over longer horizons, both risk premiums have historically produced positive returns.
- 5) VRS has the size and capabilities to pursue global opportunities, which offer a vast array of investments across a wide spectrum of domestic and international markets.
- 6) Diversification can take the form of exposure or time:
  - a) Multiple asset classes/risk premiums enhance the return-risk tradeoff of VRS’ investment portfolio, particularly over short-to-intermediate horizons.
  - b) Vintage year diversification, as well as dollar-cost averaging, in and out of investments helps mitigate the impact of market volatility.

- 7) Portfolio management is an active and dynamic process. Market inefficiencies exist in varying degrees across and within all asset classes in which VRS invests. Using both internal and external management capabilities, VRS can add value exploiting these inefficiencies.

### **Staff Implementation Parameters**

- 8) VRS has the governance structure, staffing and resources to leverage the cost savings associated with managing assets in-house. Given these attributes, staff should continue to explore further expansion of internal capabilities in areas that leverage staff's expertise in a cost-effective manner.
- 9) VRS has a long history of investment innovation and the Board encourages staff to continue to explore, access and implement creative investment approaches and strategies. Staff is expected to monitor new initiatives closely, and the Board recognizes that not all may develop into permanent strategies.
- 10) Costs (management fees, commissions, transaction costs, etc.) related to managing the VRS investment program are significant and have a material impact upon long-term performance. As an experienced, large-scale investor, VRS will seek to maximize its negotiating leverage to manage its assets in a cost-effective manner.
- 11) VRS believes it is difficult to successfully add value by making frequent, large scale shifts between major asset classes; however, smaller-scale shifts and tilts across asset class segments can add incremental value when based on sound relative value judgments.
- 12) Leverage is a financial tool that can be utilized in a prudent and thoughtful manner to help balance risk exposures, and in turn, enhance the risk/return profile of a portfolio.
- 13) VRS' Investment Staff develops, strengthens and retains its intellectual capital, so that it can remain successful through industry leadership and innovation. This is primarily advanced by collaboration among asset class and functional area teams. Secondly, external relationships with like-minded global partners are identified and cultivated to broaden investment reach. With both internal and external personnel, success is based on cooperation, trust and transparency.



	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range		Internal %
<b>Total Fund</b>	<b>93.6</b>						<b>30.7%</b>
<b>Public Equity</b>	<b>36.2</b>	<b>38.7%</b>	<b>37.0%</b>	<b>1.7%</b>	<b>-5%</b>	<b>+5%</b>	<b>40.7%</b>
<b>Fixed Income</b>	<b>13.6</b>	<b>14.5%</b>	<b>16.0%</b>	<b>-1.5%</b>	<b>-3%</b>	<b>+5%</b>	<b>93.1%</b>
<b>Credit Strategies</b>	<b>12.7</b>	<b>13.6%</b>	<b>14.0%</b>	<b>-0.4%</b>	<b>-5%</b>	<b>+5%</b>	
RS Credit	5.2	5.5%	5.6%	-0.1%			
NRS Credit	7.6	8.1%	8.4%	-0.3%			
<b>Real Assets</b>	<b>11.5</b>	<b>12.3%</b>	<b>14.0%</b>	<b>-1.7%</b>	<b>-5%</b>	<b>+5%</b>	<b>10.9%</b>
Public RE	1.3	1.3%					99.9%
Private RE	6.7	7.2%					
Other RA	3.6	3.8%					
<b>Private Equity</b>	<b>13.0</b>	<b>13.9%</b>	<b>13.0%</b>	<b>0.9%</b>	<b>-5%</b>	<b>+5%</b>	
<b>MAPS</b>	<b>2.9</b>	<b>3.1%</b>	<b>3.0%</b>	<b>0.1%</b>	<b>-1%</b>	<b>+1%</b>	
DSTRAT	1.5	1.6%					
RBI	1.4	1.5%					5.2%
<b>PIP</b>	<b>1.7</b>	<b>1.8%</b>	<b>2.0%</b>	<b>-0.2%</b>	<b>-1%</b>	<b>+2%</b>	
<b>Cash</b>	<b>2.0</b>	<b>2.1%</b>	<b>1.0%</b>	<b>1.1%</b>	<b>-1%</b>	<b>+4%</b>	

	Current \$Bil	Current Weight	Policy Limit
<b>Hedge Funds</b>	<b>10.2</b>	<b>10.9%</b>	<b>15.0%</b>

<b>3 Year Tracking Error</b>
Total Fund: <b>2.62%</b>
Total Public: <b>0.94%</b>

\*Total Fund includes the following amt held by the Treasurer of VA: \$ 348 million

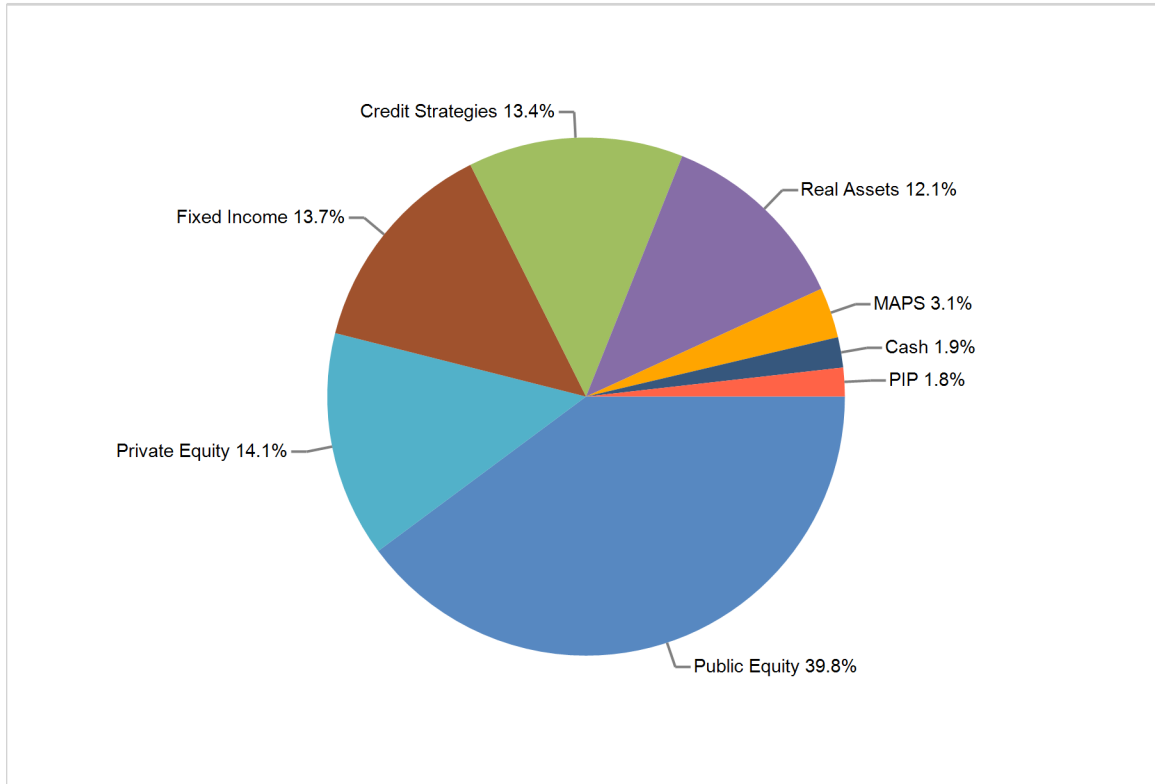
• The values shown for each asset class on this report may differ from the VRS Monthly Performance Report due to adjustments related to derivative positions in the Rebalance Account, pending transactions, and certain accruals. The values on this report are a more descriptive representation of the Virginia Retirement System's true economic exposure to each asset class.( 9 adjustments applied )

\*Total Fund and Total Public tracking error are calculated using monthly returns, then annualized

\* Differences in totals are due to rounding.

# Daily Asset Allocation Report

April 12, 2021  
For Internal Investment Purposes Only



	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range		Internal %
<b>Total Fund</b>	<b>97.0</b>						<b>28.5%</b>
<b>Public Equity</b>	<b>38.7</b>	<b>39.8%</b>	<b>37.0%</b>	<b>2.8%</b>	<b>-5%</b>	<b>+5%</b>	<b>35.5%</b>
<b>Fixed Income</b>	<b>13.3</b>	<b>13.7%</b>	<b>16.0%</b>	<b>-2.3%</b>	<b>-3%</b>	<b>+5%</b>	<b>94.7%</b>
<b>Credit Strategies</b>	<b>13.0</b>	<b>13.4%</b>	<b>14.0%</b>	<b>-0.6%</b>	<b>-5%</b>	<b>+5%</b>	
RS Credit	5.1	5.3%	5.6%	-0.3%			
NRS Credit	7.9	8.2%	8.4%	-0.2%			
<b>Real Assets</b>	<b>11.7</b>	<b>12.1%</b>	<b>14.0%</b>	<b>-1.9%</b>	<b>-5%</b>	<b>+5%</b>	<b>10.9%</b>
Public RE	1.3	1.3%					99.9%
Private RE	6.8	7.0%					
Other RA	3.7	3.8%					
<b>Private Equity</b>	<b>13.7</b>	<b>14.1%</b>	<b>13.0%</b>	<b>1.1%</b>	<b>-5%</b>	<b>+5%</b>	
<b>MAPS</b>	<b>3.1</b>	<b>3.1%</b>	<b>3.0%</b>	<b>0.1%</b>	<b>-1%</b>	<b>+1%</b>	
DSTRAT	1.6	1.7%					
RBI	1.4	1.5%					5.0%
<b>PIP</b>	<b>1.7</b>	<b>1.8%</b>	<b>2.0%</b>	<b>-0.2%</b>	<b>-1%</b>	<b>+2%</b>	
<b>Cash</b>	<b>1.8</b>	<b>1.9%</b>	<b>1.0%</b>	<b>0.9%</b>	<b>-1%</b>	<b>+4%</b>	

	Current \$Bil	Current Weight	Policy Limit
<b>Hedge Funds</b>	<b>11.0</b>	<b>11.3%</b>	<b>15.0%</b>

<b>3 Year Tracking Error</b>
Total Fund: <b>2.67%</b>
Total Public: <b>1.03%</b>

\*Total Fund includes the following amt held by the Treasurer of VA: \$ 296 million

• The values shown for each asset class on this report may reflect adjustments related to derivative positions in the Rebalance Account, pending transactions and certain accruals, in order to provide a more descriptive representation of the true economic exposure to each asset class ( 9 adjustments applied )

\*Total Fund and Total Public tracking error are calculated using monthly returns, then annualized

\* Differences in totals are due to rounding.



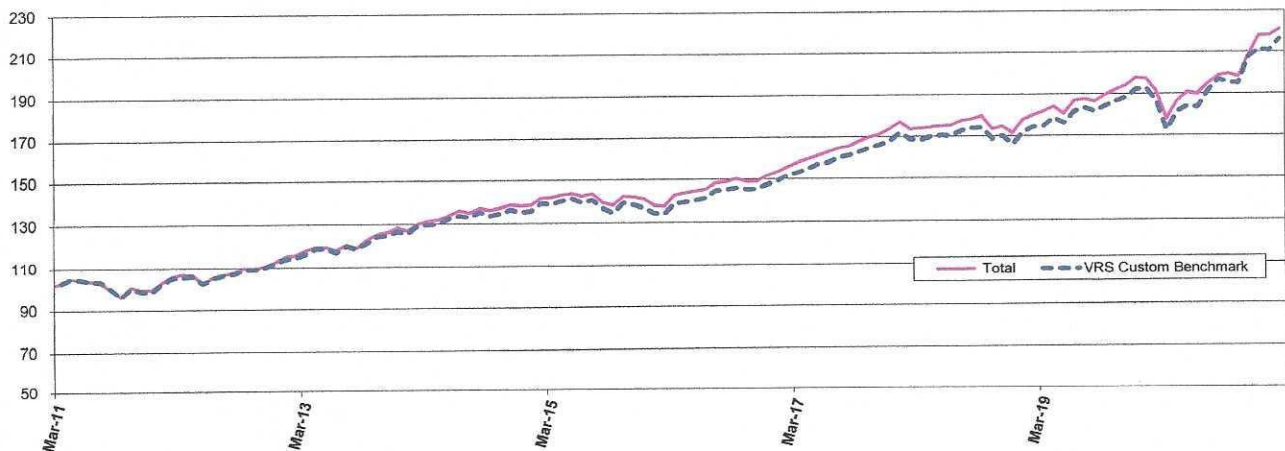
**PERFORMANCE SUMMARY**  
**Rolling Periods Ending**  
**February 28, 2021**



**TOTAL FUND PERFORMANCE**

	10 Yr	5 Yr	3 Yr	1 Yr	Qtr	Month	Fiscal YTD	Cal YTD	Market Value (\$MM)
<b>Total Public Equity Strategies</b>	<b>9.2</b>	<b>12.6</b>	<b>9.2</b>	<b>29.0</b>	<b>8.9</b>	<b>3.7</b>	<b>27.9</b>	<b>3.5</b>	<b>36,669</b>
<i>Benchmark</i>	9.2	13.7	10.8	32.0	7.7	2.7	28.5	2.5	
<b>Total Fixed Income</b>	<b>4.3</b>	<b>4.8</b>	<b>6.7</b>	<b>5.1</b>	<b>-1.2</b>	<b>-1.3</b>	<b>1.9</b>	<b>-1.8</b>	<b>12,031</b>
<i>Benchmark</i>	3.6	3.6	5.3	1.8	-1.8	-1.4	-0.1	-2.1	
<b>Total Credit Strategies</b>	<b>6.1</b>	<b>8.2</b>	<b>6.6</b>	<b>9.1</b>	<b>4.6</b>	<b>0.8</b>	<b>12.4</b>	<b>1.6</b>	<b>12,733</b>
<i>Benchmark</i>	5.6	7.7	6.2	6.8	2.4	0.3	9.3	1.0	
<b>Total Real Assets</b>	<b>10.1</b>	<b>8.1</b>	<b>6.5</b>	<b>3.1</b>	<b>2.4</b>	<b>0.7</b>	<b>4.6</b>	<b>0.6</b>	<b>11,539</b>
<i>Benchmark</i>	8.6	6.2	5.2	2.4	1.6	0.7	2.7	0.9	
<b>Total Private Equity</b>	<b>14.6</b>	<b>15.5</b>	<b>15.4</b>	<b>16.8</b>	<b>11.7</b>	<b>0.0</b>	<b>24.6</b>	<b>-0.1</b>	<b>12,965</b>
<i>Benchmark</i>	14.3	14.5	13.1	17.7	7.2	12.3	42.0	10.0	
<b>Total Private Investment Partnerships</b>	<i>n/a</i>	<b>6.9</b>	<b>5.4</b>	<b>1.8</b>	<b>5.4</b>	<b>0.0</b>	<b>12.6</b>	<b>0.0</b>	<b>1,658</b>
<i>Benchmark</i>	<i>n/a</i>	9.0	8.9	9.7	3.8	5.3	18.4	4.7	
<b>Total Multi-Asset Public Strategies</b>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<b>12.1</b>	<b>5.0</b>	<b>0.9</b>	<b>14.9</b>	<b>1.5</b>	<b>2,879</b>
<i>Benchmark</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	13.5	3.0	0.7	11.3	0.7	
<b>Total Fund</b>	<b>8.1</b>	<b>10.0</b>	<b>8.4</b>	<b>15.8</b>	<b>6.0</b>	<b>1.5</b>	<b>16.6</b>	<b>1.5</b>	<b>93,581</b>
<i>VRS Custom Benchmark</i>	7.8	10.0	8.6	15.9	4.2	2.6	17.9	2.3	

**10-Year Performance**  
**Indexed to 100**

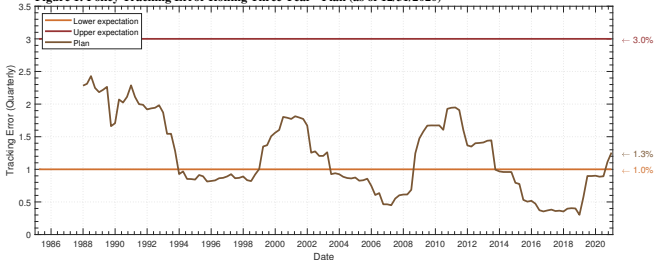


Effective July 2013, the VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.

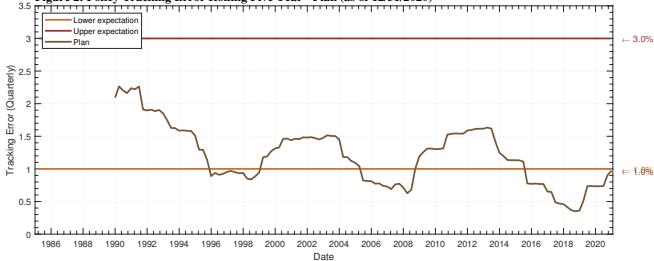
The VRS Cash Account, the Treasurer Short-Term Investment Account, the VRS Rebalancing Account, transition activity and accounts with market values of less than \$1 million are included in the Total Fund's market value. Differences in market value totals are due to rounding.

# Total Fund Tracking Error

**Figure 1: Policy Tracking Error Rolling Three Year - Plan (as of 12/31/2020)**



**Figure 2: Policy Tracking Error Rolling Five Year - Plan (as of 12/31/2020)**



Program	Action	Effective Date	Commitment/ Current Value	Funding/ Defunding Period	Description
Credit Strategies	Hired	03/10/2021	\$400 Million	3 Years	<b>Whitehorse Liquidity Partners IV</b> – A portfolio finance strategy.
Real Assets	Hired	02/12/2021	\$125 Million	3 Years	<b>Penwood Select Industrial Partners VI LP</b> - A closed-end enhanced core fund investing in U.S. industrial properties.
Real Assets	Hired	04/02/2021	\$125 Million	3 Years	<b>Harrison Street Real Estate Partners Fund VIII</b> - A closed-end opportunistic fund investing in U.S./Canada alternative property types (life sciences, medical office, senior housing, student housing, etc).

VRS Investment Department  
DIME Quarterly Report  
Activity for Quarter Ending March 31, 2021

<b>Investment Program</b>	<b>Activity</b>	<b>Manager Name</b>	<b>Description</b>	<b>VRS Action</b>
Public Equity	On-Going Monitoring of Current VRS Manager	Kylin Management (minority-owned firm) <sup>1</sup>	Current VRS public equity hedge fund manager.	Staff performed on-going due diligence and monitoring of this current VRS minority manager during the quarter.
Public Equity	On-Going Monitoring of Current VRS Manager	Ariel Global (minority and women-owned firm) <sup>1</sup>	Current VRS global equity manager.	Staff performed on-going due diligence and monitoring of this current VRS minority and women-owned manager during the quarter.
Public Equity	On-Going Monitoring of Current VRS Manager	Advent Capital Management (minority-owned firm) <sup>1</sup>	Current VRS convertible bond manager.	Staff performed on-going due diligence and monitoring of this current VRS minority manager during the quarter.
Public Equity	Virtual Manager Meeting	Hypatia Capital Management LLC (women-owned firm) <sup>1</sup>	Fund of funds manager focused on investment in women run funds.	Staff had an introductory meeting with this manager to discuss the firm and their strategy.
Public Equity	Virtual Manager Meeting	Moon Capital Management LP (minority-owned firm) <sup>1</sup>	Manager focused on investing in global equity markets, especially emerging and frontier markets.	Staff had a meeting with this manager to discuss the firm and their strategy.
Public Equity	Virtual Manager Meeting	Pavise Capital Management (minority-owned firm) <sup>1</sup>	Manager focused on small and mid-cap stocks.	Staff had a meeting with this manager to discuss the firm and their strategies.
Public Equity	Virtual Manager Meeting	Elizabeth Park Capital Management (minority-owned firm) <sup>1</sup>	Manager focused on long-only strategy.	Staff had a meeting with this manager to discuss the firm and their strategies.
Credit Strategies	Telephone Call with Manager	Three Line Capital (minority-owned firm) <sup>1</sup>	Opportunistic investor focused on lower middle market credit situations.	Staff reviewed materials and had a call with the manager to discuss their firm and strategy.
Credit Strategies	Telephone Call with Manager	Longfellow Investment Mgmt Co., LLC (women-owned firm) <sup>1</sup>	Manager focused on customized investment strategies.	Staff reviewed materials and had a call with the manager to discuss their firm and strategy.

VRS Investment Department  
DIME Quarterly Report  
Activity for Quarter Ending March 31, 2021

<b>Investment Program</b>	<b>Activity</b>	<b>Manager Name</b>	<b>Description</b>	<b>VRS Action</b>
Credit Strategies	Telephone Call with Manager	SVP Global (minority-owned firm) <sup>1</sup>	A global investment firm focused on distressed debt and private equity opportunities.	Staff reviewed materials and had a call with the manager to discuss their firm and strategy.
Credit Strategies	Periodic Communication with Fund-of-Fund Manager	N/A	As part of their mandate Aksia Private Credit will come across DIME owned firms in the smaller and emerging credit fund space.	Periodic communication to review DIME and other emerging managers along with opportunities in the private credit markets more broadly.
Public Equity and Credit Strategies	Periodic Update Communication with Consultant	N/A	Aon Hewitt Investment Consulting is the consultant used by these two investment programs.	Periodic communication to review the DIME monitoring activity done on behalf of VRS as well as industry trends.
Real Assets	On-Going Monitoring of Current VRS Manager	Artemis Real Estate Partners (women-owned firm) <sup>1</sup>	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS women-owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Tristan Capital Partners (minority-owned firm) <sup>1</sup>	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS minority-owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Pritzker Realty Group (women-owned firm) <sup>1</sup>	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS women-owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Capri EGM (minority-owned firm) <sup>1</sup>	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS minority-owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Grain Management (minority-owned firm) <sup>1</sup>	Current VRS infrastructure manager.	Staff performed on-going due diligence and monitoring of this current VRS minority-owned manager during the quarter.

VRS Investment Department  
DIME Quarterly Report  
Activity for Quarter Ending March 31, 2021

<b>Investment Program</b>	<b>Activity</b>	<b>Manager Name</b>	<b>Description</b>	<b>VRS Action</b>
Real Assets	On-Going Monitoring of Current VRS Manager	Pantheon Ventures	Current VRS infrastructure and natural resource fund-of-funds manager.	Staff had periodic communication with this manager to discuss potential DIME firms in their market.
Real Assets	Virtual Manager Meeting	Hudson Views International (minority-owned firm) <sup>1</sup>	U.S. focused, value-add, multifamily focused group.	Staff held an introductory meeting with this manager to learn more about their team, investment philosophy, investment pipeline and fundraise goals.
Real Assets	Virtual Manager Meeting	The Peebles Corporation (minority-owned firm) <sup>1</sup>	U.S. focused, emerging manager development fund.	Staff held an introductory meeting with this manager to learn more about their team, investment philosophy, investment pipeline and fundraise goals.
Real Assets	Virtual Manager Meeting	Arc Capital Partners (minority-owned firm) <sup>1</sup>	Regionally focused, value-add manager focused on urban mixed-use properties.	Staff held an introductory meeting with this manager to learn more about their team, investment philosophy, investment pipeline and fundraise goals.
Real Assets	Telephone Call with Manager	Elion Partners (minority-owned firm) <sup>1</sup>	U.S. focused, last-mile logistics industrial focused group.	Staff held an introductory call with this manager to learn more about their team, investment philosophy, investment pipeline and fundraise goals.
Real Assets	Email Correspondence	Brasa Capital Management (minority-owned firm) <sup>1</sup>	Western U.S. focused, opportunistic real estate manager.	Staff exchanged emails with this manager regarding updates on realizations within their portfolio.
Real Assets	Email Correspondence	Upshot Capital Advisors (minority-owned firm) <sup>1</sup>	Manager is an alternative asset management and advisory firm.	Staff exchanged emails with this manager regarding updates on realizations within their portfolio.
Real Assets	Emerging Manager Virtual Conference	TRS/ERS	Staff attended a virtual Emerging Manager conference hosted by Texas Teachers and Texas Employee Retirement Systems.	Staff attended a virtual Emerging Manager conference hosted by Texas Teachers and Texas Employee Retirement Systems.

VRS Investment Department  
DIME Quarterly Report  
Activity for Quarter Ending March 31, 2021

<b>Investment Program</b>	<b>Activity</b>	<b>Manager Name</b>	<b>Description</b>	<b>VRS Action</b>
Real Assets	Periodic Update Communication with Consultant	N/A	The Townsend Group is the consultant used by Real Assets.	Periodic communication to review the DIME monitoring activity done on behalf of VRS as well as real estate and infrastructure industry trends.
Private Equity	On-Going Monitoring of Current VRS Manager	Clearlake Capital Group (minority-owned firm) <sup>1</sup>	A private equity fund investing in special situations and distressed opportunities in small and medium-sized companies.	Staff had a call with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	ICV Capital Partners (minority-owned firm) <sup>1</sup>	A private equity fund investing in market leaders in stable to growing niches in smaller middle market companies with a value theme at the purchase.	Staff had a call with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	MBK Partners (minority-owned firm) <sup>1</sup>	A North Asia private equity firm.	Staff had a call with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	SIRIS Capital (minority-owned firm) <sup>1</sup>	A middle market buyout firm making control investments in data/telecommunications, technology and technology-enabled business service companies in North America.	Staff had a call with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	TSG Consumer Partners (women-owned firm) <sup>2</sup>	Growth fund investing exclusively in middle market consumer-branded companies.	Staff had a call with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Veritas Capital (minority-owned firm) <sup>2</sup>	Middle market buyout fund targeting primarily technology or technology-enabled solutions to government.	Staff had a call with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Vista Equity Partners (minority-owned firm) <sup>1</sup>	A large market buyout fund targeting enterprise software companies.	Staff had a call with this manager during the quarter.

VRS Investment Department  
DIME Quarterly Report  
Activity for Quarter Ending March 31, 2021

<b>Investment Program</b>	<b>Activity</b>	<b>Manager Name</b>	<b>Description</b>	<b>VRS Action</b>
Private Equity	Telephone Call with Manager	Ariel Alternatives (minority-owned firm) <sup>1</sup>	A private equity fund investing in middle-market companies to transform them into certified minority-owned business enterprises of scale.	Staff had a call with this manager during the quarter.
Private Equity	Telephone Call with Manager	Fairbridge Park (minority-owned firm) <sup>1</sup>	A venture capital firm partnering with driven entrepreneurs to build businesses that positively impact society and the planet.	Staff had a call with this manager during the quarter.
Private Equity	Telephone Call with Manager	Fusion Fund (woman and minority-owned firm) <sup>1</sup>	An early-stage investor in Technology & Healthcare companies that expand and multiply human productivity with data and platform technologies.	Staff had a call with this manager during the quarter.
Private Equity	Telephone Call with Manager	Knox Lane (minority-owned firm) <sup>2</sup>	A private equity fund focused on products and services businesses playing into consumer end-markets exhibiting strong secular growth.	Staff had a call with this manager during the quarter.
Private Equity	Telephone Call with Manager	Recognize Partners (minority-owned firm) <sup>2</sup>	A private equity fund making control growth buyout investments to build the new generation of leading technology services businesses.	Staff had a call with this manager during the quarter.
Private Equity	Periodic Update Communication with Consultant	N/A	Grosvenor Capital Management Customized Fund Investment Group is the consultant used by Private Equity.	Periodic communication to review the DIME monitoring activity done on behalf of VRS as well as industry trends.
Risk-Based Investments	Telephone Call with Manager	Gladius Capital Management (minority-owned firm) <sup>1</sup>	A provider of derivative based solutions to manage risks.	Staff had a call with this manager to further discuss their firm and strategies.
Fixed Income	On-Going Monitoring of Current VRS Manager	Payden & Rygel (women-owned firm) <sup>1</sup>	Current VRS emerging market debt manager.	Staff had various interactions with this current VRS women-owned manager during the quarter.



VRS Investment Department  
DIME Quarterly Report  
Activity for Quarter Ending March 31, 2021

Index:

- 1 – The manager is considered Diverse Investment Management Engagement (DIME) under the Commonwealth of Virginia definition, which defines ownership threshold of 51% or more.
- 2 – The manager is considered DIME under the definition that considers industry best practices, and defines an ownership threshold of greater than or equal to 33% and less than 51% of firm ownership or carry.

VRS Investment Department  
Quarterly External Investment Manager Referral Report  
Activity for Quarter Ending March 31, 2021

Investment Program	Type of Contact	Investment Manager Name	Official Making Referral	VRS Action
--------------------	-----------------	-------------------------	--------------------------	------------

No activity to report this quarter.

---

## Report

In accordance with Item 4-0.01 of Chapter 56 of the 2020 Special Session I Acts of Assembly of the *Code of Virginia* as it relates to conducting business during the COVID-19 pandemic, the Audit and Compliance Committee convened electronically on March 16, 2021 and discussed the following:

### **APPROVAL OF MINUTES**

The Committee approved the minutes of its December 10, 2020 meeting.

### **AUDIT REPORTS**

The Committee received two audit reports.

- The review of *Health Insurance Premiums and Credits* determined the retiree health insurance premiums withheld from retirees' benefits, transfer of such withholdings to the appropriate parties and Health Insurance Credit payments are valid and accurate. There was one formal recommendation as a result of this review.
- The review of *VRS' Conformance with VITA's Security Program* determined VRS' Security Policies and Standards are compliant with VITA's mandatory Information Technology security program. While there was one recommendation outstanding from the prior year's review, there were no formal recommendations as a result of the current review.

### **ANNUAL REPORT ON CODE OF ETHICS**

The Chief Operating Officer and the Chief Administrative Officer provided annual reports on their respective processes for communicating VRS' Code of Ethics and Conduct and for monitoring compliance, as required by the Audit and Compliance Committee Charter. Both indicated 100 percent compliance with the reporting and certification requirements for their respective programs as of the meeting date.

### **QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4**

Management presented its quarterly status report on the Modernization Program - Phase 4, discussing the current software status of the remaining member portal functionality, the implementation plan and related roll-out and business soft launch activities. Management also provided an overview of the online retirement pilot results.

Internal Audit presented its quarterly review results and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget and scope. Internal Audit acknowledged management's efforts and ongoing work, noting continued diligent management of resources across concurrent projects and initiatives remains critical to bringing the phase to a close timely. Currently, VRS' risk adverse approach anticipates full release of all features to members in Fall 2021 to ensure the integrity of VRS operations and its processing.

---

**AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2020**

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2020, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations and the related background.

**QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES**

One alleged Fraud, Waste and Abuse Hotline complaint reported to Internal Audit via the Office of the State Inspector General during the period of November 1, 2020 through January 31, 2021 was presented to the Committee. The case alleged abuse of short-term disability benefits and was determined to be unfounded and therefore closed.

**MISCELLANEOUS UPDATES**

The Audit Director provided the Committee with the following updates:

**Management's Quarterly Travel Expense and Per Diem Report**

The Committee received management's quarterly travel expense and per diem report.

**Internal Audit's Review of Cost of Living Adjustments**

Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS' actuary, Cavanaugh Macdonald Consulting, LLC, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2021.

**Next Committee Meeting Date**

The Committee's next meeting is scheduled for June 3, 2021 at 2 p.m.

Respectfully submitted to the Board of Trustees on April 20, 2021.

---

Joseph W. Montgomery, Chair  
Audit and Compliance Committee

## **Report**

Pursuant to § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 56 of the 2020 Special Session I Acts of Assembly, the Defined Contribution Plans Advisory Committee (DCPAC) convened electronically on April 15, 2021 at 1:00 p.m., and took up the following matters:

### **ADMINISTRATION**

#### Administrative Reports and Communication Update

Staff provided an update of administrative reports for the fourth quarter of 2020. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives. Staff shared with the Committee an analysis and overview of initiatives related to the fourth quarter goal of improving asset allocation among plan participants.

#### ORPHE Update

Staff provided an overview of ORPHE reports for the fourth quarter of 2020, including plan assets and accounts, and provider election data. Staff also provided an update on outreach activities and education initiatives, including ORPHE open enrollment period.

#### Pensions & Investments 2021 Eddy Award

Staff noted that VRS and TIAA won the Pensions & Investments 2021 Eddy Award in March for the ORPHE 2020 plan changes initiative.

### **INVESTMENTS**

#### Performance Reports

Staff provided an overview of the February 28, 2021 performance reports to the DCPAC.

Staff informed the Committee Wells Fargo recently reached an agreement with two private equity firms (GTCR LLC and Reverence Capital Partners, L.P.) to acquire Wells Fargo Asset Management. The transaction includes VRS' stable value investment manager Galliard Capital Management. Galliard is a subsidiary of Wells Fargo. Staff also provided an update to the Pending Account VRSIP for the VRSIP fund on the unbundled DC Plans investment menu.

#### Callan 2021 DC Trends Survey Highlights

Staff provided an overview of highlights from the Callan 2021 DC Trends survey results, which represented 93 large DC plan sponsors that span a range of industries across corporate, tax-exempt, and government organizations.

Staff included the Callan 2021 DC Trends Survey in the meeting materials Appendix for the Committee to review.

#### VRS Defined Contribution Plans Investment Belief Statements

Staff provided the Committee with a copy of the VRS Defined Contribution Plans Investment Belief Statements. The Committee and staff will review the document and discuss suggested changes during the June 24 DCPAC meeting for consideration by the Board.

### **OTHER BUSINESS**

#### DCPAC Appointment

Staff informed the Committee of the request for reappointment of Shannon Irvin, Rick Larson, and David Winter, each to a two-year term ending June 20, 2023. Their current term expires June 20, 2021.

Staff informed the Committee of the resignation of Kathy Seay from the DCPAC, effective April 1, 2021, due to her retirement. Ms. Seay's Committee term expires on June 20, 2022. A recommendation has not yet been received to fill Ms. Seay's unexpired term but will be brought to the Committee at a future date. Staff also noted the seat formerly held by Mr. Carlson remains vacant.

#### *Recommend RBA for Reappointment of DCPAC Members*

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

***Request for Board Action:*** *The Board reappoints Shannon T. Irvin, Rick Larson, and David A. Winter to the Defined Contribution Plans Advisory Committee (DCPAC), for a two-year term ending June 20, 2023.*

### **NEW BUSINESS**

Staff advised that Ms. Irvin had suggested outreach to employees in advance of salary increases included in the Appropriation Act.

**2021 MEETINGS**

Staff confirmed the following DCPAC meeting dates for 2021:

- June 24 at 1:00 p.m.
- September 2 at 1:00 p.m.
- December 2 at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 2021. This is not a DCPAC Committee meeting, however, members may attend if interested.

There was no other business to come before the Committee.

That concludes my report to the Board.

Submitted to the Board of Trustees on April 20, 2021.

---

J. Brandon Bell, Chair  
Defined Contribution Plans Advisory Committee

---

## Report

Pursuant to § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 552 of the 2021 Special Session I Acts of Assembly, the Administration and Personnel Committee convened electronically on April 19, 2021 at 10:00 a.m. and took up the following matters:

### **APPROVAL OF MINUTES**

The Committee approved the minutes of its February 11, 2021 meeting.

### **REAPPOINTMENT OF DCPAC MEMBERS**

Trish Bishop reviewed the three members of the Defined Contribution Plans Advisory Committee whose terms are set to expire. Shannon Irvin, Rick Larson and Dave Winter are eligible for reappointment and have expressed interest in continuing to serve on the Committee.

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

***Request for Board Action:*** *The Board approves the reappointment of Shannon Irvin, Rick Larson and David Winter to the Defined Contribution Plans Advisory Committee, each for a two-year term ending June 20, 2023.*

### **APPROVE REVISED FY 2021 AGENCY PERFORMANCE OUTCOME (APO) #4**

Michael Cooper reviewed the proposed revisions to APO #4, Cardinal HCM Project Implementation. Mr. Cooper explained that the overall Cardinal project schedule, managed by the Commonwealth's Department of Accounts, has been pushed back several months. Therefore, the components of APO #4 as initially approved by the Board are unattainable for reasons beyond the agency's control. Accordingly, VRS is recommending revisions to APO #4 to account for the elements of the project that can be accomplished by June 30, 2021.

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

***Request for Board Action:*** *The Board approves the revisions to Agency Performance Outcome #4 for Fiscal Year 2021.*

### **APPROVE AMENDED ADMINISTRATIVE PAY PLAN, INVESTMENT OPERATIONS AND ADMINISTRATION STAFF PAY PLAN, AND INVESTMENT PROFESSIONALS' PAY PLAN**

Paula Reid advised the Committee that the Governor has approved the 2021 Appropriation Act, which includes a 5% salary increase for eligible employees of the Commonwealth, as well as related changes to the pay bands of the Commonwealth's pay plan. In keeping with these changes, Ms. Reid advised that VRS is proposing to amend the pay bands of its three pay plans as well. An additional change is proposed for the Investment Professionals' Pay Plan to indicate that VRS will implement pay actions consistent with the provisions of the Appropriation Act. This language is already provided in the Administrative Pay Plan and Investment Operations and Administration Staff Pay Plan.



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

***Request for Board Action:*** *The Board approves amendments to the Administrative Pay Plan, the Investment Operations and Administration Staff Pay Plan and the Investment Professionals' Pay Plan.*

#### **STRATEGIC PLAN UPDATE**

Ms. Bishop updated the Committee on the development of the agency's next strategic plan. VRS leadership is working with VCU's Performance Management Group to develop strategic goals and objectives for the five-year period beginning July 1, 2021.

Mr. McWilliams asked about the Board's input in the strategic plan development process. Ms. Bishop advised that the Board's input is important to the plan and will be captured in the coming weeks as part of the overall process.

#### **BUDGET UPDATE**

Mr. Cooper provided an update on the agency's budget performance year-to-date as Barry Faison was unable to attend the meeting. Mr. Cooper explained that fiscal year-end projections indicate a balance of approximately \$9.9 million, which will be returned to the Fund as a result of planned reductions in spending due to impacts of the pandemic during FY 2021. This is a slight decrease from the projection provided at the Committee's February meeting, and is due to an increase in projected expenses related to the ongoing recruitment of mission-critical positions.

Mr. McWilliams inquired about the transfer of knowledge initiatives related to the completion of the Modernization project. Ms. Bishop noted the ongoing efforts to build out the IT team as contracted employees working on the Modernization project leave the agency. Further, VRS continues to enhance its documentation, including policies and procedures, to capture the system and process changes resulting from the Modernization initiative.

Bo Harris asked for an update on the hiring of the Chief Technology and Security Officer position. Ms. Bishop advised the Committee that Mark Rein has been selected to fill the position and will begin on April 25, 2021. Mr. Rein comes to VRS with over 20 years of information systems and technology management experience, including 12 years serving as the CIO, Deputy CIO and Branch CTO for several large federal government agencies. VRS looks forward to welcoming Mr. Rein on April 25.

Submitted to the Board of Trustees on April 20, 2021.

---

O'Kelly E. McWilliams, III, Chair  
Administration and Personnel Committee



**Reappointment of DCPAC Members.**

---

**Requested Action**

The Board reappoints Shannon T. Irvin, Rick Larson and David A. Winter to the Defined Contribution Plans Advisory Committee (DCPAC), each for a two-year term ending June 20, 2023.

**Rationale for Requested Action**

Ms. Irvin, Mr. Larson and Mr. Winter currently serve on the DCPAC and are willing to be reappointed for another two-year term. Ms. Irvin is Assistant Superintendent for Administration at Nelson County Public Schools, Mr. Larson is the Assistant Vice President for Human Resources, Training and Performance at James Madison University, and Mr. Winter is the owner of Winter HR Consulting, LLC.

**Authority for Requested Action**

*Code of Virginia* § 51.1-124.26 authorizes the Board to appoint such other advisory committees as it deems necessary. Each member appointment requires a two-thirds vote of the Board, and advisory committee members serve at the pleasure of the Board.

The above action is approved.

---

O'Kelly E. McWilliams, III, Chairman  
VRS Board of Trustees

---

Date

# SHANNON T. IRVIN

---

## Assistant Superintendent for Administration

---

Extensively experienced and goal-oriented school administrator with a demonstrated track record of leading the preparation and analysis of financial reports to summarize and forecast financial position. Proven expertise in driving efficiency and productivity through evaluation of financial management systems and implementation of process improvements. Talented leader directing highly skilled financial management teams to support achievement of overall division goals and objectives. *Core competencies include:*

- Accounting Management
- Financial Analysis
- Forecasting
- Purchasing
- Insurances
- Cash Management
- Budgeting
- Cost Reductions
- Recruiting/Licensure
- Employee Benefits
- Technology Integration
- Regulatory Compliance
- Efficiency Improvements
- Personnel Management
- Retirement Counseling

---

### CAREER EXPERIENCE

Nelson County Public Schools, Lovington, Virginia, 1993 – Present

**Assistant Superintendent for Administration – 2007 - Present**

**Assistant Superintendent for Finance & Personnel – 2000 – 2007**

**Executive Director for Finance and Personnel – 1995 – 2000**

**Supervisor of Finance – 1993 – 1995**

Direct financial management functions including development of monthly/quarterly financial statements, financial forecasts, and budgets. Oversee general accounting functions, including AR/AP, payroll, employee benefits, account reconciliation, and cash management. Administer all financial management systems, evaluating and integrating new applications. Develop highly skilled accounting and financial management team to achieve established objectives. Interact with the School Board and Superintendent concerning financial forecasts and reports.

- Oversight responsibility for Technology – Technology Plan development and integration of purchases with accompanying E-Rate Reimbursements. Highlights include 1:1 Computer initiative division-wide.
- Oversight responsibility for Food Services including Financial Reporting and Verifications. Began with program with minimal cash balances to now having three month operating cash reserves while also changing to more healthful choices for students in program offerings.

*Continued...*

- Oversight responsibility for Transportation and Facilities Maintenance including development of the Capital Improvement Plan (CIP). During course of employment, the County built new or renovated all school facilities.
- Responsible for Teacher Licensure, Teacher Recruitment and Retention as well as employee compensation and benefits programs. The division maintains 100% Highly Qualified Status for Instructional Personnel.
- During course of employment led division to increase beginning teacher compensation from 106<sup>th</sup> in the State of Virginia to 9<sup>th</sup> in the State of Virginia

County of Campbell, Rustburg, Virginia, 1991 – 1993

**Director of Finance & Budget**

Prepared financial reports, developed budgets, and performed variance analysis in accordance with Generally Accepted Accounting Principles (GAAP). Compiled periodic financial reporting packages for County Administrator. Carried out internal audits to ensure regulatory compliance and operational efficiency/accuracy. Built and led teams in carrying out special projects.

- Secured Bonds for Capital Improvement Projects
- Served as Human Resource Specialist for Employee Benefit and Retirement Counseling

Lynchburg College, Lynchburg, Virginia 1988 – 1991

**Senior Accountant**

Closed and prepared monthly financial statements and audit reports. Performed monthly account reconciliations and monitored general ledger transactions. Worked in collaboration with the Controller to ensure accuracy and integrity of financial information in support of overall business objectives.

*Key Achievements:*

- Collected Past Due Accounts on College-owned Rental Property
- Conducted Campus-wide inventory in accordance with GASB 34.

Southern States Cooperative, Richmond, Virginia, 1986 – 1988

**Accountant**

Carried out general ledger functions, including account analysis and reconciliation, journal entries, and AR/AP. Prepared financial statements

*Key Achievement:*

- Consistently met deadlines while demonstrating strong analytical and problem-solving skills to achieve corporate objectives.

**EDUCATION**

**Master of Administration, Personnel Management** (1991) GPA 3.78/4.00

LYNCHBURG COLLEGE – Lynchburg, Virginia

**Bachelor of Business Administration, Concentration in Accounting** (1985) cum laude

RADFORD UNIVERSITY – Radford, Virginia

Postgraduate coursework through Virginia Tech and Lynchburg College

EDUCATION CONTINUED

PROFESSIONAL ORGANIZATIONS

VIRGINIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS (VASBO) - PRESIDENT 2016/2017;

REGISTERED SCHOOL BUSINESS ADMINISTRATOR

SOUTHEAST ASSOCIATION OF SCHOOL BUSINESS OFFICIALS (SASBO)

LIFETIME MEMBER

AMERICAN ASSOCIATION OF SCHOOL BUSINESS OFFICIALS (ASBO)

CERTIFIED ADMINISTRATOR OF SCHOOL FINANCE & OPERATIONS (SFO)

VIRGINIA ASSOCIATION OF SCHOOL PERSONNEL ADMINISTRATORS (VASPA) – REGION V REPRESENTATIVE

SCHOOL SYSTEMS OF VIRGINIA WORKERS COMPENSATION INSURANCE POOL - BOARD MEMBER

ADVISORY BOARD FOR THE SCHOOL OF EDUCATION, LEADERSHIP STUDIES AND COUNSELING – UNIVERSITY OF LYNCHBURG, LYNCHBURG, VIRGINIA 24501 – BOARD MEMBER

ADVISORY BOARD FOR THE VIRGINIA RETIREMENT SYSTEM DEFINED CONTRIBUTION PLANS- 1200 EAST MAIN STREET, RICHMOND, VIRGINIA 23219 – BOARD MEMBER

Rick Larson

## Biographical Statement

In his role as Assistant Vice President for Human Resources (HR), Training and Performance at James Madison University (JMU) in Harrisonburg, Virginia, Rick is responsible for the HR and Talent Development departments. Rick earned an M.S. Ed. in Adult Education and Human Resource Development from JMU, and his Bachelor of Individualized Study as a JMU undergraduate, while working full time for the university.

Rick has worked in higher education for over 40 years, holding positions in administration, finance, and student affairs. Rick is a certified Senior Professional in Human Resources (SPHR) and a Society of Human Resource Management Senior Certified Professional (SHRM-SCP).

Rick is a widower whose daughter, Katy, lives in Fredericksburg with her husband, Jon, and their two children, Henry and Maggie.

## **About David A. Winter**

Dave Winter of Winter HR Consulting, LLC ([www.winterhr.com](http://www.winterhr.com)) is an experienced human resources professional with broad knowledge of HR strategies, functions and processes. Winter HR Consulting serves organizations and individuals with a wide range of HR and management consulting services. Solutions are custom-designed for the specific needs of clients, which include individuals, small businesses, non-profit organizations and larger companies. Services include HR leadership and projects, organizational design and development, compensation and benefits, training and talent management programs and individual coaching.

Dave has served as the top HR executive for service and manufacturing companies in multi-national settings, has held management and staff roles in the legal and finance areas and has been a line manager. He holds a BA in Psychology from the University of Virginia and an MBA from the University of Richmond. Dave is a member of the Society for Human Resource Management (SHRM), the Richmond Human Resource Management Association and the International Coach Federation of Virginia. He is certified as a Senior Professional in Human Resources (SPHR) by the HR Certification Institute and is a SHRM Senior Certified Professional (SHRM-CP). Dave serves on the Virginia Retirement System Defined Contribution Plans Advisory Committee and is a past board member of the Richmond Human Resource Management Association.

Dave grew up in a US Air Force family, living in France, California, Alaska and Virginia. He is a long-time resident of the Richmond, VA, area after living in Maryland, Texas and California during his career. Dave enjoys volunteering as a mentor for University of Richmond MBA students, with Career Prospectors, a networking group for job seekers, and with the Virginia Voice, a radio reading service for the visually impaired. Most of all, he loves spending time with his two grown children and three grandchildren.



**Approve Revised Agency Performance Outcome (APO) #4.**

---

**Requested Action**

The VRS Board of Trustees approves revisions to Agency Performance Outcome #4 for Fiscal Year 2021.

**Description/Background**

At its June 11, 2020 meeting, the VRS Board of Trustees approved four Agency Performance Outcomes (APOs) for Fiscal Year 2021. The APOs are stretch goals for the Administrative staff. The FY 2021 APOs have four stated outcomes summarized as follows: 1. Implement New myVRS Functionality – Online Retirement Processing 2. Implement New myVRS Functionality – Payment, Health Insurance Maintenance 3. ERM Implementation 4. Cardinal HCM Implementation – The Plan (Track 1), Agency (Track 2) and Retiree (Track 3). The objective is to attain three of the four APOs. Successful attainment of the APOs is the gainsharing portion of the performance management program of the Administrative Pay Plan for administrative staff.

As the Department of Accounts (DOA) is the lead agency responsible for implementation of this project, many elements of APO #4, including the Cardinal HCM Implementation schedule, are out of the span of control of VRS. Changes to the Cardinal implementation schedule by the Cardinal Project Team have necessitated corresponding revisions to APO #4.

**Rationale for Requested Action**

When the accomplishment of an APO as initially established is unattainable due to reasons beyond VRS' control, it is appropriate to amend the objectives to reflect only those aspects of the APO that are within VRS' ability to execute.

**Authority for Requested Action**

*Code of Virginia* § 51.1-124.22(A)(11) authorizes the Board to establish and administer a compensation plan for officers and employees of the Retirement System.

The above action is approved.

---

O'Kelly E. McWilliams, III, Chairman  
VRS Board of Trustees

---

Date



**CLEAN**

4. Cardinal HCM Implementation – The Plan (Track 1), Agency (Track 2) and Retiree (Track 3)
4.1 Consistent with direction and information from the Cardinal project team, (1) initiate development of myVRS documentation related to information exchanges to and from the state central payroll system (CIPPS) and personnel management system (PMIS) to reflect process changes resulting from the implementation of the new Cardinal HCM system (Track 1); (2) update Human Resources processes, such as the position management module in Workforce Ready (WFR) and auto-populating timesheets for salaried VRS employees; and (3) create training videos for employee timesheets.
4.2 In accordance with the testing schedule provided by DOA, initiate, as applicable, test interfaces to and from the new Cardinal HCM system to myVRS, and facilitate and monitor VRS third-party vendors’ ongoing testing activities related to interfaces to and from the Cardinal HCM system. (Track 1)
4.3 Modify on-call pay policy as well as other applicable polices in preparation for the implementation of the Cardinal HCM. Initiate default timesheet formats for salaried employees to support the time and attendance reporting requirements of Cardinal. Consistent with DOA and Cardinal Team guidance, initiate the creation of or update, as appropriate, VRS policies and procedures, workflows, interface documentation and VRS signature authority to reflect process changes in the new Cardinal HCM system (Track 1, 2 and 3)
4.4 Communicate with applicable and core VRS staff (Human Resources and Payroll) concerning the transition to the new Cardinal HCM system. Conduct mock training as directed by the Cardinal team for Payroll and HR staff.

\* Note: With the schedule changes adopted by the Cardinal project team, the VRS agency implementation has been delayed to October 2021 along with the Plan changes for the Release 1 agencies. The implementation date for the Release 2 agencies and the VRS retirees has been moved to April 2022. Accordingly, VRS is not able to fully update payroll documentation and training until the Cardinal project team resumes its training, likely after June 30, 2021. Further, VRS and its’ third-party vendors cannot complete all testing until after June 30, 2021, in accordance with the new project timeline. Finally, payroll processes, training and agency communications cannot be completed prior to June 30, 2021 due to the revised project schedule issued by the Cardinal project team.

**REDLINE**

4. Cardinal HCM Implementation – The Plan (Track 1), Agency (Track 2) and Retiree (Track 3)
4.1 <u>Consistent with direction and information from the Cardinal project team, (1) initiate development of Update-myVRS documentation related to information exchanges to and from the state central payroll system (CIPPS) and personnel management system (PMIS) to reflect process changes resulting from the implementation of the new Cardinal HCM system- (Track 1); (2) update Human Resources processes, such as the position management module in Workforce Ready (WFR) and auto-populating timesheets for salaried VRS employees; and (3) create training videos for employee timesheets.</u>
4.2 <u>In accordance with the testing schedule provided by DOA, initiate, as applicable, Successfully test interfaces to and from the new Cardinal HCM system to myVRS, and facilitate and monitor VRS third party vendors' completion of ongoing testing activities related to of interfaces to and from the Cardinal HCM system., in accordance with the testing schedule provided by DOA.</u> (Track 1)
4.3 <u>Modify on-call pay policy as well as other applicable polices in preparation for the implementation of the Cardinal HCM. Initiate default timesheet formats for salaried employees to support the time and attendance reporting requirements of Cardinal. Consistent with DOA and Cardinal Team guidance, initiate the cCreation of or update, as appropriate, VRS policies and procedures, workflows, interface documentation and VRS signature authority to reflect process changes in the new Cardinal HCM system.</u> (Track 1, 2 and 3)
4.4 Communicate with <u>applicable and core</u> VRS staff <u>(Human Resources and Payroll)</u> concerning the transition to the new Cardinal HCM system and ensure education is provided to staff with roles in the system. <u>Conduct mock training as directed by the Cardinal team for Payroll and HR staff.</u> (Track 1, 2 and 3).
4.5 <u>Implement the new Cardinal HCM system and provide required reconciliation between the Cardinal HCM system and Kronos, as required.</u> (Track 2)

\* Note: With the schedule changes adopted by the Cardinal project team, the VRS agency implementation has been delayed to October 2021 along with the Plan changes for the Release 1 agencies. The implementation date for the Release 2 agencies and the VRS retirees has been moved to April 2022. Accordingly, VRS is not able to fully update payroll documentation and training until the Cardinal project team resumes its training, likely after June 30, 2021. Further, VRS and its' third-party vendors cannot complete all testing until after June 30, 2021, in accordance with the new project timeline. Finally, payroll processes, training and agency communications cannot be completed prior to June 30, 2021 due to the revised project schedule issued by the Cardinal project team.

\*Note: Ongoing meetings, data exchanges, testing and reconciliations continue between VRS, DOA and other stakeholder groups. Further progress of the Cardinal HCM project needs to be completed before VRS can initiate the tasks outlined in APO #4.



# AGENCY PERFORMANCE OUTCOMES STATUS REPORT

## FISCAL YEAR 2021

### Summary

**APO Status Indicator**

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S** Not started

*Overall Measure: 3 of 4 completed*

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
1	<b>Implement New myVRS Functionality - Online Retirement Processing</b> <i>(Measure: 4 of 6 completed)</i>	▲	▲	▲	▲	▲	●	●	●	★			
2	<b>Implement New myVRS Functionality - Payment, Health Insurance Maintenance</b> <i>(Measure: 4 of 6 completed)</i>	▲	▲	▲	▲	▲	▲	▲	▲	●			
3	<b>ERM Implementation</b> <i>(Measure: 3 of 3 completed)</i>	●	●	●	●	●	●	●	●	●			
4	<b>Cardinal HCM Implementation - The Plan (Track 1), Agency (Track 2) and Retiree (Track 3)</b> <i>(Measure: 4 of 5 completed)</i>	N/S	N/S	N/S	N/S	N/S	●	●	●	●			

\*Note: Ongoing meetings, data exchanges, testing, and reconciliations continue between VRS, DOA and other stakeholder groups. Further progress of the Cardinal HCM project needs to be completed before VRS can initiate the tasks outlined in APO #4.



## AGENCY PERFORMANCE OUTCOMES STATUS REPORT

### FISCAL YEAR 2021

#### APO 1

#### APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

*APO 1 Measure: 4 of 6 completed*

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
<b>1 Implement New myVRS Functionality - Online Retirement Processing</b>													
1.1	Complete staff and employer readiness activities, including staff training, for Member Portal (Online Retirement)	N/S	●	●	●	●	●	●	●	★			
1.2	Member Portal (Online Retirement) software is tested and ready for deployment	▲	▲	▲	▲	▲	★	★	★	★			
1.3	Security enhancements necessary for go-live for Member Portal (Online Retirement) are complete	▲	▲	▲	▲	▲	▲	★	★	★			
1.4	Security penetration testing for Member Portal (Online Retirement) is complete	N/S	N/S	N/S	N/S	N/S	★	★	★	★			
1.5	Complete phased ramp-up of online retirement processing functionality	N/S	N/S	N/S	N/S	N/S	●	●	●	★			
1.6	Initiate and conduct quality monitoring for online retirement processing	N/S	N/S	N/S	N/S	N/S	●	●	●	★			



## AGENCY PERFORMANCE OUTCOMES STATUS REPORT

### FISCAL YEAR 2021

#### APO 2

#### APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

*APO 2 Measure: 4 of 6 completed*

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
<b>2 Implement New myVRS Functionality - Payment, Health Insurance Maintenance</b>													
2.1	Complete staff and employer readiness activities, including staff training, for Payment/Health Insurance Maintenance	N/S	●	●	●	●	●	●	●	●			
2.2	Payment/Health Insurance Maintenance software is tested and ready for deployment	▲	▲	▲	▲	▲	▲	▲	▲	▲	★		
2.3	Security enhancements necessary for go-live for Payment/Health Insurance Maintenance are complete	▲	▲	▲	▲	▲	▲	▲	★	★	★		
2.4	Security penetration testing for Payment/Health Insurance Maintenance is complete	N/S	N/S	N/S	N/S	N/S	▲	▲	▲	★			
2.5	Complete phased ramp-up of Payment/Health Insurance Maintenance functionality	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	▲			
2.6	Initiate and conduct quality monitoring for Payment/Health Insurance Maintenance functionality	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	●			



## AGENCY PERFORMANCE OUTCOMES STATUS REPORT

### FISCAL YEAR 2021

#### APO 3

**APO Status Indicator**

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

*APO 3 Measure: 3 of 3 completed*

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
<b>3 ERM Implementation</b>													
3.1	Complete risk assessment process to validate and prioritize risks identified in the risk portfolio	●	●	●	●	●	●	★	★	★			
3.2	Develop final risk response plan based on the outcomes of the risk assessment process	N/S	N/S	N/S	N/S	N/S	N/S	●	●	●			
3.3	Initiate the development of the initial risk response plan	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S			



## AGENCY PERFORMANCE OUTCOMES STATUS REPORT

### FISCAL YEAR 2021

#### APO 4

#### APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

*APO 4 Measure: 4 of 5 completed*

APO #	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
<b>4 Cardinal HCM Implementation - The Plan (Track 1), Agency (Track 2) and Retiree (Track 3)</b>													
4.1	Update myVRS documentation related to information exchanges to and from the state central payroll system (CIPPS) and personnel management system (PMIS) to reflect process changes resulting from the implementation of the new Cardinal HCM system. (Track 1)	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S			
4.2	Successfully test interfaces to and from the new Cardinal HCM system to myVRS, and monitor VRS third party vendors' completion of testing of interfaces to and from the Cardinal HCM system, in accordance with the testing schedule provided by DOA. (Track 1)	N/S	N/S	N/S	N/S	N/S	●	●	●	●			
4.3	Create or update, as appropriate, VRS policies and procedures, workflows, interface documentation and VRS signature authority to reflect process changes in the new Cardinal HCM system (Track 1, 2 and 3)	N/S	N/S	N/S	N/S	N/S	N/S	●	●	●			
4.4	Communicate with VRS staff concerning the transition to the new Cardinal HCM system and ensure education is provided to staff with roles in the system (Track 1, 2 and 3)	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S			
4.5	Implement the new Cardinal HCM system and provide required reconciliation between the Cardinal HCM system and Kronos, as required. (Track 2)	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S			


\*Note: Ongoing meetings, data exchanges, testing, and reconciliations continue between VRS, DOA and other stakeholder groups. Further progress of the Cardinal HCM project needs to be completed before VRS can initiate the tasks outlined in APO #4.



April 14, 2021

**MEMORANDUM**

**TO:** VRS Board of Trustees

**FROM:** Patricia S. Bishop  
Director 

**RE:** 2021 Salary Increases

Contingent upon the Governor's signing, Item 474 of the 2021 Appropriation Act provides salary increases for employees of the Commonwealth, including VRS staff. Specifically, the Appropriation Act includes a 5 percent increase, effective June 10, 2021, for all classified and other salaried employees who received the equivalent of "contributor" or better on their most recent evaluation.<sup>1</sup>

Section IV(C)(10) of the VRS Administrative Pay Plan, effective October 15, 2020, indicates that VRS *will implement pay actions consistent with the provisions of the Appropriation Act*. Similarly, Section II(J) of the Investment Operations and Administration Staff Pay Plan, effective November 20, 2019, indicates the same for employees covered under that pay plan. Finally, Section I of the Investment Professionals' Pay Plan, effective November 14, 2018, provides for salary increases consistent with the Appropriation Act for investment professionals. Accordingly, all eligible VRS employees will receive the salary increase described above, effective June 10, 2021.

In order to accommodate the salary increase described above, the 2021 Appropriation Act requires an increase of 5 percent to the minimum and maximum salary for each pay band within the Commonwealth's Classified Compensation Plan. In keeping with the changes to the Commonwealth's pay plan, increases to the minimum and maximum salaries of the pay bands in the VRS Administrative Pay Plan, Investment Operations and Administration Staff Pay Plan, and Investment Professionals' Pay Plan are also proposed. An RBA and associated changes to the pay plans will be presented to the Administration and Personnel Committee for consideration at its April 19, 2021 meeting.

If you have any questions or concerns, please feel free to contact me at your convenience.

---

<sup>1</sup> The equivalent performance level for VRS is "meets expectations".





**Approve amended Administrative Pay Plan,  
Investment Operations and Administration Staff Pay Plan  
and Investment Professionals' Pay Plan.**

---

**Requested Action**

The VRS Board of Trustees approves amendments to the Administrative Pay Plan, the Investment Operations and Administration Staff Pay Plan and the Investment Professionals' Pay Plan.

**Description/Background**

The VRS Board of Trustees approved the current Administrative Pay Plan, the current Investment Operations and Administration Staff Pay Plan and the current Investment Professionals' Pay Plan on October 15, 2020.

Item 474 of the 2021 Appropriation Act requires the Department of Human Resource Management to increase by 5% the minimum and maximum of each of the salary bands in the Commonwealth's Classified Compensation Plan. Generally, the VRS Board of Trustees also adjusts the salary scales in its pay plans in accordance with the requirements of the Appropriation Act. An increase of 5% to the minimum and maximum of each grade of the salary scales of the Administrative Pay Plan, the Investment Operations and Administration Staff Pay Plan and the Investment Professionals' Pay Plan, effective June 10, 2021, is consistent with changes made to the Commonwealth's Classified Compensation Plan.

**Rationale for Requested Action**

The amendments to each of the pay plans are pursuant to the provisions of the 2021 Appropriation Act and in keeping with the salary band adjustments made to the Commonwealth's Classified Compensation Plan.

**Authority for Requested Action**

*Code of Virginia* § 51.1-124.22(11) authorizes the Board to establish and administer a compensation plan for officers and employees of the Retirement System.

The above action is approved contingent upon the Governor signing the 2021 Appropriation Act (HB 1800) and will go into effect immediately once the budget has been signed.

---

O'Kelly E. McWilliams, III, Chairman  
VRS Board of Trustees

---

Date



VIRGINIA RETIREMENT SYSTEM  
HUMAN RESOURCES POLICIES AND PROCEDURES

**Title:** ADMINISTRATIVE PAY PLAN

**Policy Number:** 3.10

**Supersedes:**

~~6/10/2019~~ 10/15/2020

**Effective Date:**

~~10/15/2020~~ 06/10/2021

**I. Authority**

The Director is authorized under the Appropriation Act to use agency funds or funds appropriated, if any, to implement the provisions of new or existing performance-based pay plans.

**II. Purpose**

The purpose of the Administrative Pay Plan (Plan) is to attract, motivate and retain skilled employees within a compensation framework that is competitive with the external market, internally equitable and performance based. VRS is committed to providing a total rewards package tied to the attainment of individual and team results and the achievement of organizational goals.

**III. Policy**

The Plan applies to all full and part-time (non-wage) employees who work under the administrative and audit authorities of VRS. Wage employees' pay complies with the provisions of the state classification and pay plan. The Plan ensures that agency salaries are competitive with the market average of a mix of public and private sector organizations. Comparative market salary data is typically reviewed every two (2) years to ensure competitiveness of the salary structure.

The Plan includes 17 salary grades for general classifications and 14 salary grades for technology classifications as identified in Appendix 1.

There is a broad span between the minimum and maximum salary of each salary grade to allow, in most cases, for salary growth or other possible adjustments over an employee's span of employment.

**IV. Procedure**

**A. Job Placement**

Placement of jobs in each grade is determined by measuring the degree of expertise and accountability required for each position in four areas:

1. **Knowledge and Expertise** measures the amount and depth of knowledge, experience and skills necessary for functioning effectively in a specified role. This expertise may be in technical disciplines, procedures specific to the organization, ability to use certain equipment, and/or management responsibility for planning, organizing and integrating the work of others.

2. **Complexity and Conceptual Thinking** measures the amount of analytical and problem-solving skills required in the position to evaluate and diagnose differing situations and devise new approaches relating to the organization as a whole and/or its business strategies.
3. **Contribution and Impact** measures the breadth of the position's contribution to the advancement of VRS' vision, "To be the trusted leader in the delivery of benefits and services to those we serve." This ranges from improving work processes in the work unit to influencing agency-wide results.
4. **Effective Communication** measures the position's requirements for interacting with and/or influencing coworkers, team members, contacts in other units/departments, members, retirees or contacts outside the organization.

Each job is evaluated in objective terms, not only to ascertain its demands on the individual, but also to determine its worth in comparison to other jobs in the agency and its importance to VRS' success.

Salary ranges are established for all grades by recognizing the level of education, knowledge, skill, and experience needed to perform each job. The salary range demonstrates the interrelationships of the jobs used by the agency in addition to comparing salaries paid for similar classifications in private and public sectors. The salary range for a job includes a minimum, midpoint and maximum salary.

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** is the median salary for the grade.
- **Maximum** is the highest salary paid for a position within the salary grade.

Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer, or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

## **B. Starting Salary**

The respective member of the Director's Executive Committee (DEC) approves the hiring salary range when the recruitment is formally requested. Hiring supervisors and second line supervisors recommend the starting salary for new employees and the respective member of the DEC approves the starting salary, in coordination with the human resources director.

The salaries paid to employees in the department; the candidate's education, skills, work experience; and salary history are typically considered when determining the appropriate salary to offer a candidate. Starting salaries typically do not exceed the salary grade midpoint. Additional justification is required to support offering salaries above the midpoint.

## **C. Salary Adjustments**

### **1. Introductory Increases**

The introductory period for new employees is 12 months from the date of hire. The introductory period serves as an adjustment period for employees to establish a working relationship with their supervisors, to acclimate to their new job duties and to learn about VRS.

When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations.

The Performance Management Policy outlines details.

### **2. Promotions**

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

### **3. Lateral**

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the appropriate DEC member.

### **4. Downward Assignments (Voluntary or Involuntary)**

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

- **Voluntary** – An employee initiated request to transition to a position within a lower salary grade.
- **Involuntary** – A management initiated request to transition an employee to a position within a lower salary grade, typically due to performance, corrective action or restructuring.

A downward assignment would typically result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range.

Any exception to this guideline will require additional justification, an internal equity review and approval of the appropriate DEC member.

In unique situations, such as job abolishment or agency reorganization, an employee's salary may exceed the maximum of the lower grade and the salary remain unchanged. Salaries remain frozen until market adjustments allow additional increases (red-circle). These employees remain eligible to receive applicable performance or gainsharing bonus awards if performance criteria are met.

## 5. Job Reclassifications

Job reclassifications occur when the employee's duties and responsibilities change substantially, which may result in a different pay grade. Reclassification is based on job content and not the performance of the incumbent. Job studies are performed by human resources, with input by management.

**Reclassification Upward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a higher salary grade.

Employees typically receive salary increases between 2% and 15%. Reclassification increases are approved by the appropriate DEC member, in coordination with the human resources director. Salaries must be at or above the minimum of the new pay grade.

**Reclassification Laterally:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within the same salary grade.

No salary increase is awarded. Any exception to this guideline will require additional justification, an internal equity review, and approval of the appropriate DEC member, in coordination with the human resources director.

**Reclassification Downward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a lower salary grade.

## 6. Regrade

Regrades occur when the classification is determined to warrant a different pay grade. This is typically determined by a market analysis or internal classification review, performed by HR in coordination with the DEC member.

Employees typically receive salary increases between 2% and 15%. Regrade increases are approved by the appropriate DEC member, in coordination with human resources. Salaries must be at or above the minimum of the new pay grade.

## 7. Acting Pay

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

**Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received while performing the “acting” job responsibilities.

**Beyond Two Years Duration:** When employees are deemed to be “acting” by performing the full duties of a position for more than two years, the supervisor may choose to promote the individual without going through a competitive process. If the employee is promoted, the employee is eligible for a promotional increase. Otherwise, the position will be open for recruitment. The permanent filling of the position may involve no change in current salary or could include a pay increase, depending upon the circumstances and available budget.

If an employee is acting in a position that is the same salary grade, acting pay would not be provided unless there is sufficient justification to support that the duties of the acting position are substantially different.

## **8. In-grade**

In-grade salary adjustments occur when employees receive an increase in base pay to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, or responsibilities outside of the position classification process. These adjustments should only be provided once per fiscal year. Listed below are the categories and descriptions of in-grade salary adjustments.

**Market adjustment:** Warranted in cases where external market forces exist due to high demand for a particular skill or position which may result in significantly higher turnover. Market adjustments may also occur if it is determined that an individual’s salary is significantly lower than market study findings. Salary adjustments can apply to an individual or classification of employees to ensure competitiveness and retention of staff. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Internal alignment adjustment:** Warranted when employees’ salaries are unusually low or out of comparability with other employees in the work unit. Factors considered include experience, education, knowledge, skills and abilities. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Individual accomplishment adjustment:** May be awarded to recognize the attainment of a higher level of expertise through professional certification requiring continuing education credits (CEUs). In-grade adjustments are awarded at the time of the original certification. If the certification does not require CEUs, an in-grade adjustment will not be provided; however, a bonus may be considered. Additionally, an in-grade adjustment for completion of a degree that relates to a current or career path position may be provided. Other similar situations may be considered as justification for an individual accomplishment adjustment. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Skill acquisition and application adjustment:** May be awarded to recognize the acquisition and application of relevant, pre-defined, job-based skills, resulting in increased value to the organization.

Typically, an Individual Development Plan identifies the needed skills and the skill acquisition plan. Formal assessments, through testing or demonstration of the skills acquired and applied to the job, may result in an in-grade adjustment. An in-grade adjustment of 1% to 4% of salary is typically provided.

The employee's supervisor must request the in-grade adjustment in writing and include documentation supporting the need for a pay adjustment. The respective DEC member approves in-grade adjustments, in coordination with the human resources director.

When an employee's salary is at or above the salary maximum for his/her job grade, a bonus payment may be awarded. The respective member of the DEC approves the bonus, in coordination with the human resources director.

## **9. Competitive**

A competitive pay increase is an option available to supervisors to retain top performers, who have received an external job offer, when the loss is determined to be detrimental to the organization. Employees must furnish a copy of the respective job offer.

The supervisor requests, in writing, a competitive pay increase and includes documentation supporting the need for an adjustment and justification for the increase. The respective member of the DEC approves the increase, in coordination with the human resources director.

Competitive pay increases apply to base salary and may not exceed the salary maximum for the salary range. In extraordinary circumstances, when an employee's base salary is at maximum, a bonus is an option. In these situations, the respective member of the DEC, in coordination with the human resources director, submits the request for agency director approval.

## **10. Increases Governed by the Appropriations Act**

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

### **D. Bonuses**

#### **1. Sign-on**

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

The amount of the sign-on bonus will vary depending on the position and the supply of candidates. The amount of the bonus typically ranges from 1% to 20% of the midpoint of the salary range.

Fifty percent of the sign-on bonus will be paid in the first paycheck with the remainder of the bonus being paid following the successful completion of the one year introductory period.

Refer to the **Employee Sign-on Bonus Program Policy**.

## **2. Referral**

Referral bonuses may be provided to full and part-time employees who refer a candidate hired into a full-time position.

The amount of the referral bonus is \$1,000. Fifty percent is paid in the paycheck following the referred employee's first full pay cycle with the remainder of the bonus being paid following the successful completion of the referred employee's introductory period.

Refer to the **Employee Referral Program Policy**.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

## **3. Performance**

Performance bonuses are provided agency wide following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of "exceptional" will receive a 4% bonus and employees who receive an overall rating of "exceeds" will receive a 2% bonus, based on their salary as of June 30. Employees who receive an overall "meets," "does not meet" or "needs improvement" rating will not receive a performance bonus.

The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

## **4. Gainsharing**

Gainsharing bonuses are provided when it is determined the agency has successfully attained the Agency Performance Outcomes (APO) and Operational Measures (OM).

Subject to the approval of the VRS Board of Trustees, attainment of the APOs and OMs may result in eligible employees receiving a lump-sum bonus of 2.5%, or other amount determined by the Board, based on their salary as of June 30.



The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.

#### **5. Employee Recognition Bonus**

Employee recognition bonuses may be provided to full and part-time employees for individual or team accomplishments typically associated with special projects, process improvements, innovation or other outstanding accomplishments.

Bonuses range from \$50 to \$5,000 depending upon the value of individual or team accomplishments.

Bonuses up to and including \$1,000 require approval by the appropriate DEC member. Special Recognition Bonuses, above \$1,000 through \$5,000, require approval by the DEC member and Agency Director, Chief Investment Officer, or Internal Audit Director. The fiscal year bonus cap is \$5,000 per employee.

The **Recognition and Awards Program Policy** outlines details.

### **V. Additional Information**

#### **A. VRS Pay Plans**

In addition to the Administrative Pay Plan, VRS maintains several other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Investment Operations and Administration Staff Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure.
- **Executive Pay Plan** – This pay plan provides the annual salary and bonus amounts provided to the Agency Director, Chief Investment Officer and Audit Director by the VRS Board of Trustees.

#### **B. Key Terms**

**FLSA** - The Fair Labor Standards Act

**Exempt** – Employees who are not covered by or are exempted from the minimum wage and overtime provisions of the Fair Labor Standards Act

**Non-exempt** – Employees who are subject to the minimum wage and overtime provisions of the Fair Labor Standards Act

**Salary grade** – A series of specific pay rates assigned to a classification as the compensation for that classification

**Pay rate** – A specific dollar amount, expressed as either an annual or hourly rate

**Red-circle** – A designation for salaries that exceed the maximum of a specified salary range. Employees are not eligible for further base pay increases until the range maximum surpasses the employee's salary.

**APPENDIX 1 – PAY RANGES**

<b>Administrative SALARY RANGES</b>			
<b>Grade</b>	<b>Min</b>	<b>Mid</b>	<b>Max</b>
1	<u>\$26,851</u>	<u>\$41,907</u>	<u>\$56,963</u>
2	<u>\$31,293</u>	<u>\$48,036</u>	<u>\$64,780</u>
3	<u>\$34,421</u>	<u>\$52,354</u>	<u>\$70,287</u>
4	<u>\$37,864</u>	<u>\$57,105</u>	<u>\$76,345</u>
5	<u>\$41,650</u>	<u>\$62,329</u>	<u>\$83,009</u>
6	<u>\$45,816</u>	<u>\$68,077</u>	<u>\$90,339</u>
7	<u>\$51,772</u>	<u>\$76,297</u>	<u>\$100,822</u>
8	<u>\$56,950</u>	<u>\$83,441</u>	<u>\$109,932</u>
9	<u>\$62,644</u>	<u>\$91,300</u>	<u>\$119,957</u>
10	<u>\$68,907</u>	<u>\$99,944</u>	<u>\$130,981</u>
11	<u>\$75,798</u>	<u>\$109,454</u>	<u>\$143,110</u>
12	<u>\$83,379</u>	<u>\$119,914</u>	<u>\$156,449</u>
13	<u>\$91,716</u>	<u>\$131,420</u>	<u>\$171,125</u>
14	<u>\$100,888</u>	<u>\$144,077</u>	<u>\$187,266</u>
15	<u>\$110,977</u>	<u>\$158,000</u>	<u>\$205,023</u>
16	<u>\$122,074</u>	<u>\$173,315</u>	<u>\$224,555</u>
17	<u>\$134,282</u>	<u>\$190,161</u>	<u>\$246,040</u>

<b>Technology SALARY RANGES</b>			
<b>Grade</b>	<b>Min</b>	<b>Mid</b>	<b>Max</b>
T1	<u>\$37,923</u>	<u>\$57,159</u>	<u>\$76,395</u>
T2	<u>\$41,714</u>	<u>\$62,389</u>	<u>\$83,064</u>
T3	<u>\$45,886</u>	<u>\$68,143</u>	<u>\$90,400</u>
T4	<u>\$50,474</u>	<u>\$74,472</u>	<u>\$98,470</u>
T5	<u>\$55,522</u>	<u>\$81,433</u>	<u>\$107,345</u>
T6	<u>\$61,074</u>	<u>\$89,092</u>	<u>\$117,110</u>
T7	<u>\$67,182</u>	<u>\$97,517</u>	<u>\$127,850</u>
T8	<u>\$73,900</u>	<u>\$106,782</u>	<u>\$139,665</u>
T9	<u>\$81,291</u>	<u>\$116,976</u>	<u>\$152,661</u>
T10	<u>\$89,418</u>	<u>\$128,187</u>	<u>\$166,956</u>
T11	<u>\$98,362</u>	<u>\$140,521</u>	<u>\$182,681</u>
T12	<u>\$108,197</u>	<u>\$154,088</u>	<u>\$199,979</u>
T13	<u>\$119,016</u>	<u>\$169,012</u>	<u>\$219,007</u>
T14	<u>\$130,918</u>	<u>\$185,912</u>	<u>\$240,907</u>



VIRGINIA RETIREMENT SYSTEM  
HUMAN RESOURCES POLICIES AND PROCEDURES

**Title:** ADMINISTRATIVE PAY PLAN

**Policy Number:** 3.10

**Supersedes:** 10/15/2020

**Effective Date:** 06/10/2021

**I. Authority**

The Director is authorized under the Appropriation Act to use agency funds or funds appropriated, if any, to implement the provisions of new or existing performance-based pay plans.

**II. Purpose**

The purpose of the Administrative Pay Plan (Plan) is to attract, motivate and retain skilled employees within a compensation framework that is competitive with the external market, internally equitable and performance based. VRS is committed to providing a total rewards package tied to the attainment of individual and team results and the achievement of organizational goals.

**III. Policy**

The Plan applies to all full and part-time (non-wage) employees who work under the administrative and audit authorities of VRS. Wage employees' pay complies with the provisions of the state classification and pay plan. The Plan ensures that agency salaries are competitive with the market average of a mix of public and private sector organizations. Comparative market salary data is typically reviewed every two (2) years to ensure competitiveness of the salary structure.

The Plan includes 17 salary grades for general classifications and 14 salary grades for technology classifications as identified in Appendix 1.

There is a broad span between the minimum and maximum salary of each salary grade to allow, in most cases, for salary growth or other possible adjustments over an employee's span of employment.

**IV. Procedure**

**A. Job Placement**

Placement of jobs in each grade is determined by measuring the degree of expertise and accountability required for each position in four areas:

1. **Knowledge and Expertise** measures the amount and depth of knowledge, experience and skills necessary for functioning effectively in a specified role. This expertise may be in technical disciplines, procedures specific to the organization, ability to use certain equipment, and/or management responsibility for planning, organizing and integrating the work of others.

2. **Complexity and Conceptual Thinking** measures the amount of analytical and problem-solving skills required in the position to evaluate and diagnose differing situations and devise new approaches relating to the organization as a whole and/or its business strategies.
3. **Contribution and Impact** measures the breadth of the position's contribution to the advancement of VRS' vision, "To be the trusted leader in the delivery of benefits and services to those we serve." This ranges from improving work processes in the work unit to influencing agency-wide results.
4. **Effective Communication** measures the position's requirements for interacting with and/or influencing coworkers, team members, contacts in other units/departments, members, retirees or contacts outside the organization.

Each job is evaluated in objective terms, not only to ascertain its demands on the individual, but also to determine its worth in comparison to other jobs in the agency and its importance to VRS' success.

Salary ranges are established for all grades by recognizing the level of education, knowledge, skill, and experience needed to perform each job. The salary range demonstrates the interrelationships of the jobs used by the agency in addition to comparing salaries paid for similar classifications in private and public sectors. The salary range for a job includes a minimum, midpoint and maximum salary.

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** is the median salary for the grade.
- **Maximum** is the highest salary paid for a position within the salary grade.

Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer, or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

## **B. Starting Salary**

The respective member of the Director's Executive Committee (DEC) approves the hiring salary range when the recruitment is formally requested. Hiring supervisors and second line supervisors recommend the starting salary for new employees and the respective member of the DEC approves the starting salary, in coordination with the human resources director.

The salaries paid to employees in the department; the candidate's education, skills, work experience; and salary history are typically considered when determining the appropriate salary to offer a candidate. Starting salaries typically do not exceed the salary grade midpoint. Additional justification is required to support offering salaries above the midpoint.

## **C. Salary Adjustments**

### **1. Introductory Increases**

The introductory period for new employees is 12 months from the date of hire. The introductory period serves as an adjustment period for employees to establish a working relationship with their supervisors, to acclimate to their new job duties and to learn about VRS.

When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations.

The Performance Management Policy outlines details.

### **2. Promotions**

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

### **3. Lateral**

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the appropriate DEC member.

### **4. Downward Assignments (Voluntary or Involuntary)**

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

- **Voluntary** – An employee initiated request to transition to a position within a lower salary grade.
- **Involuntary** – A management initiated request to transition an employee to a position within a lower salary grade, typically due to performance, corrective action or restructuring.

A downward assignment would typically result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range.

Any exception to this guideline will require additional justification, an internal equity review and approval of the appropriate DEC member.

In unique situations, such as job abolishment or agency reorganization, an employee's salary may exceed the maximum of the lower grade and the salary remain unchanged. Salaries remain frozen until market adjustments allow additional increases (red-circle). These employees remain eligible to receive applicable performance or gainsharing bonus awards if performance criteria are met.

## 5. Job Reclassifications

Job reclassifications occur when the employee's duties and responsibilities change substantially, which may result in a different pay grade. Reclassification is based on job content and not the performance of the incumbent. Job studies are performed by human resources, with input by management.

**Reclassification Upward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a higher salary grade.

Employees typically receive salary increases between 2% and 15%. Reclassification increases are approved by the appropriate DEC member, in coordination with the human resources director. Salaries must be at or above the minimum of the new pay grade.

**Reclassification Laterally:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within the same salary grade.

No salary increase is awarded. Any exception to this guideline will require additional justification, an internal equity review, and approval of the appropriate DEC member, in coordination with the human resources director.

**Reclassification Downward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a lower salary grade.

## 6. Regrade

Regrades occur when the classification is determined to warrant a different pay grade. This is typically determined by a market analysis or internal classification review, performed by HR in coordination with the DEC member.

Employees typically receive salary increases between 2% and 15%. Regrade increases are approved by the appropriate DEC member, in coordination with human resources. Salaries must be at or above the minimum of the new pay grade.

## 7. Acting Pay

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

**Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received while performing the “acting” job responsibilities.

**Beyond Two Years Duration:** When employees are deemed to be “acting” by performing the full duties of a position for more than two years, the supervisor may choose to promote the individual without going through a competitive process. If the employee is promoted, the employee is eligible for a promotional increase. Otherwise, the position will be open for recruitment. The permanent filling of the position may involve no change in current salary or could include a pay increase, depending upon the circumstances and available budget.

If an employee is acting in a position that is the same salary grade, acting pay would not be provided unless there is sufficient justification to support that the duties of the acting position are substantially different.

## **8. In-grade**

In-grade salary adjustments occur when employees receive an increase in base pay to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, or responsibilities outside of the position classification process. These adjustments should only be provided once per fiscal year. Listed below are the categories and descriptions of in-grade salary adjustments.

**Market adjustment:** Warranted in cases where external market forces exist due to high demand for a particular skill or position which may result in significantly higher turnover. Market adjustments may also occur if it is determined that an individual’s salary is significantly lower than market study findings. Salary adjustments can apply to an individual or classification of employees to ensure competitiveness and retention of staff. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Internal alignment adjustment:** Warranted when employees’ salaries are unusually low or out of comparability with other employees in the work unit. Factors considered include experience, education, knowledge, skills and abilities. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Individual accomplishment adjustment:** May be awarded to recognize the attainment of a higher level of expertise through professional certification requiring continuing education credits (CEUs). In-grade adjustments are awarded at the time of the original certification. If the certification does not require CEUs, an in-grade adjustment will not be provided; however, a bonus may be considered. Additionally, an in-grade adjustment for completion of a degree that relates to a current or career path position may be provided. Other similar situations may be considered as justification for an individual accomplishment adjustment. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Skill acquisition and application adjustment:** May be awarded to recognize the acquisition and application of relevant, pre-defined, job-based skills, resulting in increased value to the organization.



Typically, an Individual Development Plan identifies the needed skills and the skill acquisition plan. Formal assessments, through testing or demonstration of the skills acquired and applied to the job, may result in an in-grade adjustment. An in-grade adjustment of 1% to 4% of salary is typically provided.

The employee's supervisor must request the in-grade adjustment in writing and include documentation supporting the need for a pay adjustment. The respective DEC member approves in-grade adjustments, in coordination with the human resources director.

When an employee's salary is at or above the salary maximum for his/her job grade, a bonus payment may be awarded. The respective member of the DEC approves the bonus, in coordination with the human resources director.

## **9. Competitive**

A competitive pay increase is an option available to supervisors to retain top performers, who have received an external job offer, when the loss is determined to be detrimental to the organization. Employees must furnish a copy of the respective job offer.

The supervisor requests, in writing, a competitive pay increase and includes documentation supporting the need for an adjustment and justification for the increase. The respective member of the DEC approves the increase, in coordination with the human resources director.

Competitive pay increases apply to base salary and may not exceed the salary maximum for the salary range. In extraordinary circumstances, when an employee's base salary is at maximum, a bonus is an option. In these situations, the respective member of the DEC, in coordination with the human resources director, submits the request for agency director approval.

## **10. Increases Governed by the Appropriations Act**

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

### **D. Bonuses**

#### **1. Sign-on**

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

The amount of the sign-on bonus will vary depending on the position and the supply of candidates. The amount of the bonus typically ranges from 1% to 20% of the midpoint of the salary range.

Fifty percent of the sign-on bonus will be paid in the first paycheck with the remainder of the bonus being paid following the successful completion of the one year introductory period.

Refer to the **Employee Sign-on Bonus Program Policy**.

## **2. Referral**

Referral bonuses may be provided to full and part-time employees who refer a candidate hired into a full-time position.

The amount of the referral bonus is \$1,000. Fifty percent is paid in the paycheck following the referred employee's first full pay cycle with the remainder of the bonus being paid following the successful completion of the referred employee's introductory period.

Refer to the **Employee Referral Program Policy**.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

## **3. Performance**

Performance bonuses are provided agency wide following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of "exceptional" will receive a 4% bonus and employees who receive an overall rating of "exceeds" will receive a 2% bonus, based on their salary as of June 30. Employees who receive an overall "meets," "does not meet" or "needs improvement" rating will not receive a performance bonus.

The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

## **4. Gainsharing**

Gainsharing bonuses are provided when it is determined the agency has successfully attained the Agency Performance Outcomes (APO) and Operational Measures (OM).

Subject to the approval of the VRS Board of Trustees, attainment of the APOs and OMs may result in eligible employees receiving a lump-sum bonus of 2.5%, or other amount determined by the Board, based on their salary as of June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.

#### **5. Employee Recognition Bonus**

Employee recognition bonuses may be provided to full and part-time employees for individual or team accomplishments typically associated with special projects, process improvements, innovation or other outstanding accomplishments.

Bonuses range from \$50 to \$5,000 depending upon the value of individual or team accomplishments.

Bonuses up to and including \$1,000 require approval by the appropriate DEC member. Special Recognition Bonuses, above \$1,000 through \$5,000, require approval by the DEC member and Agency Director, Chief Investment Officer, or Internal Audit Director. The fiscal year bonus cap is \$5,000 per employee.

The **Recognition and Awards Program Policy** outlines details.

### **V. Additional Information**

#### **A. VRS Pay Plans**

In addition to the Administrative Pay Plan, VRS maintains several other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Investment Operations and Administration Staff Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure.
- **Executive Pay Plan** – This pay plan provides the annual salary and bonus amounts provided to the Agency Director, Chief Investment Officer and Audit Director by the VRS Board of Trustees.

#### **B. Key Terms**

**FLSA** - The Fair Labor Standards Act

**Exempt** – Employees who are not covered by or are exempted from the minimum wage and overtime provisions of the Fair Labor Standards Act

**Non-exempt** – Employees who are subject to the minimum wage and overtime provisions of the Fair Labor Standards Act

**Salary grade** – A series of specific pay rates assigned to a classification as the compensation for that classification

**Pay rate** – A specific dollar amount, expressed as either an annual or hourly rate

**Red-circle** – A designation for salaries that exceed the maximum of a specified salary range. Employees are not eligible for further base pay increases until the range maximum surpasses the employee's salary.

**APPENDIX 1 – PAY RANGES**

<b>Administrative SALARY RANGES</b>			
<b>Grade</b>	<b>Min</b>	<b>Mid</b>	<b>Max</b>
1	\$26,851	\$41,907	\$56,963
2	\$31,293	\$48,036	\$64,780
3	\$34,421	\$52,354	\$70,287
4	\$37,864	\$57,105	\$76,345
5	\$41,650	\$62,329	\$83,009
6	\$45,816	\$68,077	\$90,339
7	\$51,772	\$76,297	\$100,822
8	\$56,950	\$83,441	\$109,932
9	\$62,644	\$91,300	\$119,957
10	\$68,907	\$99,944	\$130,981
11	\$75,798	\$109,454	\$143,110
12	\$83,379	\$119,914	\$156,449
13	\$91,716	\$131,420	\$171,125
14	\$100,888	\$144,077	\$187,266
15	\$110,977	\$158,000	\$205,023
16	\$122,074	\$173,315	\$224,555
17	\$134,282	\$190,161	\$246,040

<b>Technology SALARY RANGES</b>			
<b>Grade</b>	<b>Min</b>	<b>Mid</b>	<b>Max</b>
T1	\$37,923	\$57,159	\$76,395
T2	\$41,714	\$62,389	\$83,064
T3	\$45,886	\$68,143	\$90,400
T4	\$50,474	\$74,472	\$98,470
T5	\$55,522	\$81,433	\$107,345
T6	\$61,074	\$89,092	\$117,110
T7	\$67,182	\$97,517	\$127,850
T8	\$73,900	\$106,782	\$139,665
T9	\$81,291	\$116,976	\$152,661
T10	\$89,418	\$128,187	\$166,956
T11	\$98,362	\$140,521	\$182,681
T12	\$108,197	\$154,088	\$199,979
T13	\$119,016	\$169,012	\$219,007
T14	\$130,918	\$185,912	\$240,907



**VIRGINIA RETIREMENT SYSTEM**  
**INVESTMENT PROFESSIONALS' PAY PLAN**  
Effective ~~October 15, 2020~~ June 10, 2021

## OVERVIEW & PAY PHILOSOPHY

The Virginia Retirement System's (VRS) Board of Trustees has designed this investment professionals' pay plan after working with an independent compensation consultant. In addition, the Board has adopted benchmarks, recommended by an independent investment consultant, to be used as part of this pay plan.

This pay plan includes three core elements:

- Base Salary (described in Section I of this document)
- Incentive Pay Plan (described in Section II)
- Deferred Compensation Plan for VRS Investment Management Personnel (DCPIP) (described in Section III)

Overall, this pay plan design is to:

- Attract, motivate and retain skilled investment professionals by offering competitive compensation opportunities.
- Directly align compensation with long-term, superior relative and absolute investment performance.
- Reinforce risk management priorities and standards.
- Attract and retain senior investment professionals by deferring a portion of incentive compensation on a tax-deferred basis.
- Benefit all stakeholders – VRS' beneficiaries, VRS' employees, and Virginia's taxpayers – through a compensation plan that is clear, aligned with performance, competitive and cost effective.

Importantly, this pay plan anchors on two broad and long-standing philosophical principles:

1. VRS should pay base salaries consistent with the 75<sup>th</sup> percentile of a peer group of other leading public funds. The primary guidelines for determining VRS' leading public fund peer group will be (1) funds of similar size (AUM) as VRS and (2) funds with significant (>25%) assets managed internally. Additional criteria the Board may consider is asset allocation / diverse portfolio similar to VRS, degree of delegation to the CIO and staff, use of outside investment consultants, and Board pay decision making authority.
2. VRS should provide incentive compensation opportunities such that, in combination with base salary, total compensation levels approximate the median (50<sup>th</sup> percentile) of a blended group weighted 75% to the total compensation levels of leading peer group public funds and 25% to the total compensation levels of a broad range of private-sector firms that employ investment professionals.

## I. Base Salary

### SALARY RANGES

This pay plan establishes a salary range for each job class taking into account its relative importance to VRS and the salaries paid for comparable types of jobs in other leading public funds.

Minimum, midpoint, and maximum salary rates define the salary range for each job class/position. The midpoint of each job class/position approximates the 75th percentile salaries of a peer group of leading public pension funds. Actual salaries can be higher or lower than the midpoint depending on factors such as job performance, professional education and certifications, the willingness to assume new and higher-level duties and responsibilities, the ability to learn quickly and apply new knowledge and skills, being a team player, and the length of time in the position.

Each position's salary range includes a defined:

- **Minimum** is the lowest base salary paid for a job within the job class/position.
- **Midpoint** represents the market salary paid to a fully qualified employee, who has the institutional knowledge and practical experience to fulfill independently all of the responsibilities of the job/position.
- **Maximum** is the highest salary rate for the job class/position.

Grade	Position	Salary Range (in thousands) Min		
		Mid	Max	
12	Chief Investment Officer	\$ 327	\$ 408	\$ 489
11	Deputy Chief Investment Officer	269 256	336 320	403 384
10	Managing Director	260 248	326 340	391 372
9	Program Director	212 202	265 252	317 302
7	Director- Strategy, Research, Risk and/or Investment Decision Support	193 184	242 230	290 276
7	Senior Portfolio Manager	193 184	242 230	290 276
6	Portfolio Manager	168 160	210 200	251 239
5	Manager – Strategy, Research, Risk and/or Investment Decision Support	150 143	188 179	225 214
4	Senior Investment Officer	124 118	155 147	185 176
3	Investment Officer	92 88	116 110	139 132
2	Senior Investment Analyst	75 71	94 90	113 107
1	Investment Analyst	61 58	77 73	91 87

In considering the above salary range, it important to note the following:

- **Market Pay Reviews:** The VRS normally conducts a comparative market total pay study at least every two years to ensure competitiveness of the salary and incentive structures. Typically, the VRS conducts the study in the 1<sup>st</sup> quarter of the calendar year (in even years) with an effective date of July 1 (the beginning of the fiscal year).
- **Changes in Salary Ranges:** The Board must approve changes to the salary scale and incentive structure.



## **SALARY ADJUSTMENTS**

### **Oversight & Administration**

VRS will implement pay actions consistent with the provisions of the Appropriation Act. The VRS Board, however, approves across-the-board performance-based salary increases, market-based salary increases and incentive pools, for VRS investment professionals, subject to limitations in and consistent with the Code of Virginia and the Appropriation Act. The Chief Investment Officer (CIO) approves salary adjustments for individual investment professionals and, as described later in this document, sign-on bonuses, incentive payments, and relocation expenses subject to the limitations in the Code of Virginia and other applicable state or federal law and regulation.

### **Merit Increases**

- Salary increases are based on meeting individual performance standards. The supervisor completes the evaluation after the end of the fiscal year. If a participant in the investment employees' pay plan does not meet overall performance standards, then the participant is ineligible for performance increases to their base salary and market adjustments to their base salary for that performance cycle. Performance cycles are on a fiscal year, July 1 through June 30, and typically begin, with an effective date of performance plans in the first quarter of the new fiscal year.
- The CIO will receive base salary increases as approved by the VRS Board of Trustees and in accordance with the terms in the CIO's Employment Agreement, with approved effective dates established by the VRS Board of Trustees.

### **Starting Salaries**

The starting salary for a new employee considers the rates presently paid to other employees in the department and those in the same job class (when applicable), the candidate's education, skills, work experience, and salary history. The starting salary normally does not exceed the salary grade midpoint.

### **Reallocation**

Occurs when a job classification is reviewed by Human Resources and it is determined that the job duties and responsibilities have changed significantly enough to place the job in a different job title and job class. Unless the CIO authorizes an exception, this would not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

### **In-grade Adjustments**

Occur to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, obtainment of a degree or certification, or significant increases in responsibilities within the job class. Unless the CIO authorizes an exception adjustments will not exceed a 10% increase.

### **Promotions**

Promotions occur when an individual moves into a position in a higher job class. Promotions can be competitive (selected through a recruitment and hiring process) or non-competitive (through a job reclassification or reallocation.) Unless the CIO approves an exception, promotions will not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

### **Downward Assignment**

Downward adjustment occurs when an employee changes positions whether voluntarily, or because of unsatisfactory performance, resulting in a downward change in job class. A reduction in salary may occur based on a review of the salary and range and the circumstances associated with the downward move. In downward assignments, an individual's salary cannot exceed the maximum of the new salary range.

## II. Incentive Pay Plan

### PLAN ADMINISTRATION

The VRS Board of Trustees, the Plan Administrator, through the Administration and Personnel (A&P) Committee, administers the Incentive Plan (Plan) and retains full and complete discretion:

- To increase or decrease incentives for any and/or all Plan participants.
- To modify, amend or rescind any aspect of the Plan at any time for any and/or all Plan participants.
- While the Plan Administrator remains mindful of the value that staff adds to the organization and supportive of the pay plan, the Plan Administrator also specifically reserves the right to cancel, reduce, or delay the amount of any incentives payable under this plan when, in the sole discretion of the Plan Administrator, extreme budgetary pressures, economic, market or other conditions are such that the Plan Administrator deems such action necessary under the circumstances.
- Consistent with the preceding paragraph, payment of incentives under this plan is not guaranteed.

The Plan Administrator may delegate certain aspects of this Plan's day-to-day operation to the VRS CIO and the VRS Director of Human Resources. However, any substantive Plan-related questions or issues impacting incentive payouts for the CIO require the Plan Administrator's prior approval.

### PLAN ELIGIBILITY

Incumbents in the positions listed below are eligible to participate in this incentive plan, provided they:

- Are active VRS employees.
- Work for VRS at least forty hours per week. Plan participants who work less than full-time may be eligible to receive a prorated incentive payment. Wage employees are not eligible to participate in the plan.
- Receive an individual performance evaluation of at least "meets expectations" for the relevant performance year (i.e., the year preceding the normally scheduled year of payment).
- Remain in compliance with the VRS Investment Department Code of Ethics and Standards of Professional Conduct Policy.

**Positions Eligible to Participate in the  
Investment Professional's Pay Plan**

Chief Investment Officer  
Deputy Chief Investment Officer  
Managing Director- Strategy, Research, Risk and/or Investment Decision Support  
Managing Director- Internal Assets  
Managing Director- Global Investments  
Program Director  
Director- Strategy, Research, Risk and/or Investment Decision Support  
Senior Portfolio Manager  
Portfolio Manager  
Manager – Strategy, Research, Risk and/or Investment Decision Support  
Senior Investment Officer  
Investment Officer  
Senior Investment Analyst  
Investment Analyst

The CIO will determine the design of the incentive plan structure for the positions supporting the Defined Contribution Plans, with both quantitative and qualitative elements.

Generally, employees on an approved leave of absence are considered active employees. The CIO will resolve all questions regarding eligibility or, in the case of the CIO, eligibility will be determined by the Board.

Participation in this Plan in any one year does *not* confer the right to participate in this Plan in any other year *nor* to receive Plan payouts for the current and/or any future year. Participation in this Plan does not confer the right to continued employment. Subject to the provisions of this Plan, only active VRS employees may receive payments under this Plan.

**OVERALL INCENTIVE PLAN MECHANICS**

As described in more detail throughout this document, under the terms of this Plan:

- Eligible Plan participants will be assigned an incentive opportunity, expressed as a percentage of their actual earned base salary.
- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.
- Incentives are weighted or allocated to separate Plan components, described below, with the specific components and weightings varying by position:
  1. Total Fund relative investment performance
  2. Asset Class relative investment performance
  3. Average of Asset Class Multipliers (for positions that support multiple asset classes)
  4. Qualitative – focuses on individual achievement of assigned objectives.
- After year-end, payouts under each Plan component would be determined based on performance.

- Each participant's preliminary award would equal the sum of all of their performance-adjusted Plan components.
- Final awards would equal preliminary awards adjusted, up or down, based on the Total Fund's one-year absolute returns. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 7%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return (e.g., if Total Fund one-year actual absolute return equals +10%, then the preliminary awards will be increased by 3%). There will be a negative one-for-one adjustment for returns less than 0% (e.g., if Total Fund one-year actual absolute return equals -15%, then the preliminary awards will be reduced by 15%). This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles on the health of the pension plan by providing a mechanism to reflect the impact of up and down markets on incentive compensation.
  - 50% of eligible senior staff-members' awards (up to IRS limits) will be deferred into tax-qualified accounts. See section III, Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP). While deferred, awards are subject to the Total Fund's annual absolute returns.
  - All other awards paid incash.

Generally, a Participant must be employed on the date of payment of the award. However, see INCENTIVE PLAN PROVISIONS, *Termination of Employment Due to Death, Disability or Retirement*.

#### **INCENTIVE OPPORTUNITIES**

Incentive opportunities will vary by position based on multiple criteria:

- The position's potential effect on the VRS' investment performance.
- Competitive market pay requirements.
- Internal equity considerations.
- Other factors determined by the CIO or, in the case of the Chief Investment Officer's position, by VRS' Board.

Actual awards can vary based on performance.

For the fiscal year ending June 30, 2013 and all subsequent years, unless as otherwise determined, the Plan's incentive opportunities are as follows:

<b>Incentive Levels</b>	
<b>VRS Position</b>	<b>Incentive (1) (% salary)</b>
Chief Investment Officer	70% (2)
Deputy Chief Investment Officer	65% (2)
Managing Director- Strategy, Research, Risk and/or Investment Decision Support	65% (2)
Managing Director- Internal Assets	65% (2)
Managing Director- Global Investments	65% (2)
Program Director	60% (2)
Director – Strategy, Research, Risk and/or Investment Decision Support	50%
Senior Portfolio Manager	50%
Portfolio Manager	40%
Manager – Strategy, Research, Risk and/or Investment Decision Support	30%
Senior Investment Officer	30%
Investment Officer	30%
Senior Investment Analyst	25%
Investment Analyst	5%
(1) Performance-adjusted preliminary awards can vary from zero to two times these incentive	
(2) A portion, up to 50%, of these positions' earned incentives is subject to mandatory deferral.	

### **INCENTIVE WEIGHTINGS**

Each participant's incentive award will be weighted or allocated to separate, stand-alone Plan components. Importantly, all participants have a portion of their incentive opportunities weighted:

- To the Total Fund Plan component – which helps reinforce the importance of collective success as measured by the Total Fund's relative investment results.
- To the Qualitative Plan component – this helps reinforce achievement of specific initiatives and professional development.

Described below are the specific Plan weightings and the approach for determining awards under each of these Plan components.

<b>Incentive Weightings By Plan Component</b>						
<b>VRS Position</b>	<b>Total Fund</b>	<b>Quantitative Average of Asset Class</b>		<b>Asset Class</b>	<b>Qualitative</b>	<b>Total</b>
		<b>Multipliers</b>	<b>Class</b>			
(% of total incentive weighted to each component)						
Chief Investment Officer	60%	20%	(1)		20%	100%
Deputy Chief Investment Officer	60%	20%	(1)		20%	100%
Managing Director- Strategy, Research, Risk and/or Investment Decision Support	60%	20%	(1,4)		20%	100%
Managing Director- Internal Assets	40%	40%	(2,4)		20%	100%
Managing Director- Global Investments	40%	40%	(3)		20%	100%
Program Director	30%	50%	(5)	50%	20%	100%
Director- Strategy, Research, Risk and/or Investment Decision Support	30%	50%	(1)		20%	100%
Senior Portfolio Manager	20%			60%	20%	100%
Portfolio Manager	20%			60%	20%	100%
Manager – Strategy, Research, Risk and/or Investment Decision Support	30%	50%	(1)		20%	100%
Senior Investment Officer	20%	60%	(5)	60%	20%	100%
Investment Officer	20%	60%	(5)	60%	20%	100%
Senior Investment Analyst	20%	30%	(5)	30%	50%	100%
Investment Analyst	20%	30%	(5)	30%	50%	100%

(1) Average multiplier based on the multipliers of all asset classes under the incumbent's purview.

(2) The MD Internal Assets average multiplier is based on the multipliers of the internal asset classes under the incumbent's purview.

(3) The MD Global Investments average multiplier is based on the multipliers of the external asset classes under the incumbent's purview.

(4) There is currently a single person taking on the role of MD Strategy, Research, Risk and/or Investment Decision Support and MD Internal Assets. The incentive for this individual is a 50/50% blend of the two separate MD positions.

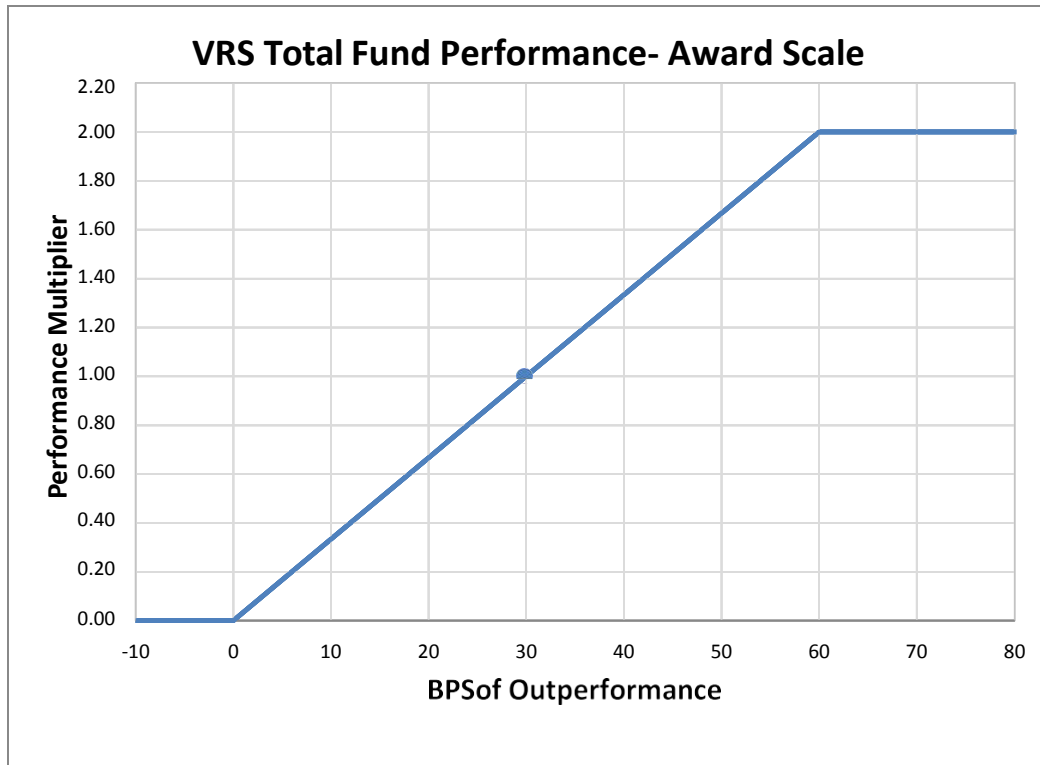
(5) These positions may support a specific asset class or multiple asset classes. If the position supports a specific asset class, then the multiplier is based on the asset class multiplier. If the position supports multiple asset classes, then the multiplier is based on the average of the multipliers of the asset classes supported.

## QUANTITATIVE PLAN COMPONENTS

These Plan components link participants' incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted 50%).

For purposes of this Plan:

- Measurement of relative investment performance is net of third-party fees, which consist of investment management fees and performance fees paid to investment managers, custodian fees, legal fees, internal investment staff administrative expenses, and miscellaneous fees.
- A performance-award scale defines the linkage between relative investment performance and a corresponding Performance Multiplier. Illustrating this approach at the Total Fund level, when VRS' relative investment performance:
  - Equals zero or less (i.e., no relative value added), then the VRS Performance Multiplier will equal zero and there will be no incentive payouts under this Plan component.
  - Equals 30 bps, then the VRS Performance Multiplier will equal 1.00 and there will be a 100% payout of this Plan component.
  - Equals 60 bps or more, then the VRS Performance Multiplier will equal 2.00 and there will be a 200% payout of this Plan component.
  - Is anywhere between zero and 60 bps, then the VRS Performance Multiplier is determined on an interpolated, straight-line basis.



- Selected participants whose responsibilities span multiple asset classes may have a portion of their incentive weighted to a component that is determined based on the average multipliers of asset classes they support. The intent of this Plan component is to recognize and reward superior relative investment performance, regardless of the level of the associated assets.

The Board is responsible for setting the basis point outperformance standards for the Total Fund. The CIO is responsible for setting the basis point outperformance standards for individual asset classes, subject to the Board's final review and approval.

#### **QUALITATIVE PLAN COMPONENT**

The qualitative incentive multiplier can range from 0.00 to 2.00 at the CIO's discretion, with input from applicable senior staff regarding individual performance levels. This Plan component links participants' incentive compensation to achievement of individual and/or position-specific performance objectives and VRS' overall performance objectives. Actual awards under this plan component will reflect:

- Position- and/or incumbent-specific performance criteria.
- Achievement of key VRS performance objectives, including:



- Building an effective organization.
- Enhancing investment excellence.
- Developing staff.

The Board will annually determine the CIO's qualitative incentive multiplier after assessing attainment of the qualitative performance objectives, considering input and recommendations provided by the A&P Committee.

**DETERMINING PRELIMINARY AWARDS**

After the end of each fiscal year, a preliminary award will be determined for each Plan participant by aggregating all of their performance multiplier-adjusted weighted Plan components. In particular:

- Performance multipliers will be determined for each Plan component based on actual results.
- Preliminary payouts under each weighted Plan component will be determined by multiplying the incentive dollars weighted to that component by the associated performance multiplier.
- Total preliminary awards would be determined by adding up all of that participant's weighted Plan components.

Illustrated below is this approach for a position with an incentive of \$80,000.

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200
<b>Preliminary Award</b>					<b>\$91,200</b>

**DETERMINING FINAL AWARDS**

Final awards, if any, would be determined after each fiscal year-end by adjusting the sum of each participant's preliminary award, up or down, based on VRS' one-year absolute return for the most recently completed fiscal year. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 7%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return. There will be a negative one-for-one adjustment for returns less than 0%. Illustrated below is the process for determining final awards.

**Scenario #1:**  
 The Total Fund's One-Year Absolute Returns are +5%

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

	<b>Preliminary Award</b>	<b>\$91,200</b>
X no adjustment		<b>0%</b>
<b>Final Award</b>		<b>\$91,200</b>

**Scenario #2:**  
 The Total Fund's One-Year Absolute Returns are +10%

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

	<b>Preliminary Award</b>	<b>\$91,200</b>
X 1+ VRS Fund's One-Year Rate of Return less assumed rate of return		<b>103%</b>
<b>Final Award</b>		<b>\$93,936</b>

**Scenario #3:**  
 The Total Fund's One-Year Absolute Returns are -15%

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

	<b>Preliminary Award</b>	<b>\$91,200</b>
X 1+ VRS Fund's One-Year Rate of Return		<b>85%</b>
<b>Final Award</b>		<b>\$77,520</b>

## PAYING OUT FINAL AWARDS

### Board Review

Prior to payout of any and/or all awards, the CIO will present a schedule of aggregate incentives to the Board of Trustees, through the A&P Committee, in advance. This report will include, in aggregate, the awards, the multipliers awarded for each component, the actual dollar awards earned for each component and the total awards. Internal Audit and Human Resources will review the calculations. As requested by the A&P Committee, the CIO will provide additional information prior to the Board approving the payout of any and/or all awards.

### Final Award Payout

Final awards will be paid out as follows:

- For VRS' most senior staff (i.e., incumbents in positions at or above the level of Program Director) when awards are paid, 50% of total award amounts up to the specified Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be deferred into the DCPIP plan. All other amounts paid in cash. Section III of this document describes the terms of the § 415(c)(1)(A) plan.
- For all other Plan participants, awards paid 100% in cash.

### Timing of Cash Payouts

When the Board approves incentive awards, the VRS will make payments between July 1 and December 31 after VRS' fiscal year end.

- Awards to senior staff paid as follows: 50% deferred into DCPIP (subject to IRS limits) and the remainder in cash.
- Awards to all other plan participants paid out 100% in cash.

## INCENTIVE PLAN PROVISIONS

- ***New employees, promoted employees and other employees who transfer into another position covered in this payplan:***
  - Employees who join the VRS Investment Department after the commencement of the fiscal year may be eligible to participate in the Plan. Incentives will be computed on the incentive percentage and their actual earned salary for the year.
  - Promoted employees and employees who transfer into another position covered in this pay plan will have their incentives calculated based on their actual earned salary for the year and a proportional incentive percentage.
- ***Minimum Individual Performance Standard:*** Employees with an individual performance rating of "Does Not Meet Expectations" are not eligible to receive any incentive payment under the Plan.
- ***Termination of Employment Due to Death, Disability, or Retirement:*** Terminated employees may be eligible to receive a time-weighted portion of their final award for the current performance year. Plan participants who terminate employment due to death or disability or who retire during a fiscal year will be eligible to receive a time-weighted portion of their Board approved award (1/12 for each complete month worked in their last year of service). The incentive payments for the year in which death, disability or retirement occurs shall be paid 100% in cash to such employee or his representative between July 1 and December 31 following the end of the fiscal year in which such death, disability or retirement occurs.
- ***Termination for all Other Reasons:*** Except as specifically determined by the CIO for all positions other than the CIO, and by the A&P Committee for the CIO's position, participants

who terminate employment with VRS for all other reasons prior to the normally scheduled date of payout forfeit all rights under the plan.

- **Clawback:** In the event of termination for malfeasance related to duties as an investment professional, VRS retains the right to seek repayment for any and/or all paid incentive awards.

### **III. Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP)**

#### **PARTICIPATION**

This plan covers VRS investment professionals at or above the level of Program Director. Such positions currently include CIO, Deputy CIO, Managing Director, and Program Director. The Board retains the discretion to modify, at any time, the positions that are eligible to participate in this plan.

#### **AMOUNTS SUBJECT TO ANNUAL DEFERRAL**

- Deferrals into this plan only occur in years when VRS' Board decides, at its full and complete discretion, to allow payment of incentive awards.
- Commencing with (and including fiscal 2013), in years when VRS' Board decides to pay incentive awards, 50% of participants' final awards up to specified IRC §415(c)(1)(A) limits will be deferred into this plan. All other amounts paid in cash.

#### **INVESTMENT RETURN**

Participants' deferred accounts in the DCPIP and the § 415(m) plan will earn an "investment return" (positive or negative) equaling the current annual rate of return of the VRS Fund. However, upon attaining age 55, the DCPIP permits members of the Investment Management Committee who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion into the Virginia Cash Match Plan. This transfer right allows DCPIP participants at age 55 or at any time after attaining age 55, to select any combination of the investment options then offered by the Cash Match Plan. Notwithstanding the transfer right, members of the Investment Management Committee at age 55 or older must leave at least a minimal balance amount in their DCPIP account, to avoid having to re-open the account. The VRS Defined Contribution Plan Administrator will assist participants with these transfers.

#### **FUND TRANSFERS and DISTRIBUTIONS**

Participants of the DCPIP cannot transfer funds from the § 415(m) plan into the Cash Match Plan because the § 415(m) plan is a non-qualified "excess plan" not permitted to be held in trust for the exclusive benefit of the plan participants. The § 415(m) plan closed as of June 30, 2013, except for the CIO. The distribution of the balance in the § 415(m) plan will be made in cash to the Participant.

The accumulated DCPIP trust balances will be distributed to the Participant upon termination of employment with the Commonwealth of Virginia. The participant may elect to receive the balance in the DCPIP either in cash or as a "roll-over" into another retirement or related benefit vehicle/trust, or a combination of both. All payouts/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available, by the date of the payment.

All applicable laws and regulations will govern the creation, funding and distributions of the DCPIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer.

## **TAXATION**

Taxation of the amount contributed to the DCPIP and § 415(m) plans is deferred until distribution from the respective plan.

## **IV. Other Compensation Plan Information**

### **Competitive Pay Increases**

Competitive pay increases are an option available to retain a highly valued employee who has received a job offer from another employer. Requests for competitive pay increases should take into consideration the employee's experience, level of education, performance and contribution to the agency, and the salaries of other employees in comparable jobs. A written job offer must be received to provide a competitive pay increase.

### **Sign-on Bonuses**

Investment professionals hired at the VRS may be eligible for sign-on bonuses, as described in the VRS Employee Sign-on Bonus Program Policy.

### **Relocation Expenses**

Investment professionals hired at the VRS may be eligible for reimbursement of relocation expenses, if approved by the CIO. The reimbursement of the expenses must comply with the Department of Accounts Moving and Relocation Policy.

### **Employment at Will**

The investment employees covered by this policy are exempt from the provisions of the Virginia Personnel Act and employment in these positions is at will. Just as the employee retains the right to resign at any time, the VRS has a similar right to end at will employment with or without cause. An at-will employee does not serve an introductory period. An at-will employee is not eligible to use the agency's grievance procedure to resolve employment disputes.

Investment employees covered by this policy are eligible for all other employment benefits and subject to agency policies that do not contradict their "at will" status.

### **409A Compliance**

The intent of the Board is that payments and benefits under this plan either comply with Section 409A of the Internal Revenue Code and applicable guidance issued thereunder ("Code Section 409A") or qualify for an exemption from Code Section 409A and, accordingly, all provisions of this Plan shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. The Board shall not take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A to the extent Code Section 409A applies to such payment or benefit. Notwithstanding any of the provisions of this pay plan, the Board shall not be liable to the employee if any payment or benefit which is to be provided pursuant to this Plan and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

## **CLASS STRUCTURE**

The following descriptions are the summaries of VRS' investment professional job classes/positions:

### **Chief Investment Officer**

The CIO manages and directs investment programs, determines appropriate program structure, implementation, and monitoring. The CIO manages investment professionals who are directly responsible for internal and external investment programs. The CIO heads the Executive and Management Committees, which are responsible for reviewing all investment recommendations. The CIO collaborates with the VRS Board-appointed Investment Advisory Committee (IAC) and delivers frequent reports and updates to the VRS Board.

### **Deputy CIO**

Working under the direction of the CIO, this position is responsible for assisting in developing and implementing the Fund's overall investment policies and programs. The Deputy CIO serves as an internal consultant to the CIO on a range of investment strategies, works on special investment related projects, serves on the Executive and Management Committees and assumes many of the CIO responsibilities, allowing the CIO to focus on investment management, Board relations, and other critical Fund-level activities or initiatives.

### **Managing Director**

The Managing Director is a senior investment position reporting directly to the CIO. This position serves on the Investment Executive and Management Committees. The Executive Committee is a department wide resource to the CIO for management and administrative issues. The Management Committee participates in asset allocation and manager/fund allocation decisions.

### **Program Director**

The Program Director has deep asset class knowledge and carries full managerial responsibility for a VRS investment program, including all internally and externally managed assets. The Program Director may also support multiple asset classes. The Program Director participates on the Investment Management Committee and regularly presents information to the IAC and the Board. The Program Director, as applicable, operates within an explicit risk budget and has investment performance objectives that are regularly measured. The Program Director has full responsibility for negotiating on behalf of VRS.

### **Director or Manager - Strategy, Research, Risk and/or Investment Decision Support**

Strategy – The positions within Strategy identify and evaluate relative value based tilt opportunities that have the potential to 1) improve the fund's return without materially increasing the risk, 2) reduce the fund's risk without materially reducing the return, or 3) some combination of these objectives. In addition, staff within Strategy 1) review and evaluate the implications of macro-economic conditions, 2) analyze current conditions and opportunities within major asset classes and key asset class subsectors, 3) monitor and evaluate the tactical and strategic tilts of key VRS investment partners, and 4) identify strategy ideas including risk and return expectations for base case and alternative scenarios.

Research – The positions within Research have responsibility to support both basic and applied research efforts for all VRS investment staff. This effort includes monitoring, coordinating, facilitating, and implementing current best practices and methods to ensure optimal investment performance and risk management at both the program and plan level.

Risk – The positions within Risk have responsibility in the design, implementation, and management of the risk management program including project management (solicitation and queueing of projects from clients), guidance and coordination within the group, mathematical and statistical analysis of empirical problems, risk management, and high-level programming. Additionally, staff within Risk assist with the design and implementation of an opportunistic portfolio allocation to manage the risk exposures of the total fund.

Investment Decision Support – The positions within Investment Decision Support have

responsibility for the design and delivery of investment program, risk management, strategy, and research analytic systems. As a component of this, staff is responsible for all investments data as well as the design, development and implementation of the quantitative infrastructure for the VRS investment programs. This includes a data warehouse, various data retrieval tools, quantitative analysis tools, program level reporting tools and support applications that retrieve, consolidate and report information.

### **Senior Portfolio Manager**

The Senior Portfolio Manager positions have responsibility for multiple portfolio strategies and/or may supervise one or more Senior Investment Officers or Portfolio Managers.

The Senior Portfolio Manager positions provide a potential career progression ladder for Portfolio Managers over time, considering the contributions, experience and sustained performance for the incumbents.

### **Portfolio Manager**

The Portfolio Manager provides critical input to strategy development and is responsible for the more complicated and higher risk investments. The Portfolio Manager may delegate to the Senior Investment Officer certain portions of the investment program. The Portfolio Manager will begin to negotiate terms on behalf of VRS. The Portfolio Manager, from time to time, makes presentations and recommendations to the Management Committee, and perhaps the IAC and Board.

The Portfolio Manager supporting the Defined Contribution Plans is a senior investment position reporting directly to the Managing Director of Global Investments. This position provides critical input to the design, implementation, and monitoring of all investment related aspects of the VRS defined contribution plans (DC). Responsibilities include (1) evaluation and selection of new investment strategies, managers and/or funds, (2) negotiating terms on behalf of VRS, (3) monitoring and management of relationships with existing defined contribution investment managers, (4) implementing investment policy as determined by the VRS Board, (5) presenting to the Defined Contribution Plans Advisory Committee and the Board, and (6) any other projects or duties relating to the defined contribution program as may be assigned from time to time.

### **Senior Investment Officer**

The Senior Investment Officer has higher level monitoring responsibilities that tend to involve higher risk and strategies that are more complicated. Some Senior Investment Officers may have day-to-day responsibilities for managing internal portfolios, subject to risk limits prescribed by the program director. The Senior Investment Officer will increasingly become involved in strategy development and formal recommendations to the Program Director.

### **Investment Officer**

The Investment Officer, in addition to analytical responsibilities, may have direct responsibility for monitoring some portion of the existing portfolio, or some strategies or managers under consideration in the future. Such assignments will typically be in lower risk and less complicated strategies. The Investment Officer may continue to be involved in monitoring, compliance, and administration, but will also begin to make formal investment recommendations to the Program Director.

### **Senior Investment Analyst**

The Senior Investment Analyst performs various types of analysis at the direction of more senior staff members. Analyst activities are geared around providing support for senior staff members more directly involved in the decision-making process. Such activities will include research, reporting, monitoring, compliance, and administration.

### **Investment Analyst**

The Investment Analyst assists other investment professionals in their daily operations, including investment research and analysis, trading, and portfolio management. Analysts follow and report current market information relating to assigned sectors of the market. In addition, the Analyst conducts independent research on various topics, performs data maintenance, integrity, and report generation tasks.



**VIRGINIA RETIREMENT SYSTEM**  
**INVESTMENT PROFESSIONALS' PAY PLAN**  
**Effective June 10, 2021**



## OVERVIEW & PAY PHILOSOPHY

The Virginia Retirement System's (VRS) Board of Trustees has designed this investment professionals' pay plan after working with an independent compensation consultant. In addition, the Board has adopted benchmarks, recommended by an independent investment consultant, to be used as part of this pay plan.

This pay plan includes three core elements:

- Base Salary (described in Section I of this document)
- Incentive Pay Plan (described in Section II)
- Deferred Compensation Plan for VRS Investment Management Personnel (DCPIP) (described in Section III)

Overall, this pay plan design is to:

- Attract, motivate and retain skilled investment professionals by offering competitive compensation opportunities.
- Directly align compensation with long-term, superior relative and absolute investment performance.
- Reinforce risk management priorities and standards.
- Attract and retain senior investment professionals by deferring a portion of incentive compensation on a tax-deferred basis.
- Benefit all stakeholders – VRS' beneficiaries, VRS' employees, and Virginia's taxpayers – through a compensation plan that is clear, aligned with performance, competitive and cost effective.

Importantly, this pay plan anchors on two broad and long-standing philosophical principles:

1. VRS should pay base salaries consistent with the 75<sup>th</sup> percentile of a peer group of other leading public funds. The primary guidelines for determining VRS' leading public fund peer group will be (1) funds of similar size (AUM) as VRS and (2) funds with significant (>25%) assets managed internally. Additional criteria the Board may consider is asset allocation / diverse portfolio similar to VRS, degree of delegation to the CIO and staff, use of outside investment consultants, and Board pay decision making authority.
2. VRS should provide incentive compensation opportunities such that, in combination with base salary, total compensation levels approximate the median (50<sup>th</sup> percentile) of a blended group weighted 75% to the total compensation levels of leading peer group public funds and 25% to the total compensation levels of a broad range of private-sector firms that employ investment professionals.

## I. Base Salary

### SALARY RANGES

This pay plan establishes a salary range for each job class taking into account its relative importance to VRS and the salaries paid for comparable types of jobs in other leading public funds.

Minimum, midpoint, and maximum salary rates define the salary range for each job class/position. The midpoint of each job class/position approximates the 75th percentile salaries of a peer group of leading public pension funds. Actual salaries can be higher or lower than the midpoint depending on factors such as job performance, professional education and certifications, the willingness to assume new and higher-level duties and responsibilities, the ability to learn quickly and apply new knowledge and skills, being a team player, and the length of time in the position.

Each position's salary range includes a defined:

- **Minimum** is the lowest base salary paid for a job within the job class/position.
- **Midpoint** represents the market salary paid to a fully qualified employee, who has the institutional knowledge and practical experience to fulfill independently all of the responsibilities of the job/position.
- **Maximum** is the highest salary rate for the job class/position.

Grade	Position	Salary Range (in thousands)		
		Min	Mid	Max
12	Chief Investment Officer	\$ 327	\$ 408	\$ 489
11	Deputy Chief Investment Officer	269	336	403
10	Managing Director	260	326	391
9	Program Director	212	265	317
7	Director- Strategy, Research, Risk and/or Investment Decision Support	193	242	290
7	Senior Portfolio Manager	193	242	290
6	Portfolio Manager	168	210	251
5	Manager – Strategy, Research, Risk and/or Investment Decision Support	150	188	225
4	Senior Investment Officer	124	155	185
3	Investment Officer	92	116	139
2	Senior Investment Analyst	75	94	113
1	Investment Analyst	61	77	91

In considering the above salary range, it important to note the following:

- **Market Pay Reviews:** The VRS normally conducts a comparative market total pay study at least every two years to ensure competitiveness of the salary and incentive structures. Typically, the VRS conducts the study in the 1<sup>st</sup> quarter of the calendar year (in even years) with an effective date of July 1 (the beginning of the fiscal year).
- **Changes in Salary Ranges:** The Board must approve changes to the salary scale and incentive structure.

## **SALARY ADJUSTMENTS**

### **Oversight & Administration**

VRS will implement pay actions consistent with the provisions of the Appropriation Act. The VRS Board, however, approves across-the-board performance-based salary increases, market-based salary increases and incentive pools, for VRS investment professionals, consistent with the Code of Virginia and the Appropriation Act. The Chief Investment Officer (CIO) approves salary adjustments for individual investment professionals and, as described later in this document, sign-on bonuses, incentive payments, and relocation expenses subject to the limitations in the Code of Virginia and other applicable state or federal law and regulation.

### **Merit Increases**

- Salary increases are based on meeting individual performance standards. The supervisor completes the evaluation after the end of the fiscal year. If a participant in the investment employees' pay plan does not meet overall performance standards, then the participant is ineligible for performance increases to their base salary and market adjustments to their base salary for that performance cycle. Performance cycles are on a fiscal year, July 1 through June 30, and typically begin, with an effective date of performance plans in the first quarter of the new fiscal year.
- The CIO will receive base salary increases as approved by the VRS Board of Trustees and in accordance with the terms in the CIO's Employment Agreement, with approved effective dates established by the VRS Board of Trustees.

### **Starting Salaries**

The starting salary for a new employee considers the rates presently paid to other employees in the department and those in the same job class (when applicable), the candidate's education, skills, work experience, and salary history. The starting salary normally does not exceed the salary grade midpoint.

### **Reallocation**

Occurs when a job classification is reviewed by Human Resources and it is determined that the job duties and responsibilities have changed significantly enough to place the job in a different job title and job class. Unless the CIO authorizes an exception, this would not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

### **In-grade Adjustments**

Occur to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, obtainment of a degree or certification, or significant increases in responsibilities within the job class. Unless the CIO authorizes an exception adjustments will not exceed a 10% increase.

### **Promotions**

Promotions occur when an individual moves into a position in a higher job class. Promotions can be competitive (selected through a recruitment and hiring process) or non-competitive (through a job reclassification or reallocation.) Unless the CIO approves an exception, promotions will not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

### **Downward Assignment**

Downward adjustment occurs when an employee changes positions whether voluntarily, or because of unsatisfactory performance, resulting in a downward change in job class. A reduction in salary may occur based on a review of the salary and range and the circumstances associated with the downward move. In downward assignments, an individual's salary cannot exceed the maximum of the new salary range.

## II. Incentive Pay Plan

### PLAN ADMINISTRATION

The VRS Board of Trustees, the Plan Administrator, through the Administration and Personnel (A&P) Committee, administers the Incentive Plan (Plan) and retains full and complete discretion:

- To increase or decrease incentives for any and/or all Plan participants.
- To modify, amend or rescind any aspect of the Plan at any time for any and/or all Plan participants.
- While the Plan Administrator remains mindful of the value that staff adds to the organization and supportive of the pay plan, the Plan Administrator also specifically reserves the right to cancel, reduce, or delay the amount of any incentives payable under this plan when, in the sole discretion of the Plan Administrator, extreme budgetary pressures, economic, market or other conditions are such that the Plan Administrator deems such action necessary under the circumstances.
- Consistent with the preceding paragraph, payment of incentives under this plan is not guaranteed.

The Plan Administrator may delegate certain aspects of this Plan's day-to-day operation to the VRS CIO and the VRS Director of Human Resources. However, any substantive Plan-related questions or issues impacting incentive payouts for the CIO require the Plan Administrator's prior approval.

### PLAN ELIGIBILITY

Incumbents in the positions listed below are eligible to participate in this incentive plan, provided they:

- Are active VRS employees.
- Work for VRS at least forty hours per week. Plan participants who work less than full-time may be eligible to receive a prorated incentive payment. Wage employees are not eligible to participate in the plan.
- Receive an individual performance evaluation of at least "meets expectations" for the relevant performance year (i.e., the year preceding the normally scheduled year of payment).
- Remain in compliance with the VRS Investment Department Code of Ethics and Standards of Professional Conduct Policy.

**Positions Eligible to Participate in the  
Investment Professional's Pay Plan**

Chief Investment Officer  
Deputy Chief Investment Officer  
Managing Director- Strategy, Research, Risk and/or Investment Decision Support  
Managing Director- Internal Assets  
Managing Director- Global Investments  
Program Director  
Director- Strategy, Research, Risk and/or Investment Decision Support  
Senior Portfolio Manager  
Portfolio Manager  
Manager – Strategy, Research, Risk and/or Investment Decision Support  
Senior Investment Officer  
Investment Officer  
Senior Investment Analyst  
Investment Analyst

The CIO will determine the design of the incentive plan structure for the positions supporting the Defined Contribution Plans, with both quantitative and qualitative elements.

Generally, employees on an approved leave of absence are considered active employees. The CIO will resolve all questions regarding eligibility or, in the case of the CIO, eligibility will be determined by the Board.

Participation in this Plan in any one year does *not* confer the right to participate in this Plan in any other year *nor* to receive Plan payouts for the current and/or any future year. Participation in this Plan does not confer the right to continued employment. Subject to the provisions of this Plan, only active VRS employees may receive payments under this Plan.

**OVERALL INCENTIVE PLAN MECHANICS**

As described in more detail throughout this document, under the terms of this Plan:

- Eligible Plan participants will be assigned an incentive opportunity, expressed as a percentage of their actual earned base salary.
- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.
- Incentives are weighted or allocated to separate Plan components, described below, with the specific components and weightings varying by position:
  1. Total Fund relative investment performance
  2. Asset Class relative investment performance
  3. Average of Asset Class Multipliers (for positions that support multiple asset classes)
  4. Qualitative – focuses on individual achievement of assigned objectives.
- After year-end, payouts under each Plan component would be determined based on performance.

- Each participant's preliminary award would equal the sum of all of their performance-adjusted Plan components.
- Final awards would equal preliminary awards adjusted, up or down, based on the Total Fund's one-year absolute returns. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 7%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return (e.g., if Total Fund one-year actual absolute return equals +10%, then the preliminary awards will be increased by 3%). There will be a negative one-for-one adjustment for returns less than 0% (e.g., if Total Fund one-year actual absolute return equals -15%, then the preliminary awards will be reduced by 15%). This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles on the health of the pension plan by providing a mechanism to reflect the impact of up and down markets on incentive compensation.
  - 50% of eligible senior staff-members' awards (up to IRS limits) will be deferred into tax-qualified accounts. See section III, Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP). While deferred, awards are subject to the Total Fund's annual absolute returns.
  - All other awards paid incash.

Generally, a Participant must be employed on the date of payment of the award. However, see INCENTIVE PLAN PROVISIONS, *Termination of Employment Due to Death, Disability or Retirement*.

#### **INCENTIVE OPPORTUNITIES**

Incentive opportunities will vary by position based on multiple criteria:

- The position's potential effect on the VRS' investment performance.
- Competitive market pay requirements.
- Internal equity considerations.
- Other factors determined by the CIO or, in the case of the Chief Investment Officer's position, by VRS' Board.

Actual awards can vary based on performance.

For the fiscal year ending June 30, 2013 and all subsequent years, unless as otherwise determined, the Plan's incentive opportunities are as follows:

<b>Incentive Levels</b>	
<b>VRS Position</b>	<b>Incentive (1) (% salary)</b>
Chief Investment Officer	70% (2)
Deputy Chief Investment Officer	65% (2)
Managing Director- Strategy, Research, Risk and/or Investment Decision Support	65% (2)
Managing Director- Internal Assets	65% (2)
Managing Director- Global Investments	65% (2)
Program Director	60% (2)
Director – Strategy, Research, Risk and/or Investment Decision Support	50%
Senior Portfolio Manager	50%
Portfolio Manager	40%
Manager – Strategy, Research, Risk and/or Investment Decision Support	30%
Senior Investment Officer	30%
Investment Officer	30%
Senior Investment Analyst	25%
Investment Analyst	5%
(1) Performance-adjusted preliminary awards can vary from zero to two times these incentive	
(2) A portion, up to 50%, of these positions' earned incentives is subject to mandatory deferral.	

### **INCENTIVE WEIGHTINGS**

Each participant's incentive award will be weighted or allocated to separate, stand-alone Plan components. Importantly, all participants have a portion of their incentive opportunities weighted:

- To the Total Fund Plan component – which helps reinforce the importance of collective success as measured by the Total Fund's relative investment results.
- To the Qualitative Plan component – this helps reinforce achievement of specific initiatives and professional development.

Described below are the specific Plan weightings and the approach for determining awards under each of these Plan components.

<b>Incentive Weightings By Plan Component</b>						
VRS Position	Total Fund	Quantitative Average of Asset Class		Asset Class	Qualitative	Total
		Multipliers				
(% of total incentive weighted to each component)						
Chief Investment Officer	60%	20%	(1)		20%	100%
Deputy Chief Investment Officer	60%	20%	(1)		20%	100%
Managing Director- Strategy, Research, Risk and/or Investment Decision Support	60%	20%	(1,4)		20%	100%
Managing Director- Internal Assets	40%	40%	(2,4)		20%	100%
Managing Director- Global Investments	40%	40%	(3)		20%	100%
Program Director	30%	50%	(5)	50%	20%	100%
Director- Strategy, Research, Risk and/or Investment Decision Support	30%	50%	(1)		20%	100%
Senior Portfolio Manager	20%			60%	20%	100%
Portfolio Manager	20%			60%	20%	100%
Manager – Strategy, Research, Risk and/or Investment Decision Support	30%	50%	(1)		20%	100%
Senior Investment Officer	20%	60%	(5)	60%	20%	100%
Investment Officer	20%	60%	(5)	60%	20%	100%
Senior Investment Analyst	20%	30%	(5)	30%	50%	100%
Investment Analyst	20%	30%	(5)	30%	50%	100%

(1) Average multiplier based on the multipliers of all asset classes under the incumbent's purview.

(2) The MD Internal Assets average multiplier is based on the multipliers of the internal asset classes under the incumbent's purview.

(3) The MD Global Investments average multiplier is based on the multipliers of the external asset classes under the incumbent's purview.

(4) There is currently a single person taking on the role of MD Strategy, Research, Risk and/or Investment Decision Support and MD Internal Assets. The incentive for this individual is a 50/50% blend of the two separate MD positions.

(5) These positions may support a specific asset class or multiple asset classes. If the position supports a specific asset class, then the multiplier is based on the asset class multiplier. If the position supports multiple asset classes, then the multiplier is based on the average of the multipliers of the asset classes supported.

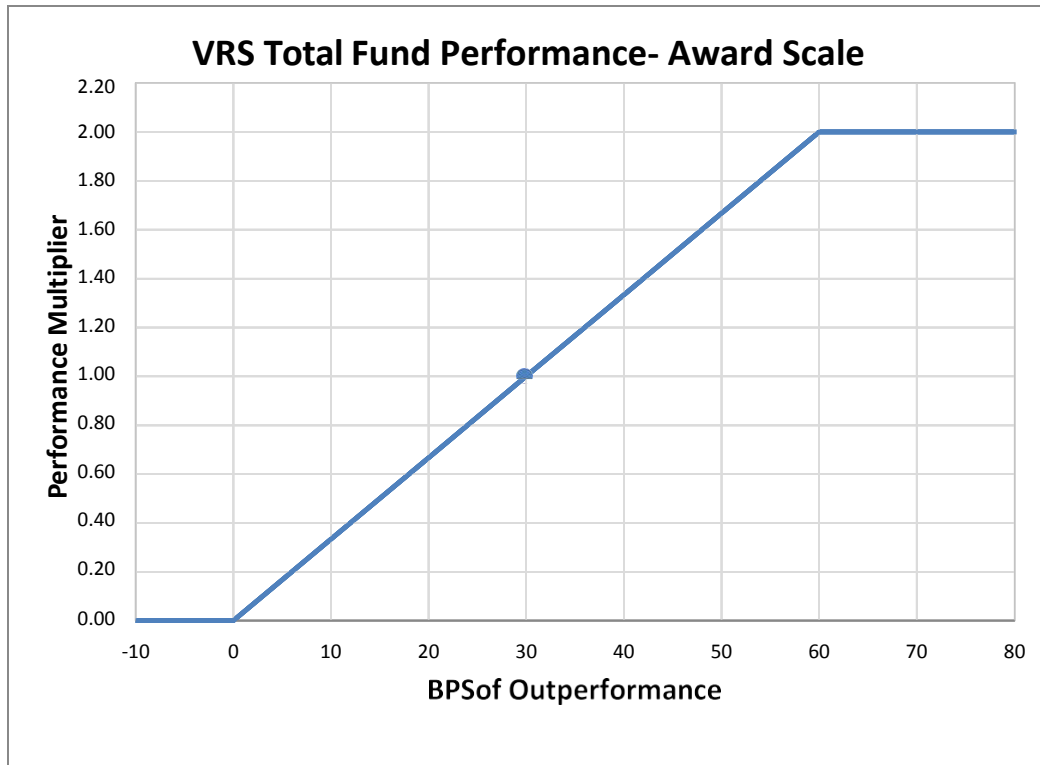


## QUANTITATIVE PLAN COMPONENTS

These Plan components link participants' incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted 50%).

For purposes of this Plan:

- Measurement of relative investment performance is net of third-party fees, which consist of investment management fees and performance fees paid to investment managers, custodian fees, legal fees, internal investment staff administrative expenses, and miscellaneous fees.
- A performance-award scale defines the linkage between relative investment performance and a corresponding Performance Multiplier. Illustrating this approach at the Total Fund level, when VRS' relative investment performance:
  - Equals zero or less (i.e., no relative value added), then the VRS Performance Multiplier will equal zero and there will be no incentive payouts under this Plan component.
  - Equals 30 bps, then the VRS Performance Multiplier will equal 1.00 and there will be a 100% payout of this Plan component.
  - Equals 60 bps or more, then the VRS Performance Multiplier will equal 2.00 and there will be a 200% payout of this Plan component.
  - Is anywhere between zero and 60 bps, then the VRS Performance Multiplier is determined on an interpolated, straight-line basis.



- Selected participants whose responsibilities span multiple asset classes may have a portion of their incentive weighted to a component that is determined based on the average multipliers of asset classes they support. The intent of this Plan component is to recognize and reward superior relative investment performance, regardless of the level of the associated assets.

The Board is responsible for setting the basis point outperformance standards for the Total Fund. The CIO is responsible for setting the basis point outperformance standards for individual asset classes, subject to the Board's final review and approval.

#### **QUALITATIVE PLAN COMPONENT**

The qualitative incentive multiplier can range from 0.00 to 2.00 at the CIO's discretion, with input from applicable senior staff regarding individual performance levels. This Plan component links participants' incentive compensation to achievement of individual and/or position-specific performance objectives and VRS' overall performance objectives. Actual awards under this plan component will reflect:

- Position- and/or incumbent-specific performance criteria.
- Achievement of key VRS performance objectives, including:

- Building an effective organization.
- Enhancing investment excellence.
- Developing staff.

The Board will annually determine the CIO's qualitative incentive multiplier after assessing attainment of the qualitative performance objectives, considering input and recommendations provided by the A&P Committee.

**DETERMINING PRELIMINARY AWARDS**

After the end of each fiscal year, a preliminary award will be determined for each Plan participant by aggregating all of their performance multiplier-adjusted weighted Plan components. In particular:

- Performance multipliers will be determined for each Plan component based on actual results.
- Preliminary payouts under each weighted Plan component will be determined by multiplying the incentive dollars weighted to that component by the associated performance multiplier.
- Total preliminary awards would be determined by adding up all of that participant's weighted Plan components.

Illustrated below is this approach for a position with an incentive of \$80,000.

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200
<b>Preliminary Award</b>					<b>\$91,200</b>

**DETERMINING FINAL AWARDS**

Final awards, if any, would be determined after each fiscal year-end by adjusting the sum of each participant's preliminary award, up or down, based on VRS' one-year absolute return for the most recently completed fiscal year. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 7%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return. There will be a negative one-for-one adjustment for returns less than 0%. Illustrated below is the process for determining final awards.

**Scenario #1:**  
 The Total Fund's One-Year Absolute Returns are +5%

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

	<b>Preliminary Award</b>	<b>\$91,200</b>
X no adjustment		<b>0%</b>
<b>Final Award</b>		<b>\$91,200</b>

**Scenario #2:**  
 The Total Fund's One-Year Absolute Returns are +10%

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

	<b>Preliminary Award</b>	<b>\$91,200</b>
X 1+ VRS Fund's One-Year Rate of Return less assumed rate of return		<b>103%</b>
<b>Final Award</b>		<b>\$93,936</b>

**Scenario #3:**  
 The Total Fund's One-Year Absolute Returns are -15%

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

	<b>Preliminary Award</b>	<b>\$91,200</b>
X 1+ VRS Fund's One-Year Rate of Return		<b>85%</b>
<b>Final Award</b>		<b>\$77,520</b>

## PAYING OUT FINAL AWARDS

### Board Review

Prior to payout of any and/or all awards, the CIO will present a schedule of aggregate incentives to the Board of Trustees, through the A&P Committee, in advance. This report will include, in aggregate, the awards, the multipliers awarded for each component, the actual dollar awards earned for each component and the total awards. Internal Audit and Human Resources will review the calculations. As requested by the A&P Committee, the CIO will provide additional information prior to the Board approving the payout of any and/or all awards.

### Final Award Payout

Final awards will be paid out as follows:

- For VRS' most senior staff (i.e., incumbents in positions at or above the level of Program Director) when awards are paid, 50% of total award amounts up to the specified Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be deferred into the DCPIP plan. All other amounts paid in cash. Section III of this document describes the terms of the § 415(c)(1)(A) plan.
- For all other Plan participants, awards paid 100% in cash.

### Timing of Cash Payouts

When the Board approves incentive awards, the VRS will make payments between July 1 and December 31 after VRS' fiscal year end.

- Awards to senior staff paid as follows: 50% deferred into DCPIP (subject to IRS limits) and the remainder in cash.
- Awards to all other plan participants paid out 100% in cash.

## INCENTIVE PLAN PROVISIONS

- ***New employees, promoted employees and other employees who transfer into another position covered in this payplan:***
  - Employees who join the VRS Investment Department after the commencement of the fiscal year may be eligible to participate in the Plan. Incentives will be computed on the incentive percentage and their actual earned salary for the year.
  - Promoted employees and employees who transfer into another position covered in this pay plan will have their incentives calculated based on their actual earned salary for the year and a proportional incentive percentage.
- ***Minimum Individual Performance Standard:*** Employees with an individual performance rating of "Does Not Meet Expectations" are not eligible to receive any incentive payment under the Plan.
- ***Termination of Employment Due to Death, Disability, or Retirement:*** Terminated employees may be eligible to receive a time-weighted portion of their final award for the current performance year. Plan participants who terminate employment due to death or disability or who retire during a fiscal year will be eligible to receive a time-weighted portion of their Board approved award (1/12 for each complete month worked in their last year of service). The incentive payments for the year in which death, disability or retirement occurs shall be paid 100% in cash to such employee or his representative between July 1 and December 31 following the end of the fiscal year in which such death, disability or retirement occurs.
- ***Termination for all Other Reasons:*** Except as specifically determined by the CIO for all positions other than the CIO, and by the A&P Committee for the CIO's position, participants

who terminate employment with VRS for all other reasons prior to the normally scheduled date of payout forfeit all rights under the plan.

- **Clawback:** In the event of termination for malfeasance related to duties as an investment professional, VRS retains the right to seek repayment for any and/or all paid incentive awards.

### **III. Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP)**

#### **PARTICIPATION**

This plan covers VRS investment professionals at or above the level of Program Director. Such positions currently include CIO, Deputy CIO, Managing Director, and Program Director. The Board retains the discretion to modify, at any time, the positions that are eligible to participate in this plan.

#### **AMOUNTS SUBJECT TO ANNUAL DEFERRAL**

- Deferrals into this plan only occur in years when VRS' Board decides, at its full and complete discretion, to allow payment of incentive awards.
- Commencing with (and including fiscal 2013), in years when VRS' Board decides to pay incentive awards, 50% of participants' final awards up to specified IRC §415(c)(1)(A) limits will be deferred into this plan. All other amounts paid in cash.

#### **INVESTMENT RETURN**

Participants' deferred accounts in the DCPIP and the § 415(m) plan will earn an "investment return" (positive or negative) equaling the current annual rate of return of the VRS Fund. However, upon attaining age 55, the DCPIP permits members of the Investment Management Committee who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion into the Virginia Cash Match Plan. This transfer right allows DCPIP participants at age 55 or at any time after attaining age 55, to select any combination of the investment options then offered by the Cash Match Plan. Notwithstanding the transfer right, members of the Investment Management Committee at age 55 or older must leave at least a minimal balance amount in their DCPIP account, to avoid having to re-open the account. The VRS Defined Contribution Plan Administrator will assist participants with these transfers.

#### **FUND TRANSFERS and DISTRIBUTIONS**

Participants of the DCPIP cannot transfer funds from the § 415(m) plan into the Cash Match Plan because the § 415(m) plan is a non-qualified "excess plan" not permitted to be held in trust for the exclusive benefit of the plan participants. The § 415(m) plan closed as of June 30, 2013, except for the CIO. The distribution of the balance in the § 415(m) plan will be made in cash to the Participant.

The accumulated DCPIP trust balances will be distributed to the Participant upon termination of employment with the Commonwealth of Virginia. The participant may elect to receive the balance in the DCPIP either in cash or as a "roll-over" into another retirement or related benefit vehicle/trust, or a combination of both. All payouts/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available, by the date of the payment.

All applicable laws and regulations will govern the creation, funding and distributions of the DCPIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer.

## **TAXATION**

Taxation of the amount contributed to the DCPIP and § 415(m) plans is deferred until distribution from the respective plan.

## **IV. Other Compensation Plan Information**

### **Competitive Pay Increases**

Competitive pay increases are an option available to retain a highly valued employee who has received a job offer from another employer. Requests for competitive pay increases should take into consideration the employee's experience, level of education, performance and contribution to the agency, and the salaries of other employees in comparable jobs. A written job offer must be received to provide a competitive pay increase.

### **Sign-on Bonuses**

Investment professionals hired at the VRS may be eligible for sign-on bonuses, as described in the VRS Employee Sign-on Bonus Program Policy.

### **Relocation Expenses**

Investment professionals hired at the VRS may be eligible for reimbursement of relocation expenses, if approved by the CIO. The reimbursement of the expenses must comply with the Department of Accounts Moving and Relocation Policy.

### **Employment at Will**

The investment employees covered by this policy are exempt from the provisions of the Virginia Personnel Act and employment in these positions is at will. Just as the employee retains the right to resign at any time, the VRS has a similar right to end at will employment with or without cause. An at-will employee does not serve an introductory period. An at-will employee is not eligible to use the agency's grievance procedure to resolve employment disputes.

Investment employees covered by this policy are eligible for all other employment benefits and subject to agency policies that do not contradict their "at will" status.

### **409A Compliance**

The intent of the Board is that payments and benefits under this plan either comply with Section 409A of the Internal Revenue Code and applicable guidance issued thereunder ("Code Section 409A") or qualify for an exemption from Code Section 409A and, accordingly, all provisions of this Plan shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. The Board shall not take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A to the extent Code Section 409A applies to such payment or benefit. Notwithstanding any of the provisions of this pay plan, the Board shall not be liable to the employee if any payment or benefit which is to be provided pursuant to this Plan and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

## **CLASS STRUCTURE**

The following descriptions are the summaries of VRS' investment professional job classes/positions:

### **Chief Investment Officer**

The CIO manages and directs investment programs, determines appropriate program structure, implementation, and monitoring. The CIO manages investment professionals who are directly responsible for internal and external investment programs. The CIO heads the Executive and Management Committees, which are responsible for reviewing all investment recommendations. The CIO collaborates with the VRS Board-appointed Investment Advisory Committee (IAC) and delivers frequent reports and updates to the VRS Board.

### **Deputy CIO**

Working under the direction of the CIO, this position is responsible for assisting in developing and implementing the Fund's overall investment policies and programs. The Deputy CIO serves as an internal consultant to the CIO on a range of investment strategies, works on special investment related projects, serves on the Executive and Management Committees and assumes many of the CIO responsibilities, allowing the CIO to focus on investment management, Board relations, and other critical Fund-level activities or initiatives.

### **Managing Director**

The Managing Director is a senior investment position reporting directly to the CIO. This position serves on the Investment Executive and Management Committees. The Executive Committee is a department wide resource to the CIO for management and administrative issues. The Management Committee participates in asset allocation and manager/fund allocation decisions.

### **Program Director**

The Program Director has deep asset class knowledge and carries full managerial responsibility for a VRS investment program, including all internally and externally managed assets. The Program Director may also support multiple asset classes. The Program Director participates on the Investment Management Committee and regularly presents information to the IAC and the Board. The Program Director, as applicable, operates within an explicit risk budget and has investment performance objectives that are regularly measured. The Program Director has full responsibility for negotiating on behalf of VRS.

### **Director or Manager - Strategy, Research, Risk and/or Investment Decision Support**

Strategy – The positions within Strategy identify and evaluate relative value based tilt opportunities that have the potential to 1) improve the fund's return without materially increasing the risk, 2) reduce the fund's risk without materially reducing the return, or 3) some combination of these objectives. In addition, staff within Strategy 1) review and evaluate the implications of macro-economic conditions, 2) analyze current conditions and opportunities within major asset classes and key asset class subsectors, 3) monitor and evaluate the tactical and strategic tilts of key VRS investment partners, and 4) identify strategy ideas including risk and return expectations for base case and alternative scenarios.

Research – The positions within Research have responsibility to support both basic and applied research efforts for all VRS investment staff. This effort includes monitoring, coordinating, facilitating, and implementing current best practices and methods to ensure optimal investment performance and risk management at both the program and plan level.

Risk – The positions within Risk have responsibility in the design, implementation, and management of the risk management program including project management (solicitation and queueing of projects from clients), guidance and coordination within the group, mathematical and statistical analysis of empirical problems, risk management, and high-level programming. Additionally, staff within Risk assist with the design and implementation of an opportunistic portfolio allocation to manage the risk exposures of the total fund.

Investment Decision Support – The positions within Investment Decision Support have



responsibility for the design and delivery of investment program, risk management, strategy, and research analytic systems. As a component of this, staff is responsible for all investments data as well as the design, development and implementation of the quantitative infrastructure for the VRS investment programs. This includes a data warehouse, various data retrieval tools, quantitative analysis tools, program level reporting tools and support applications that retrieve, consolidate and report information.

### **Senior Portfolio Manager**

The Senior Portfolio Manager positions have responsibility for multiple portfolio strategies and/or may supervise one or more Senior Investment Officers or Portfolio Managers.

The Senior Portfolio Manager positions provide a potential career progression ladder for Portfolio Managers over time, considering the contributions, experience and sustained performance for the incumbents.

### **Portfolio Manager**

The Portfolio Manager provides critical input to strategy development and is responsible for the more complicated and higher risk investments. The Portfolio Manager may delegate to the Senior Investment Officer certain portions of the investment program. The Portfolio Manager will begin to negotiate terms on behalf of VRS. The Portfolio Manager, from time to time, makes presentations and recommendations to the Management Committee, and perhaps the IAC and Board.

The Portfolio Manager supporting the Defined Contribution Plans is a senior investment position reporting directly to the Managing Director of Global Investments. This position provides critical input to the design, implementation, and monitoring of all investment related aspects of the VRS defined contribution plans (DC). Responsibilities include (1) evaluation and selection of new investment strategies, managers and/or funds, (2) negotiating terms on behalf of VRS, (3) monitoring and management of relationships with existing defined contribution investment managers, (4) implementing investment policy as determined by the VRS Board, (5) presenting to the Defined Contribution Plans Advisory Committee and the Board, and (6) any other projects or duties relating to the defined contribution program as may be assigned from time to time.

### **Senior Investment Officer**

The Senior Investment Officer has higher level monitoring responsibilities that tend to involve higher risk and strategies that are more complicated. Some Senior Investment Officers may have day-to-day responsibilities for managing internal portfolios, subject to risk limits prescribed by the program director. The Senior Investment Officer will increasingly become involved in strategy development and formal recommendations to the Program Director.

### **Investment Officer**

The Investment Officer, in addition to analytical responsibilities, may have direct responsibility for monitoring some portion of the existing portfolio, or some strategies or managers under consideration in the future. Such assignments will typically be in lower risk and less complicated strategies. The Investment Officer may continue to be involved in monitoring, compliance, and administration, but will also begin to make formal investment recommendations to the Program Director.

### **Senior Investment Analyst**

The Senior Investment Analyst performs various types of analysis at the direction of more senior staff members. Analyst activities are geared around providing support for senior staff members more directly involved in the decision-making process. Such activities will include research, reporting, monitoring, compliance, and administration.

### **Investment Analyst**

The Investment Analyst assists other investment professionals in their daily operations, including investment research and analysis, trading, and portfolio management. Analysts follow and report current market information relating to assigned sectors of the market. In addition, the Analyst conducts independent research on various topics, performs data maintenance, integrity, and report generation tasks.

---

Supersedes:

~~11/20/19~~10/15/20

Effective Date:

~~10/15/2006~~10/21

## I. Purpose

The pay plan (the “Plan”) applies to all full and part-time (non-wage) Investment Department operations and administration staff and associated positions. This includes all Investment Department employees who are not included in the Investment Professionals’ Pay Plan. Wage employees’ pay complies with the provisions of the state classification and pay plan. The Plan recognizes that Investment Department supervisors and managers are in the best position to assess, appraise and reward the performance of individuals under their supervision. The objective of the Plan is to compensate employees reasonably and equitably, to encourage constructive individual and team effort, and to recognize that these positions require specialized experience and expertise.

The Plan ensures that Investment Department operations and administration salaries are competitive with the market average of a mix of public and private sector organizations. Human Resources (HR) contracts for comparative market salary data about every two years, to ensure competitiveness of the salary structure.

## II. Policy

The salary for each position has a minimum, midpoint and maximum:

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** represents the target market salary paid to employees who are fully qualified and meet all competencies required to fulfill each of the position’s responsibilities.
- **Maximum** is the highest salary paid for a position within the salary grade.

The midpoint of each grade is set equal to the market average. Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

See Salary Ranges and Position Titles and Salary Grades tables in the Appendix.

### Performance Assessment

Investment Department operations and administration staff will receive a formal performance assessment annually, using the following five point rating scale: “Does Not Meet Expectations,” “Needs Improvement,” “Meets Expectations,” “Exceeds Expectations,” and “Exceptional,” based on the criteria described in employees’ position descriptions. However, the VRS expects supervisors and managers to give informal performance feedback at least quarterly and more frequently to co-workers who are inexperienced in their position or who are not meeting the performance expectations of their supervisor or manager. In the latter case, the feedback must be in writing to employees.

The Rating Scale definitions are as follows.

**Does Not Meet Expectations** - Performance must improve substantially within a reasonable period if the individual is to remain in this position. The employee is not meeting the job requirements. The person consistently fails to meet the objective(s) described in the goal area.

**Needs Improvement** - Performance is noticeably less than expected. The employee generally meets most job requirements, but struggles to meet them all. The need for further development and improvement is clearly recognized.

**Meets Expectations** - Performance clearly and fully meets all the requirements of the position in terms of quality, timeliness and quantity of work. The assessment is a good, solid performance. While minor deviations may occur, the overall level of performance meets all position requirements. The person consistently meets, and may occasionally exceed the objective(s) described in the goal area. Employees that attain and maintain this rating are performing their jobs as expected, meeting deadlines and delivering good quality results.

**Exceeds Expectations** - Performance frequently exceeds job requirements. Accomplishments are regularly above expected levels. Performance is sustained and uniformly high with thorough and on-time results. Tasks assigned are consistently completed with good quality and on time or ahead of schedule, and the tasks are sometimes completed even if they are not directly assigned. The person will often perform tasks that fall outside their job description.

**Exceptional** - Performance levels and accomplishments far exceed normal expectations. This category is for the employee who truly stands out and clearly and consistently demonstrates exceptional accomplishments in terms of quality and quantity of work that is easily recognized, as truly exceptional by others. This rating is very difficult to achieve in the regular execution of one’s job. An opportunity has to present itself and the person needs to identify it and take full advantage of it. It is difficult to define the precise criteria on a performance plan that will allow

a person to achieve an exceptional rating, but “you will know it when you see it.”

### **Starting Salary**

The VRS Chief Investment Officer (CIO) approves a position’s grade and salary range when signing the VRS Position Approval form. Hiring supervisors and second-line supervisors recommend the starting salary for new employees, with the final approval by the CIO, in coordination with HR. When making salary offers, consider salaries presently paid to employees in the department and the candidate’s education, skills and work experience. Starting salaries typically do not exceed the salary grade midpoint of the job. Additional justification is required to support offering salaries above the midpoint.

### **Salary Adjustments**

#### **A. Introductory Period**

The introductory period for new employees is normally six months from the date of hire, but can be up to a year for selected positions. This is the adjustment period for employees to establish a working relationship with their supervisors and to acclimate to their new job duties.

When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations. The VRS may discharge employees with or without cause at any time during the introductory period.

In situations that warrant additional time to evaluate employees’ performance, skill level or suitability for the job, VRS may extend the introductory period up to an additional six months. Supervisors will communicate the extension of the introductory period in writing to the employee and HR prior to the conclusion of the employee's initial introductory period. Communications should include reasons for the extension and improvements needed by the employee to meet performance expectations successfully during the extended introductory period. VRS expects these employees to improve their performance to "Meets" or they face termination, demotion, or transfer to a suitable job, if such an opportunity exists.

#### **B. Promotions**

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the

minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

### **C. Lateral**

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the CIO in coordination with HR.

### **D. Downward Assignments (Voluntary or Performance Related)**

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

**Voluntary** – An employee initiated request to transition to a position within a lower salary grade.

**Involuntary**– A management initiated request to transition an employee to a position within a lower salary grade, typically due to performance, corrective action or restructuring.

A downward assignment would typically result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range. Any exception to this guideline will require additional justification, an internal equity review and approval of the CIO in coordination with HR.

In unique situations, such as job abolishment or agency reorganization, an employee's salary may exceed the maximum of the lower grade and the salary remain unchanged. Salaries remain frozen until market adjustments allow additional increases. These employees remain eligible to receive applicable performance or gainsharing bonus awards if performance criteria are met.

### **E. Job Reclassifications**

Job reclassifications occur when the employee's duties and responsibilities change substantially, which may result in a different pay grade. Reclassification is based on job content and not the performance of the incumbent. Job studies are performed by HR, with input by management.

**Reclassification Upward:** Occurs when it is determined that an individual's job duties and

responsibilities have changed significantly enough to transition the position into a different classification within a higher salary grade.

Employees typically receive salary increases between 2% and 15%. Reclassification increases are approved by the CIO, in coordination with HR. Salaries must be at or above the minimum of the new pay grade.

**Reclassification Laterally:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within the same salary grade.

No salary increase is awarded. Any exception to this guideline will require additional justification, an internal equity review, and approval of the CIO, in coordination with HR.

**Reclassification Downward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a lower salary grade.

This will result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range. Any exception to this guideline will require additional justification, an internal equity review and approval of the CIO, in coordination with HR.

## **F. Regrade**

Regrades occur when the classification is determined to warrant a different pay grade. This is typically determined by a market analysis or internal classification review, performed by HR in coordination with the CIO.

Employees typically receive salary increases between 2% and 15%. Regrade increases are approved by the CIO, in coordination with HR. Salaries must be at or above the minimum of the new pay grade.

## **G. Acting Pay**

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

**Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received

while performing the “acting” job responsibilities.

**Beyond Two Years Duration:** When employees are deemed to be “acting” by performing the full duties of a position for more than two years, the supervisor may choose to promote the individual without going through a competitive process. If the employee is promoted, the employee is eligible for a promotional increase. Otherwise, the position will be open for recruitment. The permanent filling of the position may involve no change in current salary or could include a pay increase, depending upon the circumstances and available budget.

If an employee is acting in a position that is the same salary grade, acting pay would not be provided unless there is sufficient justification to support that the duties of the acting position are substantially different.

#### **H. In-grade Adjustments**

In-grade salary adjustments occur when employees receive an increase in base pay to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, or responsibilities outside of the position classification process. These adjustments should only be provided once per fiscal year. Listed below are the categories and descriptions of in-grade salary adjustments.

**Market adjustment:** Warranted in cases where external market forces exist due to high demand for a particular skill or position which may result in significantly higher turnover. Market adjustments may also occur if it is determined that an individual’s salary is significantly lower than market study findings. Salary adjustments can apply to an individual or classification of employees to ensure competitiveness and retention of staff. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Internal alignment adjustment:** Warranted when employees’ salaries are unusually low or out of comparability with other employees in the work unit. Factors considered include experience, education, knowledge, skills and abilities. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Individual accomplishment adjustment:** May be awarded to recognize the attainment of a higher level of expertise through professional certification requiring continuing education credits (CEUs). In-grade adjustments are awarded at the time of the original certification. If the certification does not require CEUs, an in-grade adjustment will not be provided; however, a bonus may be considered. Additionally, an in-grade adjustment for completion of a degree that relates to a current or career path position may be provided. Other similar situations may be considered as justification for an individual accomplishment adjustment. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Skill acquisition and application adjustment:** May be awarded to recognize the acquisition and application of relevant, pre-defined, job-based skills, resulting in increased value to the organization. Typically, an Individual Development Plan identifies the needed skills and the skill acquisition plan. Formal assessments, through testing or demonstration of the skills acquired and applied to the job, may result in an in-grade adjustment. An in-grade adjustment of 1% to 4% of salary is typically provided.

The employee's supervisor must request the in-grade adjustment in writing and include documentation supporting the need for a pay adjustment. The CIO approves in-grade adjustments, in coordination with HR.

When an employee's salary is at or above the salary maximum for his/her job grade, a bonus payment may be awarded. The CIO approves the bonus, in coordination with HR.

### **I. Competitive Pay Increases**

A competitive pay increase is an option available to supervisors to retain top performers, who have received an external job offer, when the loss is determined to be detrimental to the organization. Employees must furnish a copy of the respective job offer.

The supervisor requests, in writing, a competitive pay increase and includes documentation supporting the need for an adjustment and justification for the increase. The CIO approves the increase, in coordination with HR.

Competitive pay increases apply to base salary and may not exceed the salary maximum for the salary range. In extraordinary circumstances, when an employee's base salary is at maximum, a bonus is an option. In these situations, the CIO approves the action, in coordination with HR.

### **J. Increases Governed by the Appropriation Act**

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

## **Bonuses**

### **A. Sign-on**

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

The amount of the sign-on bonus will vary depending on the position and the supply of candidates. The amount of the bonus typically ranges from 1% to 20% of the midpoint of the



## Administrative Policies

**Policy Title:** Investment Operations and Administration Staff Pay Plan



salary range.

Fifty percent of the sign-on bonus will be paid in the first paycheck with the remainder of the bonus being paid following the successful completion of the introductory period.

Refer to the Employee Sign-on Bonus Program Policy.

### **B. Referral**

Referral bonuses may be provided to full and part-time employees who refer a candidate hired into a full-time position.

The amount of the referral bonus is \$1,000. Fifty percent is paid in the paycheck following the referred employee's first full pay cycle with the remainder of the bonus being paid following the successful completion of the referred employee's introductory period.

Refer to the Employee Referral Program Policy.

### **C. Performance**

Performance bonuses, where applicable, are provided to the Investment operations and administration staff following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of "exceptional" will receive a 4% bonus and employees who receive an overall rating of "exceeds" will receive a 2% bonus, based on their salary as of June 30. Employees who receive an overall "meets," "does not meet" or "needs improvement" rating will not receive a performance bonus.

The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

### **D. Gainsharing**

The Investment Department's operations and administration staff employees may receive a lump-sum bonus equal to 2.5% of salary if their performance "meets expectations", "exceeds expectations" or is "exceptional", as rated in their annual performance assessment and the employee consistently works, as a team member, to accomplish the goals of the Investment Department. Additionally, Investment Department's operations and administration staff employees are eligible to be recognized and rewarded under the provisions of the VRS

## **Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan  
Recognition and Awards Program.



While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.

### **Other VRS Pay Plans**

In addition to the Investment Operations and Administration Staff Pay Plan, VRS maintains several other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Administrative Pay Plan** - This pay plan is separate from the investment operations and administration staff pay plan and includes its own salary and classification structure.
- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Executive Pay Plan** – This pay plan provides the annual salary and bonus amounts provided to the Agency Director, Chief Investment Officer and Audit Director by the VRS Board of Trustees.



Salary Ranges

Grade	Minimum	Midpoint	Maximum
1	\$40,898	\$51,122	\$61,346
2	\$46,010	\$57,513	\$69,014
3	\$51,761	\$64,701	\$77,642
4	\$58,335	\$72,918	\$87,502
5	\$65,742	\$82,177	\$98,613
6	\$74,076	\$92,594	\$111,113
7	\$83,334	\$104,168	\$125,003
8	\$93,521	\$116,901	\$140,280
9	\$105,558	\$131,947	\$158,336
10	\$118,520	\$148,152	\$177,782
11	\$133,337	\$166,670	\$200,004
12	\$150,003	\$187,503	\$225,005
Minimum is 80% of midpoint. Maximum is 120% of midpoint.			
Bandwidth is 50%.			
Difference between grades is 10-15%.			



**Position Titles and Salary Grades**

Group	Title	Grade
Executive	Chief Administrative Officer	12
Executive	Deputy Chief Administrative Officer	11
Regulatory and Legal	Regulatory and Legal Officer	10
Regulatory and Legal	Regulatory and Legal Lead Senior Analyst	9
Regulatory and Legal	Regulatory and Legal Analyst III	8
Regulatory and Legal	Regulatory and Legal Analyst II	6
Regulatory and Legal	Regulatory and Legal Analyst I	4
Regulatory and Legal	Office Administrator	6
Compliance	Compliance Officer	10
Compliance	Compliance Lead Senior Analyst	9
Compliance	Compliance Analyst III	8
Compliance	Compliance Analyst II	6
Compliance	Compliance Analyst I	5
Operations	Operations Manager	10
Operations	Operations Lead Senior Analyst	9
Operations	Operations Analyst III	8
Operations	Operations Analyst II	6
Operations	Operations Analyst I	4
Systems	Decision Systems Manager	10
Systems	Decision Systems Principal	10
Systems	Decision Systems Analyst III	9
Systems	Decision Systems Analyst II	8
Systems	Decision Systems Analyst I	7

**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan

**Appendix**



<b>Group</b>	<b>Title</b>	<b>Grade</b>
Systems	Decision Data Analyst II	6
Systems	Decision Data Analyst I	4
Admin	Portfolio Assistant	3
Admin	Executive Assistant	3
Admin	Administrative Assistant	1

---

Supersedes: 10/15/20

Effective Date: 06/10/21

## I. Purpose

The pay plan (the “Plan”) applies to all full and part-time (non-wage) Investment Department operations and administration staff and associated positions. This includes all Investment Department employees who are not included in the Investment Professionals’ Pay Plan. Wage employees’ pay complies with the provisions of the state classification and pay plan. The Plan recognizes that Investment Department supervisors and managers are in the best position to assess, appraise and reward the performance of individuals under their supervision. The objective of the Plan is to compensate employees reasonably and equitably, to encourage constructive individual and team effort, and to recognize that these positions require specialized experience and expertise.

The Plan ensures that Investment Department operations and administration salaries are competitive with the market average of a mix of public and private sector organizations. Human Resources (HR) contracts for comparative market salary data about every two years, to ensure competitiveness of the salary structure.

## II. Policy

The salary for each position has a minimum, midpoint and maximum:

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** represents the target market salary paid to employees who are fully qualified and meet all competencies required to fulfill each of the position’s responsibilities.
- **Maximum** is the highest salary paid for a position within the salary grade.

The midpoint of each grade is set equal to the market average. Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

See Salary Ranges and Position Titles and Salary Grades tables in the Appendix.

### **Performance Assessment**

Investment Department operations and administration staff will receive a formal performance assessment annually, using the following five point rating scale: “Does Not Meet Expectations,” “Needs Improvement,” “Meets Expectations,” “Exceeds Expectations,” and “Exceptional,” based on the criteria described in employees’ position descriptions. However, the VRS expects supervisors and managers to give informal performance feedback at least quarterly and more frequently to co-workers who are inexperienced in their position or who are not meeting the performance expectations of their supervisor or manager. In the latter case, the feedback must be in writing to employees.

The Rating Scale definitions are as follows.

**Does Not Meet Expectations** - Performance must improve substantially within a reasonable period if the individual is to remain in this position. The employee is not meeting the job requirements. The person consistently fails to meet the objective(s) described in the goal area.

**Needs Improvement** - Performance is noticeably less than expected. The employee generally meets most job requirements, but struggles to meet them all. The need for further development and improvement is clearly recognized.

**Meets Expectations** - Performance clearly and fully meets all the requirements of the position in terms of quality, timeliness and quantity of work. The assessment is a good, solid performance. While minor deviations may occur, the overall level of performance meets all position requirements. The person consistently meets, and may occasionally exceed the objective(s) described in the goal area. Employees that attain and maintain this rating are performing their jobs as expected, meeting deadlines and delivering good quality results.

**Exceeds Expectations** - Performance frequently exceeds job requirements. Accomplishments are regularly above expected levels. Performance is sustained and uniformly high with thorough and on-time results. Tasks assigned are consistently completed with good quality and on time or ahead of schedule, and the tasks are sometimes completed even if they are not directly assigned. The person will often perform tasks that fall outside their job description.

**Exceptional** - Performance levels and accomplishments far exceed normal expectations. This category is for the employee who truly stands out and clearly and consistently demonstrates exceptional accomplishments in terms of quality and quantity of work that is easily recognized, as truly exceptional by others. This rating is very difficult to achieve in the regular execution of one’s job. An opportunity has to present itself and the person needs to identify it and take full advantage of it. It is difficult to define the precise criteria on a performance plan that will allow

a person to achieve an exceptional rating, but “you will know it when you see it.”

### **Starting Salary**

The VRS Chief Investment Officer (CIO) approves a position’s grade and salary range when signing the VRS Position Approval form. Hiring supervisors and second-line supervisors recommend the starting salary for new employees, with the final approval by the CIO, in coordination with HR. When making salary offers, consider salaries presently paid to employees in the department and the candidate’s education, skills and work experience. Starting salaries typically do not exceed the salary grade midpoint of the job. Additional justification is required to support offering salaries above the midpoint.

### **Salary Adjustments**

#### **A. Introductory Period**

The introductory period for new employees is normally six months from the date of hire, but can be up to a year for selected positions. This is the adjustment period for employees to establish a working relationship with their supervisors and to acclimate to their new job duties.

When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations. The VRS may discharge employees with or without cause at any time during the introductory period.

In situations that warrant additional time to evaluate employees’ performance, skill level or suitability for the job, VRS may extend the introductory period up to an additional six months. Supervisors will communicate the extension of the introductory period in writing to the employee and HR prior to the conclusion of the employee's initial introductory period. Communications should include reasons for the extension and improvements needed by the employee to meet performance expectations successfully during the extended introductory period. VRS expects these employees to improve their performance to "Meets" or they face termination, demotion, or transfer to a suitable job, if such an opportunity exists.

#### **B. Promotions**

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the



minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

### **C. Lateral**

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the CIO in coordination with HR.

### **D. Downward Assignments (Voluntary or Performance Related)**

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

**Voluntary** – An employee initiated request to transition to a position within a lower salary grade.

**Involuntary**– A management initiated request to transition an employee to a position within a lower salary grade, typically due to performance, corrective action or restructuring.

A downward assignment would typically result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range. Any exception to this guideline will require additional justification, an internal equity review and approval of the CIO in coordination with HR.

In unique situations, such as job abolishment or agency reorganization, an employee's salary may exceed the maximum of the lower grade and the salary remain unchanged. Salaries remain frozen until market adjustments allow additional increases. These employees remain eligible to receive applicable performance or gainsharing bonus awards if performance criteria are met.

### **E. Job Reclassifications**

Job reclassifications occur when the employee's duties and responsibilities change substantially, which may result in a different pay grade. Reclassification is based on job content and not the performance of the incumbent. Job studies are performed by HR, with input by management.

**Reclassification Upward:** Occurs when it is determined that an individual's job duties and

responsibilities have changed significantly enough to transition the position into a different classification within a higher salary grade.

Employees typically receive salary increases between 2% and 15%. Reclassification increases are approved by the CIO, in coordination with HR. Salaries must be at or above the minimum of the new pay grade.

**Reclassification Laterally:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within the same salary grade.

No salary increase is awarded. Any exception to this guideline will require additional justification, an internal equity review, and approval of the CIO, in coordination with HR.

**Reclassification Downward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a lower salary grade.

This will result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range. Any exception to this guideline will require additional justification, an internal equity review and approval of the CIO, in coordination with HR.

## **F. Regrade**

Regrades occur when the classification is determined to warrant a different pay grade. This is typically determined by a market analysis or internal classification review, performed by HR in coordination with the CIO.

Employees typically receive salary increases between 2% and 15%. Regrade increases are approved by the CIO, in coordination with HR. Salaries must be at or above the minimum of the new pay grade.

## **G. Acting Pay**

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

**Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received

while performing the “acting” job responsibilities.

**Beyond Two Years Duration:** When employees are deemed to be “acting” by performing the full duties of a position for more than two years, the supervisor may choose to promote the individual without going through a competitive process. If the employee is promoted, the employee is eligible for a promotional increase. Otherwise, the position will be open for recruitment. The permanent filling of the position may involve no change in current salary or could include a pay increase, depending upon the circumstances and available budget.

If an employee is acting in a position that is the same salary grade, acting pay would not be provided unless there is sufficient justification to support that the duties of the acting position are substantially different.

#### **H. In-grade Adjustments**

In-grade salary adjustments occur when employees receive an increase in base pay to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, or responsibilities outside of the position classification process. These adjustments should only be provided once per fiscal year. Listed below are the categories and descriptions of in-grade salary adjustments.

**Market adjustment:** Warranted in cases where external market forces exist due to high demand for a particular skill or position which may result in significantly higher turnover. Market adjustments may also occur if it is determined that an individual’s salary is significantly lower than market study findings. Salary adjustments can apply to an individual or classification of employees to ensure competitiveness and retention of staff. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Internal alignment adjustment:** Warranted when employees’ salaries are unusually low or out of comparability with other employees in the work unit. Factors considered include experience, education, knowledge, skills and abilities. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Individual accomplishment adjustment:** May be awarded to recognize the attainment of a higher level of expertise through professional certification requiring continuing education credits (CEUs). In-grade adjustments are awarded at the time of the original certification. If the certification does not require CEUs, an in-grade adjustment will not be provided; however, a bonus may be considered. Additionally, an in-grade adjustment for completion of a degree that relates to a current or career path position may be provided. Other similar situations may be considered as justification for an individual accomplishment adjustment. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Skill acquisition and application adjustment:** May be awarded to recognize the acquisition and application of relevant, pre-defined, job-based skills, resulting in increased value to the organization. Typically, an Individual Development Plan identifies the needed skills and the skill acquisition plan. Formal assessments, through testing or demonstration of the skills acquired and applied to the job, may result in an in-grade adjustment. An in-grade adjustment of 1% to 4% of salary is typically provided.

The employee's supervisor must request the in-grade adjustment in writing and include documentation supporting the need for a pay adjustment. The CIO approves in-grade adjustments, in coordination with HR.

When an employee's salary is at or above the salary maximum for his/her job grade, a bonus payment may be awarded. The CIO approves the bonus, in coordination with HR.

### **I. Competitive Pay Increases**

A competitive pay increase is an option available to supervisors to retain top performers, who have received an external job offer, when the loss is determined to be detrimental to the organization. Employees must furnish a copy of the respective job offer.

The supervisor requests, in writing, a competitive pay increase and includes documentation supporting the need for an adjustment and justification for the increase. The CIO approves the increase, in coordination with HR.

Competitive pay increases apply to base salary and may not exceed the salary maximum for the salary range. In extraordinary circumstances, when an employee's base salary is at maximum, a bonus is an option. In these situations, the CIO approves the action, in coordination with HR.

### **J. Increases Governed by the Appropriation Act**

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

## **Bonuses**

### **A. Sign-on**

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

The amount of the sign-on bonus will vary depending on the position and the supply of candidates. The amount of the bonus typically ranges from 1% to 20% of the midpoint of the

## Administrative Policies

**Policy Title:** Investment Operations and Administration Staff Pay Plan



salary range.

Fifty percent of the sign-on bonus will be paid in the first paycheck with the remainder of the bonus being paid following the successful completion of the introductory period.

Refer to the Employee Sign-on Bonus Program Policy.

### **B. Referral**

Referral bonuses may be provided to full and part-time employees who refer a candidate hired into a full-time position.

The amount of the referral bonus is \$1,000. Fifty percent is paid in the paycheck following the referred employee's first full pay cycle with the remainder of the bonus being paid following the successful completion of the referred employee's introductory period.

Refer to the Employee Referral Program Policy.

### **C. Performance**

Performance bonuses, where applicable, are provided to the Investment operations and administration staff following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of "exceptional" will receive a 4% bonus and employees who receive an overall rating of "exceeds" will receive a 2% bonus, based on their salary as of June 30. Employees who receive an overall "meets," "does not meet" or "needs improvement" rating will not receive a performance bonus.

The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

### **D. Gainsharing**

The Investment Department's operations and administration staff employees may receive a lump-sum bonus equal to 2.5% of salary if their performance "meets expectations", "exceeds expectations" or is "exceptional", as rated in their annual performance assessment and the employee consistently works, as a team member, to accomplish the goals of the Investment Department. Additionally, Investment Department's operations and administration staff employees are eligible to be recognized and rewarded under the provisions of the VRS

## **Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan  
Recognition and Awards Program.



While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.

### **Other VRS Pay Plans**

In addition to the Investment Operations and Administration Staff Pay Plan, VRS maintains several other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Administrative Pay Plan** - This pay plan is separate from the investment operations and administration staff pay plan and includes its own salary and classification structure.
- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Executive Pay Plan** – This pay plan provides the annual salary and bonus amounts provided to the Agency Director, Chief Investment Officer and Audit Director by the VRS Board of Trustees.



**Salary Ranges**

Grade	Minimum	Midpoint	Maximum
1	\$40,898	\$51,122	\$61,346
2	\$46,010	\$57,513	\$69,014
3	\$51,761	\$64,701	\$77,642
4	\$58,335	\$72,918	\$87,502
5	\$65,742	\$82,177	\$98,613
6	\$74,076	\$92,594	\$111,113
7	\$83,334	\$104,168	\$125,003
8	\$93,521	\$116,901	\$140,280
9	\$105,558	\$131,947	\$158,336
10	\$118,520	\$148,152	\$177,782
11	\$133,337	\$166,670	\$200,004
12	\$150,003	\$187,503	\$225,005
Minimum is 80% of midpoint. Maximum is 120% of midpoint.			
Bandwidth is 50%.			
Difference between grades is 10-15%.			



**Position Titles and Salary Grades**

Group	Title	Grade
Executive	Chief Administrative Officer	12
Executive	Deputy Chief Administrative Officer	11
Regulatory and Legal	Regulatory and Legal Officer	10
Regulatory and Legal	Regulatory and Legal Lead Senior Analyst	9
Regulatory and Legal	Regulatory and Legal Analyst III	8
Regulatory and Legal	Regulatory and Legal Analyst II	6
Regulatory and Legal	Regulatory and Legal Analyst I	4
Regulatory and Legal	Office Administrator	6
Compliance	Compliance Officer	10
Compliance	Compliance Lead Senior Analyst	9
Compliance	Compliance Analyst III	8
Compliance	Compliance Analyst II	6
Compliance	Compliance Analyst I	5
Operations	Operations Manager	10
Operations	Operations Lead Senior Analyst	9
Operations	Operations Analyst III	8
Operations	Operations Analyst II	6
Operations	Operations Analyst I	4
Systems	Decision Systems Manager	10
Systems	Decision Systems Principal	10
Systems	Decision Systems Analyst III	9
Systems	Decision Systems Analyst II	8
Systems	Decision Systems Analyst I	7



**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan

**Appendix**



Group	Title	Grade
Systems	Decision Data Analyst II	6
Systems	Decision Data Analyst I	4
Admin	Portfolio Assistant	3
Admin	Executive Assistant	3
Admin	Administrative Assistant	1

---

## Report

Pursuant to § 2.2-3700 et seq. of the *Code of Virginia* and Chapter 552 of the 2021 Special Session I Acts of Assembly, the Benefits and Actuarial Committee convened electronically on April 19, 2021 at 1:00 p.m. and took up the following matters:

### APPROVAL OF MINUTES

The Committee approved the minutes of its February 11, 2021 meeting.

### EXPERIENCE STUDY

The study is required by statute to be performed at least once every four years to validate assumptions and make necessary adjustments based on a comparison of actual VRS experience to the expected experience based on current assumptions. The study reviews economic and demographic assumptions, actuarial methods, and funding policies providing gain/loss analysis over the prior four years as well as cost impact analysis of any proposed changes. In addition, the study considers recommendations made in the quadrennial actuarial audit conducted by JLARC's actuary.

Larry Langer and Alisa Bennett from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, presented the results from the Experience Study and provided recommendations and cost impacts associated with the proposed changes.

Larry and Alisa will provide a summary of the recommendations to the Board of Trustees.

As described in their presentation, Cavanaugh Macdonald recommends changing the mortality assumption from a margin approach on a headcount weighted basis to a generational mortality approach on a benefits weighted basis. Overall, this change results in increased liabilities and higher expected contribution rates.

Following the presentation and some discussion the Committee approved an RBA recommending that the Board accept the results of the Experience Study. This RBA has been slightly changed from the RBA presented to the Committee in order to clarify the method change being recommended and to more specifically reflect the information presented to the Committee.

The Committee recommended approval of the following action to the full Board of Trustees:

***Request for Board Action:*** *The VRS Board of Trustees approves its plan actuary's recommendations as presented in the Experience Study (7/1/2016 to 6/30/2020) to change various assumptions, including: certain demographic assumptions regarding mortality rates, retirement rates, withdrawal rates, and disability rates; method changes regarding the timing of plan decrements, as well as various Other Post-Employment Benefits (OPEB) specific assumptions related to the Line of Duty Plan, Health Insurance Credit program, and the VSDP and VLDP disability programs.*

### INFORMATION ITEM

B&A Committee Meeting Schedule

- June 9, 2021 at 1:00 p.m.
- October 13, 2021 at 10:00 a.m.
- November 15, 2021 at 1:00 p.m.

Submitted to the Board of Trustees on April 20, 2021.

---

Wallace G. Harris, Chair  
Benefits and Actuarial Committee



Cavanaugh Macdonald

CONSULTING, LLC

*The experience and dedication you deserve*

# Experience Study 7/1/2016 to 6/30/2020

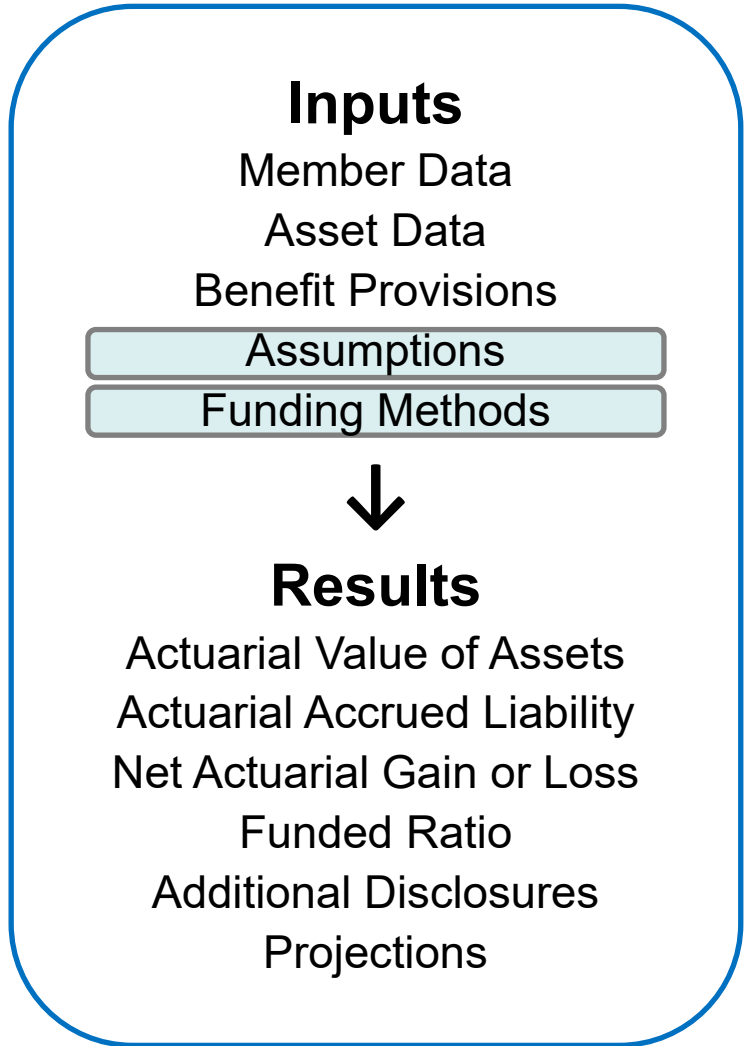


Virginia  
Retirement  
System

April 20, 2021

# Purpose of the Experience Study

- Over the short term, employer contributions are determined by the annual actuarial valuation based on estimated benefits, expenses and investment return using Assumptions and Funding Methods recommended by the actuary and adopted by the Board through the Experience Study process.
- Over the long term, employer contributions are adjusted to reflect actual benefits, expenses and investment return.
- Selection of assumptions and methods that are too optimistic can result in costs being pushed to future generations, while assumptions and methods that are too pessimistic can put undue pressure on current resources.





# Why Perform an Experience Study

- Statute (§ 51.1-124.22.A.4) requires preparation of experience study at least once every four years. This experience study covers the period from July 1, 2016 through June 30, 2020.
- Experience study compares actual VRS economic and demographic experience with expected experience based on current assumptions.
- Purpose of the experience study is to develop a best estimate of the future based on recent experience and emerging trends.
- Revised actuarial assumptions resulting from experience study used in the computation of employer contribution rates. June 30, 2021 is next rate setting valuation using revised assumptions.



# Experience Study Process COVID-19



- The impact of the COVID-19 pandemic was considered in this experience review
- No explicit changes were incorporated at this time due to the level of uncertainty regarding the effect of the pandemic on both health care costs and decremental experience such as mortality, retirement and disability
- We have considered available information but do not believe that there is yet sufficient data to warrant the further modification of any of the assumptions other than to retain margin in certain assumptions such as disability incidence and presumptive approval for LODA benefits
- We will continue to monitor the situation as data emerges and advise the Board in the future of any adjustments that we believe would be appropriate



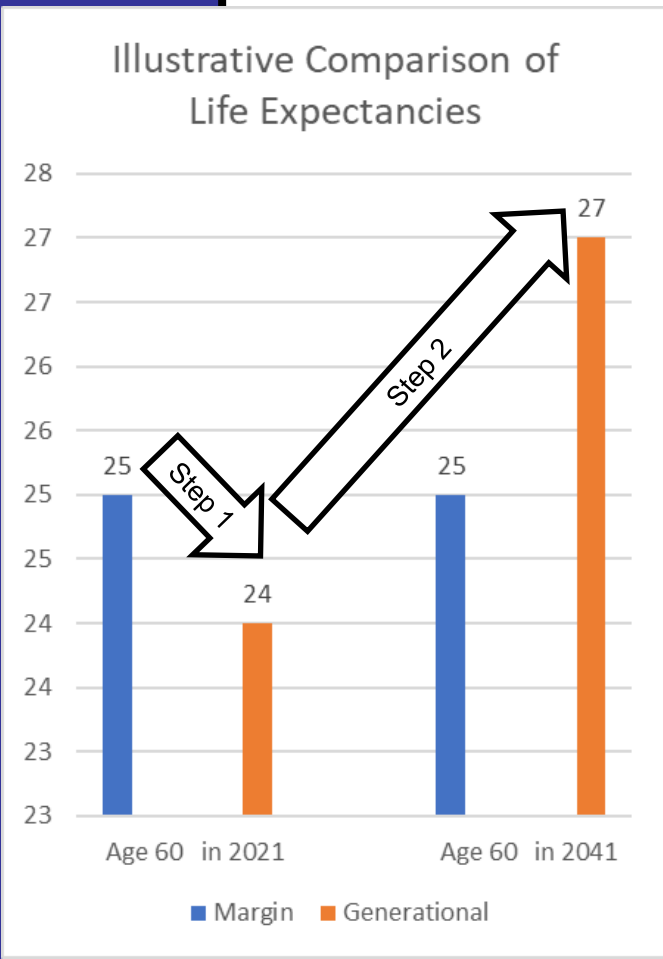
# Recommendations

- Significant Changes
  - Generational Mortality
  
- Moderate Changes
  - Decrement Timing for VSDP and VLDP – Method Change
  
- Minor Changes
  - Retirement, Withdrawal and Disability Rates
  - OPEB specific assumptions:
    - HIC participation and maximum benefit utilization
    - VSDP and VLDP benefits offsets and benefit termination due to recoveries and deaths
    - LODA percentage of deaths and disabilities approved for LODA benefits and percentage of spouse coverage
  - Salary Scale – JRS
  
- No Changes
  - Economic Assumptions including Investment Return and Inflation
  - Salary Scale all plans other than JRS
  - UAAL Payment Increase (Payroll Growth)





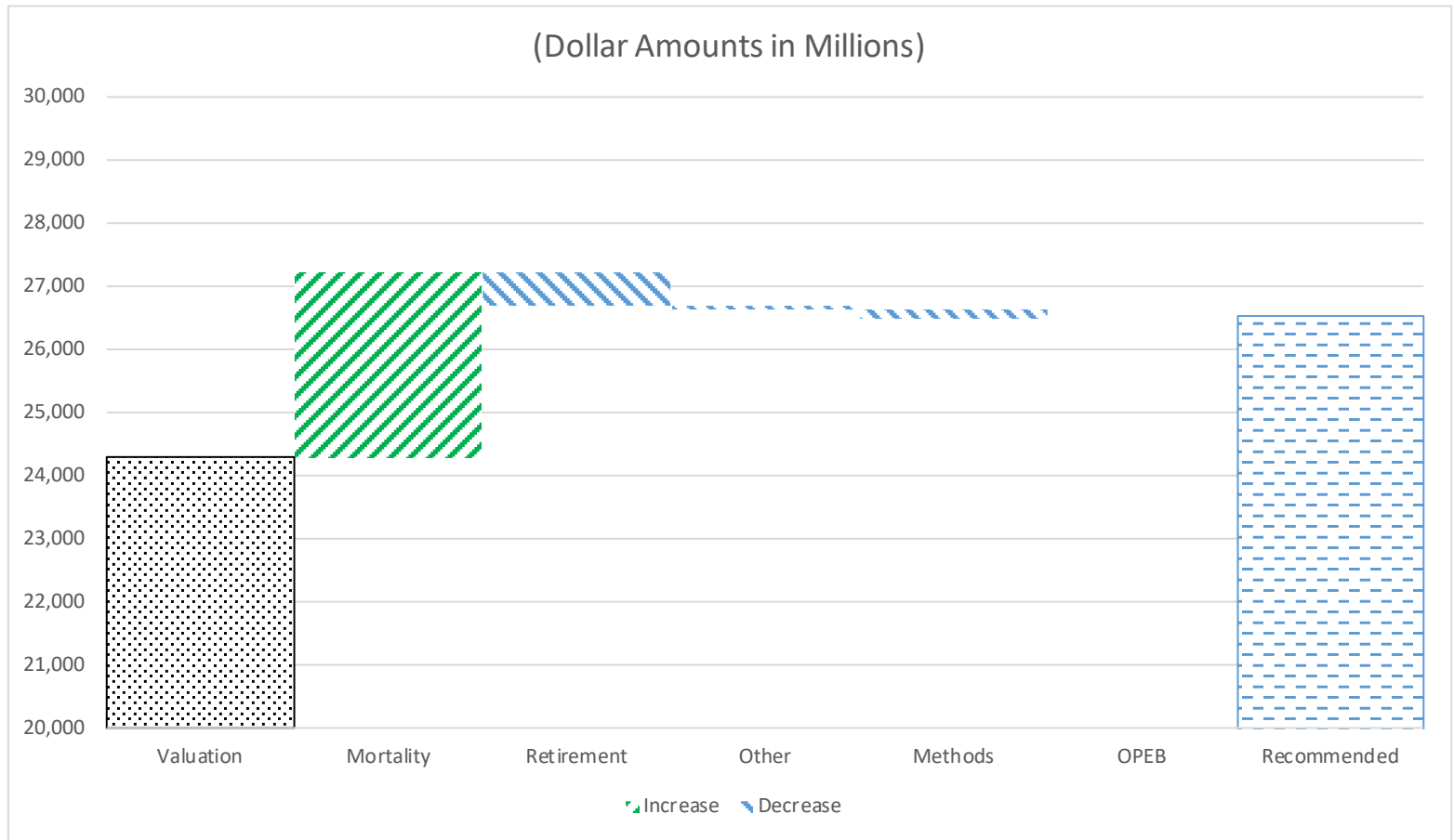
# Mortality Assumption Comparison of Approaches: Margin vs Generational Mortality



- Margin Approach (Current)
  - Select a table to fit experience based on actual deaths
  - Reduce number of deaths to provide margin, which results in longer life expectancy
  - Anticipate mortality gains until next experience study
  - Repeat process at next experience study with likely increase in costs
- Generational Approach (Proposed)
  - Select a table to fit experience without margin based on benefit amounts (Step 1 in chart to left); benefit amounts basis used because members with bigger benefits tend to live longer
  - Apply the modified Mortality Projection Scale MP2020 which is an explicit assumption that future generations live longer than current generation (Step 2); CMC modified the Mortality Projection Scale because past scales have consistently overestimated mortality improvements
  - Anticipate no bias in mortality gains/losses until next experience study
  - Repeat process at next experience study when cost may increase or decrease or stay the same



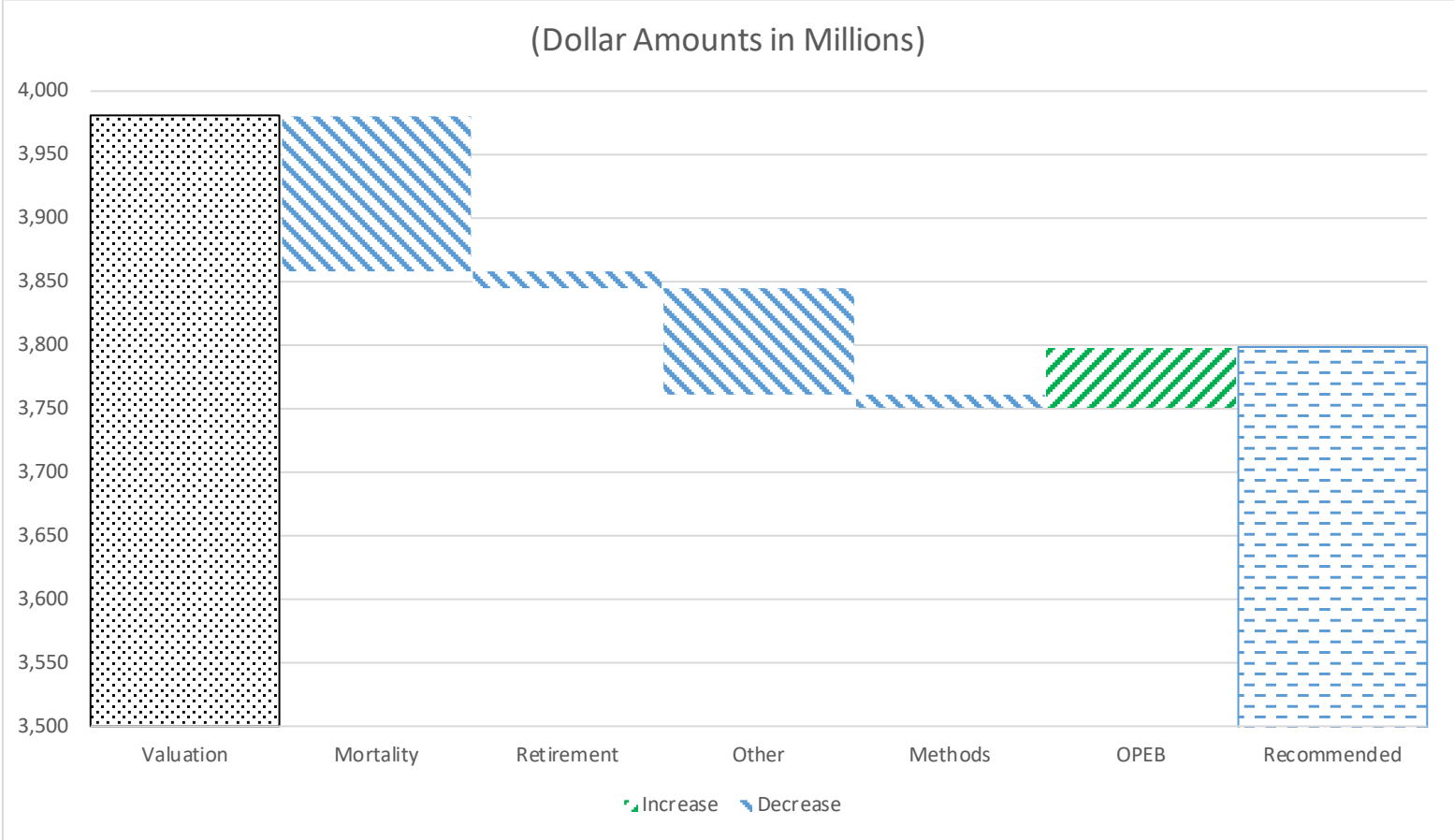
# Cost Impact Change in UAAL by Source Pension Plans



The mortality recommendation was the largest driver of costs for the pension plans, with other sources partially offsetting the increase. Decrease due to retirement was caused by longer careers.



# Cost Impact Change in UAAL by Source OPEB Plans

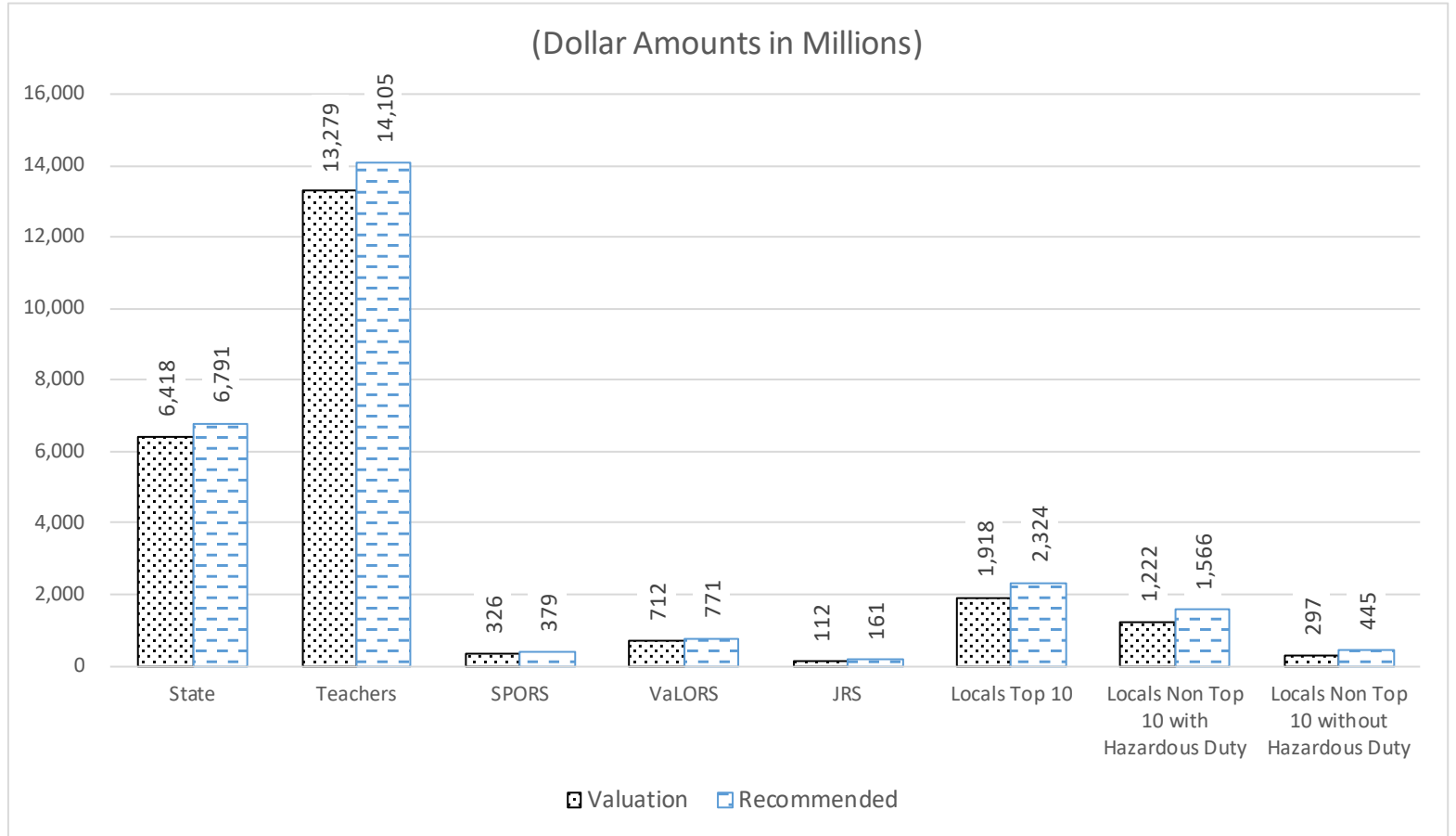


The impact of the recommendations on UAAL was mixed. Unlike Pension, mortality decreased UAAL due to reflecting longer life expectancies for Group Life Insurance. "Other" is the change in disabilities and withdrawals.



# Cost Impact

## Unfunded Actuarial Accrued Liability (UAAL) Pension Plans



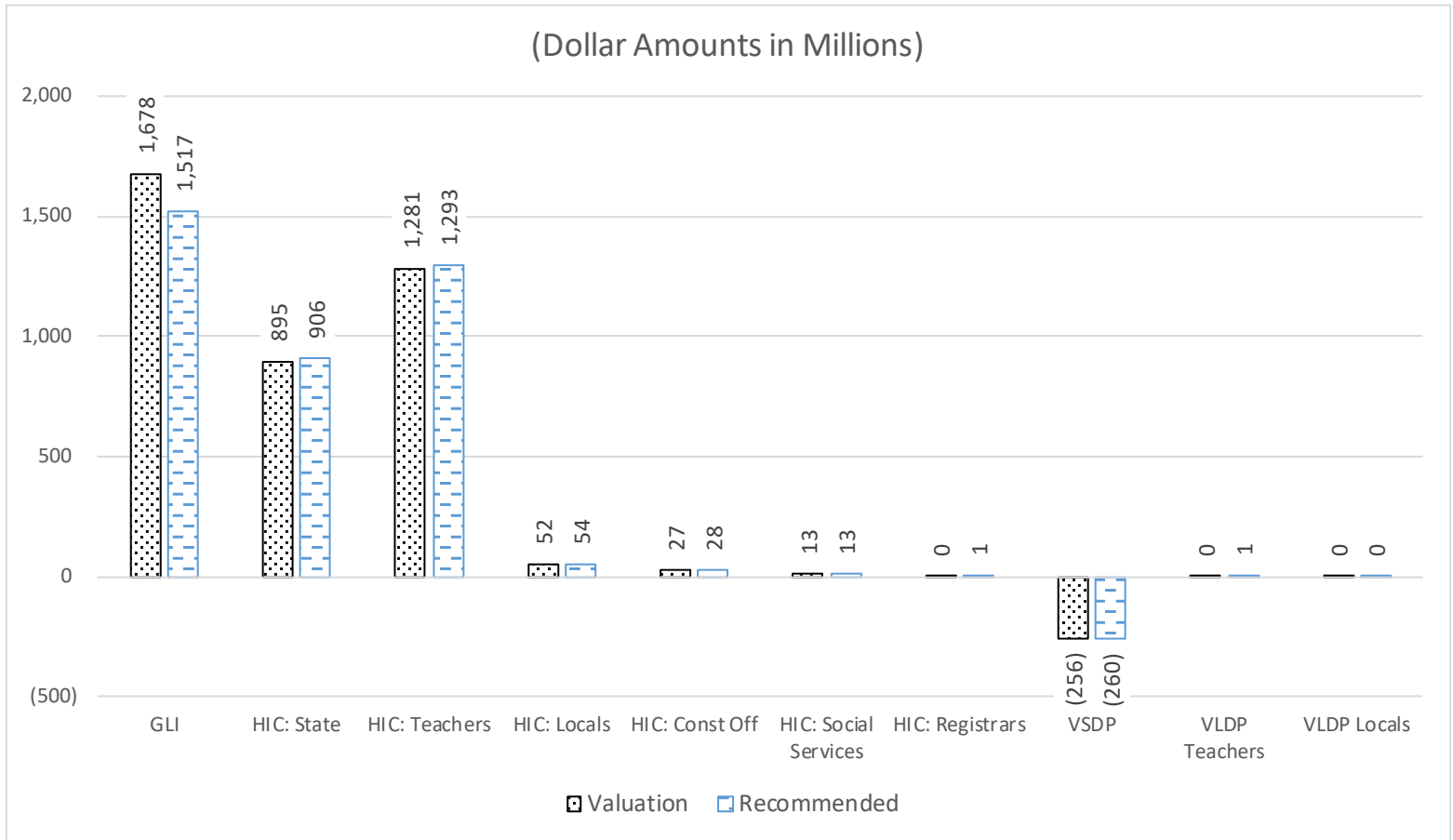
The impact of the recommendations was an increase in actuarial accrued liability and as a result the UAAL. The increase in UAAL is leveraged - the increase in Locals UAAL was much larger than that of State or Teachers. This is due to Locals being well funded compared to State or Teachers.



# Cost Impact

## Unfunded Actuarial Accrued Liability (UAAL)

### OPEB Plans

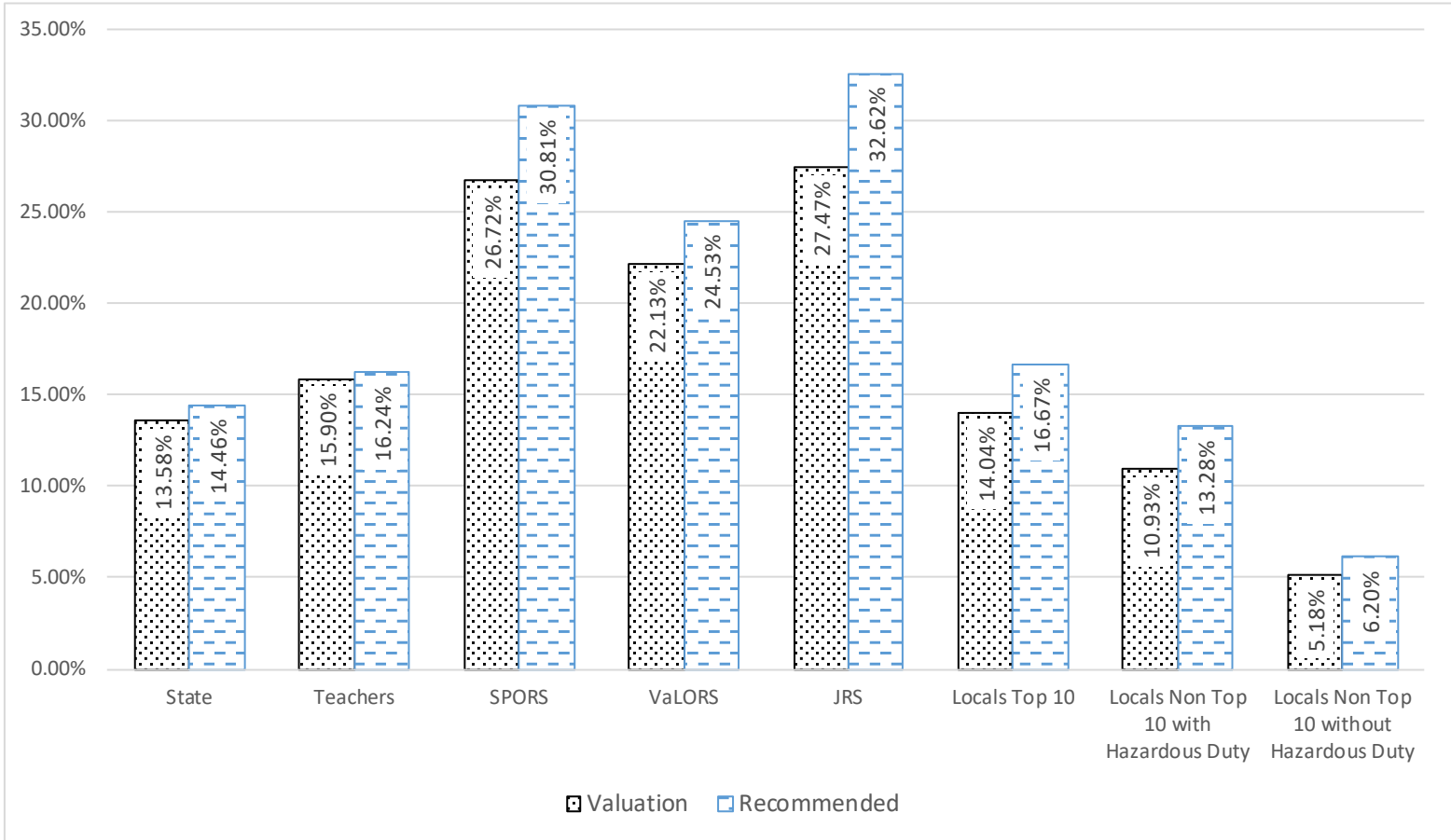


The impact of the recommendations on UAAL was modest compared to pensions with the exception of Group Life Insurance. UAAL for Group Life Insurance decreased due to reflecting longer life expectancies.



# Cost Impact

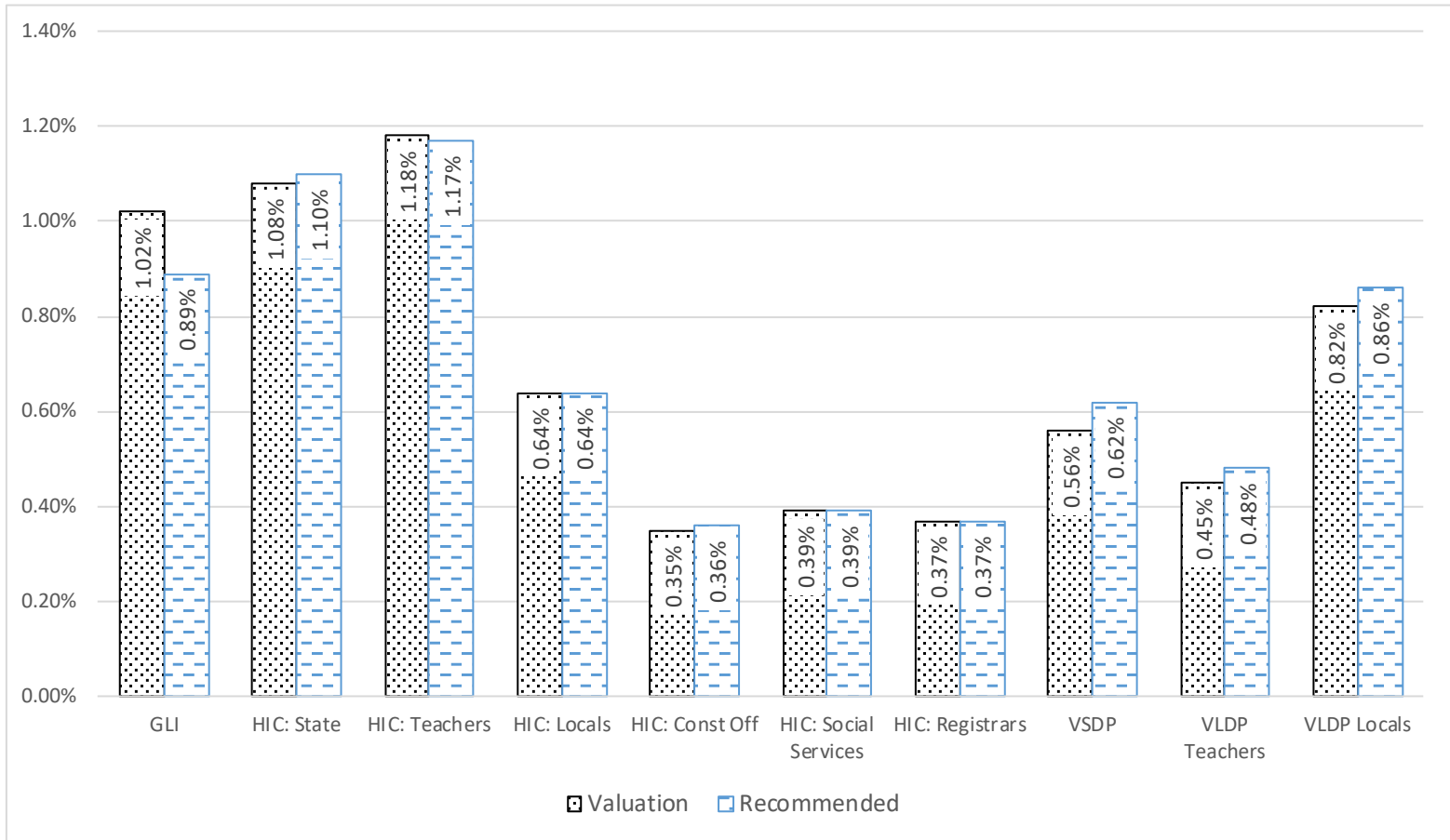
## Employer Defined Benefit Contribution Rate Pension Plans



The impact of the mortality recommendation was to increase costs. The impact was not consistent across all plans. In particular, plans which covered judges and Hazardous Duty members incurred larger cost increases. The impact of other assumptions was mixed.



# Cost Impact Employer Contribution Rate OPEB Plans



The impact of the recommendations was generally not as pronounced for the OPEB plans, other than LODA which is not included above. The Contribution Rate per FTE for LODA increased from \$758.03 to \$783.14 based on our recommendations. Largest impact was increase in percentage of deaths and liabilities approved for LODA benefits.



## Next Steps



- Adopt the recommendations
- Implement for the June 30, 2021 actuarial valuations
- Approximate the normal cost for PPS
- Review the optional forms of payment and early retirement factors
- Review HIC funding methods with benefit payments as a minimum





Questions?



Thank you!!



**Approval of Actuarial Assumptions based on July 1, 2016  
to June 30, 2020 Experience Study.**

---

**Requested Action**

The VRS Board of Trustees approves its plan actuary's recommendations as presented in the Experience Study (7/1/2016 to 6/30/2020) to change various assumptions, including: certain demographic assumptions regarding mortality rates, retirement rates, withdrawal rates, and disability rates; method changes regarding the timing of plan decrements, as well as various Other Post-Employment Benefits (OPEB) specific assumption related to the Line of Duty Plan, Health Insurance Credit program, and the VSDP and VLDP disability programs.

**Description/Background**

The *Code of Virginia* requires the Board to cause an actuarial investigation to be made of the actual experience under the Retirement System at least once in each four-year period. The Board is also required to cause actuarial gain/loss analyses to be made in conjunction with each actuarial valuation of the System. Finally, pursuant to such investigations and analyses, the Board is required to periodically revise the actuarial assumptions used in the computation of employer contribution rates.

Accordingly, following its review of the findings of the Experience Study for the period of July 1, 2016 to June 30, 2020, the Board approves the assumption changes for various retirement and OPEB programs administered by VRS recommended by Cavanaugh Macdonald, the VRS plan actuary.

The experience study for the period of July 1, 2016 to June 30, 2020 was conducted as required by the provisions of *Code of Virginia* § 51.1-124.22(A)(4). A copy of the Experience Study Summary is attached.

**Rationale for Requested Action**

The *Code of Virginia* requires the Board to obtain an actuarial experience study every four years. The VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, conducted the study and recommended assumption changes based on the findings of the July 1, 2016 to June 30, 2020 Experience Study.

**Authority for Requested Action**

The Board's authority for this action is contained in *Code of Virginia* § 51.1-124.22(A)(4).

The above action is approved.

---

O'Kelly E. McWilliams, III, Chairman  
VRS Board of Trustees

---

Date



# Summary of Recommended Demographic Assumptions State, Teachers, SPORS, VaLORS and JRS



System	Assumption	Description
State	1. Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
	2. Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
	3. Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
	4. Disability Rates	No change
	5. Salary Increases	No change
	6. Line of Duty Disability	No change
Teachers	1. Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
	2. Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
	3. Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
	4. Disability Rates	No change
	5. Salary Increases	No change
	6. Line of Duty Disability	No change
SPORS	1. Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Update to PUB2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
	2. Retirement Rates	Increased rates for ages 55 to 61, 63, and 64 with 26 or more years of service; changed final retirement age from 65 to 70
	3. Withdrawal Rates	Decreased rate for 0 years of service and increased rates for 1 to 6 years of service
	4. Disability Rates	No change
	5. Salary Increases	No change
	6. Line of Duty Disability	No change
VaLORS	1. Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Update to PUB2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
	2. Retirement Rates	Increased rates at some younger ages, decreased at age 62, and changed final retirement age from 65 to 70
	3. Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
	4. Disability Rates	No change
	5. Salary Increases	No change
	6. Line of Duty Disability	No change
JRS	1. Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Review separately from State employees because exhibit fewer deaths. Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
	2. Retirement Rates	Decreased rates for ages 60-66 and 70-72
	3. Withdrawal Rates	No change
	4. Disability Rates	No change
	5. Salary Increases	Reduce increases across all ages by 0.50%



# Summary of Recommended Demographic Assumptions Political Subdivisions



System	Assumption	Description
Locals Largest 10 (Non-Hazardous Duty)	1. Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
	2. Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
	3. Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
	4. Disability Rates	No change
	5. Salary Increases	No change
	6. Line of Duty Disability	No change
Locals Largest 10 (Hazardous Duty)	1. Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Update to PUB2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
	2. Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
	3. Withdrawal Rates	Decreased rates
	4. Disability Rates	No change
	5. Salary Increases	No change
	6. Line of Duty Disability	No change
Locals Non10 Largest (Non-Hazardous Duty)	1. Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Update to PUB2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
	2. Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
	3. Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
	4. Disability Rates	No change
	5. Salary Increases	No change
	6. Line of Duty Disability	No change
Locals Non10 Largest (Hazardous Duty)	1. Mortality Rates (Pre-retirement, post-retirement healthy and disabled)	Update to PUB2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020.
	2. Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
	3. Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
	4. Disability Rates	No change
	5. Salary Increases	No change
	6. Line of Duty Disability	No change



# Summary of Recommended Assumption Changes GLI, LODA, HIC, and VSDP/VLDP



System	Assumption	Description
GLI	1. Pension economic and demographic assumptions	Adjusted in the same manner as the pension plans
	2. Retiree liability estimation for Life Only	Adjusted to estimate based on actual benefit payments for this group compared to actual benefit payments for total group
LODA	1. Pension wage, inflation and demographic assumptions	Adjusted in the same manner as the pension plans
	2. Discount rate for funding	Adjusted to match pension discount rate
	3. Percentage of disabilities qualifying for benefits	Increased to add margin for presumptions and COVID-19.
	4. Percentage of qualifying deaths that are a direct result of the performance of duty	Increased to 50%
	5. Spouse participation rates	Increased to 80% of disabilities and 80% of deaths result in spouse coverage
HIC	1. Pension economic and demographic assumptions	Adjusted in the same manner as the pension plan
	2. Benefit election (from deferred vested)	Adjusted election from deferred vested status to a flat 95% for State & Teachers and a flat 85% for Locals & Special Coverage Codes
	3. Benefit election (from disability)	Adjusted election to 80% for SPORS/VaLORS and 50% for Locals and Special Coverage Codes
	4. Benefit utilization	Increase in utilization for all groups
	5. Percentage of deferred vested members electing to withdraw from VRS	Bifurcated assumption for above or below 50 years of age; in general, withdrawal rate increased for those below 50 and decreased for those below 50
	6. Benefit increase in the first year	Reduction to 4.50% for all groups
VSDP /VLDP LTD	1. Pension economic and demographic assumptions	Adjusted in the same manner as the pension plans
	2. Rates of disability claim termination	Adjusted for credible VSDP experience
	3. Benefit offsets	Increased to match experience and extend period in which offset may be received
	4. Catastrophic claims	Increased to match experience
	5. Percentage eligible for additional 1% defined contribution	Reduction in number assumed to meet Social Security definition of disability



## VRS Roadmap FISCAL YEAR 2021 March 2021 Status Report

**Status Indicator**

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- Project timeline
- N/S Not started

Agency Performance Objectives (APOs)	Status	2020						2021							
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
Implement New myVRS Functionality - Online Retirement Processing	●														
Implement New myVRS Functionality - Payment, Health Insurance Maintenance	●														
ERM Implementation	●														
Cardinal HCM Implementation - The Plan (Track 1), Agency (Track 2) and Retiree (Track 3)	●														
IT Initiatives <sup>1</sup>	Status	2020						2021							
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
Upgrade Angular JS Framework to Angular (in VNAV Application)	▲														
IT Security - Fraud Prevention Initiatives	★														
Office 365	●														
Cloud Transition	●														
Secure Print	★														
Rollout Access Management System to All Operating Units	★														
Other Projects <sup>2</sup>	Status	2020						2021							
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
Employee Engagement Initiative	●														
Performance Management Evaluation Process	●														
VSDP and VLDP Long Term Care Plans RFP	●														
Analysis and Planning for Financial System Upgrade	●														
VRS Strategic Plan Development (2022-2026)	●														
Review and Update Agency Policies	●														
Records Retention Program Transformation Initiative Strategy Development	●														
Actuarial Experience Study	●														
Post Pandemic Return to the Office	●														
Operational/Ongoing Activities	Status	2020						2021							
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun		
COLA 2020	★														
FYE 2020	★														
Retirement Wave 2020	★														
Teacher Contracts	★														
MBPs	★														
Annual Code of Ethics Training	★														
VRS User IT Security Policy Training	★														
FOIA Training	N/S														
CAFR	★														
PAFR	★														
GASB 67	★														
GASB 68	●														
GASB 74	★														
GASB 75	●														
Actuarial Valuations	★														
MyVRS Annual Updates	★														
1099/W2	★														

Operational/Ongoing Activities	Status	2020						2021						
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Annual Roadmap Review	N/S													
FYE 2021	N/S													
Retirement Wave 2021	N/S													
Commonwealth Bond Disclosure	●													
ORPHE Surcharge Billing for FY 2022	●													
Data Fixes	●													
Releases (including top BOLT items)	●													
Retirement and State Workforce Commission	●													
Employer Compliance Review	N/S													
Biennium Budget Preparation	N/S													
VRS Fund Sensitivity and Stress Testing Report for GA	●													
Legislation FY 2021 - Placeholder	●													

<sup>1</sup>Initiatives led directly by Technology Services.

<sup>2</sup>Other initiatives are led by other business units and supported by Technology Services.

### Yellow Status Items

Item	Due Date	Comments
Upgrade Angular JS Framework to Angular (in VNAV Application)	June 2021	The Angular JS Framework upgrade is progressing, but intermediate deliverables have been impacted as key resources are currently allocated to the myVRS enhancements. The project team is working on the resource allocation for Angular JS Framework in conjunction with other priorities to minimize impacts to the project schedule. An update to the project schedule will be made in the next few weeks.

### Red Status Items

Item	Due Date	Comments
N/A		

### Realignments/Adjustments

Item	Due Date	Comments
N/A		



Virginia  
Retirement  
System

# April Director's Report

April 20, 2021





# VRS Coverage

Coverage Elected	Details
<b>Enhanced Hazardous Duty Benefits for Law Enforcement Officers</b>	Town of Kenbridge (Lunenburg County), effective February 1, 2021
<b>Optional Retirement Plan for School Superintendents (ORPSS)</b>	Prince William County School Board, effective March 1, 2021

## Status of Remote Meetings

- 2021 Appropriation Act Item 4-0.01 includes state of emergency remote meeting language
- SB 1271 amends FOIA to allow remote meetings for local states of emergency
- HB 1931 amends FOIA to potentially increase the number of meetings a member may attend remotely (outside of emergencies) to:
  - two meetings or
  - 25% of the meetings, rounded up to the next whole number, whichever is greater

## Return-to-the Office Planning

- Survey employees to gauge thoughts regarding returning to the office
- Hold employee focus groups to gather additional feedback
- Develop physical changes to office environment

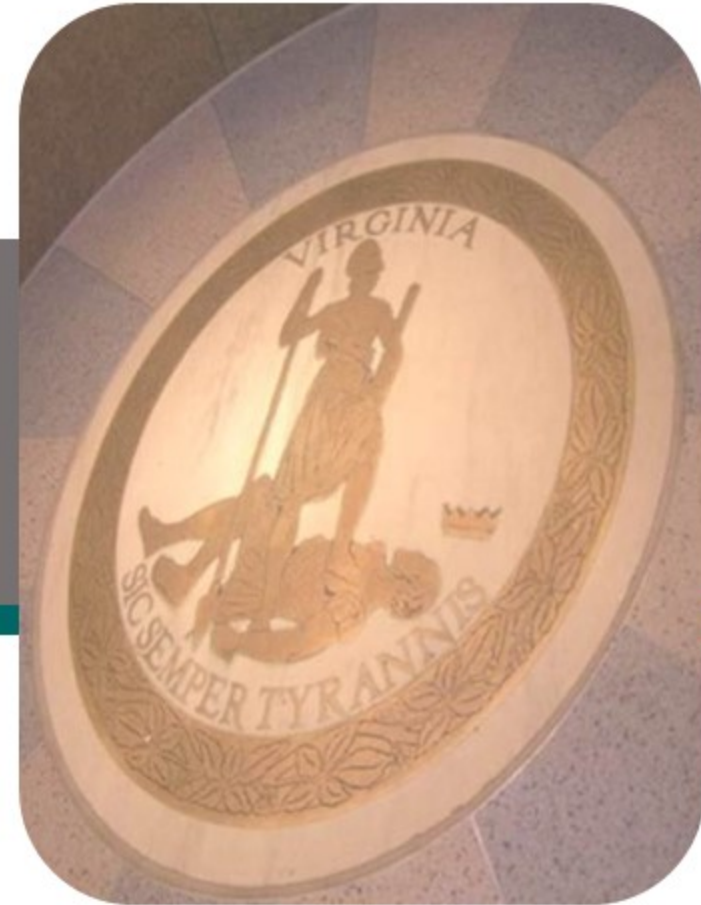
## ICMA-RC Name Change

ICMA-RC is becoming MissionSquare Retirement, a new name and brand that reinforces the company's history, deep expertise, and community focus; and solidifies its vision for the future.

ICMA-RC is becoming

**MissionSquare**  
RETIREMENT

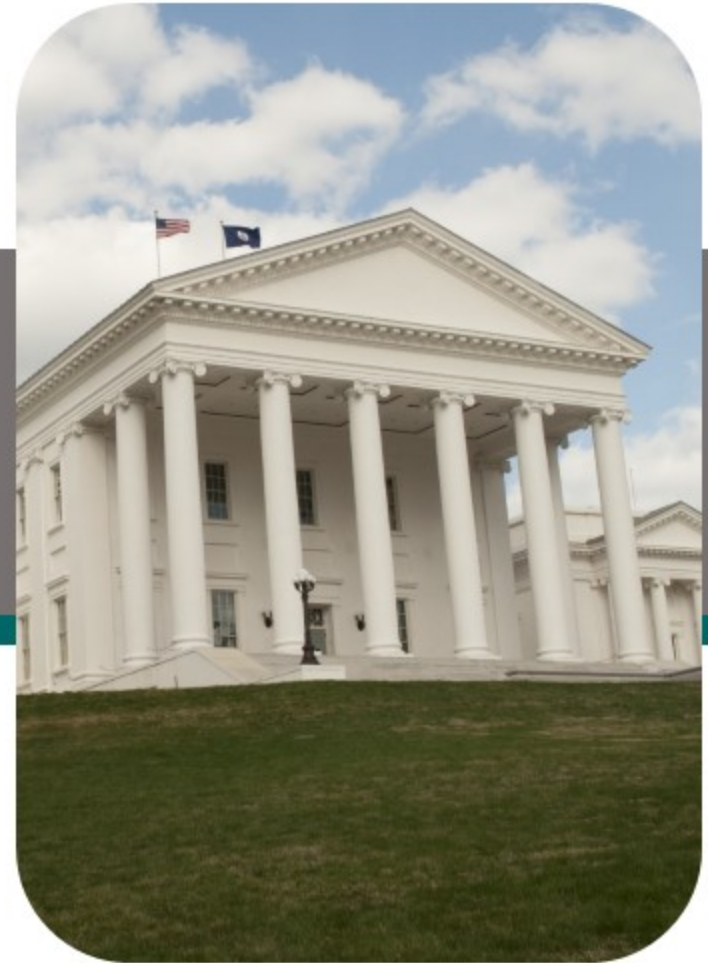
# 2020 Legislative Implementation Health Insurance Credit



## Health Insurance Credit

Bill Number	Patron	Description
HB 1513	McQuinn	<ul style="list-style-type: none"><li>As of July 1, 2021, requires school divisions that provide VRS benefits to non-teacher employees to also provide a health insurance credit of \$1.50 per year of service to all non-teacher retirees who retire with at least 15 years of total service credit.</li><li>Eligible non-teachers who retired before July 1, 2020, but who previously did not receive a health insurance credit, will begin receiving it July 1, 2021.</li><li>A school division may, at its option, provide an additional \$1 per year, for a total health insurance credit of \$2.50 per year of service for affected retirees.</li><li>Removes the \$45 cap.</li><li>Does not apply to any non-teacher school division employee who retired on disability before July 1, 2020, if this measure would reduce the retiree's current monthly credit amount.</li></ul>

# 2021 Legislation



# 2021 VRS-Related Bills

## VRS-Requested Bills

Bill Number	Patron	Description
HB 2181	Mundon King	Makes technical amendments to provisions of the <i>Code of Virginia</i> relating to the Virginia Retirement System to change the required minimum distribution provisions to reflect recent changes in federal law, and conform terminology related to disability retirement. Chapters 53 & 54
SB 1251	Newman	

## VaLORS Bills

Bill Number	Patron	Description
HB 2312	Herring	Creates the Virginia Cannabis Control Authority under the Secretary of Public Safety and Homeland Security. Employees of the authority will be members of VRS. Special agents of the new authority will be members of VaLORS and eligible for LODA benefits. The CEO and Special Assistant are appointees who will have the option to join ORPPA. Many provisions have a delayed effective date.  <b>The sections of the bill that impact VRS (creating new employer, with employees in VRS, VaLORS/LODA, and potentially ORPPA) become effective on July 1, 2021.</b> Chapters 551 & 550 after concurring in the Governor's amendments (no changes to provisions impacting VRS implementation)
SB 1406	Ebbin/ Lucas/ Morrissey	

# 2021 VRS-Related Bills

## Other Bills

Bill Number	Patron	Description
SB 1221	Favola	<p>Allows Loudoun County to enter into a contract with the Department of Health for the local administration of health services. Currently, the local department of health is operated as a joint venture between the state and local governments. The bill moves affected employees from state employment to employment with Loudoun County.</p> <p>Chapter 521</p>

## Investment Bills

Bill Number	Patron	Description
HB 2322	Herring	<p>Establishes the Opioid Abatement Authority. Requires VRS to manage and invest the Opioid Abatement Fund. VRS-requested amendments to limit frequency of contributions/distributions were accepted.</p> <p>Chapters 306 &amp; 307</p>
SB 1469	Barker	

# 2021 Workers' Compensation Bills



## EMS; hypertension and heart disease

Bill Number	Patron	Description
HB 1818	Heretick	Makes salaried or volunteer emergency medical services personnel eligible for the hypertension or heart disease Workers' Compensation presumption. As amended covers salaried or volunteer emergency medical services personnel, as defined in §32.1-111.1, employed by any locality that has legally adopted a resolution declaring it will provide one or more presumptions under the subsection. The bills are prospective only, effective 7/1/2021. Chapters 436 & 437
SB 1275	Marsden	

## COVID-19

Bill Number	Patron	Description
HB 1985	Hurst	Adds COVID-19 as a presumption for health care providers who as part of the provider's employment are directly involved in diagnosing or treating persons known or suspected to have COVID-19. <b>For death or disability on or after March 12, 2020 - December 31, 2021.</b> Chapter 507
HB 2207 SB 1375	Jones Saslaw	Adds COVID-19 as a presumption for firefighters, emergency medical services personnel, law-enforcement officers, and correctional officers. Conference report adds regional jail officers. <b>Governor's recommendation amends to death or disability on or after July 1, 2020 (still through December 31, 2021).</b> Chapters 547 & 526



## Studies

Bill Number	Patron	Description
SJ 308	Lucas	<p>Directs the Joint Legislative Audit and Review Commission to study the impact of COVID-19 on Virginia's public schools, students, and school employees, including, among other things, determining the impact of the COVID-19 pandemic on staffing levels, including the impact of teacher and school employee retirements and resignations on delivery of instruction and the ability of local school boards to fully staff their needs, employment levels, and local budgets.</p> <p>The Senate resolution passed both chambers on 2/24.</p>

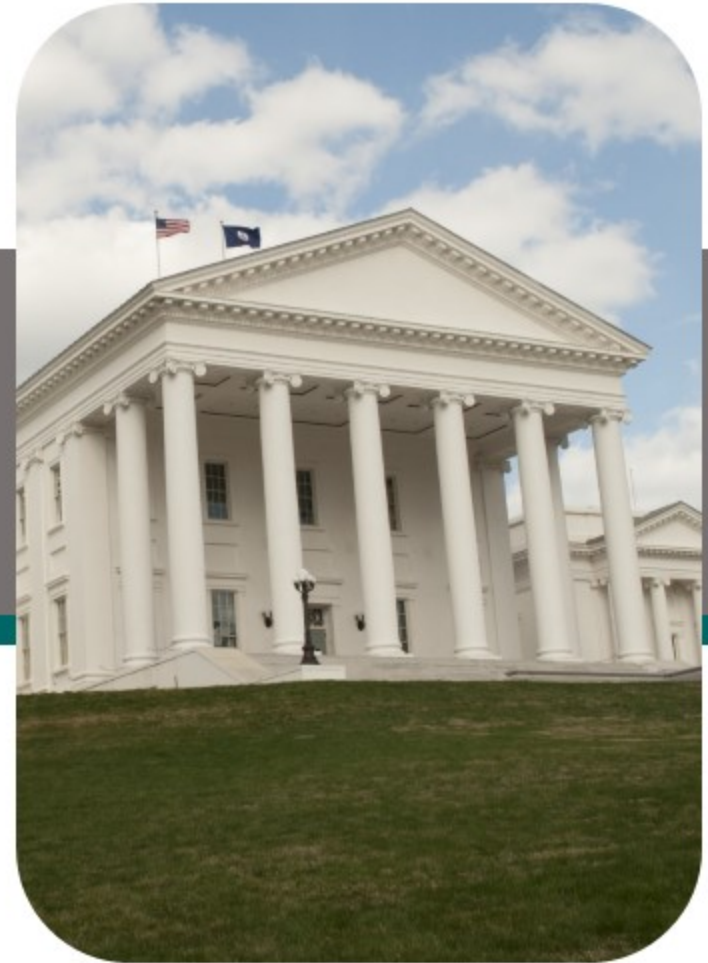
## Diversity, Equity and Inclusion Strategic Plan

Bill Number	Patron	Description
HB 1993	Askew	<p>Requires state agencies to establish and maintain a comprehensive diversity, equity, and inclusion strategic plan in coordination with the Governor's Director of Diversity, Equity, and Inclusion.</p> <p>Chapter 168</p>

## Office of Data Governance and Analytics

Bill Number	Patron	Description
SB 1365	Barker	<p>Creates the Office of Data Governance in the Office of the Secretary of Administration, to be directed by the existing Chief Data Officer of the Commonwealth. The Office is charged with overseeing general data governance in the Commonwealth, as well as developing and managing the Commonwealth Data Trust, a multi-stakeholder data exchange and analytics platform. A multi-level governance structure is established to govern the Trust. The bill also establishes the advisory Virginia Data Commission to advise the Office on issues relating to data sharing. The Commission is directed to review and evaluate the Office and provide recommendations regarding its permanent structure and long-term funding options.</p> <p>The provisions of the bill establishing the Office expire on July 1, 2023. The provisions related to the Commission expire on July 1, 2024.</p> <p>Chapter 314</p>

# Budget



# 2021 Introduced Budget

Item #	Description
145	Reduction of FY21 and FY22 VRS retirement appropriation for the Teacher Plan, to reflect a reduction in membership and fewer funded SOQ positions and lower retirement costs.
277	\$100,000,000 to VRS in FY 2021 to pay off the remaining deferred contributions for the Teacher Plan (\$61,300,000) and to reduce the unfunded liability of the State HIC (any remaining balance, estimated at \$38,700,000)
477	Adjust funding for Line of Duty Act (LODA) premiums based on current enrollment

# 2021 Enrolled Budget Amendments

## Budget amendments related to staffing, benefits and compensation

Item #	Description
1 #3c	Legislative Committee to Study Compensation at the DOC (HJR 522- revised section X)
4 #1c	Funding for Capitol Police Salary and Staffing Adjustments
111.10 #1c	Create Secretary of Commerce and Trade (HB 2321)
131 #2c	Support Actuarial Study of Paid Family and Medical Leave (new section K)
142 #2c	VDOE- Statewide Teacher Recruitment and Retention Efforts (new section G)
145 #2c	DOE Direct Aid- Specialized Student Support Positions (SB 1257)
145 #8c	DOE Direct Aid- Learning Loss Instructional Supports (new 45.)
145 #11c	DOE Direct Aid- 5% Salary Increase
351 #1c	DSS- Fund Local Staff Minimum Salary to Stabilize Workforce
477 #1c	Provide \$1,000 Bonus for Correctional Officers in FY 2022
<b>477 #2c</b>	<b>Provide 5% Salary Increase for State and State-supported Local Employees;</b> add'l 3% adjustment and compression adjustment of \$100 per year of service for State Police; flexibility to provide up to 5% increase for higher ed non-classified positions

# 2021 Enrolled Budget Amendments

## Budget amendments without related bills

Item #	Description
492 #1c	<p>Require Annual Report on LODA Eligibility Determinations- language only</p> <p>"H. The VRS and the DHRM shall report annually on or before January 1 to the Governor and the Virginia General Assembly the detailed aggregate of eligibility determinations for employees in accordance with § <a href="#">9.1-400</a>. This report shall tabulate claims data, types of injuries and associated costs with provided benefits. In accordance with § <a href="#">9.1-408</a>, the name of the employer or employee shall not appear in such publications and all documents to determine eligibility shall remain confidential."</p> <p><b>Explanation</b></p> <p>This amendment requires VRS &amp; DHRM to provide an annual report to the Governor and the General Assembly providing statistics and demographic details concerning Line of Duty eligibility determinations.</p>
83 #1c	<p>Recruitment and Retention of State Government Employees- language only (new section N)</p> <p>Directs DHRM, in collaboration with other state agencies, to review how teleworking can be used to reduce operational costs for state government, and recruit and retain workers for state government jobs. A report on such findings and recommendations is due to the Governor and the Chairs of the House Appropriations and Senate Finance and Appropriations Committees by September 1, 2021.</p>

# 2021 Enrolled Budget Amendments

Item #	Description
477 #3c	Funding for WC Premiums & LODA to Reflect Adopted Legislation (HB 2207/SB 1375; hypertension & heart disease for EMS and HB 1818/SB 1275; COVID-19 for first responders)

# 2021 Approved Governor's Recommendations

Recommendation #	Description
13	<p>Amend LODA means testing and spouse exception.</p> <p>The Governor's recommendation removes the LODA means testing for any disabled person, as defined in § 9.1-400(B), who was injured in the line-of-duty in February 2016 but whose date of disability for purposes of LODA is in March 2019 and provides that a spouse of such person will not lose health insurance coverage upon divorce or remarriage.</p>



**Helping members plan  
for tomorrow, today.**