Benefits and Actuarial Committee (B&A) Meeting

VRS
1111 E. Main St., 3rd Floor Board Room
Wednesday, 2/7/2024
1:00 - 3:30 PM ET

I. Welcome and Introductions

II. Approve Minutes

B&A Minutes 11.16.2023 final - Page 2

III. Action Items

2024 COLAs requiring Board approval and VRS Funding Policy update.

- **RBA - Approval of July 1, 2024 increase relating to VSDP creditable compensation and VSDP COLA.**
  RBA for VSDP COLA - Page 5
- **RBA - Approval of July 1, 2024 increase relating to VLDP creditable compensation.**
  RBA for VLDP COLA 2024 - Page 7
- **RBA - Approval of July 1, 2024 increase relating to maximum Optional Life, Accidental Death, and Dismemberment insurance coverages.**
  RBA for Maximum OLI - Page 8
  VRS COLAs 2024 B&A 2.7.24 - Page 10
  VRS_ColaLetter_2024_01_31_2024 - Page 25
  2024 Audit COLA Memorandum - signed - Page 29
  Optional Max Consideration 2024 (002) - Page 34
- **RBA - Amend VRS Funding Policy Statement to address payments to cover benefits for employers with no active members.**
  RBA - Amendments to Funding Policy Statement - Page 36
  VRS Funding Policy redline 2-8 no appendices - Page 38

IV. Information Items

- **2024 COLAs called for under statute not requiring Board approval**

  i. COLA for service and disability retirees effective July 1, 2024.

  ii. Group Life Insurance minimum life insurance amount effective July 1, 2024.

V. 2024 Legislative Update

2024 Legislative Update- Board - Page 52

VI. Upcoming B&A Committee Meetings:

- April 17 at 1:00 p.m.
- June 12 at 1:00 p.m.
- October 16 at 1:00 p.m.
- November 14 at 10:00 a.m.

VII. Other Business

Minutes

A regular meeting of the Benefits and Actuarial Committee was held on November 16, 2023, in Richmond, Virginia with the following members participating:

John M. Bennett, Chair
Jessica L. Hood

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Rory Badura, Judy Bolt, Ty Bowers, Jeanne Chenault, Stephanie Conyers, Michael Cooper, David Cotter, Sara Denson, Andy Feagans, Antonio Fisher, Krystal Groff, Daveida Murphy-Hasan, Angela Payne, Virginia Sowers, Emily Trent, Leslie Weldon and Cindy Wilkinson.

Guests:

Jim Anderson, Becky Stouffer and Kurt Dosson, Gabriel, Roeder, Smith & Company; Jamie Bitz, Joint Legislative Audit and Review Commission; and Erin Shell and Amy Stokes, Auditor of Public Accounts.

The meeting convened at 10:00 a.m.

Opening Remarks

Mr. Bennett called the meeting to order and welcomed everyone to the November 16, 2023, meeting of the Benefits and Actuarial Committee.

Approval of Minutes

Upon a motion by Ms. Hood, with a second by Mr. Bennett, the Committee approved the minutes of its October 18, 2023, meeting.

2023 Actuarial Valuation Results for Political Subdivision Retirement Plans, the Virginia Local Disability Program (VLDP), Local Health Insurance Credit (HIC), and the Line of Duty Act (LODA) Fund

Jim Anderson, Becky Stouffer and Kurt Dosson from the VRS plan actuary, Gabriel, Roeder, Smith & Company (GRS), presented the June 30, 2023, actuarial valuation results for the Political Subdivision Retirement Plans, the Virginia Local Disability Program (VLDP), the Local Health Insurance Credit (HIC), and the Line of Duty Act (LODA) fund. The VRS actuary conducts annual valuations as of the close of the fiscal year (June 30). In odd-numbered years, the valuations are used to establish employer contribution rates. The results in even-numbered years are shared with the Board of Trustees to inform the Board of any emerging trends or indications of the magnitude and direction of contribution rates.

Key points from the political subdivision retirement plans, local HIC and VLDP presentation include:

- The June 30, 2023, valuations are used to set the contribution rates for fiscal years 2025 and 2026.

- Unfunded liability as of June 30, 2023, was re-amortized over a 20-year period, collapsing bases created from 2013-2023 into one new base for each plan.
- Pension rates no longer contain an estimate of the DC hybrid employer contributions, representing only the defined benefit portion.
- Pension rates decreased from the prior rate setting for 182 of the 594 local plans, or approximately 31% of employers. For 223 employers, or nearly 38%, the rates will increase by less than 1.0% of covered payroll, and for the remaining 189 employers, or 31% of employers, rates are expected to increase over 1.0% of covered payroll compared to the prior rate setting.
- HIC employer rates for 160 of the 234 employers, nearly 70%, will remain unchanged from the prior rate setting due to funding levels triggering plan surcharges which keep funding at the prior higher rate until a certain funded status is achieved. While funded statuses are improving, over half of the local HIC plans are still below 50% funded.
- VLDP rates for both Teachers and Political Subdivision plans decreased slightly from the prior rate setting due to favorable plan experience.

Ms. Stouffer and Mr. Dosson provided the results for the Line of Duty Act (LODA) Fund.

Key points from the LODA fund presentation include:

- The LODA plan is a pay-as-go plan that must collect the required funds to pay benefits expected to be incurred over the coming year.
- LODA fund premiums are inherently expected to increase each rate setting as the primary benefit is health insurance coverage which is expected to increase each year.

While the proposed two-year rate for LODA increases from $830.00 to $995.00 per FTE, this is below the projected rate from last year due to lower than expected healthcare cost increases along with favorable demographic experience.

Mr. Bennett thanked Ms. Stouffer, Mr. Anderson and Mr. Dosson for their presentation and advised that GRS will also deliver an abbreviated version of their presentation to the full Board of Trustees on November 16, 2023.

Following a motion by Ms. Hood, with a second by Mr. Bennett, the Committee recommended approval of the following action to the full Board of Trustees:

RBA: Approve contribution rates for political subdivisions, the Health Insurance Credit for certain political subdivisions, the Virginia Local Disability Program and the Line of Duty Act Fund, effective for FY 2025 and FY 2026.

Request for Board Action: *After considering the recommendations of its Plan Actuary, the Board accepts the June 30, 2023, valuation report for political subdivisions and the Health Insurance Credit (HIC) for certain political subdivisions; approves a contribution rate of 0.32% for constitutional officers, a rate of 0.26% for social services employees, and a contribution rate of 0.17% for general registrars; approves a contribution rate of 0.45% for the Virginia Local Disability Program (VLDP), including self-funded Long-Term Care for Teachers and a rate of 0.74% for VLDP, including self-funded Long-Term Care for Political*

Subdivisions; and approves a full-time equivalent premium rate of $995.00 for the Line of Duty Death and Health Benefits Trust Fund (Fund), all for both FY 2025 and FY 2026, to be effective July 1, 2024.

Information Item

2024 B&A Committee Meeting Schedule:

Lastly, Mr. Bennett reviewed its 2024 meeting schedule:

- February 7
- April 17
- June 12
- October 16
- November 14

Mr. Bennett advised that all meetings will begin at 1:00 p.m., apart from the November meeting, which is scheduled for 10:00 a.m.

Adjournment

Upon a motion by Ms. Hood, with a second by Mr. Bennett, the Committee agreed to adjourn the meeting.

There being no further business, the meeting concluded at 11:23 a.m.

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Date

John M. Bennett, Chair
Benefits and Actuarial Committee

Approval of July 1, 2024, increase relating to VSDP creditable compensation and VSDP COLA.

Requested Action

Effective July 1, 2024, 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 4.00% for a Plan 1, Plan 2, or Hybrid member who has been the recipient of long-term disability (LTD) benefits for at least one calendar year under the Virginia Sickness and Disability Program (VSDP); and
- A cost of living adjustment shall be applied to the net LTD benefit payment of 3.56% for Plan 1 members vested prior to January 1, 2013, or 3.00% for Plan 1 members not vested by January 1, 2013, and all Plan 2 and Hybrid members.

Description/Background

Code of Virginia § 51.1-1112(C) provides: "Creditable compensation during periods an employee receives long-term disability benefits shall (i) not include salary increases awarded during the period covered by long-term disability benefits and (ii) be increased annually by an amount recommended by the actuary of the Virginia Sickness and Disability Program and approved by the Board."

Code of Virginia § 51.1-1117(B) provides: "The average final compensation of any participating full-time employee taking a service retirement under any provision of this title shall be equal to his creditable compensation on the date of the commencement of the disability increased by an amount recommended by the program actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement."

Code of Virginia § 51.1-1128(B) provides the same requirement for participating full-time employees receiving supplemental (work-related) disability benefits: "The employee's average final compensation shall be equal to his creditable compensation on the date of the commencement of the disability increased by an amount recommended by the actuary of the Virginia Retirement System, and approved by the Board, from the date of the commencement of the disability to the date of retirement."

In accordance with these provisions, each year VRS requests that the plan actuary recommend the cost of living adjustment (COLA) to be applied to the benefit paid and to the creditable compensation of LTD recipients who have been receiving such benefits for at least one calendar year under VSDP.

In 2011, the Board amended the process for determining the COLA to be applied to the creditable compensation of LTD recipients for purposes of calculating service retirement. It is now based on the combined average increase in the pay rate for State, SPORS, and VaLORS VSDP members active at the beginning and the end of the most recent plan year before the date of determination of the COLA.

Rationale for Requested Action

Per the attached January 18, 2024, letter, the VRS plan actuary, Gabriel, Roeder, Smith & Company, observed increases in creditable compensation of 8.47% during fiscal year 2023 for members enrolled in

VSDP. Based on the recommendation from the plan actuary, and consistent with past practice, the recommended increase in creditable compensation for purposes of service retirement from disability shall be 4.00%, and after offsets, an adjustment to the benefit payments of VSDP LTD recipients who have been receiving such payments for at least one calendar year of 3.56% for Plan 1 members vested as of January 1, 2013, or 3.00% for Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members.

Authority for Requested Action

The Board's authority for this action is contained in *Code of Virginia* §§ 51.1-1112, -1117, and -1128.

The above action is approved.

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A. Scott Andrews, Chair   Date
VRS Board of Trustees

Request for Board Action
RBA 2024-02-____

Approval of July 1, 2024, increase relating to VLDP creditable compensation.

Requested Action

Effective July 1, 2024, 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 July 1, 2024, is an increase of 4.00% to be applied to a recipient's creditable compensation.

Description/Background

Code of Virginia § 51.1-1161(C) provides: "The average final compensation of any participating full-time employee taking a service retirement under any provision of this title shall be equal to his creditable compensation on the date of the commencement of the disability increased by an amount recommended by the program actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement."

Code of Virginia § 51.1-1169(C) provides: "The employee's average final compensation shall be equal to his creditable compensation on the date of the commencement of the disability increased by an amount recommended by the actuary of the Virginia Retirement System, and approved by the Board, from the date of the commencement of the disability to the date of retirement."

In accordance with these provisions, VRS requested that its actuary recommend the COLA to be applied to the creditable compensation of LTD recipients who have been receiving such benefits for at least one calendar year under VLDP.

Rationale for Requested Action

Per the attached January 18, 2024, letter, the VRS plan actuary, Gabriel, Roeder, Smith & Company, observed increases in creditable compensation of 7.98% during fiscal year 2023 for VLDP members. Based on the recommendation from the plan actuary, and consistent with past practice the recommended increase in creditable compensation for purposes of service retirement from disability shall be 4.00%.

Authority for Requested Action

The Board's authority for this action is contained in *Code of Virginia* §§ 51.1-1161 and -1169.

The above action is approved.

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A. Scott Andrews, Chair VRS Board of Trustees	Date

Page 1 of 1
February 8, 2024

Virginia Retirement System

Increase maximum Optional Life, Accidental Death, and Dismemberment insurance coverages, effective July 1, 2024.

Requested Action

Effective July 1, 2024, the maximum Optional Life, Accidental Death, and Dismemberment insurance coverage for active insured employees shall increase to $975,000, and the maximum Optional Life insurance coverage for active retirees shall increase to $375,000.

Description/Background

Code of Virginia § 51.1-512(A) provides: "The Board shall, under the terms and conditions specified by the Board, make available to each active insured employee optional life, accidental death, and dismemberment insurance in incremental additional amounts not to exceed a maximum amount determined by the Board. Such maximum shall be reviewed at least once every five calendar years by the actuary of the Virginia Retirement System and increased by the Board upon the recommendation of the actuary. The amount recommended by the actuary shall be based upon the annual increases in the United States Average Consumer Price Index for all items, all urban consumers (CPI-U), as published by the Bureau of Labor Statistics of the United States Department of Labor."

Code of Virginia § 51.1-512(E) provides: "The optional amount of life insurance in force on an employee who retires for service on an immediate retirement allowance, or for an employee who retired for disability on an immediate retirement allowance and who attains his "normal retirement date" as defined in § 51.1-124.3, may be continued provided the retiree was continuously insured under this section for a period of at least 60 continuous months prior to retirement, or prior to reaching his "normal retirement date" as defined in § 51.1-124.3 for a disability retirement. This continued insurance shall be in incremental amounts not to exceed a maximum amount determined by the Board and the amounts and corresponding maximum coverage shall reduce beginning at the employee's "normal retirement date" as defined in § 51.1-124.3, as determined by the Board. This maximum coverage amount shall be reviewed at least once every five calendar years as provided for under subsection A. The life insurance continued under this subsection shall cease upon the earliest of (i) the date the retiree attains age 80, (ii) lapse for nonpayment of premium, or (iii) return to employment and eligibility for active employee life insurance under Chapter 5 (§ 51.1-500 et seq.) of Title 51.1. All accidental death and dismemberment insurance shall cease at retirement."

In accordance with these provisions, every five years VRS requests a recommendation for the maximum amount of coverage for Optional Life, Accidental Death, and Dismemberment insurance for insured active employees, and a maximum amount of coverage for Optional Life insurance for insured retirees. (Note: The insured retirees would only have Optional Life coverage since the statute provides that all accidental death and dismemberment insurance ceases at retirement.)

The current maximum amount of coverage for Optional Life, Accidental Death, and Dismemberment insurance for insured active employees is $800,000, and the current maximum amount of coverage for Optional Life insurance for insured retirees is $300,000. These maximums have been in place since July 1, 2019.

Rationale for Requested Action

Per the attached January 31, 2024, letter, GRS has recommended $975,000 as the maximum amount of coverage for Optional Life, Accidental Death, and Dismemberment insurance for insured active employees, and $375,000 as the maximum amount of coverage for Optional Life insurance for insured retirees.

Authority for Requested Action

The Board's authority for this action is contained in *Code of Virginia* § 51.1-512.

The above action is approved.

____ ____________________________

A. Scott Andrews, Chair
VRS Board of Trustees

Date

Virginia Retirement System

Virginia Retirement System Cost-of-Living Adjustments (COLAs)

February 7, 2024

Virginia Retirement System

VRS COLAs

Retirement Supplement

- Per § 51.1-166 of the *Code of Virginia,* VRS post-retirement supplements shall be determined annually by reference to the increase in the United States Average Consumer Price Index for all items, all urban consumers (CPI-U), as published by the Bureau of Labor Statistics of the United States Department of Labor.
- The percentages shall be based on the monthly averages and shall be the difference between (i) the average for the calendar year just ended and (ii) the average for the most recent calendar year used in the determination of the post-retirement supplements currently being paid.

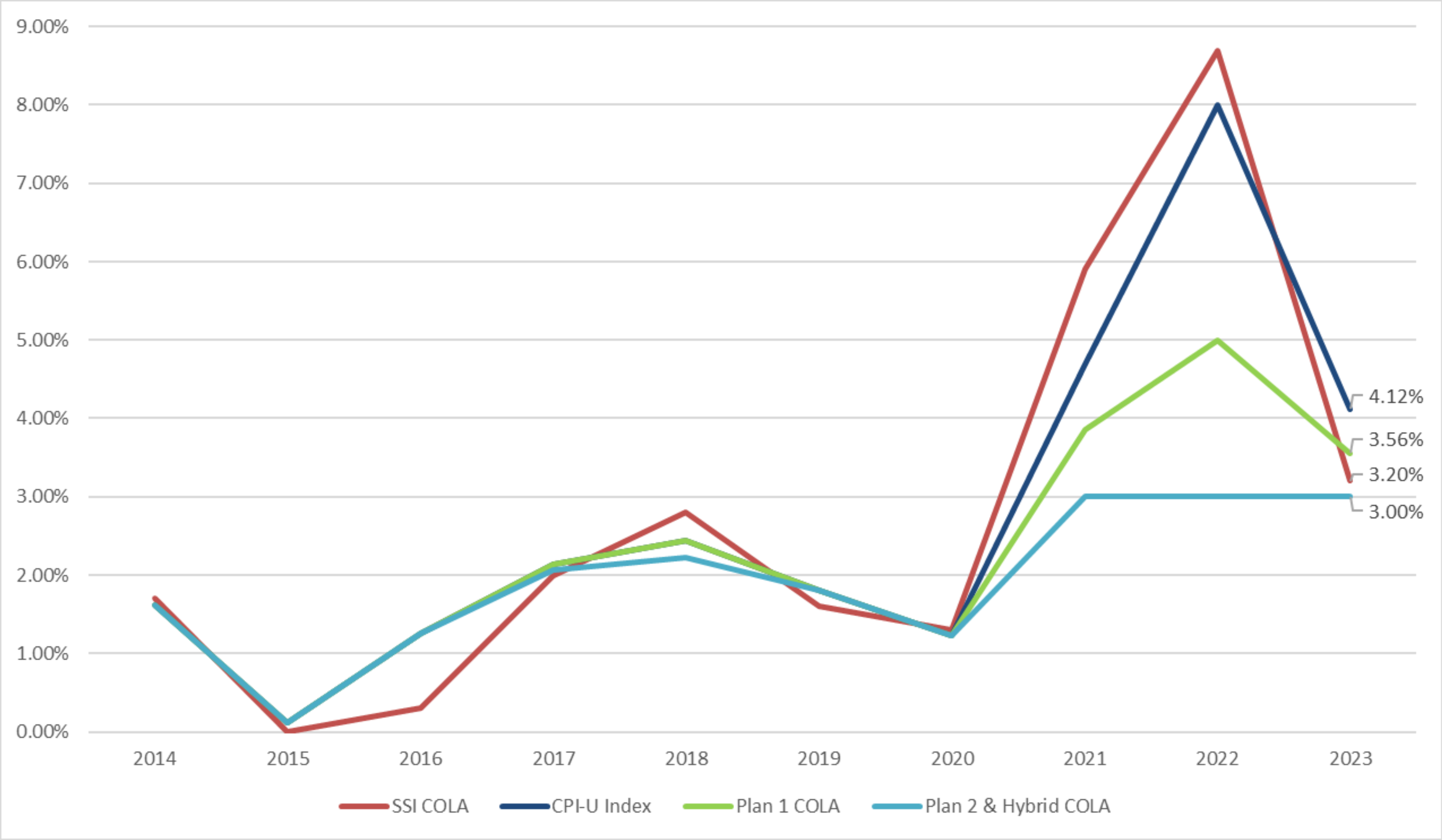
Post-Retirement Supplement (COLA)

Calendar Year	COLA Index U.S. CPI-U	Annual growth rate	VRS COLA			
			Plan 1	Plan 2	Hybrid	Effective
2014	236.736	1.62%	1.62%	1.62%	N/A	July 2015
2015	237.017	0.12%	0.12%	0.12%	0.12%	July 2016
2016	240.007	1.26%	1.26%	1.26%	1.26%	July 2017
2017	245.120	2.13%	2.13%	2.07%	2.07%	July 2018
2018	251.107	2.44%	2.44%	2.22%	2.22%	July 2019
2019	255.657	1.81%	1.81%	1.81%	1.81%	July 2020
2020	258.811	1.23%	1.23%	1.23%	1.23%	July 2021
2021	270.970	4.70%	3.85%	3.00%	3.00%	July 2022
2022	292.655	8.00%	5.00%	3.00%	3.00%	July 2023
2023	304.702	4.12%	3.56%	3.00%	3.00%	July 2024

- Plan 1 members receive 100% of the first 3% increase in CPI-U* and 50% of any increase between 3% and 7%, capped at 5%.
- Effective January 1, 2013, the COLA for Plan 2 and Hybrid members is 100% of first 2% increase in CPI-U and 50% of any increase between 2% and 4%, capped at 3%.

* United States Average Consumer Price Index for all items, all urban consumers, as published by the Bureau of Labor Statistics of the United States Department of Labor.

Comparison of Indices



- VRS COLAs are based on the average monthly CPI-U increase which was 4.12%.
- SSI COLA is based on different index and method and is determined in September rather than year end.
- The 2023 VRS COLA for Plan 1 is higher than the SSI COLA. The COLA for Plan 2 & Hybrid is capped at the maximum of 3.00%.

VSDP Increase in Creditable Compensation

- Per § 51.1-1112(C), 51.1-1117(B) and 51.1-1128(B), Virginia Sickness and Disability Program (VDSP) creditable compensation is to be increased annually by an amount recommended by the program actuary and approved by the Board.
- VSDP creditable compensation is increased each year based on the combined average increase in the pay rate for State, SPORS and VaLORS VSDP members active at the beginning and the end of the most recent plan year before the date of determination of the COLA.

VSDP Increase in Creditable Compensation

Virginia Retirement System
VSDP Increase in Creditable Compensation for VRS Pension Benefit Purposes

Average pay increase from 2022 to 2023 for members active as of June 30, 2022 and June 30, 2023, and reported in VRS valuation data as participating in VSDP

	June 30, 2022		June 30, 2023		
Plan	Number Members	Annual Pay Rate	Number Members	Annual Pay Rate	Increase in Pay Rate
State	60,384	$ 4,022,533,001	60,384	$ 4,368,048,505	8.59%
VaLORS	5,561	$ 285,438,377	5,504	$ 305,069,489	6.88%
SPORS	1,528	$ 120,144,655	1,520	$ 130,013,994	8.21%
Total	67,473	$ 4,428,116,033	67,408	$ 4,803,131,988	8.47%
Increase in Total Annual Pay Rate (Not to Exceed 4.00%)					4.00%

- The annual COLA to be applied to a VSDP long-term disability claimant's creditable compensation may not exceed 4.00%.

VSDP Increase in LTD Benefit

Virginia Retirement System

- For members who have been the recipient of long-term disability (LTD) benefits for at least one year under the Virginia Sickness and Disability Program shall receive an increase in the net LTD benefit payment.
- For Plan 1 members vested prior to January 1, 2013 – 3.56% increase.
- For Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members – 3.00% increase.

VLDP Increase in Creditable Compensation

- Per § 51.1-1161(C) and 51.1-1169(C), Virginia Local Disability Program (VLDP) creditable compensation shall be increased by an amount recommended by the program actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
- Increases in VLDP creditable compensation will be computed each year based on the combined average increase in the pay rate for Teachers and Political Subdivisions participating in the Hybrid Retirement Plan active at the beginning and the end of the most recent plan year before the date of determination of the COLA.
- The increase is not applied on an annual basis, but is applied to a member's average final compensation if the member ends up taking a service retirement directly from long-term disability status.

VLDP Increase in Creditable Compensation

Virginia Retirement System

Virginia Retirement System
VLDP Increase in Creditable Compensation for VRS Pension Benefit Purposes

Average pay increase from 2022 to 2023 for Hybrid Plan members active as of June 30, 2022 and June 30, 2023

	June 30, 2022		June 30, 2023		
Plan	Number Members	Annual Pay Rate	Number Members	Annual Pay Rate	Increase in Pay Rate
Teachers - Hybrid	57,543	$ 2,886,706,789	57,543	$ 3,095,854,454	7.25%
Political Subdivisions - Hybrid	36,576	$ 1,700,747,859	36,576	$ 1,857,707,164	9.23%
Total	94,119	$ 4,587,454,648	94,119	$ 4,953,561,618	7.98%
Increase in Total Annual Pay Rate (Not to Exceed 4.00%)					4.00%

- The annual COLA to be applied to a VLDP long-term disability claimant's creditable compensation may not exceed 4.00%.

Group Life Insurance – Minimum Benefit

Virginia Retirement System

- § 51.1-505(B) provides that the reduction in life insurance coverage shall not decrease the amount of life insurance on an employee to less than 25 percent of the amount of life insurance to which the initial reduction is applied.
- Effective July 1, 2014, for retirees with at least 30 years of creditable service, the reduction shall not decrease the amount of life insurance to less than $8,000.
- The $8,000 minimum coverage shall be increased by the same percentage as any annual post-retirement supplement for retirees, as calculated for employees hired on or after July 1, 2010, pursuant to § 51.1-166.

Group Life Insurance – Minimum Benefit

Virginia Retirement System

Calendar Year End	Plan 2 COLA	Group Life Minimum
2014	1.62%	$8,000
2015	0.12%	$8,010
2016	1.26%	$8,111
2017	2.07%	$8,279
2018	2.22%	$8,463
2019	1.81%	$8,616
2020	1.23%	$8,722
2021	3.00%	$8,984
2022	3.00%	$9,254
2023	3.00%	$9,532

Optional Group Life Insurance – Maximum Benefit

- § 51.1-512 provides that the maximum optional life insurance benefit for active and retired members will be reviewed at least every five years.
- The amount recommended by the actuary shall be based upon the annual increases in the United States Average Consumer Price Index for all items, all urban consumers (CPI-U), as published by the Bureau of Labor Statistics of the United States Department of Labor.
- The maximum benefits are increased by the change in the CPI-U from one review date to the next. The change in the CPI-U from 2018 to 2023 results in an increase of 22.10%.
- Results are rounded to the nearest $25,000.

Optional Group Life Insurance – Maximum Benefit

- Applying the 22.10% increase provides a maximum benefit of approximately $977,000, which when rounded to nearest $25,000 increment provides a new proposed limit of $975,000.
- The proposed increase to the retiree limit is based on same methodology used in determining the active coverage limit.
- The spouse limit is defined as 50% of the active coverage amount in § 51.1-512.1.
- The minor dependent coverage is to be reviewed periodically to account for changes if required. No recommendation for change at this time.

Optional Life Insurance Maximums

Coverage Group	Current Limit	Proposed Limit
Active	$800,000	$975,000
Spouse	$400,000	$487,500
Retiree	$300,000	$375,000
Child	$30,000	$30,000

Questions

800.521.0498 | P: 248.799.9000 | www.grsconsulting.com

January 31, 2024

Mr. Rory Badura, ASA, EA, FCA, MAAA
Senior Staff Actuary
Virginia Retirement System
1200 E. Main Street
Richmond, VA 23219

Re: Cost of Living Adjustments (COLA) Effective July 1, 2024

Dear Mr. Badura:

As requested, we have calculated the annual COLA called for under Virginia Code for the Virginia Retirement System (VRS), the Virginia Sickness and Disability Program (VSDP), the Virginia Local Disability Program (VLDP) and the Group Insurance Program, in particular, the Group Life Insurance (GLI).

The following table summarizes the adjustments recommended effective July 1, 2024. Those denoted in **bold** require action by the Board of Trustees to set the amount of adjustment.

COLA Type/Group	Required by Code	Adjustment Level Set by Board Resolution	July 1, 2024 Adjustment	July 1, 2024 Annual Amount
VRS Plan 1 (Vested as of 1/1/2013)	Yes	N/A	3.56%	N/A
VRS Plan 1 Non-Vested, Plan 2, and Hybrid Plan	Yes	N/A	3.00%	N/A
VSDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Yes	Yes	**4.00%**	N/A
VLDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Yes	Yes	**4.00%**	N/A
VSDP Plan 1 (Vested as of 1/1/2013) (Net LTD Benefit)	Yes	Yes	**3.56%**	N/A
VSDP Plan 1 Non-Vested, Plan 2, and Hybrid	Yes	Yes	**3.00%**	N/A
GLI Minimum Benefit (Applicable to employees with at least 30 years of creditable service)	Yes	N/A	3.00%	$ 9,532
Optional Life Maximum Benefit				
(Applicable to Active Employees)	Yes	Yes	22.10%	**$975,000**
(Applicable to Retirees)	Yes	Yes	22.10%	**$375,000**
(Applicable to Spouses)	Yes	Yes	N/A	**$487,500**

One Towne Square | Suite 800 | Southfield, Michigan 48076-3723

The COLA adjustments were calculated in accordance with the Virginia Code and our understanding of Board of Trustee Policies and Procedures, as adopted February 4, 2011. Refer to the enclosure for additional detail supporting the calculated COLA adjustments.

Please let us know if you have any questions.

Sincerely,
Gabriel, Roeder, Smith & Company

Rebecca L. Stouffer, ASA, FCA, MAAA

James D. Anderson, FSA, EA, FCA, MAAA

RLS/JDA:ah

Enclosure

cc: Sandy Jack, VRS

VRS, VSDP, VLDP, GLI COLA and Recommendations Effective July 1, 2024

COLA Type/Group	Brief Description	Code Section(s)	Average CPI-U 2022	Average CPI-U 2023	CPI-U Increase[1]	COLA Calculation: 100% of First 3.00%	50% of Next 4.00%	COLA
VRS Plan 1 (Vested as of 1/1/2013)	100% of the CPI-U Increase up to 3.00% plus 50% of the next 4.00%. Minimum COLA of 0.00%. Maximum COLA of 5.00%.	51.1-166.B.	292.655	304.702	4.12%	3.00%	0.56%	**3.56%**

COLA Type/Group	Brief Description	Code Section(s)	Average CPI-U 2022	Average CPI-U 2023	CPI-U Increase[1]	COLA Calculation: 100% of First 2.00%	50% of Next 2.00%	COLA
VRS Plan 1 Non-Vested, Plan 2, and Hybrid Plan	100% of the CPI-U increase up to 2.00%, plus 50% of the next 2.00%. Minimum COLA of 0.00%. Maximum COLA of 3.00%.	51.1-166.B.	292.655	304.702	4.12%	2.00%	1.00%	**3.00%**

COLA Type/Group	Brief Description/Rationale[2]	Code Section(s)	Creditable Compensation[3] 2022	Creditable Compensation[3] 2023	% Increase in Pay	COLA Calculation: 100% of First 4.00%		COLA
VSDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	As recommended by Cavanaugh Macdonald Consulting, LLC and adopted by the Board in 2011, the VSDP Creditable Compensation COLA is based on the increase in the pay rate for State, SPORS and VaLORS VSDP members active at the beginning and the end of the most recent plan year before the date of determination of the COLA. The COLA calculated in this manner may be modified to reflect extraordinary pay adjustments during a given year; however, is subject to the Maximum COLA. Maximum COLA of 4.00%.	51.1-1117.B. 51.1-1123.C. 51.1-1128.B.	$4,428,116,033	$4,803,131,988	8.47%	4.00%		**4.00%**

COLA Type/Group	Brief Description/Rationale	Code Section(s)	Creditable Compensation 2022	Creditable Compensation 2023	% Increase in Pay	COLA Calculation: 100% of First 4.00%		COLA
VLDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Apply approach similar to the "VSDP Creditable Compensation." The VLDP Creditable Compensation COLA was based on the increase in the pay rate for Hybrid Pension Plan members (of the Teacher Plan and non-hazardous duty Political Subdivisions) active at the beginning and the end of the most recent plan year before the date of determination of COLA. The COLA calculated in this manner may be modified to reflect extraordinary pay adjustments during a given year, subject to the VSDP maximum COLA level.	51.1-1161.C. 51.1-1169.C.	$4,587,454,648	$4,953,561,618	7.98%	4.00%		**4.00%**

COLA Type/Group	Brief Description/Rationale	Code Section(s)		COLA Calculation		COLA
VSDP Plan 1 (Vested as of 1/1/2013) (Net LTD Benefit)	As individuals in receipt of LTD benefits are akin to retirees receiving a retirement allowance, adjust the Net LTD benefit by 100% of the COLA for VRS Plan 1 (Vested as of 1/1/2013).	51.1-1112.C. 51.1-1125.C.				**3.56%**

COLA Type/Group	Brief Description/Rationale	Code Section(s)		COLA Calculation		COLA
VSDP Plan 1 Non-Vested, Plan 2, and Hybrid	As individuals in receipt of LTD benefits are akin to retirees receiving a retirement allowance, adjust the Net LTD benefit by 100% of the COLA for VRS Plan Non-Vested, Plan 2 and Hybrid Plan.	51.1-1112.C. 51.1-1125.C.				**3.00%**

[1] *Increase in CPI-U is the ratio, or percentage change, of the current year CPI-U to prior year CPI-U index. By Code, the CPI-U index is defined as the calendar year average of the monthly CPI-U averages.*

[2] *The COLA maximum is not explicitly stated in the Request for Board Action (RBA) – 2011-02-04. Based upon a review of the 2022 Cost of Living Adjustments letter, dated January 20, 2022, and confirmation with the VRS staff, GRS understands that a maximum COLA of 4.00% is applicable under the current policies and procedures.*

[3] *Creditable Compensation has been compiled from the data provided by the VRS for the June 30, 2022 and June 30, 2023 actuarial valuations.*

VRS, VSDP, VLDP, GLI COLA and Recommendations Effective July 1, 2024 (Concluded)

COLA Type/Group	Brief Description	Code Section(s)		Adjusted Minimum Benefit Calculation		
				COLA	Before COLA	After COLA
GLI Minimum Benefit (Applicable to employees with at least 30 years of creditable service)	Minimum $8,000 is indexed annually by 100% of the VRS COLA for Plan 1 Non-Vested, Plan 2, and Hybrid Plan.	51.1-505.B.		**3.00%**	$9,254	**$9,532**

COLA Type/Group	Brief Description	Code Section(s)	December:	CPI-U	Increase	Adjusted Maximum Benefit Calculation		
						Increase	Before Increase	After Increase
Optional Life Insurance Maximum Benefit (Applicable to Active Employees)	Maximum amount is set by the Board. The maximum shall be reviewed at least once every five calendar years. Increase is based upon the annual increases in the CPI-U. The method uses the 5-year increase in December CPI-U basis, applied to the previous maximum, rounded to the nearest $25,000. The adjusted benefit shall be no less than the prior benefit.	51.1-512.A.	2018	251.233		**22.10%**	$800,000	**$975,000**
			2019	256.974	2.29%			
			2020	260.474	1.36%			
			2021	278.802	7.04%			
			2022	296.797	6.45%			
			2023	306.746	3.35%			
			5-Year Increase		22.10%			

COLA Type/Group	Brief Description	Code Section(s)				Adjusted Maximum Benefit Calculation		
						Increase	Before Increase	After Increase
Optional Life Insurance Maximum Benefit (Applicable to Retirees)	The optional amount of life insurance in force on an employee who retires for service (on an immediate retirement allowance) may be continued under select conditions. The amount of increase is determined following the same procedure as is in place for the "Applicable to Active Employees" group.	51.1-512.E.				**22.10%**	$300,000	**$375,000**

COLA Type/Group	Brief Description	Code Section(s)				Adjusted Maximum Benefit Calculation		
							Before Increase	After Increase
Optional Life Insurance Maximum Benefit (Applicable to Spouses)	For the spouse of an active insured employee: an amount up to 50% of the maximum amount of optional insurance available to the employee under 51.1-512.	51.1-512.1.A.1.					$400,000	**$487,500**

Virginia Retirement System

P.O. Box 2500, Richmond, Virginia 23218-2500
Toll-free: 1-888-VARETIR (827-3847)
Website: www.varetire.org

MEMORANDUM

TO: Patricia S. Bishop, VRS Director

FROM: Jennifer P. Bell Schreck, VRS Internal Audit Director

DATE: February 1, 2024

RE: Cost of Living Adjustments (COLAs)

Internal Audit has reviewed the amounts referred to as "Cost of Living Adjustments" as set forth in the attached letter and supporting table from VRS' actuary, Gabriel, Roeder, Smith & Company dated January 31, 2024.

In conducting our review, we independently recalculated the "Cost of Living Adjustments" using data and procedures provided by management and the actuary, while confirming certain external components associated with such calculations. We also examined the Code of Virginia sections referred to in the actuary's letter and supporting table.

Based upon our review, we found the "Cost of Living Adjustments" in the above referenced letter and table to be valid and accurate, based on the data provided, subject to the assumptions included therein with respect to increases in the VSDP LTD benefit, VSDP creditable compensation and VLDP creditable compensation, where the amounts are not specified by statute, but instead are to be recommended by the actuary and approved by the Board.

Please let me know if you have any questions. I ask that you share this information with the Benefits and Actuarial Committee.

Attachment

GRS

800.521.0498 | P: 248.799.9000 | www.grsconsulting.com

January 31, 2024

Mr. Rory Badura, ASA, EA, FCA, MAAA
Senior Staff Actuary
Virginia Retirement System
1200 E. Main Street
Richmond, VA 23219

Re: Cost of Living Adjustments (COLA) Effective July 1, 2024

Dear Mr. Badura:

As requested, we have calculated the annual COLA called for under Virginia Code for the Virginia Retirement System (VRS), the Virginia Sickness and Disability Program (VSDP), the Virginia Local Disability Program (VLDP) and the Group Insurance Program, in particular, the Group Life Insurance (GLI).

The following table summarizes the adjustments recommended effective July 1, 2024. Those denoted in **bold** require action by the Board of Trustees to set the amount of adjustment.

COLA Type/Group	Required by Code	Adjustment Level Set by Board Resolution	July 1, 2024	
			Adjustment	Annual Amount
VRS Plan 1 (Vested as of 1/1/2013)	Yes	N/A	3.56%	N/A
VRS Plan 1 Non-Vested, Plan 2, and Hybrid Plan	Yes	N/A	3.00%	N/A
VSDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Yes	Yes	**4.00%**	N/A
VLDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Yes	Yes	**4.00%**	N/A
VSDP Plan 1 (Vested as of 1/1/2013) (Net LTD Benefit)	Yes	Yes	**3.56%**	N/A
VSDP Plan 1 Non-Vested, Plan 2, and Hybrid	Yes	Yes	**3.00%**	N/A
GLI Minimum Benefit (Applicable to employees with at least 30 years of creditable service)	Yes	N/A	3.00%	$ 9,532
Optional Life Maximum Benefit				
(Applicable to Active Employees)	Yes	Yes	22.10%	**$975,000**
(Applicable to Retirees)	Yes	Yes	22.10%	**$375,000**
(Applicable to Spouses)	Yes	Yes	N/A	**$487,500**

The COLA adjustments were calculated in accordance with the Virginia Code and our understanding of Board of Trustee Policies and Procedures, as adopted February 4, 2011. Refer to the enclosure for additional detail supporting the calculated COLA adjustments.

Please let us know if you have any questions.

Sincerely,
Gabriel, Roeder, Smith & Company

Rebecca L. Stouffer

Rebecca L. Stouffer, ASA, FCA, MAAA

James D. Anderson

James D. Anderson, FSA, EA, FCA, MAAA

RLS/JDA:ah

Enclosure

cc: Sandy Jack, VRS

VRS, VSDP, VLDP, GLI COLA and Recommendations Effective July 1, 2024

COLA Type/Group	Brief Description	Code Section(s)	Average CPI-U		CPI-U Increase[1]	COLA Calculation		
			2022	2023		100% of First 3.00%	50% of Next 4.00%	COLA
VRS Plan 1 (Vested as of 1/1/2013)	100% of the CPI-U Increase up to 3.00% plus 50% of the next 4.00%. Minimum COLA of 0.00%. Maximum COLA of 5.00%.	51.1-166.B.	292.655	304.702	4.12%	3.00%	0.56%	**3.56%**

COLA Type/Group	Brief Description	Code Section(s)	Average CPI-U		CPI-U Increase[1]	COLA Calculation		
			2022	2023		100% of First 2.00%	50% of Next 2.00%	COLA
VRS Plan 1 Non-Vested, Plan 2, and Hybrid Plan	100% of the CPI-U increase up to 2.00%, plus 50% of the next 2.00%. Minimum COLA of 0.00%. Maximum COLA of 3.00%.	51.1-166.B.	292.655	304.702	4.12%	2.00%	1.00%	**3.00%**

COLA Type/Group	Brief Description/Rationale[2]	Code Section(s)	Creditable Compensation[3]		% Increase in Pay	COLA Calculation		
			2022	2023		100% of First 4.00%		COLA
VSDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	As recommended by Cavanaugh Macdonald Consulting, LLC and adopted by the Board in 2011, the VSDP Creditable Compensation COLA is based on the increase in the pay rate for State, SPORS and VaLORS VSDP members active at the beginning and the end of the most recent plan year before the date of determination of the COLA. The COLA calculated in this manner may be modified to reflect extraordinary pay adjustments during a given year; however, is subject to the Maximum COLA. Maximum COLA of 4.00%.	51.1-1117.B. 51.1-1123.C. 51.1-1128.B.	$4,428,116,033	$4,803,131,988	8.47%	4.00%		**4.00%**

COLA Type/Group	Brief Description/Rationale	Code Section(s)	Creditable Compensation		% Increase in Pay	COLA Calculation		
			2022	2023		100% of First 4.00%		COLA
VLDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Apply approach similar to the "VSDP Creditable Compensation." The VLDP Creditable Compensation COLA was based on the increase in the pay rate for Hybrid Pension Plan members (of the Teacher Plan and non-hazardous duty Political Subdivisions) active at the beginning and the end of the most recent plan year before the date of determination of COLA. The COLA calculated in this manner may be modified to reflect extraordinary pay adjustments during a given year, subject to the VSDP maximum COLA level.	51.1-1161.C. 51.1-1169.C.	$4,587,454,648	$4,953,561,618	7.98%	4.00%		**4.00%**

COLA Type/Group	Brief Description/Rationale	Code Section(s)		COLA Calculation		
						COLA
VSDP Plan 1 (Vested as of 1/1/2013) (Net LTD Benefit)	As individuals in receipt of LTD benefits are akin to retirees receiving a retirement allowance, adjust the Net LTD benefit by 100% of the COLA for VRS Plan 1 (Vested as of 1/1/2013).	51.1-1112.C. 51.1-1125.C.				**3.56%**

COLA Type/Group	Brief Description/Rationale	Code Section(s)		COLA Calculation		
						COLA
VSDP Plan 1 Non-Vested, Plan 2, and Hybrid	As individuals in receipt of LTD benefits are akin to retirees receiving a retirement allowance, adjust the Net LTD benefit by 100% of the COLA for VRS Plan Non-Vested, Plan 2 and Hybrid Plan.	51.1-1112.C. 51.1-1125.C.				**3.00%**

[1] *Increase in CPI-U is the ratio, or percentage change, of the current year CPI-U to prior year CPI-U index. By Code, the CPI-U index is defined as the calendar year average of the monthly CPI-U averages.*

[2] *The COLA maximum is not explicitly stated in the Request for Board Action (RBA) – 2011-02-04. Based upon a review of the 2022 Cost of Living Adjustments letter, dated January 20, 2022, and confirmation with the VRS staff, GRS understands that a maximum COLA of 4.00% is applicable under the current policies and procedures.*

[3] *Creditable Compensation has been compiled from the data provided by the VRS for the June 30, 2022 and June 30, 2023 actuarial valuations.*

VRS, VSDP, VLDP, GLI COLA and Recommendations Effective July 1, 2024 (Concluded)

COLA Type/Group	Brief Description	Code Section(s)		Adjusted Minimum Benefit Calculation		
				COLA	Before COLA	After COLA
GLI Minimum Benefit (Applicable to employees with at least 30 years of creditable service)	Minimum $8,000 is indexed annually by 100% of the VRS COLA for Plan 1 Non-Vested, Plan 2, and Hybrid Plan.	51.1-505.B.		**3.00%**	$9,254	**$9,532**

COLA Type/Group	Brief Description	Code Section(s)	December:	CPI-U	Increase	Adjusted Maximum Benefit Calculation		
						Increase	Before Increase	After Increase
Optional Life Insurance Maximum Benefit (Applicable to Active Employees)	Maximum amount is set by the Board. The maximum shall be reviewed at least once every five calendar years. Increase is based upon the annual increases in the CPI-U. The method uses the 5-year increase in December CPI-U basis, applied to the previous maximum, rounded to the nearest $25,000. The adjusted benefit shall be no less than the prior benefit.		2018	251.233				
			2019	256.974	2.29%			
			2020	260.474	1.36%			
			2021	278.802	7.04%			
			2022	296.797	6.45%			
			2023	306.746	3.35%			
		51.1-512.A.	5-Year Increase		22.10%	**22.10%**	$800,000	**$975,000**

COLA Type/Group	Brief Description	Code Section(s)				Adjusted Maximum Benefit Calculation		
						Increase	Before Increase	After Increase
Optional Life Insurance Maximum Benefit (Applicable to Retirees)	The optional amount of life insurance in force on an employee who retires for service (on an immediate retirement allowance) may be continued under select conditions. The amount of increase is determined following the same procedure as is in place for the "Applicable to Active Employees" group.	51.1-512.E.				**22.10%**	$300,000	**$375,000**

COLA Type/Group	Brief Description	Code Section(s)				Adjusted Maximum Benefit Calculation		
							Before Increase	After Increase
Optional Life Insurance Maximum Benefit (Applicable to Spouses)	For the spouse of an active insured employee: an amount up to 50% of the maximum amount of optional insurance available to the employee under 51.1-512.	51.1-512.1.A.1.					$400,000	**$487,500**

Securian Financial Group, Inc.
400 Robert Street North
St. Paul, MN 55101-2098
651-665-3500
securian.com

securian FINANCIAL

January 31, 2024

Cassandra Coles
Beneficiary Payments Administrator
Virginia Retirement System
1200 E. Main Street
Richmond, Virginia 23218-2500

RE: Optional Life Insurance Maximum

Dear Cassandra Coles:

The following details our review to increase Optional life maximum for active employees from $800,000 to $977,000. You may choose to round the $977,000 figure up to $1,000,000. The other coverages follow the same method, only at a different base amount. The current spouse maximum is $400,000 and the retiree maximum is $300,000.

The analysis was performed using a method consistent with the statutory requirements (§ 51.1-512) as well as previous analyses. The most recent analysis was performed in January 2019 using CPI-U increases through December 2018. The following table show the effect of CPI-U growth on amounts of insurance. The table format is similar to past analyses. For example, "Year of Review" of 2020 shows an "Increase in CPI-U" representing the CPI-U increase over the period from December 2018 to December 2019. This matched the convention believe was established by Gabriel, Roeder and Smith in their work for VRS.

Year of Review	Increase in CPI-U	New Maximum Amount of Life Insurance	
		800,000	(Base Amount)
2020	2.29%	818,000	
2021	1.36%	829,000	
2022	7.04%	888,000	
2023	6.45%	945,000	
2024	3.35%	977,000	

The average annual CPI-U increase over the past 5 years is 4.07%.

To calculate the compound growth rate over that 5-year period, we multiplied the six growth factors as follows:

$$1.0229 \times 1.0136 \times 1.0704 \times 1.0645 \times 1.0335 = 1.220962$$

The total compounded growth in the CPI from December 2018 to December 2023 is 22.0962%.

We then solved for the fifth root of 1.220962 to find what annual growth rate, compounded for five years, produces the same total growth. The exact answer is 4.073559%, which is demonstrated by the following calculation:

1.04073559 x 1.04073559 x 1.04073559 x 1.04073559 x 1.04073559 = 1.220962

On a rounded basis, 4.073559% becomes 4.07%.

4.07% compounded for five years produces the same total growth as the five given rates for the most recent five years.

You may choose to round the $977,000 figure up to $1,000,000. This represents an amount 2.4% more than the exact calculated amount of $977,000.

The statue appears to only apply to active coverage, but we may want to propose increases to the other coverages as well. The proposed increases to the other coverages would be in the same proportion as the active coverage:

Coverage	Current Max	Proposed Max
Active	$800,000	$1,000,000
Retiree	$300,000	$375,000
Spouse	$400,000	$500,000

The VRS dependent child maximum amount of $30,000 is slightly higher than the rest of Securian's book of business for dependent child coverage. The dependent child maximum does not need adjustment at this time.

Sincerely,

Account Executive

Securian Richmond Branch Office

Request for Board Action
RBA 2024-02-____

Virginia Retirement System

Amend VRS Funding Policy Statement to Address Payments to Cover Benefits for Employers with No Active Members

Requested Action

The Board approves the changes to the VRS Funding Policy Statement (Funding Policy) to allow VRS to determine alternative funding requirements for employers with no active members who still have retirees or inactive members eligible for future VRS benefits. Such alternative funding requirements may include allowing ad hoc payments that may be necessary to cover future benefits if employer assets are insufficient to cover future cash flow needs.

Description/Background

VRS staff recommends this change to the Funding Policy in order to provide greater flexibility in pursuing funding for employers who no longer have active members covered by VRS. The current funding policy is structured assuming that employers are active ongoing entities and, therefore, develop contributions as a percentage of active payroll. However, we currently have 14 employers who have no active VRS members and who still have liabilities associated inactive or retired members. Three of these 14 entities have liabilities that are not covered by their assets and therefore would require ad hoc contributions to bring their funding levels back to an adequate level.

The Funding Policy is currently silent on this issue and the proposed additions to the Funding Policy will provide VRS with additional means to ensure the funding of benefits for these employers with no active VRS members.

Rationale for Requested Action

The VRS Funding Policy Statement memorializes the methods by which the Board has elected to fund each plan, and the proposed amendments to the policy statement allow for increased flexibility in dealing with employers with no active members.

A redlined version of the amended Funding Policy is attached to this RBA.

Authority for Requested Action

Article X, § 11 of the *Constitution of Virginia* requires that VRS benefits be funded using methods that are consistent with generally accepted actuarial principles, and *Code of Virginia* § 51.1-124.22(A)(8) authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date

VRS Funding Policy Statement[1]

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1. Introduction

A plan funding policy determines how much should be contributed each year by employers and participants to provide for the secure funding of benefits in a systematic fashion.

The principal goal of a funding policy is to ensure that future contributions along with current plan assets are sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due. The funding policy should seek to manage and control future contribution volatility to the extent reasonably possible, consistent with other policy goals. The actuarially determined contribution should be calculated in a manner that fully funds the long-term costs of promised benefits, while balancing the goals of 1) keeping contributions relatively stable and 2) equitably allocating the costs over the employees' period of active service.

The current funding policy used by the VRS Board sets contribution rates using the Entry Age Normal cost method, an investment return assumption of 6.75%, an inflation assumption of 2.5%, and a closed 20-year amortization period for unfunded liabilities (Legacy unfunded liabilities as of 6/30/13 are amortized over a closed 30-year amortization period.)

Article X, § 11 of the *Constitution of Virginia* provides that the Virginia Retirement System benefits shall be funded using methods which are consistent with generally accepted actuarial principles. Until 2012, the Annual Required Contribution (ARC) as described in the Governmental Accounting Standards Board's (GASB's) Statements No. 25 and No. 27 was a de facto funding policy for many public- sector retirement systems, including the Virginia Retirement System.

The Board sets contribution rates for all local employers under this policy. However, with respect to the plans for state employees and the teacher plan, while the rates developed under the Board's policy are the certified contribution rates, the Governor and the General Assembly determine the funding that they will provide through the state budget process toward the Board certified contribution rates for the State and Teachers and other statewide OPEB plans. Beginning in FY 2013, § 51.1-145.K1 of the Code of Virginia set out guidelines for the General Assembly to follow for the funding of the contribution rates certified by the VRS Board, phasing in from approximately 67% of Board-certified rate to 100% of the Board-certified rate over the next four biennia. These statutory guidelines do not apply to funding levels for Other Postemployment Benefits (OPEBs) administered by VRS.

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[1] Adopted October 17, 2013; amended November 14, 2013, June 7, 2016, November 15, 2017, November 20, 2019, ~~and~~ October 18, 2022, ~~and~~ October 18, 2023, and February 8, 2024.

In June 2012, GASB revised public pension accounting standards and has communicated an important message in the process: accounting standards are no longer funding standards. However, GASB did not address how employers should calculate the annual required contribution (ARC). To assist state and local government employers, several national groups developed policy guidelines for funding standards. This document is the result of an extensive review of the current funding policy, industry standards and best practices, and the development and approval of funding policy assumptions effective with the June 30, 2013 valuation. A copy of Request for Board Action 2013-07-18 adopting the funding policy assumptions is attached. This Funding Policy is intended to provide guidance to future Boards on how to set employer contribution rates and support the plan's primary goals of contribution and budgetary predictability, accumulation of required assets over time to provide for all benefits earned and achievement of intergenerational equity.

In June 2015, GASB adopted two new statements regarding OPEBs. GASB statement 74, *Financial Reporting for Postemployment Benefits Other than Pension Plans*, and GASB statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. These statements replace GASB 43 and GASB 45. As was the case with GASB 67 and 68, these new statements represent a significant change to the methods used to account for postemployment benefits and provide for a clear separation between accounting for and funding of OPEBs. The new standards require the adoption of a new funding policy for OPEB plans. The current VRS funding policy has been modified to accommodate funding requirements for the VRS OPEB plans.

The VRS OPEB plans include the Health Insurance Credit Program, Group Life Insurance Program, the Virginia Sickness and Disability Program (VSDP), the Virginia Local Disability Program (VLDP) and the Long Term Care benefits associated with the VSDP and VLDP. The Line of Duty Act Fund is also a defined benefit OPEB plan, although it is not a benefit exclusively for VRS members.[2]

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[2] As of April 2016 all VRS OPEBs already incorporate the actuarial methods outlined in the Funding Policy, with the following exceptions:

- Health Insurance Credit Program for Political Subdivisions will incorporate a five-year asset smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- The Long Term Care valuation will incorporate the Entry-Age Normal cost method and five-year smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- Line of Duty Act Program (LODA) is currently not prefunded and as set forth in the *Code* shall be funded on a current disbursement basis or in other words is considered a "pay-as-you-go" plan. As such, the plan has no unfunded liabilities and uses market value of assets for valuation purposes. In the event that the General Assembly takes action to begin prefunding this program, the Board of Trustees would move to adopt the various funding provisions contained in this document including moving the program to a five-year asset smoothing method for funding valuations effective with any decision to prefund the LODA program.

These changes were approved by the Board of Trustees at its June 7, 2016 meeting, and were incorporated into this amended Funding Policy. Where a particular actuarial method was already in use, the Funding Policy notes that the Board confirms the actuarial methods for OPEBs.

The Funding Policy addresses the following general policy objectives:

- □ Ensure funding of plans is based on actuarially determined contributions;
- □ Build funding discipline into the policy to ensure promised benefits can be paid;
- □ Maintain intergenerational equity so the cost of employee benefits is paid by the generation of individuals who receive services;
- □ Make employer costs a consistent percentage of payroll; and
- □ Require clear reporting to show how and when plans will be adequately funded.

This document serves as the Funding Policy for VRS. It has been prepared by VRS in collaboration with the Board and the VRS Plan Actuary and is effective as of the June 30, 2013 valuation, and modified to accommodate the OPEB plans effective as of the June 30, 2016 valuation.

2. Authority

The Virginia Retirement System is administered in accordance with Title 51.1, chapters 1, 2, 2.1, 3 and 4 of the *Code of Virginia*. The contribution to be paid by members of VRS is fixed at a level that covers only part of the cost of accruing benefits. The balance of the cost is paid by employers within the Trust Fund (the "Fund").

The OPEB plans are administered in accordance with Title 51.1, chapters 5, 11, 11.1, and 14 of the *Code of Virginia.* The cost associated with OPEBs is generally borne by the employer and benefits are paid from the various trust funds. An exception to this practice is the Group Life Insurance Program. The Board determines the amount each insured shall contribute for the cost of insurance and by statute this amount is capped at $0.70 per month for each $1,000 of annual salary. Each employer determines whether this cost will be paid by the member or funded by the employer. The balance of the cost is paid by employers within the Fund. The Group Life Insurance plan, however, is a cost-sharing plan so all employers are charged the same rate.

The Funding Policy focuses on the pace at which these liabilities are funded and, in so far as is practical, the measures to ensure that employers pay for their own liabilities.

The Funding Policy is authorized by a framework that includes:

- Article X, § 11 of the *Constitution of Virginia*
- Title 51.1 of the *Code of Virginia*

This is the framework within which the VRS Plan Actuary carries out valuations to set employer contribution rates and provide recommendations to the Board when other funding decisions are required. The Funding Policy applies to all employers participating in the Fund.

The methods and assumptions used in the VRS funding policy are periodically reviewed as part of the quadrennial experience study as required under § 51.1-124.22(A)(4). As such, the content of this document may be updated to reflect changes approved by the VRS Board of Trustees.

3. Contributions

The Funding Policy provides for periodic employer contributions set at actuarially determined rates in accordance with recognized actuarial principles (§51.1-145(A)). Originally based on parameters set out in GASB 25/27 and GASB 43/45, the contribution should include the employer's normal cost and provisions for amortizing any unfunded actuarial accrued liability (UAAL) in accordance with the requirements originally defined in GASB 25/27 and GASB 43/45.

Member and employer contributions for retirement are required by §§ 51.1-144 and -145 of the *Code of Virginia*. Chapters 5, 11, 11.1, and 14 of Title 51.1 of the *Code of Virginia* and the applicable provisions in each year's Appropriation Act relate to contribution requirements for OPEB plans administered by VRS.

Employer contributions are normally made up of two main elements[3]:

a) the estimated cost of future benefits being accrued, referred to as the "normal cost"; and

b) an adjustment for the funding position of accrued benefits relative to the Fund's actuarially adjusted assets, or the "amortization payment UAAL." If there is a surplus there may be a contribution reduction; if there is a deficit, there will be a contribution addition, with the amount of surplus or deficit being spread over a number of years.

Items a) and b) above are then combined and expressed as a percentage of covered payroll. Employer contribution rates are set each biennium and are in effect for the entire biennium. Valuations in the "off" years are for informational purposes only. Generally, employers with well-funded pension plans consistently pay their annual required contribution in full.

Where this process as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the VRS staff, working with the Plan Actuary, may determine alternative funding requirements that would maintain the political subdivision's solvency while also meeting the other objectives of this Funding Policy Statement. For employers with no active members who still have retirees or inactive members eligible for future VRS benefits, this includes ad hoc payments that may be necessary to cover future benefits if employer assets are insufficient to cover future cash flow needs.

With respect to statewide plans, if unfunded liabilities exist in a plan, the Board may recommend alternative contribution rates in excess of the actuarially determined rates if opportunities exist to accelerate paydown of unfunded liabilities. Examples of alternative rates could potentially include approaches such as maintaining rates from the prior year if rates drop in subsequent rate setting or maintaining a higher level contribution rate until a certain funded status is achieved.

[3] Contributions also include administrative expenses.

4. Funding Target

VRS operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on an ongoing basis. This means that contribution rates are set with the intent of funding 100% of a member's benefits during a member's working lifetime. The Line of Duty Act Fund is an exception, as employer contributions are currently determined by the Board on a current disbursement basis per statute. As such, the target funding level for all ongoing employers for LODA is at or near 0% of its accrued liabilities.

Funded Status is defined as the ratio of the actuarial value of assets to the value placed on the benefits, or plan's liabilities, by the VRS Plan Actuary. The VRS Plan Actuary reports on the funded status of each plan in the system in each annual valuation.

5. Actuarial Cost Method

The actuarial cost method is the means by which the total present value of all future benefits for current active and retired participants is allocated to each year of service (i.e., the "normal cost" for each year) including past years (i.e., the "actuarial accrued liability"). There are several available actuarial cost methods, but most governmental plans use the entry age normal (EAN) cost method while a significant minority use the projected unit credit (PUC) method. In the past, VRS has used the EAN method for most of the plans it administers.

Although the EAN and PUC cost methods are both considered reasonable under actuarial standards of practice and GASB 25 and GASB 43 in most circumstances, it is important for plan stakeholders to understand the implications of either method. EAN tends to recognize actuarial liabilities sooner than PUC, and it also tends to result in a more stable normal cost pattern over time for pay-related benefits, even in the face of demographic shifts. The more stable normal cost pattern over time should help in reducing the risk of higher levels of future contributions.

Under the PUC method, the plan's normal cost is the present value of the benefits "earned" during the year, but based on projected pay levels at retirement. For an individual participant, the PUC normal costs increase each year because the present value increases as the participant gets a year closer to retirement. In contrast, under the EAN method, the normal cost is specifically determined to remain a level percentage of pay over each participant's career.

Because EAN normal cost rates are level for each participant, the normal cost pattern for the entire plan under EAN is more stable for pay-related benefits in the face of demographic shifts in the workforce. It is this normal cost stability that makes the EAN method the preferred funding method for pay-related benefits of public plans.

GASB has reaffirmed its decision to require governmental pension plans to base their financial statement reporting on the EAN method. For comparability, GASB has also decided to require governmental OPEB plans, which may not provide pay-related benefits, to base their financial statement reporting on the EAN method.

Effective with the June 30, 2013 valuation, the Board has adopted the Entry-Age Normal cost method in deriving plan liabilities. This is a continuation of the Board's existing cost method. Effective with the June 30, 2016 valuation, the Board has adopted the Entry-Age Normal cost method for all OPEB plans.

6. Asset Valuation Method

Because investment markets are volatile and because pension plans typically have long investment horizons, asset-smoothing techniques can be an effective tool to manage contribution volatility and provide a more consistent measure of plan funding over time. Asset-smoothing methods reduce the effect of short-term market volatility on contributions, while still tracking the overall movement of the market value of plan assets, by recognizing the effects of investment gains and losses over a period of years. This is also in keeping with § 51.1-145(A), which requires that contribution rates be determined in a manner so as to remain relatively level from year to year.

Determining the ideal asset-smoothing policy involves balancing the two goals of ensuring fairness across generations and controlling contribution volatility for plan sponsors. A very long smoothing period will greatly reduce contribution volatility, but this may mean the impact of recent investment experience is deferred to future generations. However, a very short smoothing period (or none at all) may result in contribution requirements that fluctuate dramatically from year to year.

Such volatility may also result from an asset-smoothing method that constrains how far the smoothed value differs from the market value by imposing a market value "corridor." A corridor is typically expressed as a ratio of the smoothed value of assets to the market value of assets. Actuarial standards of practice and related actuarial studies seek to identify asset-smoothing methods that achieve a reasonable balance between how long it takes to recognize investment experience (the smoothing period) and how much smoothing is allowed in the meantime (the corridor). The resulting smoothing periods are in the range of three to 10 years (with five the most common) and a corridor wide enough to allow the smoothing method to function except in the most extreme conditions.

While the smoothing period for governmental plans is not limited by federal laws or regulations, the Actuarial Standards Board has set out principles for asset smoothing in ASOP No. 44. Under these principles, when a smoothed asset valuation method is used, the actuary should select a method so that the smoothed asset values fall within a reasonable range of the corresponding market values and any differences between the actuarial value and market value of assets should be recognized within a reasonable period.

Effective with the June 30, 2013 valuation, the Board has adopted a five-year asset smoothing period, which also includes a corridor that will restrict the smoothed value from falling below 80% of the true market value or exceeding 120% of the true market value. This is a continuation of the Board's existing asset valuation method. Effective with the June 30, 2016 valuation, the Board has adopted the same asset smoothing period and corridors for the OPEB plans, with the exception of the LODA program, which, by statute, does not prefund benefits. In the event a change to the statutory contribution requirements

of the LODA program necessitate an asset valuation method, the same asset smoothing period and corridors should be applied to the LODA program at that time.

7. Amortization Method

Amortization of unfunded liabilities is a major component of the annual contribution. Amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. The Plan Actuary uses the specific amortization periods adopted by the Board for all employers when developing a method over which to pay down any unfunded liabilities that may exist. The amortization period should allow adjustments to contributions to be made over periods that appropriately balance intergenerational equity against the goal of keeping contributions level as a percentage of payroll over time as required by § 51.1-145.

Amortization of the unfunded actuarial accrued liability (UAAL) determines how current and future UAAL will be paid off or "amortized," and so includes how changes in benefits or actuarial assumptions that affect the actuarial accrued liability should be funded over time. Even more than with asset smoothing methods, amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. Longer amortization periods help keep contributions stable, but excessively long periods may inappropriately shift costs to future generations. In seeking to achieve an appropriate balance between these two important policy goals, a comprehensive amortization policy will involve the following distinct elements:

- □ Payment basis
- □ Payment structure
- □ Amortization period

A. Payment Basis: Level Dollar vs. Level Percent of Pay

One of the first considerations is whether amortization payments will be set at a level dollar amount (similar to a home mortgage) or as a level percent of pay. The great majority of public pension plans use level-percent-of-pay amortization where the payments toward the UAAL increase each year at the same rate as is assumed for payroll growth. Compared with the level-dollar approach, payments start at a lower dollar amount under the level percent approach, but then increase in proportion to payroll. The level-dollar method is more conservative in that it funds the UAAL faster in the early years. However, the level-percent-of-pay approach is consistent with the pay-related structure of benefits under most public plans. Moreover, because the normal cost is also determined as a level percent of pay, level percent amortization provides a total cost that remains level as a percentage of pay. In contrast, level- dollar amortization of UAAL will produce a total cost that decreases as a percentage of pay over the amortization period. A plan should balance these considerations in choosing between level-percent and level dollar amortization. Section 51.1-145(A) of the *Code of Virginia* provides in part that "[t]he total annual employer contribution for each employer, expressed as a percentage of the annual membership payroll, shall be determined in a manner so as to remain relatively level from year to year...."

Effective with the June 30, 2013 valuation the Board has elected to use the level percent of pay payment basis. This is consistent with historical VRS practice. Effective with the June 30, 2016 valuation the Board confirms the continued use of the level percent of pay payment basis put in effect June 30, 2013 for the OPEB plans when an actuarially determined contribution is calculated.

B. Payment Structure

Amortization policy must also consider how amortization payments should be structured. For example, a determination needs to be made as to whether the entire UAAL should be aggregated and amortized as a single amount, or whether the plan should track individual bases for each source of UAAL or surplus each year, and amortize these separately. Amortization periods can be fixed, open or "rolling" (with the amortization period restarted each year).

Although use of a single amortization base provides simplicity, use of separate amortization bases for each source of UAAL has the advantage of tracking separately each new portion of UAAL and providing another mechanism to stabilize contribution rates. Under this approach, over time there will be a series of bases, one for each year's gain or loss as well as for any other changes in UAAL. This provides useful information to stakeholders, as they can view the history of the sources of a plan's UAAL in any year. The use of separate amortization bases should help balance the annual ups and downs in the UAAL. In practice, the number of bases will be limited by the length of the amortization period as eventually bases will be fully amortized, and so will no longer be part of the UAAL.

Fixed amortization periods identify a date certain by which each portion of the UAAL will be funded. This can be contrasted with open or rolling amortization, whereby the plan "resets" its amortization period every year. This is analogous to a homeowner who refinances his mortgage each year. Although both methods are common in current practice, fixed amortization periods have the advantage of providing stakeholders with a clearer understanding of the ultimate funding target (full funding) and the path to get there. It is the structure required for private sector pensions, and is increasingly common for public pension plans.

Effective with the June 30, 2013 valuation the Board has elected to use individual bases for each source of UAAL or surplus each year and to use fixed amortization periods rather than open or rolling periods. This is a change from past VRS practice but is consistent with industry best practices. Effective with the June 30, 2016 valuation the Board confirms the continued use of individual bases for each source of UAAL or surplus each year and the use of fixed amortization periods rather than open or rolling periods put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open period. In the event a change to the statutory contribution requirements of the LODA program necessitate a payment structure, individual bases for each source of UAAL or surplus each year and fixed amortization periods, rather than open or rolling periods, will be used by the LODA program at that time.

C. Amortization period

Amortization period is a determination of the appropriate period of time over which amortization should occur. The answer can depend on the source of the UAAL being amortized, as discussed below:

UAAL Due to Actuarial Gains/ Losses

> Actuarial gains and losses arise when there is a difference between the actuary's estimates (assumptions) and the actual experience of the plan. They can result from demographic experience (e.g., the number of new retirees is higher or lower than expected), investment experience (e.g., returns that are higher or lower than expected), or other economic experience (e.g., payroll growth that is higher or lower than expected). In determining the appropriate period for amortizing gains and losses, plan sponsors should strike a balance between reducing contribution volatility (which would lead to longer amortization periods) and maintaining a closer relationship between contributions and routine changes in the UAAL (which would lead to shorter amortization periods). For many plans, amortization periods in the range of 15 to 20 years for gains and losses would assist plans in achieving a balance between these objectives.

UAAL Due to Changes in Actuarial Assumptions

> Assumption changes will result in an increase or decrease in the UAAL. Unlike gains and losses, which reflect actual past experience, assumptions are modified when future expectations about plan experience change. This amounts to taking the effect of future expected gains or losses and building it into the cost today. For that reason, and because of the long-term nature of assumption changes, a plan could be justified in using a longer amortization period than that used for actuarial gains or losses, perhaps in the range of 15 to 25 years.

Amortization of UAAL Due to Plan Amendments

> Because plan amendments are under the control of the plan sponsor, managing contribution volatility is generally not a consideration for plan amendments. This means that the primary rationale in selecting the period is to support intergenerational equity by matching the amortization period to the demographics of the participants receiving the benefit. This leads to shorter, demographically based amortization periods. For active participants, this could be the average future working lifetime of the active participants receiving the benefit improvement, while for retirees, this could be the average life expectancy of the retired participants receiving the benefit improvement. This approach would usually result in no longer than a 15-year amortization period for benefit improvements.

An equitable amortization policy should ensure that the UAAL will be paid off in a reasonable period of time. Long amortization periods can make paying down the UAAL appear more affordable, but, because interest charges accrue and compound on the unpaid UAAL, it is prudent to set amortization periods that are not excessively long. This is especially important where level percent of pay amortization is used.

In an effort to balance the need to pay down the current unfunded liability while managing already increasing contribution rates, the Board elected to manage the paydown of any unfunded liabilities created prior to June 30, 2013 over a 30-year closed period. In an effort to better manage intergenerational equity and to build funding discipline into the VRS policy, the Board also decided that future unfunded liabilities would be best amortized over 20-year closed periods.

With long amortization periods, the UAAL may increase during the early years of amortization period, even though contributions are being made to amortize the UAAL. This phenomenon, known as "negative amortization", occurs only with level percent of pay amortization. This happens because, under level percent of pay amortization, the lower early payments can actually be less than interest on the outstanding balance, so that the outstanding balance increases instead of decreases. For typical public plans, this happens whenever the average amortization period is longer than approximately 20 years.

While there is nothing inherently wrong with negative amortization in the context of a public plan, stakeholders should be aware of its consequences, especially for amortization periods substantially longer than 20 years. Negative amortization is a particular concern for plans using open, or rolling, amortization periods. As described above, plans that use open/rolling amortization methods "reset" to a new amortization period every year. By contrast, a plan using a closed amortization commits to paying down the UAAL over a fixed period.

Effective with the June 30, 2013 valuation the Board has elected to amortize the legacy unfunded liability as of June 30, 2013, over a closed 30-year period. New sources of unfunded liability will be explicitly amortized over closed 20-year periods. The amortization period for the deferred contributions from the 2010-2012 biennium will remain a 10-year closed period. These amortization periods reflect a shift to closed amortization periods and tiered successive 20-year closed periods for new sources of unfunded liability. This is a change from past VRS practice of using a 20-year rolling method. Effective with the June 30, 2016 valuation the Board confirms the continuation of the amortizations put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open 30- year period. In the event a change to the statutory contribution requirements of the LODA program necessitate an amortization period, the LODA program will, at that time, explicitly amortize new sources of unfunded liability over closed 20-year periods.

Effective November 20, 2019, the Board amends this policy to clarify that amortization periods of explicit bases may be shortened in an effort to pay off unfunded liabilities of either pensions or OPEBs earlier than originally scheduled.

Effective October 18, 2022, the Board amends this policy to set the amortization period for unfunded liabilities generated by plan amendments to be 10 years rather than 20 years.

Effective October 18, 2023, the Board amends this policy for pension and OPEB plans to allow for the legacy unfunded liability, which was originally amortized over a 30-year period in 2013,

and all subsequent amortization bases established between 2014 and 2023, which were initially amortized over 20 years, to be amortized over a new 20-year period. New layers will be established in future years according to the parameters of the funding policy. The reset would exclude unfunded liabilities being amortized over a shorter 10-year period associated with new employers or benefit enhancements elected by certain political subdivision employers.

8. Actuarial Assumptions

Setting actuarial assumptions is critical to the funding of a plan. Forward-looking assumptions about plan demographics, wages, inflation, investment returns and more drive the measurement of liabilities and costs, and therefore affect funding. Unlike the selection of funding methods, which involves a fair degree of policy discretion, the selection of assumptions should be based solely on best estimates of actual future experience. While it may be tempting to set assumptions based on how they might affect current contribution requirements, such "results-based assumption setting" should be avoided. ***It is the plan's actual experience that ultimately determines the cost of the benefits, so the assumptions should try to anticipate actual experience.*** Periodic reexamination of plan assumptions is an essential part of any plan's actuarial processes. As a general rule, many plans conduct an experience study every three to five years, an interval that should help ensure that assumptions remain appropriate in the face of evolving conditions and experience. VRS reviews assumptions every four years as required under § 51.1-124.22(A)(4).

All assumptions should be consistent with Actuarial Standards of Practice and reflect professional judgment regarding future outcomes.

VRS plans to continue experience studies once every four years as required by § 51.1-124.22(A)(4) to determine whether changes in the actuarial assumptions are appropriate.

Appendix A contains a chart summarizing some of the current assumptions used for the various benefit plans managed by the VRS.

Appendix B is RBA 2013-07-18, which documents the approval of VRS funding policy assumptions.

Appendix C is RBA 2013-11-26, which documents the approval of revisions to the VRS funding policy assumptions for political subdivisions.

Appendix D is RBA 2016-06-15, which documents the approval of VRS funding policy methods and assumptions with regard to the OPEB plans.

Appendix E is RBA 2016-06-16, which documents the Board's approval of changes to actuarial methods for certain OPEB plans.

Appendix F is RBA 2017-04-9, which documents the approval of VRS funding policy assumptions.

Appendix G is RBA 2019-10-13, which documents approval of a discount rate of 6.75% for actuarial valuations effective with the June 30, 2019 valuations.

Appendix H is RBA 2019 -11 -, which documents the approval of the use of shortened amortization periods for unfunded liabilities and maintaining prior contribution rates to assist in paying unfunded liabilities.

9. Additional Considerations

Where the Funding Policy Statement as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the Board authorizes the VRS staff, working with the Plan Actuary, to determine alternative funding requirements that would maintain the plan's solvency while also meeting the other objectives as stated in the Board's funding policy.

1. **Additional Funding Contribution** - The Additional Funding Charge is the contribution rate needed, if necessary, to allow the local system to use the plan's assumed Investment Return Rate as its Single Equivalent Interest Rate (SEIR) under GASB Statement No. 67. The additional funding contribution rate, if needed, allows for the use of the 6.75% investment return as the single equivalent investment return assumption for purposes of the GASB 67/68 statements. To determine the SEIR, the Fiduciary Net Position (FNP) must be projected into the future for as long as there are anticipated benefits payable under the plan's provisions applicable to the members and beneficiaries of the system on the Measurement Date. If the FNP is not projected to be depleted at any point in the future, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR. If the FNP is projected to be depleted, an Additional Funding Charge is developed to avoid depletion.

2. **Surcharge for "At Risk" Plans** – Political subdivision plans identified as potentially "at-risk" due to low funded levels may require an additional surcharge or shortened amortization periods to bring the funding level of the plan to a sustainable level as determined by the Plan Actuary.

   For employers with no active covered positions who still have liabilities associated with retirees or inactive members eligible for future VRS benefits, this would include ad hoc lump sum contributions to cover the liabilities associated with former members who are still due a benefit.

~~2.~~3. **Limitation on Benefit Enhancements Increasing Liability** - Benefit enhancements to a political subdivision pension plan that would have the effect of increasing the plan's liabilities by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become non-forfeitable may take effect during any plan year if the political subdivision's current funded ratio for such plan year would be at least 75 percent after taking into account such amendment.

   In order to increase benefits in circumstances where the funded ratio would be less than 75 percent after taking into account the amendment, the political subdivision would be required to make a lump sum contribution in the amount necessary to bring the funding level to 75 percent as of the effective date of the change, in addition to any increase in annual funding due to plan enhancements.

Any accrued liability generated by the plan amendment that is not covered by the lump sum contribution will be amortized over no more than 10 years.

~~3.~~4. **Pension Plans for New Employers –**

Any new employer must have a funded status of at least 75 percent for pension benefits. Any past service that is granted by the employer or purchased at the time the employer joins VRS must be at least 75 percent funded at the join date with the remaining amount amortized over no more than 10 years.

~~4.~~5. **Health Insurance Credit (HIC) Elections –**

Any employer (new and existing VRS employers) that elects the HIC benefit is required to pay an initial contribution equal to the greater of two years of expected benefit payments or the amount required to reach at least 25 percent funded for its HIC plan, with the remainder of the unfunded liability amortized over no more than 10 years.

In addition, Any employer (new and existing employers) that wishes to enhance the health insurance credit by electing the extra $1.00 of coverage per year of creditable service or expand coverage to additional non-covered members is required to meet the following requirements:

- If the funded status of the plan is below 50% prior to the change, the employer must make an initial contribution equal to the full increase in the plan's liability associated with enhancing the HIC benefit.
- If the funded status of the plan is greater than 50% but below 75% prior to the change, the employer must make an initial contribution equal to 50% of the increase in the plan's liability associated with enhancing the HIC benefit, with the remaining additional liability to be amortized over 10 years.
- If the funded status of the plan is greater than 75% prior to the change, the employer must make an initial contribution in the amount necessary to keep the funded status at the 75% threshold after the change, with any remaining additional liability to be amortized over 10 years.

10. Conclusion

In funding defined benefit pension plans and OPEBs, governments must satisfy a range of objectives. In addition to the fundamental objective of funding the long-term costs of promised benefits to plan participants, governments also work to:

1. Keep employer's contributions relatively stable from year to year
2. Allocate pension costs on an equitable basis
3. Manage pension risks
4. Pay off unfunded liabilities over reasonable time periods

This Funding Policy was developed to help decision-makers understand the tradeoffs involved in reaching these goals and to document the reasoning that underlies the Board's decisions.

Adopted October 17, 2013
Amended November 14, 2013, June 7, 2016, November 15, 2017, ~~and~~ November 20, 2019, ~~and~~ October 18, 2022, and February 8, 2024.

2024 Legislation*

* Updated through 2/6/2024 p.m.

General Assembly

- The General Assembly convened on January 10.
- Crossover- when most bills from the originating chamber can only be heard in the opposite chamber- begins **February 14**. Other than the Budget Bills, bills that have not cleared the originating chamber before then will not pass.
- Committees must complete their work on their Budget Bills by February 18.
- The General Assembly is scheduled to adjourn on March 9.
- The General Assembly is scheduled to reconvene on April 17 for the "veto session."

2024 VRS Bills

Bill Number	Patron	Description
HB 70 SB 458	Bulova Marsden	Allows members of the Virginia Retirement System to purchase service credit for prior full-time active duty military service of at least 180 consecutive days in any federally established branch of the armed services (adds Space Force and any other future new branches established). Also provides that any funds or other property held in a Virginia Retirement System defined contribution plan, deferred compensation plan, or cash match plan remaining unclaimed for more than five years shall be presumed abandoned under the Virginia Disposition of Unclaimed Property Act and may escheat to the state treasury. HB 70 passed the House on 1/30 & referred to SFAC. SB 458 was reported from SFAC on 2/6.

2024 VRS-Related Bills

General Registrar Early Retirement Bill

Bill Number	Patron	Description
HB 1529	Cordoza	The bill changes the term of office for general registrars from four years to eight years. It also adds general registrars to the list of officers who are exempted from general early retirement provisions and may obtain normal retirement benefits when they are involuntarily separated from service and have 20 or more years of creditable service. Referred to Privileges & Elections.

2024 VRS-Related Bills

Virginia Retirement System

Local Hazardous Duty Bills

Bill Number	Patron	Description
HB 231 SB 218	Campbell Locke	Adds animal control officers to the list of local employees eligible to receive enhanced retirement benefits for hazardous duty service. SB 218 included municipal park rangers but was amended to remove them. The bills apply only to service earned on or after 7/1/2025. Item 484 #4h $200,000 NGF in FY25 SB 218: Item 484 #1s HB 231 was carried over to 2025 in HAC on 2/5. SB 218 reported from SFAC on 2/6.

2024 VRS-Related Bills

Virginia Retirement System

VaLORS

Bill Number	Patron	Description
HB 675	Runion	Allows the Virginia School for the Deaf & Blind to establish a campus police force. Campus police officers are members of VaLORS. The bill is effective 7/1/2024. Reported by Education & referred to HAC 1/29. Reported from HAC 2/5.
HB 891 HB 1312	Kent Orrock	Adds conservation officers of the Department of Conservation and Recreation to the membership of the Virginia Law Officers' Retirement System (VaLORS). The bill has a delayed effective date of 7/1/2025. HB 891 was tabled in subcommittee; HB 1312 passed the House 2/2. Item 469 #2h $1.4 mil GF in FY25 & FY26; Item 484 #5h $138,500 NGF in FY25
HB 1401	Clark	Adds full-time firefighters employed by the Department of Military Affairs to VaLORS for service earned on or after 7/1/2025. Passed House 2/2. Item 486 #2s $50,000 NGF in FY25

2024 JRS Bills

Bill Number	Patron	Description
SB 396	McDougle	Increases, for the purposes of determining benefits provided under the Judicial Retirement System, the retirement multiplier from 1.0 percent to 1.7 percent. The increase would apply only to judges who are participants in the hybrid retirement program and who are at least age 55 at the time of appointment. The bill provides that such changes apply only to service earned as a judge on or after July 1, 2025. The bill has a delayed effective date of July 1, 2025. Substitute puts all new judges who are appointed to an initial term on or after July 1, 2024 and who are age 55 or older at the time of appointment into Plan 1 with 3.5 weighted service. Substitute reported from SFAC on 2/6.

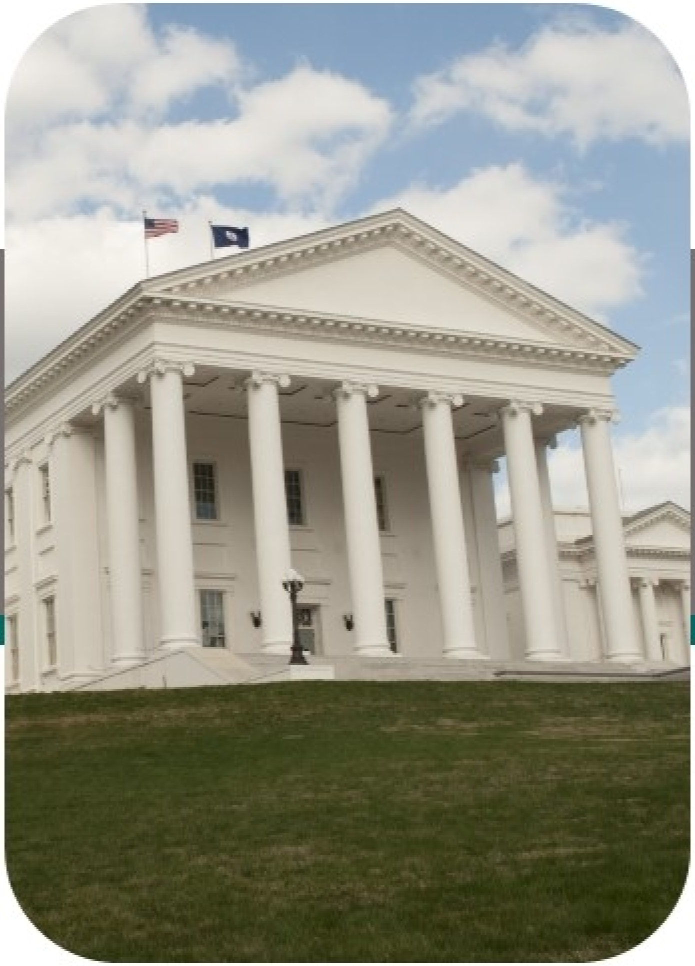
2024 LODA Bills

Bill Number	Patron	Description
HB 232 HB 751 SB 466	Campbell Walker Obenshain	Provides employees of contributing nonprofit private institutions of higher education, defined in the bill, and contributing private police departments, defined in the bill, with the benefits granted to employees of participating employers under LODA. The bill clarifies that LODA shall not apply to any private institution of higher education or private police department that is not a contributing nonprofit private institution of higher education or contributing private police department, respectively. HB 751 also included the Lynchburg Regional Airport Police Department. HB 232 & HB 751 failed to report from subcommittee 1/18. SB 466 reported from SFAC with an amendment for implementation costs on 2/6. HB 751: Item 469 #8h $50,000 GF each in FY25 & FY26 SB 466: Item 484 #2s $50,000 NGF in FY25

2024 LODA Bills

Bill Number	Patron	Description
HB 321 SB 649	McQuinn Salim	Increases from $25,000 to $100,000 the death benefit payout under the Virginia Line of Duty Act for a death caused by occupational cancer, respiratory disease, or hypertension or heart disease for those deaths that will occur on or after July 1, 2024. A SB 649 substitute makes the death benefit for these presumptive deaths $50,000. HB 321: Item 469 #6h $150,000 GF each in FY25 & FY26 SB 649: Item 484 #6s $50,000 GF each in FY25 & FY26 HB 321 reported from HAC on 2/5. SB 649 substitute was reported from SFAC on 2/6.
HB 1433	Hodges	Provides that for purposes of continued health insurance pursuant to the Line of Duty Act, an eligible dependent includes a child that was born or adopted prior to the employee's claim approval date. Under current law, an eligible dependent includes a child born or adopted prior to the time of the employee's death or disability. HB 1433 reported from HAC on 2/5.

Other Bills



2024 Studies

Resolutions

Bill Number	Patron	Description
HJ 53 HJ 56 SJ 9	Batten Cordoza Sturtevant	Directs JLARC to study the effect of salaries, employment benefits, & other relevant factors on recruiting & retaining high-quality, fully licensed teachers, including (i) examining these factors in relation to teacher recruitment & retention in each local school division; (ii) identifying disparities in these factors in relation to teacher recruitment & retention rates between high-poverty & rural school divisions, high-income school divisions, & the Commonwealth on average; (iii) reviewing these factors in relation to the rates of teacher recruitment & retention and the numbers of fully licensed teachers in adjoining states & the District of Columbia; and (iv) identifying factors that positively impact the recruitment & retention of high-quality, fully licensed teachers. SJ 9 failed to report from Senate Rules 1/26

2024 VRS-Related Bills

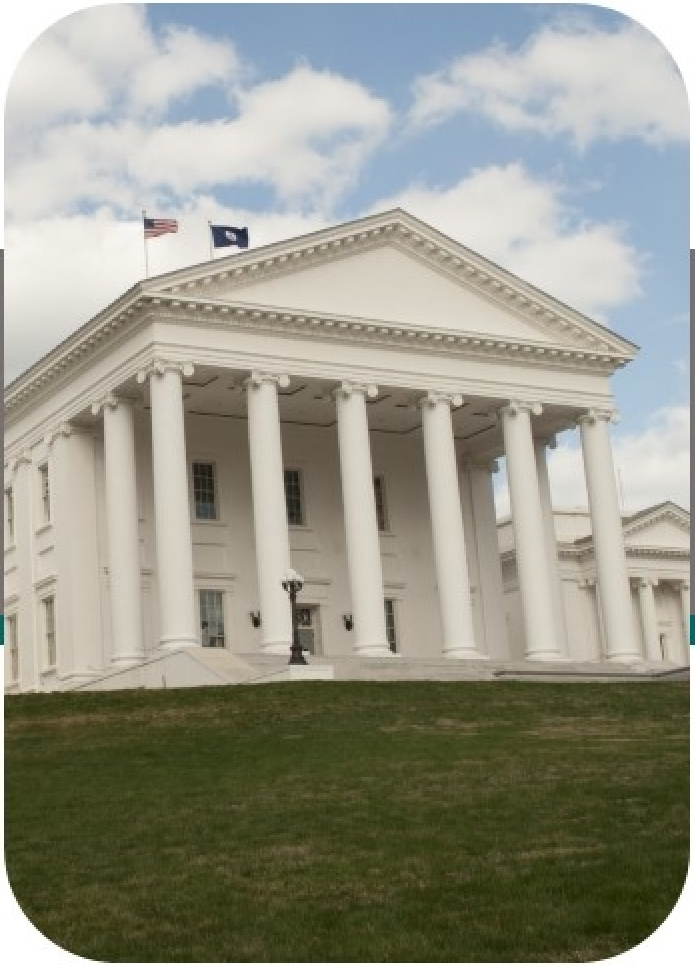
Virginia Retirement System

New Fund and Work Group Bills

Bill Number	Patron	Description
HB 133 SB 650	Convirs-Fowler Rouse	Creates the Emergency Response Toxic Exposure Grant Fund & Program to provide funding to local government employee responders exposed to toxic materials when responding to declared emergencies. Directs the Dept. of Fire Programs to convene a work group to assess eligibility for funding, administration, investment, & other criteria. Directs the work group to submit a report to the General Assembly no later than 11/1/2024. HB 133 substitute introduced in HAC as a § 1 bill for a working group only. HB 133 was reported from General Laws & referred to HAC. Substitute reported from HAC on 2/2. SB 650 reported from Rules on 2/2 & re-referred to SFAC. Item 405 #1h for $5,000,000 GF in FY 2025

Virginia Retirement System

Budget- Rates and Funding



2023 Governor's Introduced Budget

Virginia Retirement System

VRS Rates

Item #	Description
469	Per HB 473 of the 2022 session, employer contribution rates are separated effective 7/1/2024. Item 469 includes the Board-certified DB employer contribution rate only. Estimated DC employer contribution rate (mandatory and voluntary) is now separate, within each Department. Does not change total amount agencies require for VRS contributions.
469	Employer Contribution Rates: VRS 12.52% SPORS 31.32% VaLORS 24.60% (Board-certified rate is 22.81%) JRS 30.67% (Board-certified rate is 30.66%) Teachers 14.21%

Virginia Retirement System

OPEB Rates and LODA premiums

Item #	Description
469	OPEB Rates: State HIC 1.12% Teacher HIC 1.21% State GLI 1.34% Teacher GLI 0.54% VSDP 0.50% Constitutional Officers HIC 0.36% General Registrar HIC 0.32% Local social services boards HIC 0.37%
469	LODA premium $995/covered employee

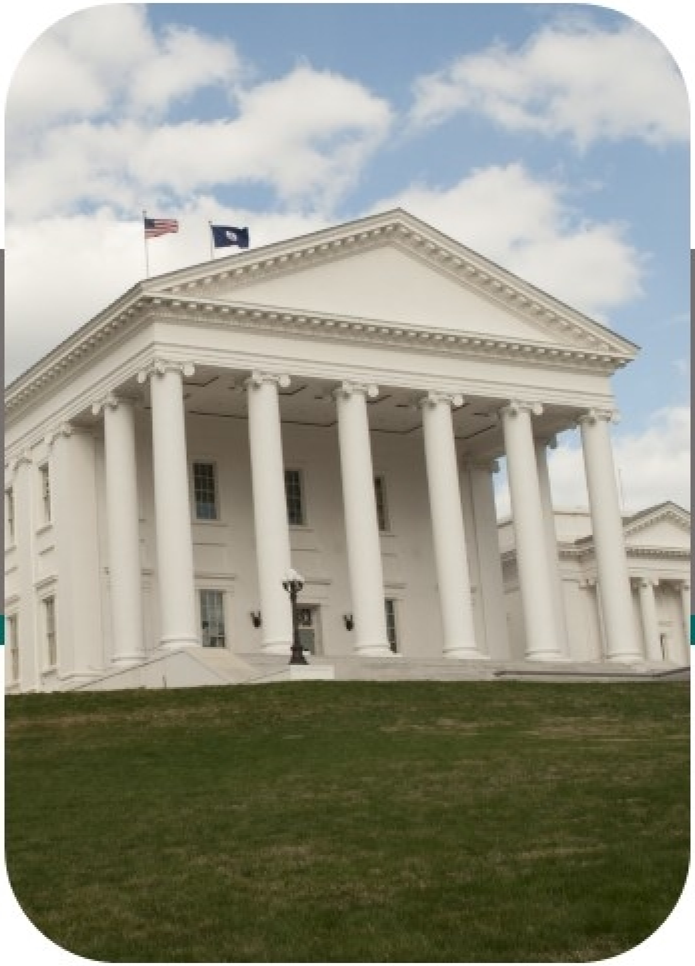
2023 Governor's Introduced Budget

VRS Infusion- Teacher Plan

Item #	Description
	Provides $115 million GF and $235 million from the Literary Fund in FY25 for a lump sum payment to address unfunded liabilities in the Teacher Plan. Estimated to improve the funded status by approximately 0.6%.

Virginia Retirement System

Budget- Salary Actions



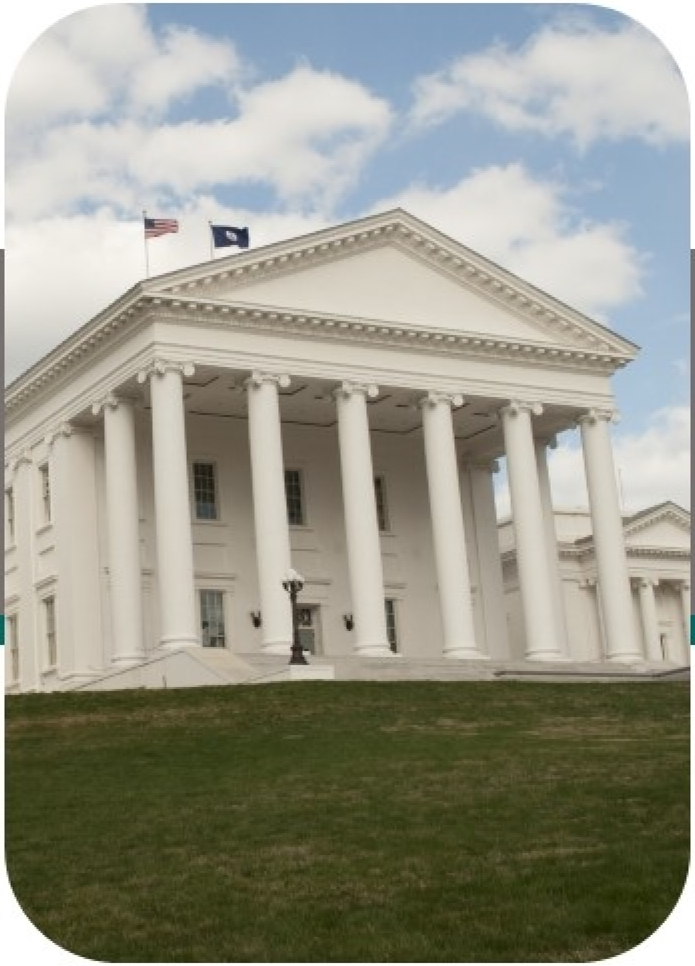
Governor’s Budget - Salary Actions

Governor’s Introduced Budget	Targeted salary increases Item 484: Section AA.1 through BB.7 includes several salary actions for state employees: • 1% salary increase in FY2026 for state employees, adjunct faculty, and graduate teaching assistants • 2% salary increase in FY2026 in Direct Aid for SOQ-funded positions • 1% bonus for FT state employees & state-supported local employees on 12/1/2025 & 12/1/2026 • State share of 1% bonus for SOQ-funded positions

HB 30/SB 30 Budget - Salary Actions

House Member Amendments	Various salary amendments for several positions: • 4% salary increase & 1% bonus each year for state & state-supported locals • 5% salary increase for sheriffs, deputies & regional jail officers • 5% salary increase for sheriffs & staff • 10% salary increase for deputy sheriffs with law enforcement responsibility • Targeted increase for communication operators & supervisors • Targeted salary increase for treasurers
Senate Member Amendments	Various salary amendments for several positions: • 4% salary increase each year for state & state-supported locals (eliminates bonus) • 5% salary increase for sheriffs & staff • 10% salary increase for deputy sheriffs with law enforcement responsibility • 9% increase for communication operators & supervisors • Targeted salary increase for treasurers & Commissioner of Revenue • 5% salary increase for teachers

Failed Legislation



2024 VRS-Related Bills

Virginia Retirement System

Investment Bill

Bill Number	Patron	Description
HB 388	Griffin	Provides that unless the Board of Trustees of the Virginia Retirement System can demonstrate that a social investment, defined in the bill as an investment that is based on diversity, equity, & inclusion, would provide a superior rate of return compared to a similar investment that is not a social investment with a similar time horizon and risk, neither the Board nor any external fiduciary utilized by the Board may invest or make recommendations regarding state funds for the purpose of social investment on or after 7/1/2024. The bill failed to report from subcommittee 1/29.

Financial Reporting Bill

Bill Number	Patron	Description
HB 162	Reid	Requires retirement systems to provide disclosures describing the process and criteria used for selecting third-party fund managers, advisers, or consultants and other persons providing services to the retirement system. Such information shall be included in a retirement system's annual report. The bill was continued to 2025 in subcommittee 1/29 at the request of the patron.

2024 VRS-Related Bills

Virginia Retirement System

Local Hazardous Duty Bills

Bill Number	Patron	Description
HB 38 HB 300 HB 630 SB 328 SB 472	Clark Ballard Cherry Jordan Obenshain	Add 911 dispatchers to the list of local employees eligible to receive enhanced retirement benefits for hazardous duty service. The bills are effective for service earned on or after 7/1/2025, but also allow localities to choose whether they will provide hazardous duty benefits for earlier service as a dispatcher. HB 38: Item 484 #1h $137,000 NGF in FY25 HB 630: Item 484 #2h $137,000 NGF in FY25 Item 469 #4h $577,000 GF in FY26 & Item 484 #8h $138,500 NGF in FY25 HB 38, HB 300, and HB 630 were carried over to 2025 in subcommittee on 2/5. SB 472 incorporated into SB 328. Carried over to 2025 in SFAC on 2/6.

2024 VRS-Related Bills

Virginia Retirement System

VaLORS

Bill Number	Patron	Description
HB 631	Cherry	Adds 911 dispatchers with agencies already listed in the VaLORS definition of "Employee" to VaLORS for service earned on or after 7/1/2025. Item 469 #1h $577,000 NGF in FY26 & Item 484 #3h $138,500 NGF in FY25 HB 631 was carried over to 2025 in subcommittee on 2/5.

Local Hazardous Duty Bills

Bill Number	Patron	Description
HB 1438	Wiley	Requires localities to provide enhanced retirement benefits for hazardous duty service to juvenile detention specialists. The bill is effective 7/1/2024. HB 1438 was amended to make this a local election. The bill was carried over to 2025 in subcommittee on 2/5.

2024 Return to Work Bills

Bill #	Patron	Description
HB 99 HB 1393	Green Jones	Adds law-enforcement officers to the Retiree School Security Officer (RSSO) subsection as a position retired law-enforcement officers can return to full-time. HB 99 was tabled in subcommittee 1/29 & HB 1393 was continued to 2025 in subcommittee 1/29 at the request of the patron. HB 99: Item 484 #10h $200,000 NGF in FY25
SB 548	Craig	Adds law-enforcement officers to the Retiree School Security Officer (RSSO) subsection as a position retired law-enforcement officers can return to full-time. Also reduces the break in service retirees must have after retirement from six months to one month. Item 486 #1s $425,000 NGF Each in FY25 & FY26 Carried over to 2025 in SFAC on 2/6.

2024 VRS-Related Bills

Virginia Retirement System

Additional Service Credit Bills

Bill Number	Patron	Description
HB 687 SB 622	O'Quinn Pillion	Allows an individual who serves concurrently as a full-time primary or secondary school teacher & as a full-time school bus driver to be granted additional service credit for providing such services at no cost to the employee. The bill specifies that the amount of credit allowable shall be equivalent to the amount of credit that the individual would earn if he were employed only as a full-time school bus driver. Both bills stricken at request of patrons. Item 484 #11h- $200,000 NGF Item 484 #5s- $50,000 NGF in FY25

Hazardous Duty Supplement Bill

Bill Number	Patron	Description
SB 130	New Craig	Provides that a member of SPORS or VaLORS or a local employee who is eligible for a hazardous duty supplement shall receive such supplement amount from the date of retirement. Under current law, the supplement is only allowed from retirement until (i) the member's Social Security retirement age for SPORS & local employees with enhanced benefits & (ii) the member's 65th birthday for VaLORS. The bill applies only to eligible members who retire on & after 7/1/2025. Item 484 #3s $50,000 NGF in FY25 Bill passed by indefinitely 2/6 in SFAC.