



VRS Update

VASS-VASBO Winter Conference
January 10, 2022

Presented by Patricia S. Bishop, VRS Director





VRS Overview



Finance and Investments



Funded Status and Contribution Rates



Hybrid Retirement Plan



Hybrid Retirement Plans in the U.S.



Helping Members Plan for Tomorrow, Today



Engage, Communicate, Educate!



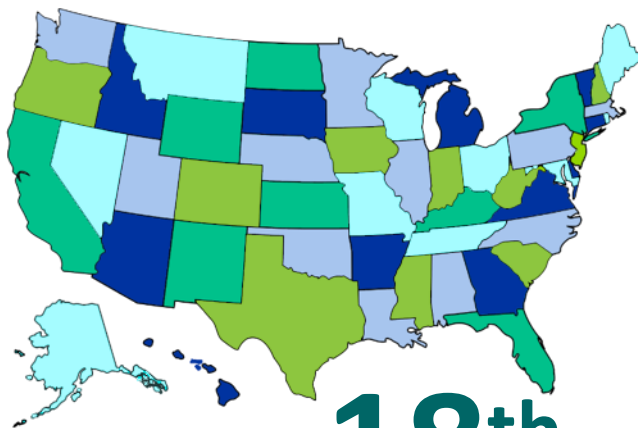
Virginia
Retirement
System

VRS Overview



 **751,471**
active and retired members

As of June 30, 2021

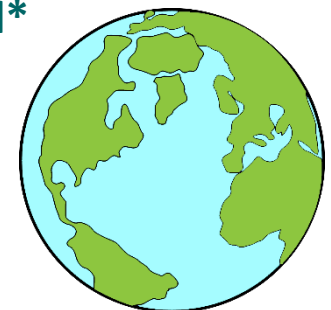


18th largest

public or private pension system
in the United States*

41st largest

public or private pension system
in the world*



* As ranked by *Pensions & Investments* in 2021

VRS Total Membership as of June 30, 2021



	Plan 1	Plan 2	Hybrid	Total
Teachers	63,188	29,682	56,923	149,793
Political Subdivision Employees	38,007	31,072	39,534	108,613
State Employees	29,073	13,805	30,808	73,686
State Police Officers' Retirement System (SPORS)	1,018	929	0	1,947
Virginia Law Officers' Retirement System (VaLORS)	2,466	5,357	0	7,823
Judicial Retirement System (JRS)	175	47	231	453
Total Active Members	133,927	80,892	127,496	342,315

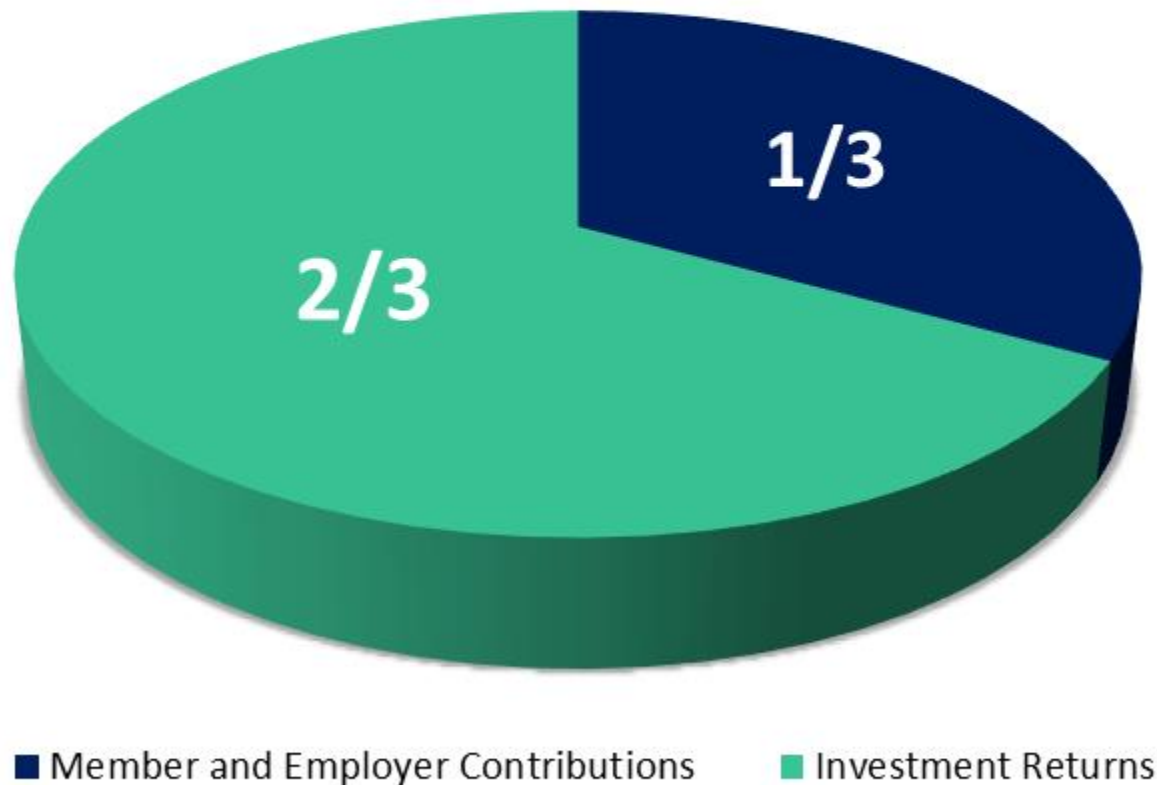
Total Active Members
342,315

**Retirees/
Beneficiaries**
224,973

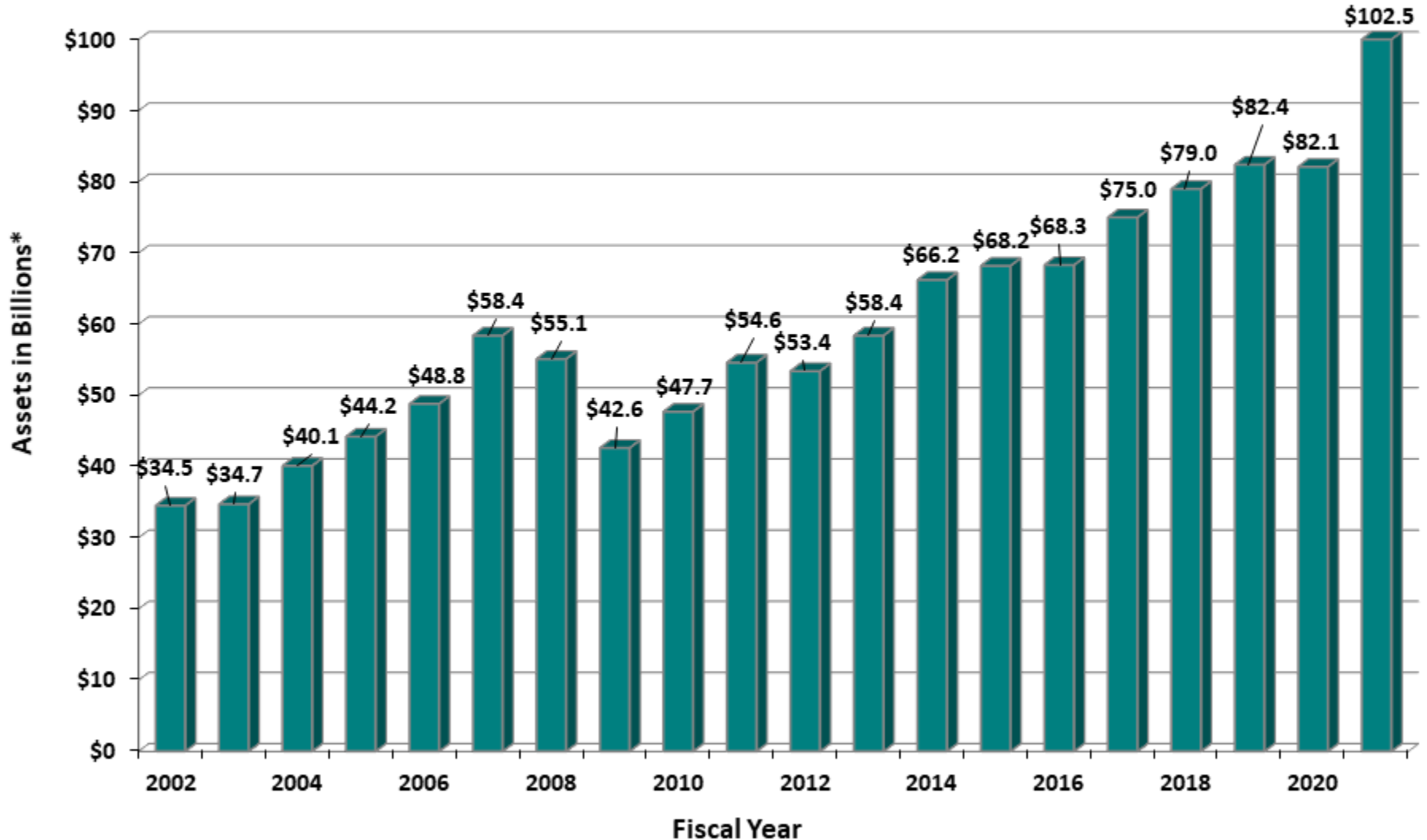
Inactive/Deferred Members
184,183

VRS Total Population
751,471

Approximate Source of Defined Benefit Plan Funding



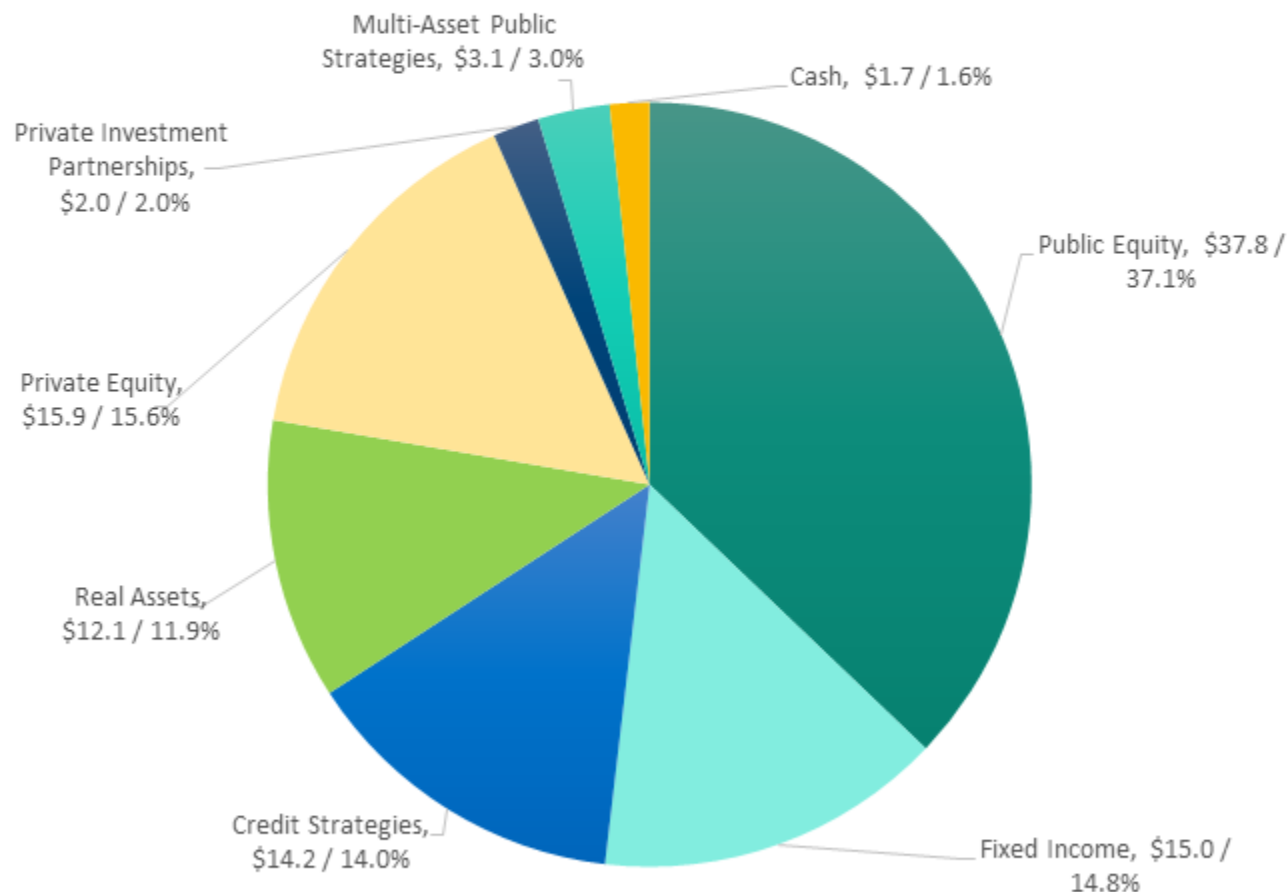
VRS Net Position



* Values for all years in this table were restated in FY 2020 to reflect the implementation of GASB Statement No. 84.

Asset Allocation as of June 30, 2021

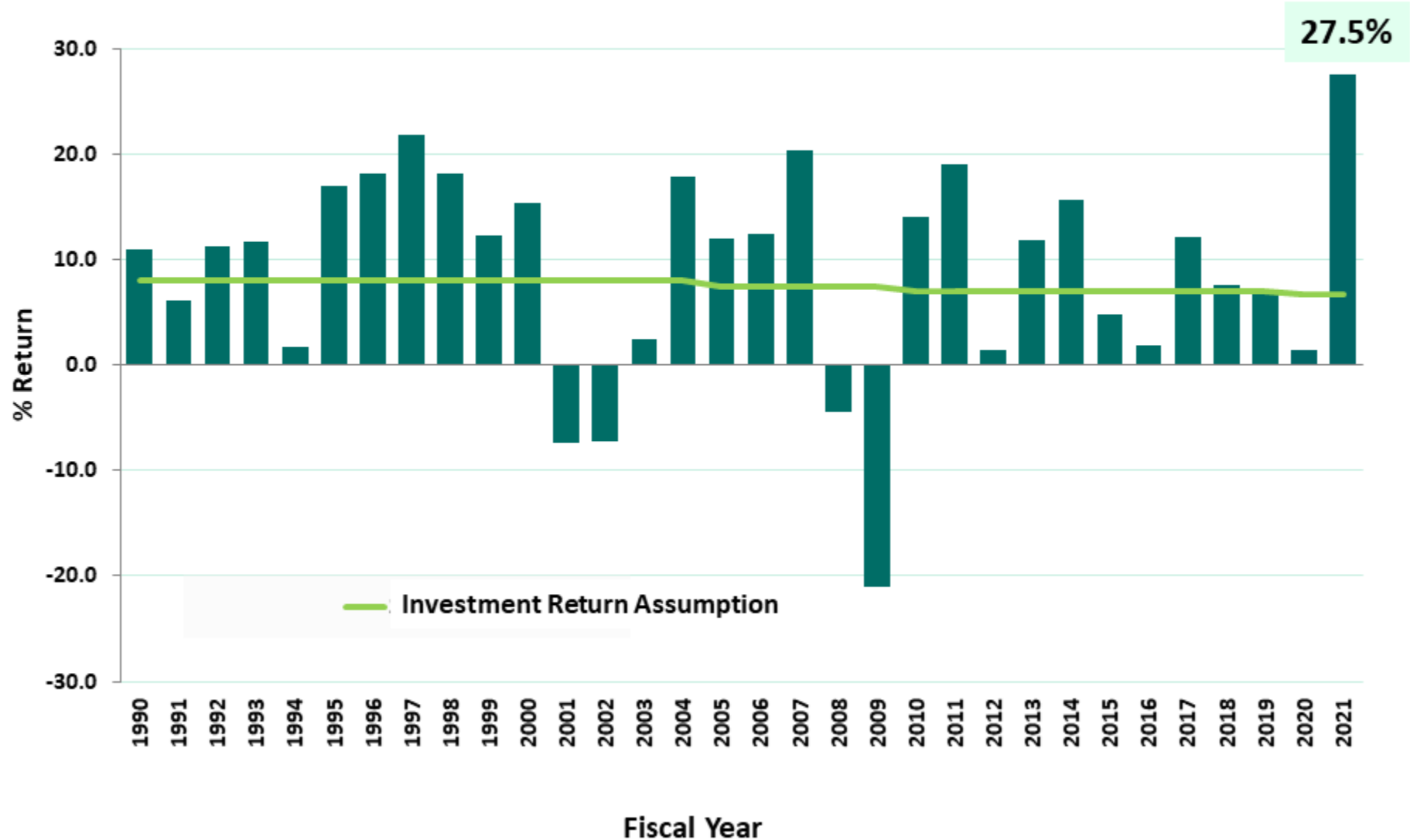
Total Fund Market Value = \$101.8 billion



Dollar Amounts in Billions / Percent of Total Fund

Source: Bank of New York Mellon

VRS Fiscal Year Returns



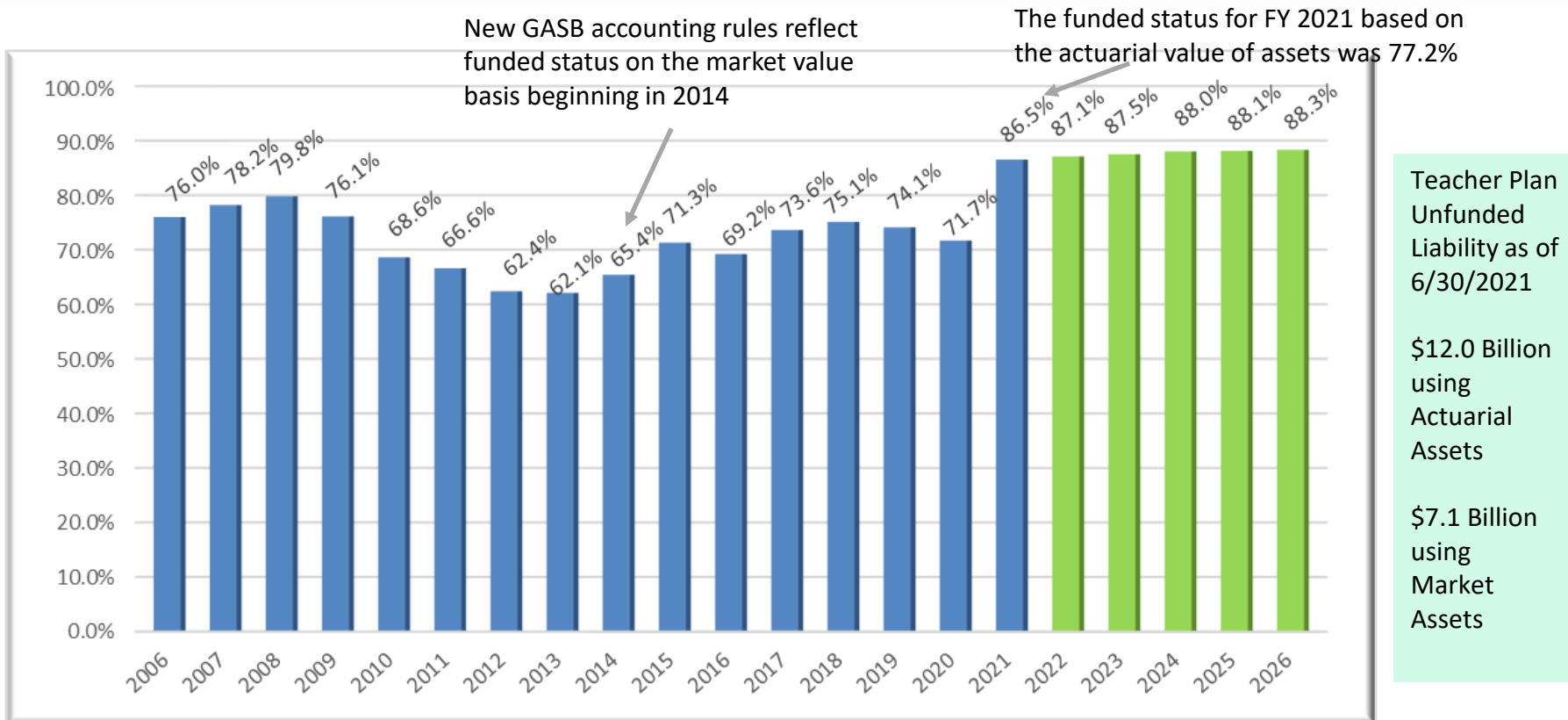
27.5%

Investment Return Assumption

Funded Status and Contribution Rates



Funded Status: Teachers



Teacher Plan Unfunded Liability as of 6/30/2021

\$12.0 Billion using Actuarial Assets

\$7.1 Billion using Market Assets

■ Historical Funded Status - Actuarial Value of Assets up to 2013 & Market Value of Assets 2014 Forward

■ Projected Funded Status using Market Value of Assets (New GASB Standard)

Notes:

- Projected funded status based on assumed investment returns of 6.75% and inflation of 2.5%.
- GASB Accounting rules reflect funded status using Market Value of Assets effective 6/30/14 for Plan Reporting and 6/30/15 for Employer Reporting.

Employer Contribution Rates and Funding Requirements for Statewide Plans



Plan	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2023 Governor's Proposed
State	14.46%	14.46%	14.13%	14.46%
SPORS	26.33%	26.33%	29.98%	29.98%
VaLORS	21.90%	21.90%	24.60%	24.60%
JRS	29.84%	29.84%	30.67%	30.67%
Teachers				
	16.62%	16.62%	14.76%	16.62%
Total Estimated Employer Contributions	\$2,238,472,000	\$2,351,408,000	\$2,233,507,000	\$2,426,173,000
General Fund	\$977,577,000	\$1,027,328,000	\$990,033,000	\$1,067,437,000
Non-General Fund	\$1,260,895,000	\$1,324,080,000	\$1,243,474,000	\$1,358,736,000

- Estimated funding for FY 2022 is based on actual FY 2021 payroll with increases as outlined in the Governor's budget. Estimated funding for FY 2023 is based on estimated FY 2022 payroll projected forward with plan assumptions. Actual funding will be based on payrolls in effect at time of billing.
- Maintaining higher rates would collect an additional \$345 million for the Teacher plan over the biennium which could increase funded status by nearly 70 basis points and lower unfunded liabilities by nearly \$382 million without increasing budget.

Virginia Retirement System Unfunded Pension Liabilities by Plan (Dollars in Thousands)



System	Unfunded Liability Using Actuarial Value of Assets (\$'s Thousands)		
	2020	2021	
		Before Assumption/Plan Changes	After Assumption/Plan Changes
State	\$ 6,417,661	\$ 5,710,835	\$ 6,112,670
Teachers	\$ 13,278,662	\$ 11,145,625	\$ 12,021,814
SPORS	\$ 325,590	\$ 330,233	\$ 389,314
VaLORS	\$ 712,025	\$ 670,421	\$ 738,351
Judicial	\$ 111,633	\$ 81,299	\$ 132,738
Total Statewide Systems	\$ 20,845,571	\$ 17,938,413	\$ 19,394,887
Locals Aggregate	\$ 3,441,151	\$ 2,536,717	\$ 3,485,332
Total Fund	\$ 24,286,722	\$ 20,475,130	\$ 22,880,219

System	Unfunded Liability using Market Value of Assets (\$'s Thousands)		
	2020	2021	
		Before Assumption/Plan Changes	After Assumption/Plan Changes
State	\$ 6,981,267	\$ 3,213,719	\$ 3,615,554
Teachers	\$ 14,385,554	\$ 6,253,529	\$ 7,129,718
SPORS	\$ 351,662	\$ 217,417	\$ 276,498
VaLORS	\$ 758,084	\$ 470,299	\$ 538,229
Judicial	\$ 128,417	\$ 8,817	\$ 60,256
Total Statewide Systems	\$ 22,604,984	\$ 10,163,781	\$ 11,620,255
Locals Aggregate	\$ 4,076,749	\$ (333,429)	\$ 615,186
Total Fund	\$ 26,681,733	\$ 9,830,352	\$ 12,235,441

The Political Subdivisions in Aggregate unfunded liabilities do not include political subdivisions with no active members.

Governor's Proposed Budget: Benefit Plan Cash Infusions



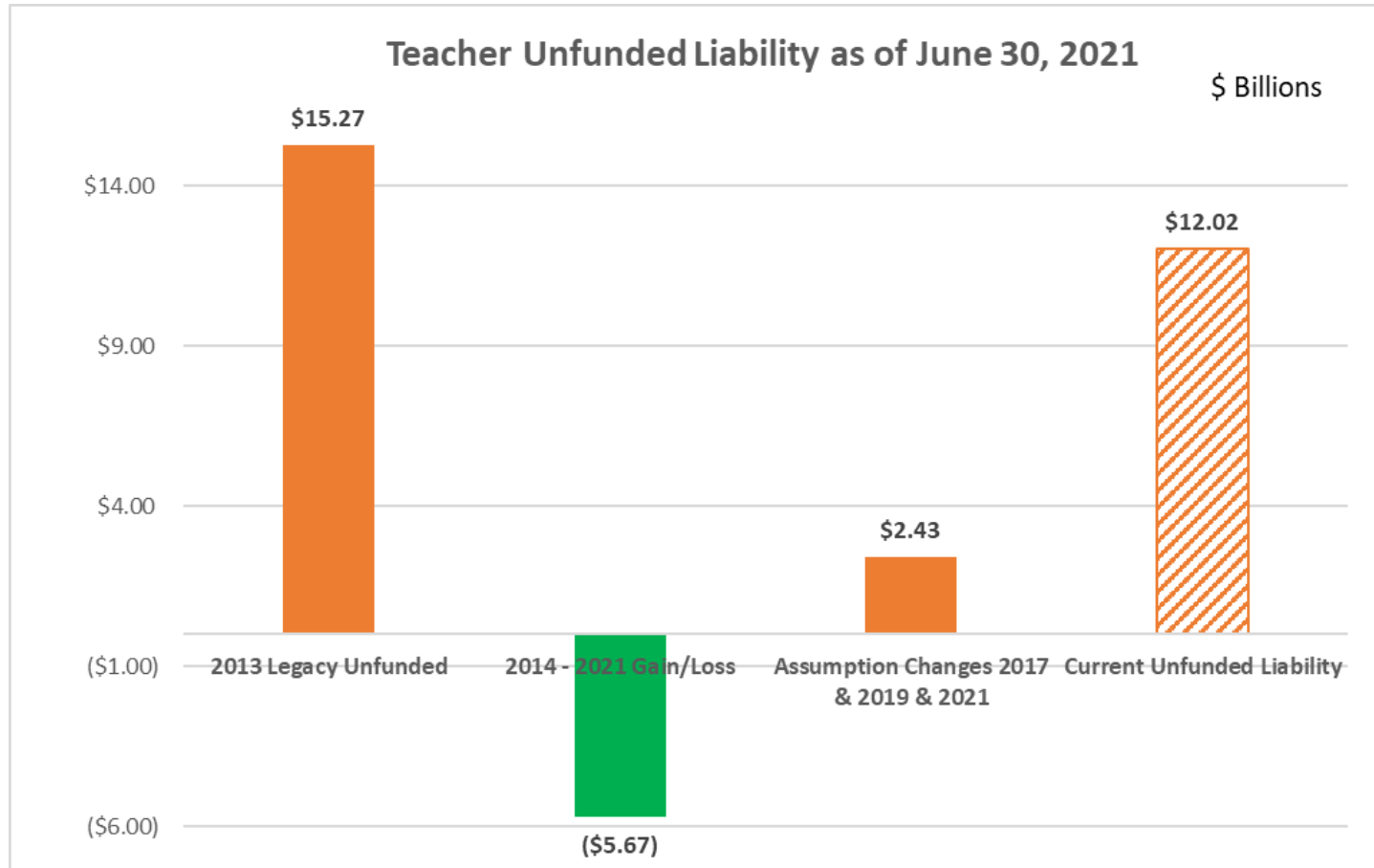
- The proposed budget contains provisions to deposit \$923,998,000 on or before June 30, 2023, into the VRS trust fund to address the unfunded liabilities associated with each plan.*
- The funds were allocated to provide equivalent assets to increase the funded status of each plan by 1%.

Plan	Proposed Cash Infusion
Teacher Pension Plan	\$545,000,000
State Pension Plan	\$270,000,000
Group Life Insurance Plan	\$37,500,000
VaLORS Plan	\$24,500,000
HIC Teachers Plan	\$14,800,000
SPORS Plan	\$13,500,000
HIC State Plan	\$10,500,000
JRS Plan	\$7,700,000
HIC Constitutional Officers Plan	\$340,000
HIC Social Services Plan	\$150,000
HIC Registrars Plan	\$8,000
Total Funds	\$923,998,000

The Teacher plan infusion will save about \$1 billion in future interest payments on the outstanding legacy unfunded and could potentially lower Teacher rates by approximately 0.40% of covered payroll.

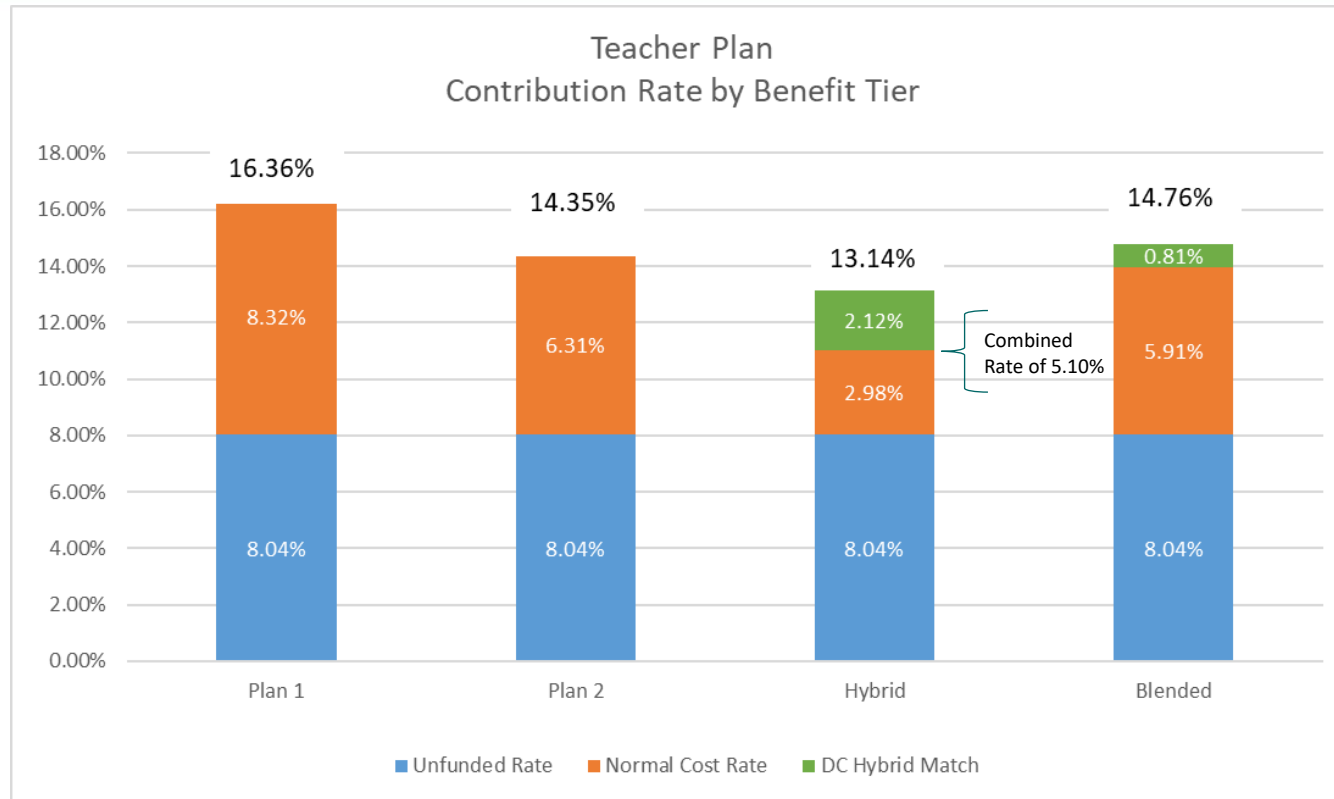
* Contingent on meeting the revenue forecast.

VRS Teacher Plan: Unfunded Pension Liabilities (AVA)



- Approximately two-thirds of Teacher employer rate is associated with paying down the unfunded liabilities of the plan.
- This chart shows that a majority of the unfunded is associated with the legacy unfunded liabilities that occurred prior to 2013.

VRS Teacher Plan: Employer Rate by Benefit Tier

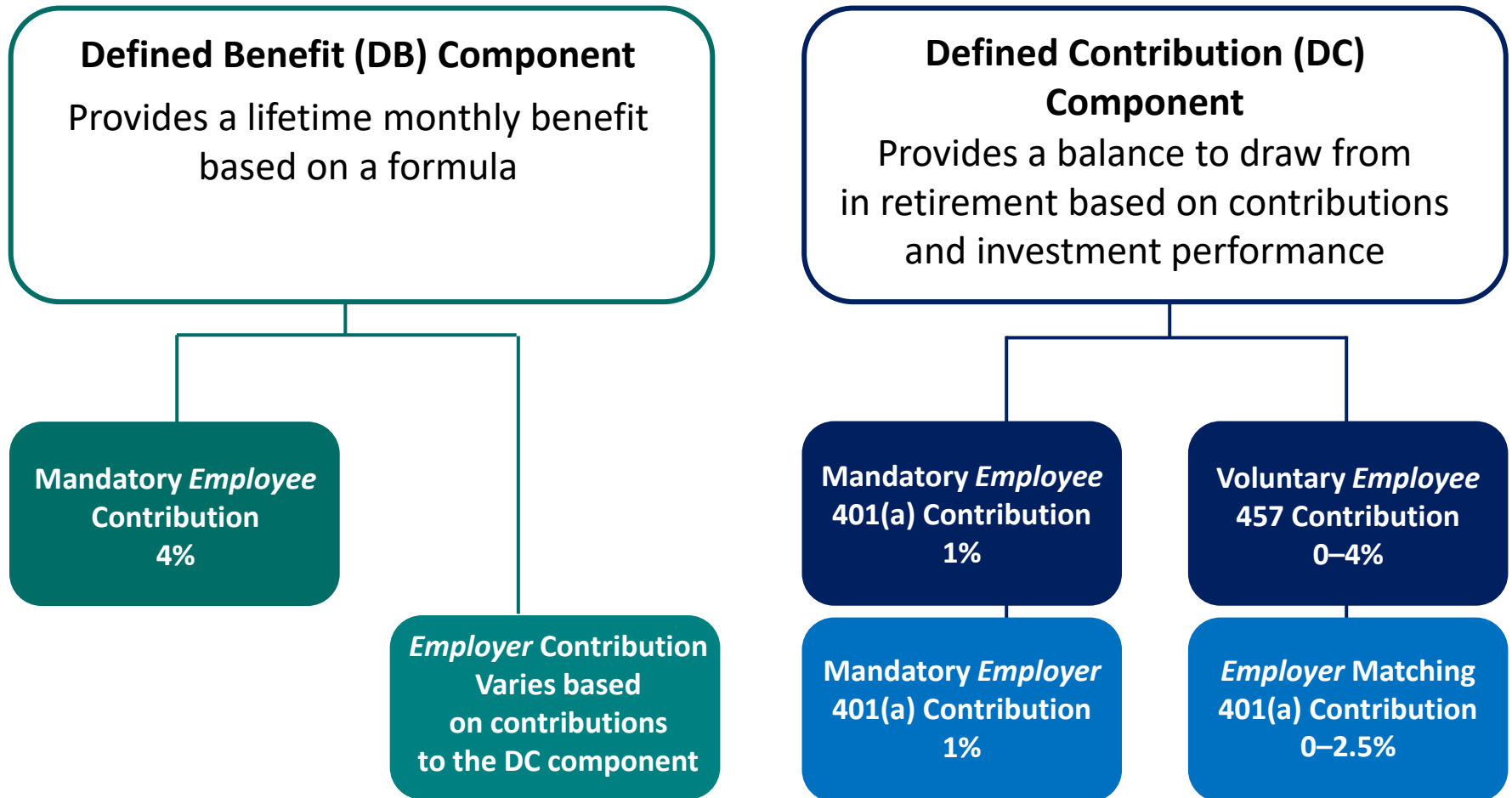


- Employer cost is made up of normal cost, cost to pay down unfunded liabilities, and for Hybrid plan the DC matching contributions.
- Each plan shares the cost of repaying unfunded liabilities, which is shown as 8.04% of total payroll for the Teacher plan
- Normal cost rates show the relative value of the benefit provided to members. The combined rate for the Hybrid plan is currently 5.10%, which is less than cost of Plan 1 and Plan 2.
- The lower cost of the hybrid plan helps to bring down the blended cost rate charged to employers. As more new members are hired normal cost rate with trend towards the hybrid cost rate.

Hybrid Retirement Plan

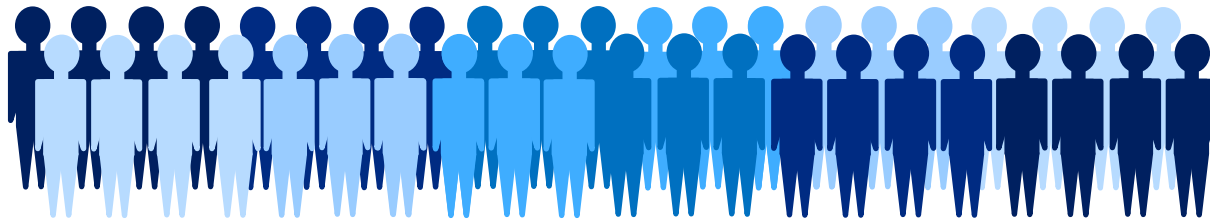


Hybrid Retirement Plan



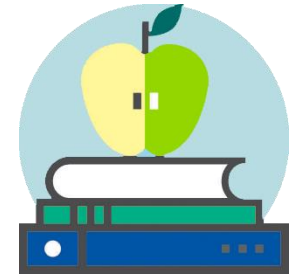
Hybrid Retirement Plan

Hybrid Retirement Plan Member Profile as of October 1, 2021



134,450

**Active Hybrid Retirement
Plan members**



Largest Member Group

Teachers

63,059 members
(47%)

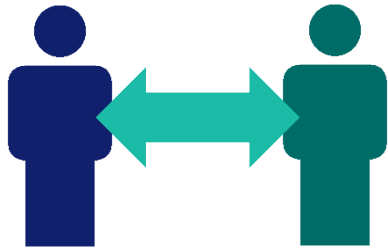


Median Salary
\$47,072

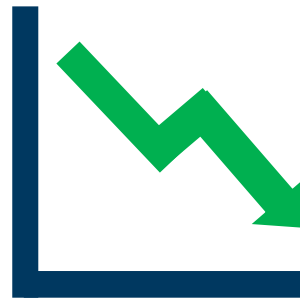
Median Age
37 years old

Average Years in the Plan
2.67

Hybrid Retirement Plan



Shares risk between
employer/employee



Reduces employer
investment risk



Increases portability

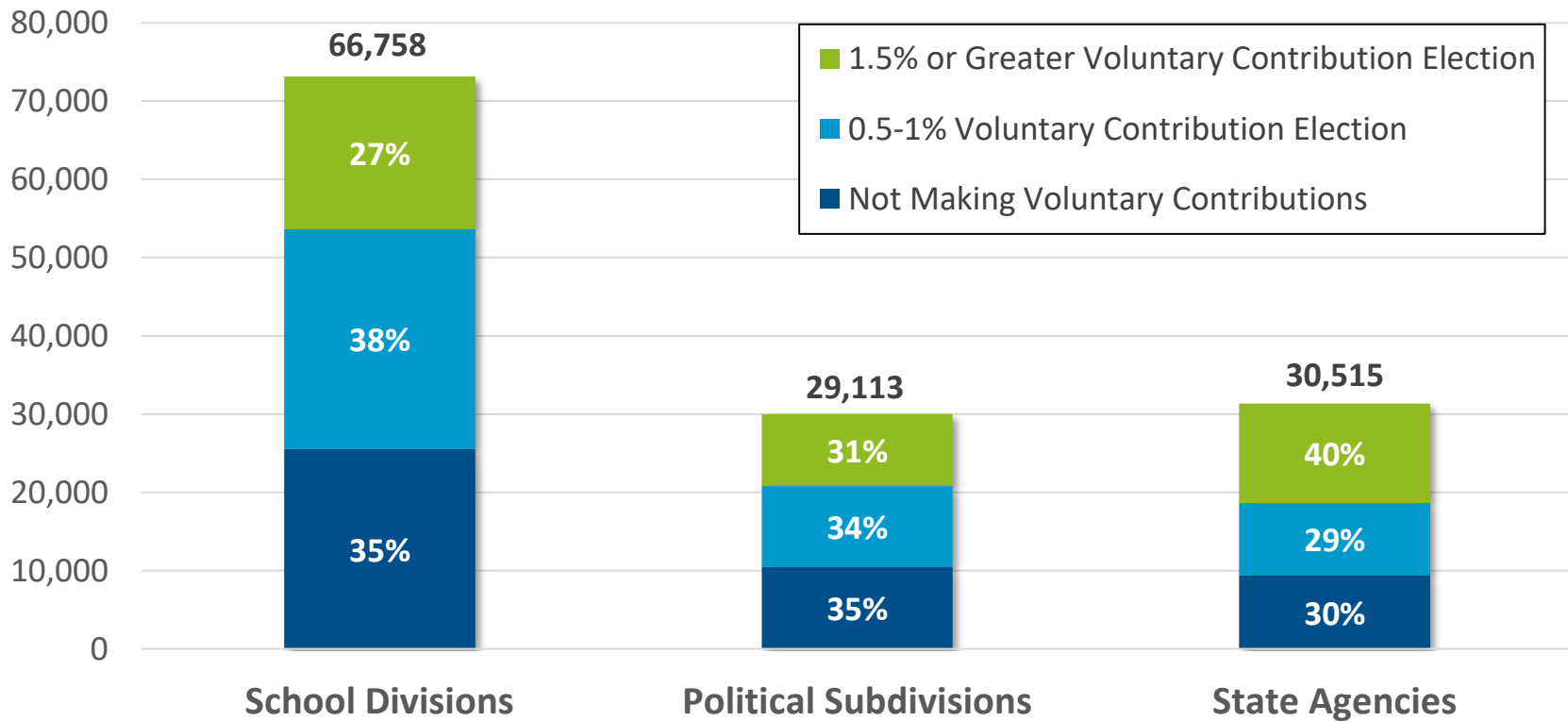


Reduces employer
longevity risk



Lowers future costs
of the plan

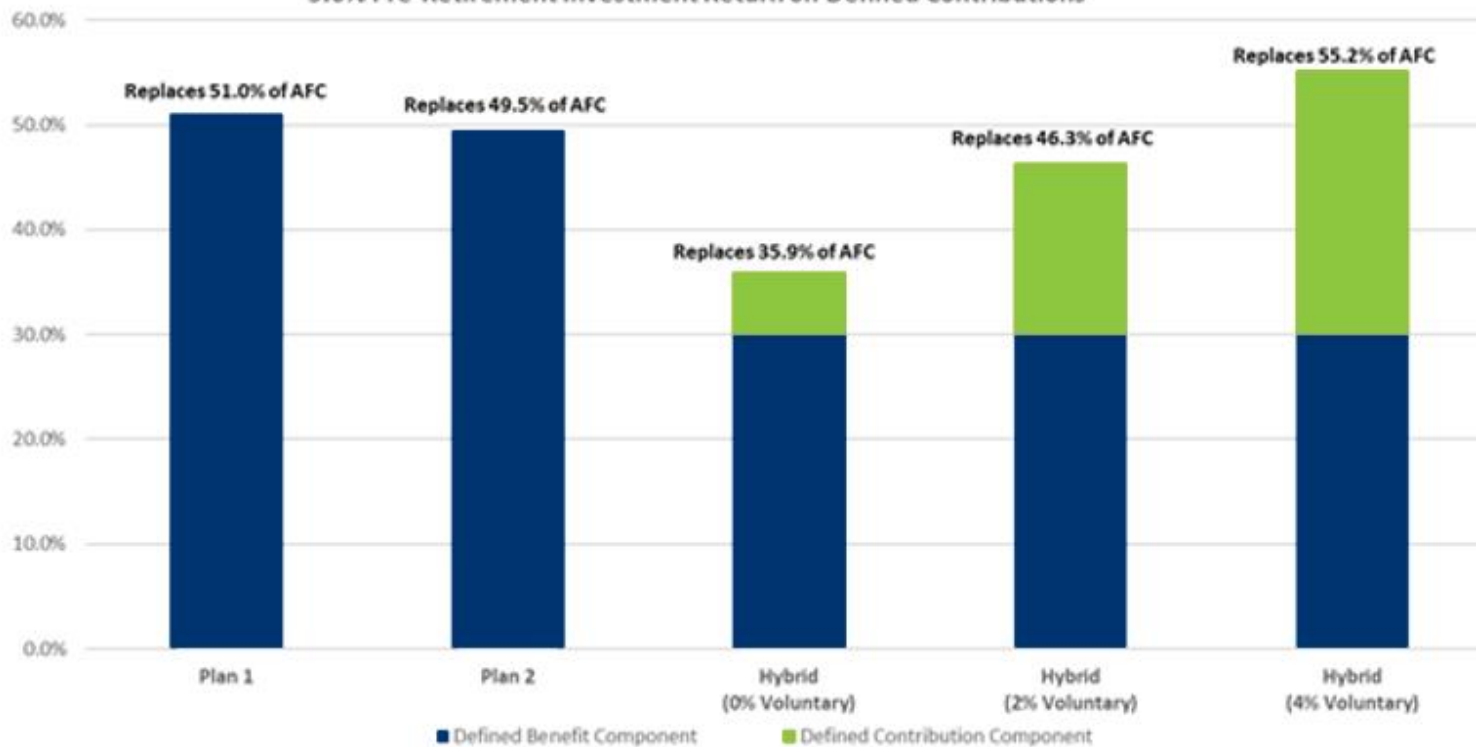
Hybrid Retirement Plan Members by Employer Type as of October 1, 2021



VRS Teacher Plan: Estimated Replacement Ratio

VRS Teacher Plan

Estimated Replacement Ratio for Member Retiring with 30 Years of Service at age 65
5.0% Pre-Retirement Investment Return on Defined Contributions



- Plan 1 and Plan 2 require a 5% total member contribution
- Hybrid 0% voluntary requires a 5% total member contribution.
- Hybrid 2% voluntary requires a 7% total member contribution.
- Hybrid 4% voluntary requires a 9% total member contribution.

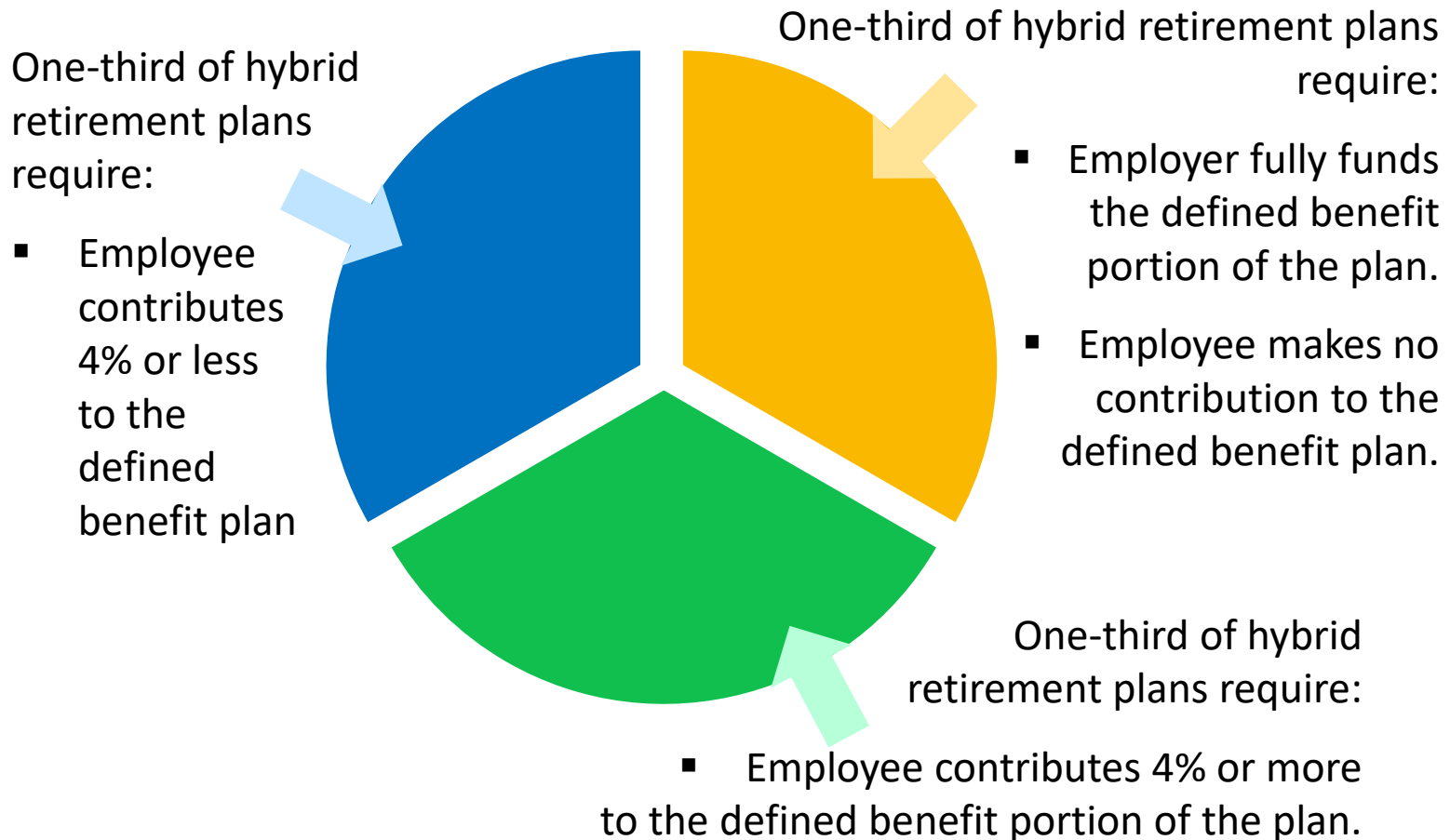
- Investment return for defined contribution investments is assumed to be 5.0% per year and converted to annuity assuming 4% post-retirement discount rate and 2.25% COLA.
- Income replacement percentage, based on final average final compensation (AFC).

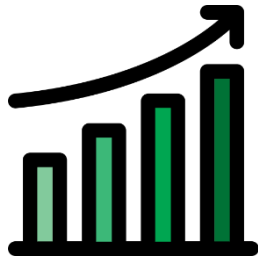
Hybrid Retirement Plans in the U.S.



- New hybrid plans are being created by legislatures nearly every year.
- Mostly Defined Benefit-Defined Contribution (DB-DC), some cash balance plans.
- Usually apply to new hires only.
- DB-DC plans maintain a DB component, with a lower benefit accrual rate.
- Cash balance plans contain key features of DB plans but transfer some investment risk to workers.
- A new hybrid, DB-DC plan was established for most new VRS plan participants effective 1/1/14.

Most state hybrid retirement plans provide greater employer contributions than Virginia to the defined contribution portion of their plans:





- Accelerate auto-escalation to 0.5% increase in voluntary contributions every two years for members not at the maximum voluntary level.



- Auto-enroll with voluntary contribution at 0.5% upon date of hire, with ability to opt-out.

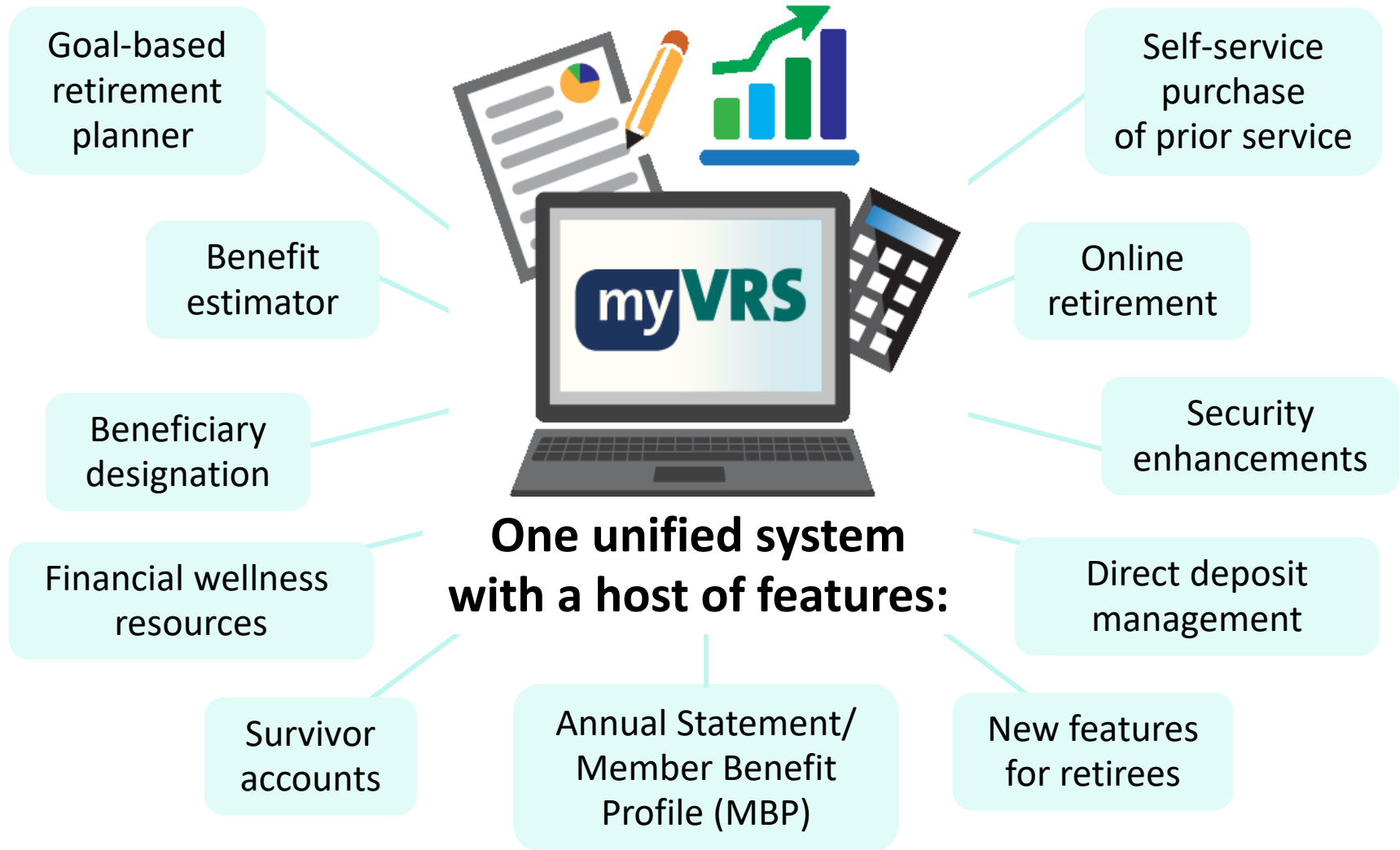


- Change allocation of member contribution.
 - Current 4% DB and 1% DC.
 - Proposed 3% DB and 2% DC.

**Engage, Communicate,
Educate!**



myVRS Features



Engage Employees

Make it easy for employees to save
– get them started on the right path!



With **GoHybrid**, members can elect a voluntary contribution before their hire date or enrollment in VRS



Direct Your Employees to Start Saving Now!

- Log in online
- Call toll-free



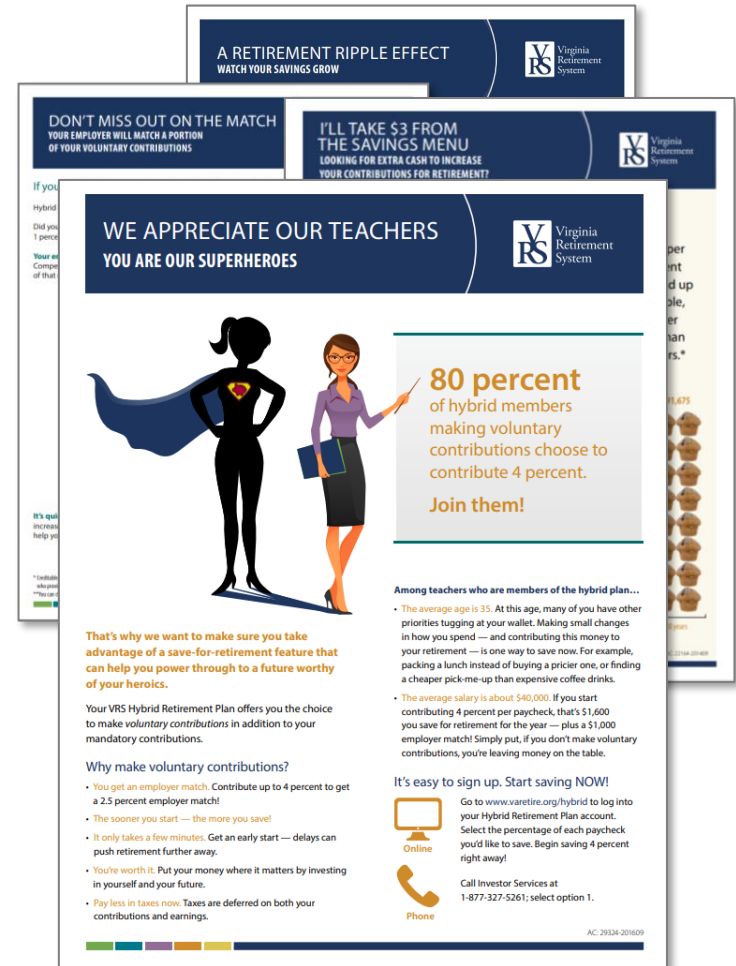
Communicate Regular Reminders

Promote voluntary contributions and savings to members with a schedule of regular reminders!



varetire.org/vctoolkit

The Voluntary Contributions Toolkit includes **flyers**, **reminder emails**, **sample articles** and **messaging** for intranets and social media posts



A RETIREMENT RIPPLE EFFECT
WATCH YOUR SAVINGS GROW

DON'T MISS OUT ON THE MATCH
YOUR EMPLOYER WILL MATCH A PORTION OF YOUR VOLUNTARY CONTRIBUTIONS

I'LL TAKE \$3 FROM THE SAVINGS MENU
LOOKING FOR EXTRA CASH TO INCREASE YOUR CONTRIBUTIONS FOR RETIREMENT?

WE APPRECIATE OUR TEACHERS
YOU ARE OUR SUPERHEROES

80 percent of hybrid members making voluntary contributions choose to contribute 4 percent.
Join them!

Among teachers who are members of the hybrid plan...

- The average age is 35. At this age, many of you have other priorities tugging at your wallet. Making small changes in how you spend — and contributing this money to your retirement — is one way to save now. For example, packing a lunch instead of buying a pricier one, or finding a cheaper pick-me-up than expensive coffee drinks.
- The average salary is about \$40,000. If you start contributing 4 percent per paycheck, that's \$1,600 you save for retirement for the year — plus a \$1,000 employer match! Simply put, if you don't make voluntary contributions, you're leaving money on the table.

That's why we want to make sure you take advantage of a save-for-retirement feature that can help you power through to a future worthy of your heroics.

Your VRS Hybrid Retirement Plan offers you the choice to make **voluntary contributions** in addition to your mandatory contributions.

Why make voluntary contributions?

- You get an employer match. Contribute up to 4 percent to get a 2.5 percent employer match!
- The sooner you start — the more you save!
- It only takes a few minutes. Get an early start — delays can push retirement further away.
- You're worth it. Put your money where it matters by investing in yourself and your future.
- Pay less in taxes now. Taxes are deferred on both your contributions and earnings.

It's easy to sign up. Start saving NOW!

Go to www.varetire.org/hybrid to log into your Hybrid Retirement Plan account. Select the percentage of each paycheck you'd like to save. Begin saving 4 percent right away!

Call Investor Services at 1-877-327-5261; select option 1.

AC: 29324-201609

Email or post flyers to show how even small contributions now will add up over time

You can be a savings champion as you educate VRS members about the importance of voluntary contributions!

Find Your DC Plans Specialist

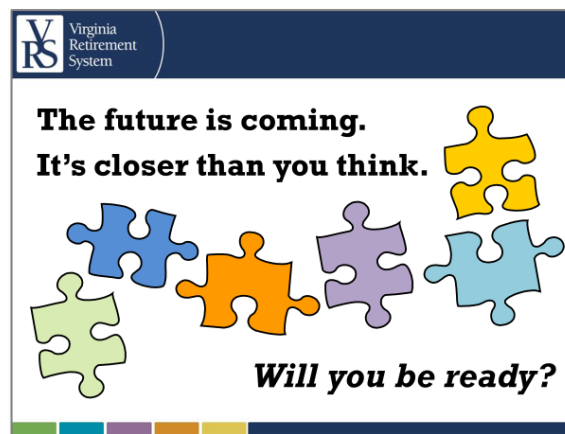
To find the Local MissionSquare Retirement Defined Contribution Plans Retirement Specialists for your region, please select your county, city of employment, or employer from the drop-down list below:

---Select Your County/City/Employer---

Defined Contribution Retirement Plan Specialists can help with new hire orientations, benefit fairs and education sessions



Share the **Hybrid Plan Learning Channel** with your members or show the videos during new hire orientations



Use **PowerPoint slides** in new hire orientations and staff meetings, or add to your intranet site



SmartStep allows members to increase their voluntary contributions at a date they choose



The **VRS DCP mobile app** for iPhones, Android smartphones and tablets allows members to manage their accounts on the go



Enhanced voluntary contribution messaging is a reminder for members who are not making a voluntary contribution

Hybrid Learning Channel

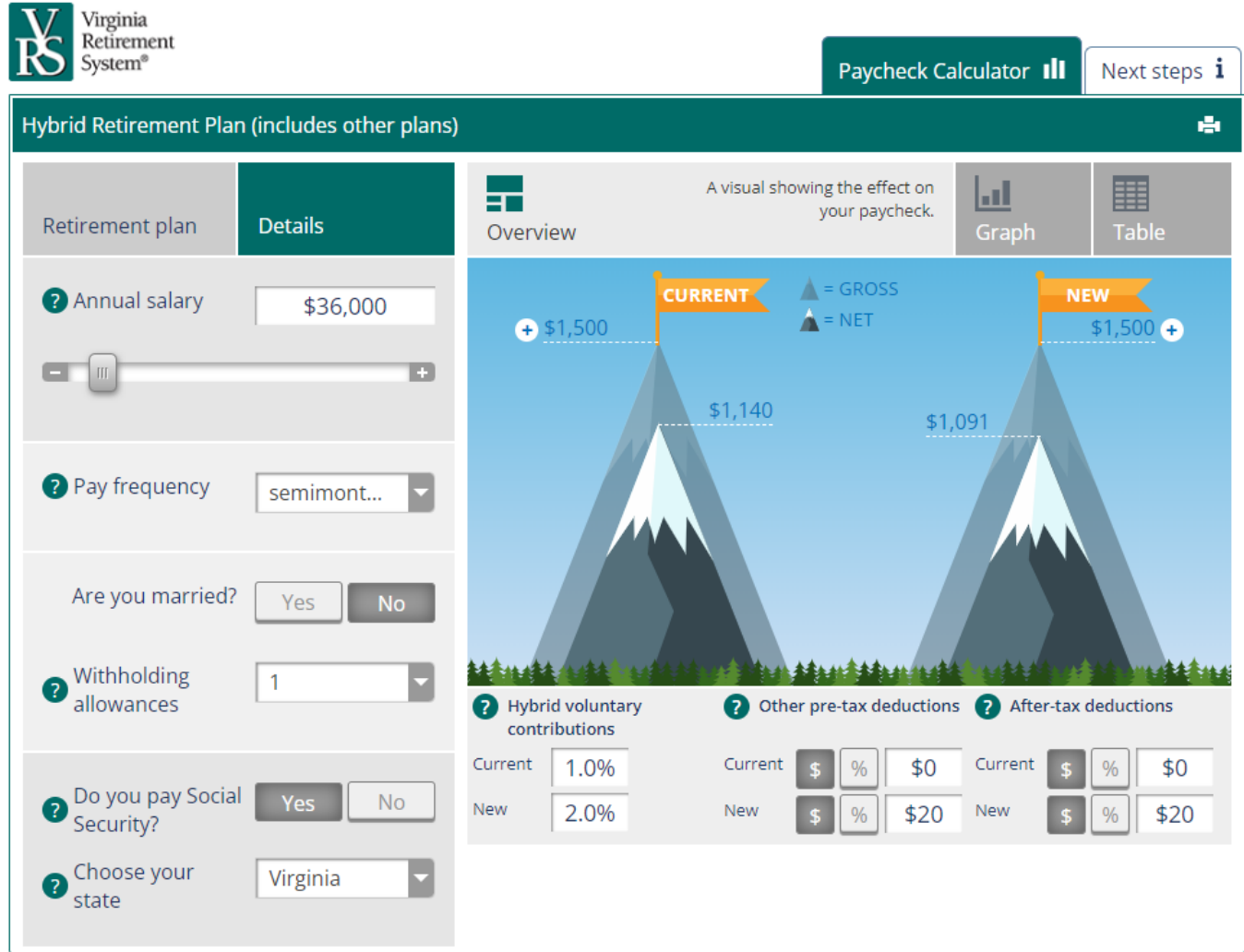


- Features a video series to educate members
- Employers can use as a tool when onboarding new employees



Paycheck Calculator

Paycheck Calculator helps members see the change in their paychecks if they are making voluntary contributions



The screenshot shows the Virginia Retirement System Paycheck Calculator interface. The main heading is "Hybrid Retirement Plan (includes other plans)". The interface is divided into a left sidebar for input and a main area for output and visualization.

Input Section (Left Sidebar):

- Retirement plan: Details
- Annual salary: \$36,000 (with a slider control)
- Pay frequency: semimont...
- Are you married?: Yes (selected), No
- Withholding allowances: 1
- Do you pay Social Security?: Yes (selected), No
- Choose your state: Virginia

Output and Visualization Section (Main Area):

- Overview: A visual showing the effect on your paycheck. Includes "Graph" and "Table" tabs.
- Visual: Two mountain graphics represent "CURRENT" and "NEW" states. The "CURRENT" mountain has a peak of \$1,500 (GROSS) and a base of \$1,140 (NET). The "NEW" mountain has a peak of \$1,500 (GROSS) and a base of \$1,091 (NET). A difference of \$150 is shown between the two net pay amounts.
- Legend: ▲ = GROSS, ▼ = NET
- Hybrid voluntary contributions: Current 1.0%, New 2.0%
- Other pre-tax deductions: Current \$0, New \$20
- After-tax deductions: Current \$0, New \$20

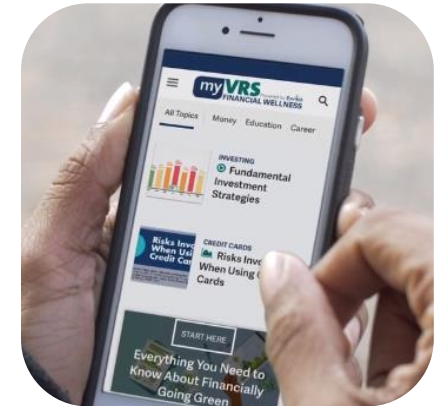
myVRS Financial Wellness



Interactive learning resources



Personalized content in myVRS, including videos to get you started



Easy access to courses for your needs and interests



Courses



Educational Games



Budgeting Tools



Calculators

New Financial Planning Services



- Complements the existing myVRS Financial Wellness program.
- Available to **all** VRS members and retirees, regardless of participation in a DC plan, through MissionSquare Retirement.
- Dedicated financial planners for VRS membership; no investment advice provided.

CFP professionals offer guidance and support to help you feel confident about your financial security and find a path forward.

ACCORDING TO AN OCTOBER/NOVEMBER 2020 SURVEY OF 1,205 STATE AND LOCAL GOVERNMENT WORKERS



HAVE BEEN NEGATIVELY IMPACTED FINANCIALLY BY THE COVID-19 PANDEMIC



ARE CONCERNED ABOUT BEING ABLE TO RETIRE WHEN THEY WANT



SAY DEBT IS A PROBLEM FOR THEM AND THEIR FAMILY

varetire.org/make-a-plan

DC Plans Specialists



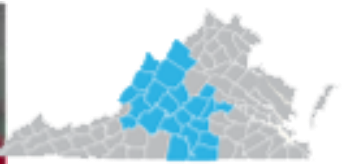
Tajan Rahman
Northern Virginia Region



Steven McGregor
North Central Region



Vainy Gleveckas
Eastern Region



Janice Parker
Western Region



Sherrel Addison
South Central Region



Homer Stinson
Southeastern Region



Lauren Hand
Southwestern Region



**Need advice
on DC Plans?
Find your area's
specialist with
our online tool!**



Steven Scott
Plan Manager



Sharon Bradley
Plan Coordinator

Contacts and Resources

Defined Contribution Plans

varetire.org/dcp



WEBSITE

Defined Benefit Plans

varetire.org

dcplans@varetire.org



EMAIL

vrs@varetire.org

877-327-5261

Option 1



TELEPHONE

888-827-3847

8:30 a.m. – 9 p.m.

Monday – Friday

(Virtual or phone counseling can be scheduled online)



COUNSELING

8:30 a.m. – 4 p.m.

Monday – Friday

(Virtual or phone counseling can be scheduled online)

Serving those who serve others

Additional Hybrid Retirement Plan Resources

Calculators for Planning and Saving



Small Change, Big Savings shows how cutbacks on everyday items can add up and increase your savings

Cost of Delay Calculator shows the effects if you delay enrolling in your retirement plan



Roth Analyzer explains the Roth option and helps you decide between pretax or after-tax savings

Required Minimum Distribution Calculator estimates your distribution amounts

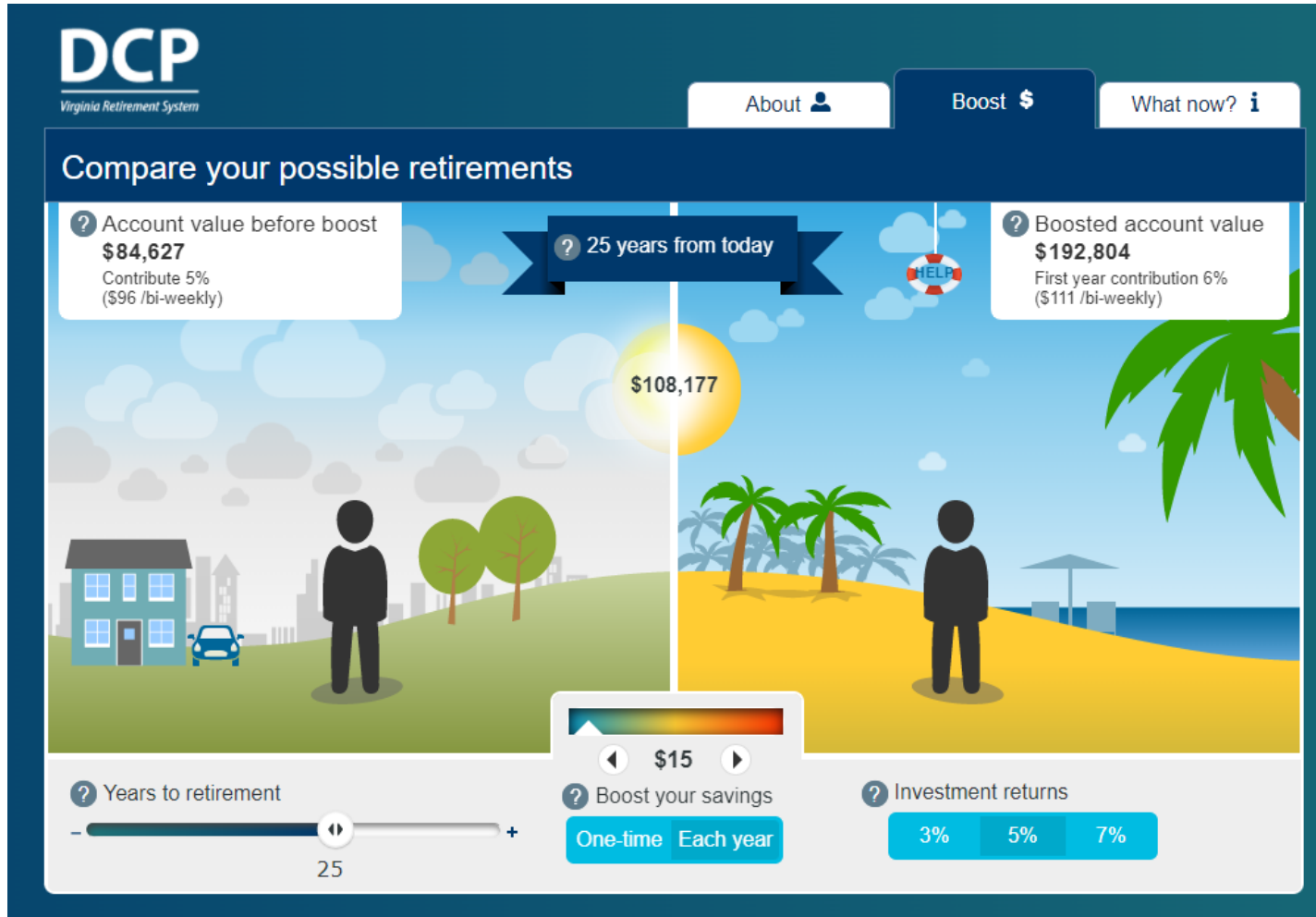


Retirement Withdrawal Calculator helps you manage withdrawals from your DC accounts

Retiree Health Cost Estimator shows you how to prepare for a significant health expense



Boost Savings, Add Value!



Savings Boost Calculator helps you see how boosting your savings can enhance retirement planning