
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on October 17, 2019 in Richmond, Virginia with the following members present:

Board members present:

Mitchell L. Nason, Chair
Diana F. Cantor, Vice Chair
Hon. J. Brandon Bell, II
Wallace G. Harris, Ph.D.
W. Brett Hayes
William H. Leighty
O'Kelly E. McWilliams, III
Joseph W. Montgomery
Troilen G. Seward

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, John Alouf, Rory Badura, Farley Beaton, Parham Behrooz, Jeanne Chenault, Tom Coleman, Michael Cooper, Perry Corsello, Harriet Covey, Sara Denson, Pam Elam, Barry Faison, Brian Goodman, JT Grier, Krystal Groff, Dane Honrado, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Kristina Koutrakos, Matt Lacy, Chung Ma, Curt Mattson, Steve McClelland, Scott Mootz, Laurie Nelson, Angela Payne, Andrea Peeks, Cat Pelletier, Steve Peterson, Jummai Sarki-Hurd, Daniel Whitlock, and Cindy Wilkinson.

Guests present were:

Paul Martiniello, CEM Benchmarking; Brad Wild, Ed Koebel, Larry Langer and Alisa Bennett (phone), Cavanaugh Macdonald Consulting, LLC; Latosha Johnson, Department of Planning and Budget; Kimberly Sarte, Joint Legislative Audit and Review Commission; Elizabeth Myers and Rachel Snead, Office of the Attorney General; Justin Ferrell, Auditor of Public Accounts; J. Marshall Terry and Rick Fowler, Virginia Governmental Employees Association; Jessica Ackerman, Virginia Municipal League; Jeremy Bennett, Virginia Association of Counties; Michael Jay, House Appropriations Committee; Adam Rosatelli, Senate Finance Committee; and Bea Snidow, Virginia Education Association.

The meeting convened at 1:01 p.m.

Approval of Minutes

Upon a motion by Ms. Cantor, with a second by Mr. Montgomery, the minutes of the October 10, 2019 meeting were approved.

Report of the Chief Investment Officer

Mr. Schmitz began his report with a market overview. Next, he discussed asset allocation and reviewed plan performance – which generally continues to be strong relative to benchmarks with the exception of

Public Equity. He then discussed tracking error, information ratio and fund volatility – concluding that risk measures are all within Board-approved levels. Mr. Schmitz then reviewed the New Investments and Terminations Report, the WaM Quarterly Summary Report, and the Manager Referral Quarterly Summary Report with the Board.

After some discussion, the Board decided to hold an informal meeting (“Brown Bag Lunch Session”) with the Investment Policy Committee for the purpose of member education on the multi-asset public strategies (MAPS) segment of the investment portfolio on November 20, 2019 at 12:00 p.m.

Mr. Nason thanked Mr. Schmitz for his report.

Annual CEM Benchmarking Report of Benefit Administration

Ms. Bishop introduced Paul Martiniello with CEM Benchmarking to present the VRS Pension Administration Benchmarking Report for FY 2018. CEM measures cost and service levels and provides an analysis of performance related to peer agencies. VRS was compared to a peer group of other U.S.-based retirement systems with similar membership size. Examples of areas of service reviewed and measured, include the call center, the VRS website, one-on-one member counseling and presentations, pension inceptions and member statements.

Mr. Martiniello advised that VRS achieved a total service score of 83, which is above the peer group average of 81. VRS continues to improve each year, increasing from a score of 80 in 2015 due to a drop in total call wait time, ability to process member refunds online, and an increase in attendance in group counseling among active members. VRS’ total cost per active member and annuitant is \$18 below the peer group average, with a cost of \$78 per active member and annuitant, and a total pension administration cost of \$43 million. An increase of 6.7% in cost since FY 2015 is largely due to major projects and IT costs associated with the Modernization program. Mr. Martiniello explained that the VRS pension administration cost is below the peer group average because of fewer transactions per member, higher staff productivity and lower third-party costs in front-office transactions. Mr. Martiniello concluded that VRS has been able to maintain overall outstanding results during the agency’s Modernization project. Mr. Martiniello concluded that VRS provides a relatively high level of service at a cost comparatively lower than its peers.

Mr. Nason thanked Mr. Martiniello for his presentation, and commended the staff on their efforts in achieving these positive results. .

Report of the Benefits and Actuarial Committee

The Board received the Benefits and Actuarial Committee report of October 16, 2019 and placed it on file.

FY 2021 and FY 2022 CONTRIBUTION RATES FOR FIVE STATEWIDE PLANS AND OPEBS

Mr. Harris began his report by advising that the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC (Cavanaugh MacDonald), presented the June 30, 2019 actuarial valuation results for the five Statewide

Retirement Systems (Teachers, State Employees, JRS, SPORS, and VaLORS). In addition, Cavanaugh Macdonald also presented results of Other Post-Employment Benefit Programs (OPEBs) for the statewide plans, including Group Life Insurance (GLI), Health Insurance Credit (HIC), and the Virginia Sickness and Disability Program (VSDP), which includes self-funded Long-Term Care.

Larry Langer with Cavanaugh Macdonald provided a summary of the presentation to the Board. Key points included:

- The June 30, 2019 valuations are used to set contribution rates for fiscal years 2021 and 2022.
- The primary driver of the results was the reduction in the assumed rate of return from 7.00% to 6.75%, effective with the presented valuation.
- Market returns had limited impact on results because they were close to expectations. The market value return for the total fund of 6.7% fell just short of the long-term assumed rate of return of 7.0%.
- Prior to reflecting the change in plan discount rate, the funded status on both market and actuarial value basis improved for all plans, and the employer contribution rate decreased for all pension and OPEB plans compared to the current rates in effect from the 2017 valuation.
- After incorporating the new 6.75% assumed rate of return, funded statuses on both market and actuarial value basis decreased for all statewide pension plans by approximately two percentage points. The change in the discount rate led to slight decreases in funded statuses for the OPEB plans compared to the 2018 valuation.
- When compared to the current rates in effect from the 2017 valuation, employer contribution rates for the statewide pension plans were higher for all pension plans, except for JRS, by an average increase of just less than 1.0% of covered payroll. JRS saw a decrease of approximately 4.5% of covered payroll. The employer contribution rates for OPEB plans were less impacted by the change in discount rates with HIC State and VSDP slightly lower than current rates, and Group Life Insurance and HIC Teachers just slightly higher than current rates.

The employer contribution rates for the five statewide plans and associated OPEBs are listed in the proposed request for Board action.

Upon a motion by Mr. Harris, with a second by Mr. McWilliams, the VRS Board of Trustees approved the following action:

Request for Board Action 2019-10-21: After considering the recommendations of its actuary, the Board certifies the rates as presented for: the five statewide Retirement Plans (State Employees, Teachers, JRS, SPORS, and VaLORS) and the associated OPEBs: Group Life Insurance (GLI); Health Insurance Credit (HIC); and the Virginia Sickness and Disability Program (VSDP), including self-funded Long-Term Care, all effective July 1, 2020.

Mr. Harris thanked Mr. Langer for his presentation and advised that the next Benefits and Actuarial Committee meeting is scheduled for November 19, 2019 at 1:00 p.m.

Legislative Package for 2020 General Assembly Session

Ms. Wilkinson presented the legislative package for the 2020 General Assembly session. Ms. Wilkinson discussed the proposed amendments to § 51.1-505.01 of the *Code of Virginia* regarding additional benefits in the event of accidental death or dismemberment. Currently, if a VRS member, under certain circumstances, dies in service as the result of a felonious assault, his or her children may be eligible for a higher education benefit. The proposed amendments provide that accounts will be funded with the current average cost of four years of tuition and mandatory fees at baccalaureate public institutions of higher education in the Commonwealth.

Ms. Wilkinson advised that the proposed amendments will account for changes in § 529 of the Internal Revenue Code and that the VRS death benefit is only intended to be used for qualified higher education expenses at post-secondary institutions, while 529 accounts can now be used at K-12 schools. Ms. Wilkinson concluded by noting that VRS and the Virginia College Savings Plan worked in collaboration on the proposed amendments and are in agreement with the language.

Upon a motion by Mr. Harris, with a second by Ms. Cantor, the Board approved the proposed legislative package as presented.

Mr. Nason thanked Ms. Wilkinson for her presentation.

Report of the Director

Ms. Bishop began her report by advising the Board of new coverage elections. Next, Ms. Bishop noted that she and Mr. Schmitz will be presenting an overview of VRS, contribution rates, and asset allocation to the Senate Finance Committee on October 22, 2019.

Mr. Nason thanked Ms. Bishop for her report.

Lastly, Mr. Nason noted the upcoming November meetings:

- Benefits and Actuarial Committee - November 19, 2019 at 1:00 p.m.
- Administration and Personnel Committee - November 20, 2019 at 11:00 a.m.
- Investment Policy Committee "Brown Bag Session" - November 20, 2019 at 12:00 p.m.
- Board of Trustees - November 20, 2019 at 1:00 p.m.

There being no further business, the meeting adjourned at 2:55 p.m.



Chair



Secretary

Report

The Benefits and Actuarial Committee met on October 16, 2019 and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its February 12, 2019 meeting.

2019 ACTUARIAL VALUATION RESULTS FOR FIVE STATEWIDE RETIREMENT PLANS, GROUP LIFE INSURANCE, STATE AND TEACHER RETIREE HEALTH INSURANCE CREDIT, AND THE VIRGINIA SICKNESS AND DISABILITY PROGRAM (INCLUDES SELF-FUNDED LONG TERM CARE)

Ms. Bishop introduced representatives from the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, to present the June 30, 2019 actuarial valuation results for the five Statewide Retirement Systems (Teachers, State Employees, JRS, SPORS, and VaLORS). In addition, Cavanaugh Macdonald also presented results of Other Post-Employment Benefit Programs (OPEBs) for the statewide plans, including Group Life Insurance (GLI), Health Insurance Credit (HIC), and the Virginia Sickness and Disability Program (VSDP), which includes self-funded Long-Term Care.

Larry Langer from Cavanaugh Macdonald Consulting, LLC presented the valuations to the Committee.

Key points from the presentation include:

- The June 30, 2019 valuations are used to set contribution rates for fiscal years 2021 and 2022.
- The primary driver of results was the reduction in the assumed rate of return from 7.00% to 6.75%, effective with the presented valuation.
- Market returns had limited impact on results because they were close to expectations. The market value return for the total fund of 6.7% fell just short of the long-term assumed rate of return of 7.0%.
- Prior to reflecting the change in plan discount rate the funded status on both market and actuarial value basis improved for all plans, and the employer contribution rate decreased for all pension and OPEB plans compared to the current rates in effect from the 2017 valuation.
- After incorporating the new 6.75% assumed rate of return, funded statuses on both market and actuarial value basis decreased for all statewide pension plans by approximately two percentage points. The change in the discount rate led to slight decreases in funded status for the OPEB plans, however those plans maintained slightly higher funded statuses compared to the 2018 valuation.
- When compared to the current rates in effect from the 2017 valuation, employer contribution rates for the statewide pension plans were higher for all pension plans except for JRS by an average increase of just less than 1.0% of covered payroll. JRS saw a decrease of approximately 4.5% of covered payroll. The employer contribution rates for OPEB plans were less impacted by the change in discount rates with HIC State and VSDP slightly lower than current rates and Group Life Insurance and HIC Teachers just slightly higher than current rates.

Mr. Langer will provide a summary presentation to the Board.


Following the presentation, the Committee recommended approval of the following action to the full Board:

Request for Board Action: *Certify the contribution rates for the Five Statewide Retirement Plans and associated OPEBs effective for FY 2021 and FY 2022.*

INFORMATION ITEMS

The next Benefits and Actuarial Committee meeting is scheduled for November 19, 2019 at 1:00 p.m.

Submitted to the Board of Trustees on October 17, 2019.



Wallace G. Harris, Chair
Benefits and Actuarial Committee