
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on November 20, 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, Sylvia Aryeh, Rory Badura, Farley Beaton, Parham Behrooz, Jeanne Chenault, Michael Cooper, Perry Corsello, Harriet Covey, Sara Denson, Barry Faison, Brian Goodman, JT Grier, Dane Honrado, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Kristina Koutrakos, Matt Lacy, Chung Ma, Curt Mattson, Steve McClelland, Scott Mootz, Laurie Nelson, Greg Oliff, Angela Payne, Andrea Peeks, Cat Pelletier, Laura Pugliese, Jummai Sarki-Hurd, Jillian Sherman, Cindy Wilkinson and Olga Zozulya.

Guests present were:

Brad Wild, Larry Langer and Alisa Bennett, Cavanaugh Macdonald Consulting, LLC; Latosha Johnson, Department of Planning and Budget; Lauren Axselle and Jamie Bitz, Joint Legislative Audit and Review Commission; Elizabeth Myers, Office of the Attorney General; Justin Ferrell, Auditor of Public Accounts; Jeremy Bennett, Virginia Association of Counties; and Andrew Linberg and Meghan Orifici, Institutional Shareholder Services, Inc.

The meeting convened at 1:01 p.m.

Approval of Minutes

Upon a motion by Mr. Harris, with a second by Mr. Montgomery, the minutes of the October 17, 2019 meeting were approved. Ms. Cantor was not present during this vote.

Report of the Investment Advisory Committee

In Mr. Kochard's absence, Mr. Schmitz presented the report of the Investment Advisory Committee to the Board. Mr. Schmitz advised that the Committee met on November 13, 2019 to discuss the multi-asset public strategies (MAPS) segment of the investment portfolio and the asset class reviews for the private market portfolios. The Committee also discussed the change in benchmark for the risk-based

investment portfolio and the asset allocation phase-in plan for the change from the current policy portfolio to the new long-term policy that was adopted by the Board after the asset liability study.

Report of the Chief Investment Officer

Next, Mr. Schmitz provided the Board with a market overview. 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.

Mr. Nason thanked Mr. Schmitz for his report.

Proxy Voting Discussion

Mr. Grier introduced Meghan Orifici and Andrew Linberg with Institutional Shareholder Services, Inc. (ISS). Institutional Shareholder Services, Inc., continues to be the research and implementation provider for VRS.

Ms. Orifici began by discussing the services offered by ISS, which include objective governance research and recommendations, and proxy voting and distribution solutions. ISS applies corporate governance views, identifies environmental, social and governance risk, and manages proxy voting needs on a global basis. Annually, ISS processes approximately 44,000 meetings across 115 countries and executes 10.2 million ballots and covers 4.2 trillion shares.

Mr. Linberg discussed policy options and key trends in corporate governance. ISS reviews issues based on the long-term economic value to secure investments, and shareholder rights are protected through proxy voting. ISS consults regularly with clients to ensure clients' votes are reflective of their views on governance. He also discussed custom policies based on an investor's unique governance philosophy and stewardship needs. These options allow investors to calibrate voting to best protect and enhance long-term shareholder value. Lastly, Mr. Linberg discussed with the Board certain issues such as board diversity and executive compensation, as well as social and moral issues that may affect shareholder value.

Mr. Nason thanked Ms. Orifici and Mr. Linberg for their presentation.

Report of the Benefits and Actuarial Committee

The Board received the Benefits and Actuarial Committee report of November 19, 2019 and placed it on file.

Cavanaugh Macdonald Consulting, LLC 2019 Presented Actuarial Valuation Results for Political Subdivision Retirement Plans, the Virginia Local Disability Program, Local Health Insurance Credit, and the Line of Duty Act Fund

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

Larry Langer and Alisa Bennett from 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 results was the reduction in the assumed rate of return from 7.00% to 6.75% effective with the June 30, 2019 valuations.
- Market returns had limited impact on results because they were close to expectations. The market return for the total fund of 6.70% fell short of the long-term assumed rate of return of 7.00%.
- A majority of the local pension plans saw a decrease in funded status and a corresponding increase in employer contribution rates mainly due to higher than expected salary increases and lowering of the discount rate.
- Local HIC contribution rates remain largely consistent with the current rates being paid, which also reflects the impact of the reduction in assumed rate of return.
- VLDP contribution rates increased for both the Teacher Plan and Political Subdivision Plans, both before and after the reduction in the assumed rate of return.

Alisa Bennett of Cavanaugh Macdonald presented the results for the Line of Duty Act (LODA) fund.

Key points from the presentation include:

- The LODA fund provides benefits to eligible first responders and beneficiaries of those who die or become disabled in the line of duty. Benefit payments are projected for future years, which covers the cost of health care premiums for current beneficiaries and to cover the cost of any new claims that are expected to occur during the year.
- Statutorily required funding on a “pay-as-you-go” basis, rather than pre-funding of benefits, necessitates the discount rate to be set lower than the rate used for the funding of pensions. LODA fund assets are expected to earn 4.75%.
- The contribution rate per full-time employee (FTE) decreased from \$705.77 to \$695.18 for FY 2021 and FY 2022.
 - The primary driver of the rate decrease was a reduction in the LODA health care premiums from DHRM compared to the prior year.
- The full-time equivalent employees covered in the LODA fund increased from 19,013.65 to 19,243.35 as of the end of FY 2019.
- The total of current health care beneficiaries increased from 1,115 to 1,173. This includes disabled participants, spouses of disabled participants and surviving spouses.

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

Request for Board Action 2019-11-25: The VRS Board of Trustees approves the 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 2021 and FY 2022.

Funding Policy

Next, Mr. Harris discussed the proposed amendments to the VRS Funding Policy and noted that the policy memorializes the methods by which the Board has elected to govern required funding for pension and OPEB plans with the goal of ensuring that future contributions, along with current plan assets, are sufficient to provide for all benefits expected to be paid when due.

Mr. Harris advised that staff is proposing modifications that would allow use of methods that would provide for accelerated funding of unfunded liabilities in pension or OPEB plans where feasible and where available funding permits; and clarifying funding parameters for political subdivision plans entering VRS or choosing to enhance benefits for current participants. He noted that political subdivision plans that VRS identifies as potentially “at-risk” due to low funded levels may require an additional surcharge to bring the funded level of the plans to a sustainable level as determined by the Plan Actuary.

The proposed changes to the Funding Policy also document approval of the discount rate being lowered to 6.75% for actuarial valuations on or after June 30, 2019.

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 2019-11-26: The VRS Board of Trustees approves modifications to the VRS Funding Policy Statement to clarify that amortization periods may be shortened to accelerate payment of unfunded liabilities and to authorize alternative funding requirements.

Mr. Harris concluded his report by noting the Benefits and Actuarial Committee meeting schedule for 2020:

- February 12, 2020 at 1:00 p.m.
- June 10, 2020 at 1:00 p.m.
- October 14, 2020 at 1:00 p.m.
- November 16, 2020 at 1:00 p.m.

Mr. Nason thanked Mr. Harris for his report.

Investments

Mr. Schmitz then discussed the proposed Board actions regarding policy benchmarks. Upon a motion by Mr. Nason, with a second by Mr. Leighty, the Board approved the following actions:

Request for Board Action 2019-11-22: The Board approves changes to the benchmarks in the Defined Benefit Plan Investment Policy Statement for the following programs: Credit Strategies; Private Equity; Dynamic Strategies; and Private Investment Partnerships. These changes are effective January 1, 2020.

Request for Board Action 2019-11-23: The Board approves the change to the benchmark of the Risk-Based Investments program. This change is effective January 1, 2020.

Request for Board Action 2019-11-24: The Board approves granting the Chief Investment Officer flexibility in implementing the revised benchmarks in the Defined Benefit Plan Investment Policy Statement which take effect on January 1, 2020.

As an informational item, Mr. Schmitz advised the Board of the proposed implementation dates regarding the asset class phase-in plan. The Board expects to take up these items at its June 11, 2020 meeting.

Report of the Defined Contribution Plans Advisory Committee

The Board received the Defined Contribution Plans Advisory Committee (DCPAC) report of November 7, 2019 and placed it on file.

Annual Administrative Expense Reports

Mr. Hayes advised that staff provided an overview of the administrative expense report for FY 2019, as required by the DCPAC Charter. The report provided both direct and indirect costs associated with administering VRS' Defined Contribution plans. Total costs related to participants and expenditures for FY 2019 were provided, along with a cost trend analysis over the five-year period from FY 2015 to FY 2019. The Optional Retirement Plan for Higher Education (ORPHE) rate increased to \$160 per participant effective July 1, 2020, which primarily reflects service enhancements and reapportionment of costs associated with the withdrawal of the College of William and Mary. The affected institutions have been made aware of the rate increase and the rate will be reevaluated every two years.

ORPHE Peer Contribution Rates

Staff presented the findings of the ORPHE contribution rate review as of June 30, 2019. This review is conducted at least once every six years as required by § 51.1-126 of the *Code of Virginia* to determine if the employer contributions are in line with peer groups identified by the State Council of Higher Education for Virginia (SCHEV). Staff shared that the analysis showed that the contribution rates for ORPHE Plan 1 and Plan 2 are in line with the average contribution rates from the peer institutions identified by SCHEV.

Upon a motion by Mr. Hayes, with a second by Mr. Harris, the Board approved the following action:

Request for Board Action 2019-11-27: *The Board accepts, after considering the recommendation of the Defined Contribution Plans Advisory Committee (DCPAC), the VRS staff report entitled "Optional Retirement Plan for Higher Education Review of Contribution Rates."*

Cash Match Plan Opt-Out Policy

Next, Mr. Hayes advised that staff had provided an overview of the cash match plan opt-out policy that would permit an agency of the Commonwealth of Virginia to establish a separate cash match plan, in lieu of participation in the cash match plan as established by VRS pursuant to § 51.1-608(A) of the *Code of Virginia* (the "VRS Cash Match Plan"). Agencies that maintain a 403(b) program may consider this option for administrative ease rather than sending some contributions to their 403(b) program and some funds to the VRS Cash Match Plan. Staff confirmed this will change where contributions are directed, but not impact employee contribution amounts.

Administrative Reports and Communication Update

Staff provided an update of administrative reports for the third quarter of 2019. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives, including Defined Contribution Plans (DCP) asset retention goals and the next statutory auto-escalation of employee voluntary Hybrid contributions in 2020.

ORPHE Update

Staff provided an overview of ORPHE reports for the third quarter of 2019, including plan assets and accounts, and provider election data. Staff also provided an update on ORPHE 2020 initiatives, including participant and outreach activities.

ORPHE Employer Update Report

Mr. Hayes noted that Mr. Larson provided an update on the ORPHE Annual Employer Update hosted by VRS on September 26, 2019.

Investments – Performance Reports

Staff provided an overview of the September 30, 2019 performance reports to the DCPAC. The Target Date 2020 Portfolio in the unbundled DC Plans investment lineup would be folding into the Retirement Portfolio on November 15, 2019, and the Target Date 2065 Portfolio would be introduced in January 2020. Staff included in the appendix to the meeting materials a best practice study from Willis Towers Watson entitled "Shifts for the DC Organization of Tomorrow" for the Committee to review.

Investments – CEM Defined Contribution Plans Survey

Mr. Hayes advised that staff reviewed the CEM DC Plans 2018 survey results, which was comprised of 108 corporate and 24 public plans representing \$1.0 trillion in assets. The survey results included the

unbundled DC Plans supplemental 457 Deferred Compensation Plan, in addition to the bundled TIAA and Fidelity programs for ORPHE. Staff noted that the TIAA and Fidelity information was based solely on the “selected” plan investment options.

CEM calculates a plan-specific benchmark cost to help plan sponsors determine if their costs are reasonable after adjusting for plan size, asset mix, and average account balance. Positive (high) value added indicates that, on average, the plan’s investment options are outperforming their benchmark indices, whereas negative (low) value added indicates that investments are not outperforming benchmark indices net of investment and plan administration costs. Plans having a majority of passively managed funds tend to be low value added plans because passively managed funds typically track their benchmark indices minus fund expense ratios.

For the year ending December 31, 2018, CEM reported the following:

- The 457 Deferred Compensation Plan was a low-value added, low-cost plan. Total 457 Plan costs of 0.21% were below CEM’s calculated VRS 457 Plan benchmark cost of 0.396%. (Note: The investment lineup is predominately passively managed.)
- The TIAA ORPHE program was a low-value added, high-cost plan. Total TIAA plan costs of 0.42% were slightly higher than CEM’s calculated TIAA ORPHE benchmark of 0.40%.
- The Fidelity OPRHE program was a low-value added, high-cost plan. Fidelity total plan costs of 0.55% were higher than CEM’s calculated Fidelity OPRHE benchmark cost of 0.35%.

DC Plans Investment Policy Statements

Mr. Hayes advised that staff provided an overview of recommended changes to the VRS Investment Policy Statement for An Unbundled Defined Contribution Plan Structure and the VRS Investment Policy Statement for A Bundled Defined Contribution Plan Structure. Staff affirmed the proposed wording changes do not reflect changes in responsibility but provide clarification, consistency with language found within the VRS defined benefit plan policy statement, where practicable, as well as changes to the Optional Retirement Plan for Higher Education (ORPHE). Staff noted the default investment option change within the updated TIAA investment menu to Blackrock’s LifePath Index Funds and the removal of Fidelity Investments as a provider option in the ORPHE.

Upon a motion by Mr. Hayes, with a second by Mr. Montgomery, the Board approved the following actions two actions in a block:

Request for Board Action 2019-11-28: The Board adopts the attached “Agreement for Consent to Establish Separate Cash Match Plan” and authorizes the VRS Director to provide consent for an eligible agency of the Commonwealth to establish a separate cash match plan if it signs the Agreement.

Request for Board Action 2019-11-29: The Board approves amendments to the Unbundled Defined Contribution Plan Structure Investment Policy Statement and the Bundled Defined Contribution Plan Structure Investment Policy Statement to make refinements to the policy statements and address

changes being made to the VRS Optional Retirement Plan for Higher Education (ORPHE) effective January 2020.

Other Business – Code of Ethics

Staff informed the Committee that an email notification would be forthcoming that includes instructions for review of the Board of Trustees' Code of Ethics and Conduct, which is an annual requirement of VRS board and advisory committee members. Staff shared that Committee members will be able to send certification electronically for acknowledgement of the policy upon review of the training materials.

DCPAC Appointments

Staff informed the Committee of the retirement of Margaret Maslak and Allan Carmody from the DCPAC, effective at the end of the calendar year. Both Committee terms expire June 20, 2020. The Committee reviewed the biography of Brenda O. Madden, who is recommended for appointment to fill Ms. Maslak's unexpired term and to a new term to begin June 20, 2020. A recommendation has not yet been received to fill Mr. Carmody's unexpired term, but will be brought to the Committee at its next meeting. The Committee concurs in the nomination of Ms. Madden and moved to present the nomination to the Administration and Personnel Committee.

2020 Meetings

- March 12 at 1:00 p.m.
- June 4 at 10:30 a.m.
- August 27 at 1:00 p.m.
- November 19 at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 24, 2020. This is not a DCPAC meeting, however, members may attend if interested. Mr. Nason thanked Mr. Hayes for his report.

Report of the Administration and Personnel Committee

The Board received the Administration and Personnel Committee report of November 20, 2019 and placed it on file.

Mr. Nason advised that Mr. Cooper and Mr. Mattson presented the amended Investment Operations and Administration Staff Pay Plan to the Committee. The changes are the result of a classification and compensation study conducted by Gallagher this past summer, a process conducted approximately every two years, as described in the pay plan. The amendments include:

- 7% salary band increase.
- Grade changes for three (3) positions.
- Adding four (4) new vacant positions to allow for succession planning and career path development.

The 2019 Appropriation Act required the Department of Human Resource Management to increase by 5% the minimum and maximum of each of the salary bands in the Commonwealth's Classified Compensation Plan. The Board approved the corresponding 5% salary band increases for the VRS Administrative Pay Plan on June 13, 2019; however, no changes were made to the Investment Operations and Administration Staff Pay Plan at that time.

The proposed amendments to the Investment Operations and Administration Staff Pay Plan would be effective November 20, 2019 and are consistent with the provisions of the 2019 Appropriation Act, while at the same time ensuring competitive compensation for investment operations and administration staff.

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

Request for Board Action 2019-11-30: The VRS Board of Trustees approves an amended Investment Operations and Administration Staff Pay Plan.

Mr. Nason discussed the recommended amendments to the Board's Code of Ethics and Conduct Policy. During its last meeting, the Committee agreed to postpone the approval of the amendments pending clarification of certain definitions in the policy. Mr. Cooper advised that a footnote has been added to the policy in order to provide thorough explanations of roles and responsibilities of board and committee members.

Upon a motion by Ms. Seward, with a second by Ms. Cantor, the VRS Board of Trustees approved the following action:

Request for Board Action 2019-11-31: The VRS Board of Trustees approves the amendments to the Board's Code of Ethics and Conduct pursuant to the recommendations of staff and the Administration and Personnel Committee.

Mr. Nason reviewed the recommendation to appoint Brenda O. Madden to the Defined Contribution Plans Advisory Committee (DCPAC). Ms. Madden would fill the unexpired term of Margaret M. Maslak which ends June 20, 2020 and, given the short duration of the unexpired term, the Committee is recommending the subsequent reappointment of Ms. Madden to a full term that will end June 20, 2022.

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

Request for Board Action 2019-11-32: The Board appoints Brenda O. Madden to fill the unexpired term of Margaret M. Maslak, which ends June 20, 2020, and reappoints Ms. Madden for a two-year term ending June 20, 2022.

Mr. Nason next reviewed the recommendation to appoint Nan Leake to the Investment Advisory Committee (IAC) for a two-year term beginning January 1, 2020 and ending on December 31, 2021.

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

Request for Board Action 2019-11-33: *The Board appoints Ms. Nan Leake to the Investment Advisory Committee for a two-year term beginning January 1, 2020 and ending December 31, 2021.*

Mr. Nason concluded his report by noting that a budget update for FY 2020 was provided to the Committee.

Report of the Director

Ms. Bishop briefed the Board on the New Coverage Elections and provided an update on the VRS Agency Road Map for FY 2020. Ms. Bishop noted the “yellow status” items and the completed operational activities.

Ms. Bishop discussed the VRS Diversity and Inclusion Team’s celebration of Diwali and also noted that VRS’ efforts on financial wellness were highlighted in a presentation to the Employee Benefit Research Institute (EBRI). VRS is one of the few statewide plans that incorporates personalized financial wellness tools into the services provided to its members.

Lastly, Ms. Bishop noted that Rodney Robinson, the 2019 National Teacher of the Year, will be the guest speaker at the VRS Annual Meeting and breakfast on December 18, 2019.

Mr. Nason noted that the Audit and Compliance Committee meeting is scheduled for 10:00 a.m. and the Board of Trustees at 1:00 p.m. on December 12, 2019.

Litigation Update (CLOSED SESSION)

Mr. McWilliams moved, with a second by Mr. Harris, that the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act for the purpose of consultation with legal counsel about actual or probable litigation pursuant to the exemption in § 2.2-3711(A)(7) of the *Code of Virginia*.

Upon return to open meeting, Mr. McWilliams moved, with a second by Mr. Montgomery, the following resolution:

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

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

NOW, THEREFORE, BE IT RESOLVED, that the Board certifies that, to the best of each member’s knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii)

only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Board.

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

Mitchell L. Nason: Aye
Diana F. Cantor: Aye
Wallace G. Harris: Aye
W. Brett Hayes: Aye
William H. Leighty: Aye
O'Kelly E. McWilliams, III: Aye
Joseph W. Montgomery: Aye
Troilen G. Seward: Aye

There being no further business, the meeting adjourned at 3:33 p.m.



Chair

Secretary

Report

The Benefits and Actuarial Committee met on November 19, 2019 and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its October 16, 2019 meeting.

CAVANAUGH MACDONALD CONSULTING, LLC 2019 ACTUARIAL VALUATION RESULTS FOR POLITICAL SUBDIVISION RETIREMENT PLANS, THE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP), LOCAL HEALTH INSURANCE CREDIT (HIC), AND LINE OF DUTY ACT (LODA) FUND

Ms. Bishop introduced representatives from Cavanaugh Macdonald Consulting, LLC, who presented the 2019 actuarial valuation results for Political Subdivision Retirement Plans, the Virginia Local Disability Program (VLDP), the Local Health Insurance Credit (HIC), and the Line of Duty Act (LODA) fund.

Larry Langer and Alisa Bennett from Cavanaugh Macdonald Consulting, LLC presented the local 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 June 30, 2019 valuations.
- Market returns had limited impact on results because they were close to expectations. The market return for the total fund of 6.70% fell short of the long-term assumed rate of return of 7.00%.
- A majority of the local pension plans saw a decrease in funded status mainly due to higher than expected salary increases and a corresponding increase in employer contribution rates.
- Local HIC contribution rates remain largely consistent with the current rates being paid, which also reflects the impact of the reduction in assumed rate of return.
- VLDP contribution rates increased for both the Teacher Plan and Political Subdivision Plans, both before and after the reduction in the assumed rate of return.

Alisa Bennett of Cavanaugh Macdonald Consulting, LLC, presented the results for the Line of Duty Act (LODA) fund.

Key points from the presentation include:

- The LODA fund provides benefits to eligible first responders who die or become disabled in the line of duty. Benefit payments are projected for further years, which covers the cost of health care premiums for current beneficiaries and needs to cover the cost of any new claims that are expected to occur during the year.

- Funding on a “pay-as-you-go” basis, rather than pre-funding of benefits, requires the discount rate to be set lower than the rate used for the funding of pensions. LODA fund assets are expected to earn 4.75%.
- The contribution rate per full-time employee (FTE) decreased from \$705.77 to \$695.18 for FY 2021 and FY 2022.
 - The primary driver of the rate decrease was a reduction in the LODA health care premiums from DHRM compared to the prior year.
- The full-time equivalent employees covered in the LODA fund increased from 19,013.65 to 19,243.35 as of the end of FY 2019.
- The total of current health care beneficiaries increased from 1,115 to 1,173. This includes disabled participants, spouses of disabled participants, and surviving spouses.

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

Request for Board Action: The VRS Board of Trustees approves the 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 2021 and FY 2022.

FUNDING POLICY AMENDMENTS

Mr. Badura presented the proposed amendments to the VRS Funding Policy. The Funding Policy memorializes the methods by which the Board has elected to govern required funding for pension and OPEB plans with the goal of ensuring that future contributions, along with current plan assets, are sufficient to provide for all benefits expected to be paid when due.

Staff is proposing modifications to the Funding Policy to allow for accelerating funding of unfunded liabilities in pension or OPEB plans where feasible and where available funding permits; and clarifying funding parameters for political subdivision plans entering the Virginia Retirement System or enhancing benefits for current participants. Mr. Badura noted that political subdivision plans that VRS has identified as potentially “at-risk” due to low funded levels may require an additional surcharge or shortened amortization period to bring the funded level of plans to a sustainable level as determined by the Plan Actuary.

The proposed changes to the Funding Policy also document approval of the discount rate being lowered to 6.75% for actuarial valuations on or after June 30, 2019.

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

Request for Board Action: The VRS Board of Trustees approves modifications to the VRS Funding Policy Statement to clarify that amortization periods may be shortened to accelerate payment of unfunded liabilities and to authorize alternative funding requirements.

INFORMATION ITEMS

Benefits and Actuarial Committee 2020 Meeting Schedule:

- February 12, 2020 at 1:00 p.m.
- June 10, 2020 at 1:00 p.m.
- October 14, 2020 at 1:00 p.m.
- November 16, 2020 at 1:00 p.m.

Submitted to the Board of Trustees on November 20, 2019.



Wallace G. Harris, Chair
Benefits and Actuarial Committee

Report

The Defined Contribution Plans Advisory Committee met on Thursday, November 7th and took up the following matters:

ADMINISTRATION

Annual Administrative Expense Reports

Staff provided an overview of the administrative expense report for FY 2019, as required by the DCPAC Charter. The report provided both direct and indirect costs associated with administering VRS' Defined Contribution Plans. Total costs related to participants and expenditures for FY 2019 were provided, along with a cost trend analysis over the five-year period from FY 2015 to FY 2019. Staff informed the Committee of the Optional Retirement Plan for Higher Education (ORPHE) rate increase to \$160 per participant effective July 1, 2020, which primarily reflects service enhancements and reapportionment of costs associated with the withdrawal of the College of William and Mary. Staff informed the Committee that affected institutions have been made aware of the rate increase, and the rate will be re-evaluated every two years.

ORPHE Peer Contribution Rates

Review of Peer Contribution Rate Report for ORPHE

Staff shared findings of the ORPHE contribution level review as of June 30, 2019. Staff informed the Committee that the review is conducted at least once every six years as required by §51.1-126 of the Code of Virginia to determine if the contribution levels are in line with peer groups identified by the State Council of Higher Education for Virginia (SCHEV). Staff shared that the analysis showed that the contribution rates for ORPHE Plan 1 and Plan 2 are in line with the average contribution rates from the peer institutions identified by SCHEV.

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

Request for Board Action: *The Board accepts, after considering the recommendation of the Defined Contribution Plans Advisory Committee (DCPAC), the VRS staff report entitled "Optional Retirement Plan for Higher Education Review of Contribution Rates."*

Cash Match Plan Opt-Out Policy

Staff provided an overview of the cash match plan opt-out policy that would permit an agency of the Commonwealth of Virginia to establish a separate cash match plan, in lieu of participation in the cash match plan established by VRS pursuant to § 51.1-608(A) of the *Code of Virginia* (the "VRS Cash Match

Plan"). Staff advised that agencies that maintain a 403(b) program may consider this option for administrative ease, rather than sending some contributions to their 403(b) program and some funds to the VRS Cash Match Plan. Staff confirmed it would change where contributions are directed, but not impact employee contribution amounts.

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

Request for Board Action: *The Board adopts the attached "Agreement for Consent to Establish Separate Cash Match Plan" and authorizes the VRS Director to provide consent for an eligible agency of the Commonwealth to establish a separate cash match plan if it signs the Agreement.*

Administrative Reports and Communication Update

Staff provided an update of administrative reports for the third quarter of 2019. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives, including Defined Contribution Plans (DCP) asset retention goals and auto-escalation 2020.

ORPHE Update

Staff provided an overview of ORPHE reports for the third quarter of 2019, including plan assets and accounts, and provider election data. Staff also provided an update on ORPHE 2020 initiatives, including participant and outreach activities.

ORPHE Employer Update Report

Mr. Larson provided an update on the ORPHE Annual Employer Update hosted by VRS on September 26, 2019.

INVESTMENTS

Performance Reports

Staff provided an overview of the September 30, 2019 performance reports to the DCPAC.

Staff informed the Committee that the Target Date 2020 Portfolio in the unbundled DC Plans investment lineup would be folding into the Retirement Portfolio on November 15, 2019, and the Target Date 2065 Portfolio would be introduced in January 2020.

Staff included in the meeting materials Appendix a best practice study from Willis Towers Watson entitled "Shifts for the DC Organization of Tomorrow" for the Committee to review.

CEM Defined Contribution Plans Survey

Staff reviewed the CEM DC Plans 2018 survey results, which was comprised of 108 corporate and 24 public plans representing \$1.0 trillion in assets. Staff informed the Committee that the survey results included the unbundled DC Plans supplemental 457 Deferred Compensation Plan, in addition to the bundled TIAA and Fidelity programs for ORPHE. Staff noted the TIAA and Fidelity information was based solely on the “selected” plan investment options.

CEM calculates a plan specific benchmark cost to help plan sponsors determine if their costs are reasonable after adjusting for plan size, asset mix, and average account balance. Positive (high) value added indicates that, on average, the plan's investment options are outperforming their benchmark indices, whereas negative (low) value added indicates that investments are not outperforming benchmark indices net of investment and plan administration costs. Plans having a majority of passively managed funds tend to be low value added plans because passively managed funds typically track their benchmark indices minus fund expense ratios.

For the year ending December 31, 2018, CEM reported the following:

- The 457 Deferred Compensation Plan was a low-value added, low-cost plan. Total 457 Plan costs of 0.21% were below CEM's calculated VRS 457 Plan benchmark cost of 0.39%. (Note: The investment lineup is predominately passively managed.)
- The TIAA ORPHE program was a low-value added, high-cost plan. Total TIAA plan costs of 0.42% were slightly higher than CEM's calculated TIAA ORPHE benchmark cost of 0.40%.
- The Fidelity ORPHE program was a low-value added, high-cost plan. Fidelity Total plan costs of 0.55% were higher than CEM's calculated Fidelity ORPHE benchmark cost of 0.35%.

DC Plans Investment Policy Statements

Staff provided an overview of recommended changes to the VRS Investment Policy Statement for An Unbundled Defined Contribution Plan Structure and the VRS Investment Policy Statement for A Bundled Defined Contribution Plan Structure. Staff affirmed the proposed wording changes do not reflect changes in responsibility but provide clarification, consistency with language found within the VRS defined benefit plan policy statement, where practicable, as well as changes to the Optional Retirement Plan for Higher Education (ORPHE). Staff noted the default investment option change within the updated TIAA investment menu to BlackRock's LifePath Index Funds and the removal of Fidelity Investments as a provider option in the ORPHE.

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

Request for Board Action: *The Board approves amendments to the Unbundled Defined Contribution Plan Structure Investment Policy Statement and the Bundled Defined Contribution Plan Structure Investment Policy Statement to make refinements to the policy statements and address changes being made to the VRS Optional Retirement Plan for Higher Education (ORPHE) effective January 2020.*

OTHER BUSINESS

Code of Ethics

Staff informed the Committee that an email notification would be forthcoming that includes instructions and hyperlink to a learning module on the Board of Trustees' Code of Ethics and Standards of Conduct; an annual requirement of VRS advisory committee members. Staff shared that Committee members will be able to send certification electronically for acknowledgement of the policy upon review of the recorded webinar.

DCPAC Appointments

Staff informed the Committee of the retirement of Margaret Maslak and Allan Carmody from the DCPAC, effective at the end of the calendar year. Both Committee terms expire on June 20, 2020. The Committee reviewed the biography of Brenda O. Madden, who is recommended for appointment to fill Ms. Maslak's unexpired term and to a new term to begin June 20, 2020. A recommendation has not yet been received to fill Mr. Carmody's unexpired term, but will be brought to the Committee at its next meeting. The Committee concurs in the nomination of Ms. Madden and moved to present the nominations to the Administration and Personnel Committee.

2020 MEETINGS

Staff confirmed the following DCPAC meeting dates for 2020:

- March 12 at 1:00 p.m.
- June 4 at 10:30 a.m.
- August 27 at 1:00 p.m.
- November 19 at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 24, 2020. This is not a DCPAC Committee meeting, however, members may attend if interested.

There was no other business to come before the Committee.

That concludes my report to the Board.

Submitted to the Board of Trustees on November 20, 2019.



Brett Hayes, Chair
Defined Contribution Plans Advisory Committee

Report

The Administration and Personnel Committee met November 20, 2019 and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its September 9, 2019 meeting.

REVIEW AND APPROVE REVISED PAY PLAN FOR INVESTMENT OPERATIONS AND ADMINISTRATION EMPLOYEES

Mr. Cooper and Mr. Mattson presented the amended Investment Operations and Administration Staff Pay Plan to the Committee. The changes are the result of a classification and compensation study conducted by Gallagher this past summer, a process conducted approximately every two years, as described in the pay plan. The amendments include:

- 7% salary band increase.
- Grade changes for three (3) positions
- Adding four (4) new vacant positions to allow for succession planning and career path development.

The 2019 Appropriation Act required the Department of Human Resource Management to increase by 5% the minimum and maximum of each of the salary bands in the Commonwealth's Classified Compensation Plan. The Board approved the corresponding 5% salary band increases for the VRS Administrative Pay Plan on June 13, 2019; however, no changes were made to the Investment Operations and Administrative Staff Pay Plan at that time.

The proposed amendments to the Investment Operations and Administrative Staff Pay Plan would be effective November 20, 2019 and are consistent with the provisions of the 2019 Appropriation Act, while at the same time ensuring competitive compensation for investment operations and administration staff.

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

Request for Board Action: The VRS Board of Trustees approves an amended Investment Operations and Administration Staff Pay Plan.

REVIEW REVISED BOARD'S CODE OF ETHICS AND STANDARDS OF CONDUCT POLICY

Mr. Cooper presented the recommended amendments to the Board's Code of Ethics and Standards of Conduct Policy. During its last meeting, the Committee agreed to postpone the approval of the amendments pending clarification of certain definitions in the policy. Mr. Cooper advised that a footnote has been added to the policy in order to provide thorough explanations of roles and responsibilities of Board and Committee members.

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

Request for Board Action: The VRS Board of Trustees approves the amendments to the Board's Code of Ethics and Conduct pursuant to the recommendations of staff and the Administration and Personnel Committee.

APPOINTMENT OF DCPAC MEMBER

Ms. Bishop presented the recommendation to appoint Brenda O. Madden to the Defined Contribution Plans Advisory Committee (DCPAC). Ms. Madden would fill the unexpired term of Margaret M. Maslak which ends June 20, 2020 and, given the short duration of the unexpired term, the Committee is recommending the subsequent reappointment of Ms. Madden to a full term that will end June 20, 2022.

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

Request for Board Action: The Board appoints Brenda O. Madden to fill the unexpired term of Margaret M. Maslak, which ends June 20, 2020, and reappoints Ms. Madden for a two-year term ending June 20, 2022.

APPOINTMENT OF IAC MEMBER

Mr. Schmitz presented the recommendation to appoint Nan Leake to the Investment Advisory Committee (IAC) for a two-year term beginning January 1, 2020 and ending on December 31, 2021.

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

Request for Board Action: The Board appoints Ms. Nan Leake to the Investment Advisory Committee for a two-year term beginning January 1, 2020 and ending December 31, 2021.

BUDGET UPDATE

Ms. Peek provided a budget update for FY 2020 to the Committee.

Submitted to the Board of Trustees on November 20, 2019.



Mitchell L. Nason, Chair
Administration and Personnel Committee