
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on February 13, 2020 in Richmond, Virginia with the following members present:

Board members:

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, Rory Badura, Farley Beaton, Parham Behrooz, Jeanne Chenault, Tom Coleman, Michael Cooper, Harriet Covey, Sara Denson, Barry Faison, Laurie Fennell, JT Grier, Dane Honrado, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Kristina Koutrakos, Chung Ma, Curt Mattson, Angela Payne, Cat Pelletier, Steven Peterson, Daniel Schlussler, Robert Voeks, Cindy Wilkinson and Dan Whitlock.

Guests present were:

Jamie Bitz, Joint Legislative Audit and Review Commission; Elizabeth Myers, Office of the Attorney General; Rick Fowler, Virginia Governmental Employees Association; Justin Ferrell, Auditor of Public Accounts; Mary Rozycki and Bea Snidow, Virginia Education Association.

The meeting convened at 1:07 p.m.

Approval of Minutes

Upon a motion by Mr. Leighty, with a second by Ms. Cantor, the minutes of the December 12, 2019 Board meeting were approved.

Report of the Chief Investment Officer

Mr. Schmitz provided the Board 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 and Credit Strategies. He then discussed tracking error, concluding this risk measure is within the Board-approved level. 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.

Report of the Benefits and Actuarial Committee

The Board received the Benefits and Actuarial Committee report of February 12, 2020 and placed it on file.

STATUTORY COST-OF-LIVING ADJUSTMENTS

VIRGINIA SICKNESS AND DISABILITY PROGRAM

Ms. Bishop and Mr. Badura presented the recommendations of the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, regarding statutory annual adjustments to Virginia Sickness and Disability Program (VSDP) creditable compensation for members on long-term disability. For VSDP, Mr. Badura advised that the plan actuary recommends an increase of 4.00% in the creditable compensation for VRS pension benefit purposes, effective July 1, 2020. In addition, a COLA in the amount of 1.81% shall be applied to long-term disability (LTD) benefit payments for Plan 1, Plan 2 and Hybrid Retirement Plan members who have been the recipients of LTD benefits for at least one calendar year under VSDP.

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

Request for Board Action 2020-02-22: Effective July 1, 2020 the following shall apply:

- *The creditable compensation used in calculating the member's average final compensation at retirement shall be increased in the amount of 4% for a member who has been the recipient of long-term disability (LTD) benefits for at least one year under VSDP; and*
- *For members who have been the recipient of long-term disability (LTD) benefits for at least one year under VSDP, a cost-of-living adjustment of 1.81% shall be applied to the net LTD benefit payment for Plan 1 members vested prior to January 1, 2013, Plan 1 members not vested by January 1, 2013, and all Plan 2 and Hybrid Retirement Plan members.*

VIRGINIA LOCAL DISABILITY PROGRAM

The VRS Plan Actuary recommends an increase in the creditable compensation of 4.00% for each recipient of long-term disability (LTD) benefits under the Virginia Local Disability Program (VLDP) effective July 1, 2020. The calculations for the increase in creditable compensation were reviewed by VRS staff and Internal Audit.

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

Request for Board Action 2020-02-23: Effective July 1, 2020, 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, 2020 is an increase of 4% to be applied to a recipient's creditable compensation.

The calculations for increases in creditable compensation and the LTD COLAs were reviewed by VRS staff and Internal Audit.

INFORMATION ITEMS

2020 COLAS CALLED FOR UNDER STATUTE NOT REQUIRING BOARD APPROVAL

The Plan 1, Plan 2 and Hybrid Retirement Plan members' COLA, effective July 1, 2020, is 1.81%. This figure was calculated by the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC, and verified by VRS staff and Internal Audit.

The Group Life Insurance Program minimum benefit for members retired with at least 30 years of service is to be increased by the same COLA applicable to VRS Plan 2 and Hybrid Retirement Plan members, or 1.81%, effective July 1, 2020. The new minimum life insurance payout effective July 1, 2020 will be \$8,616. The COLA did not require action by the Committee. The calculations were reviewed by VRS staff and Internal Audit.

2020 LEGISLATIVE UPDATE

Ms. Wilkinson provided an update on the VRS-related legislation in the 2020 General Assembly session to the Committee.

UPCOMING B&A COMMITTEE MEETINGS

Mr. Harris concluded his report by noting the following upcoming B&A Committee meetings:

- 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.

Report of the Administration and Personnel Committee

The Board received the Administration and Personnel Committee report of February 13, 2020 and placed it on file.

TUITION REIMBURSEMENT AND TENURE AGREEMENT

Mr. Schmitz presented a request for authorization to execute a tenure agreement and reimburse tuition payments for certain investment professionals. The Investment Department adheres to the Education and Development for Investment Professionals Policy that covers the process for requesting, approving and reimbursing allowable expenses for training, tuition reimbursement and attainment of professional designations. The Policy supports the retention of current investment professionals and attraction of new talent.

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 2020-02-24: *The Board authorizes the Chief Investment Officer to execute a tenure agreement with and reimburse tuition payments for certain investment professional staff.*

REVIEW AND APPROVE NEW FY 2020 AGENCY PERFORMANCE OUTCOME (APO) #6

Ms. Bishop and Mr. Cooper presented to the Committee a new proposed Agency Performance Outcome (APO) #6, Implement FY 2020 Legislation. A significant amount of legislation impacting VRS is expected to be approved during the 2020 General Assembly session, and is likely to require implementation by July 1, 2020. The resources required for legislation implementation will impact other key agency initiatives, including those outlined in the other FY 2020 APOs. The teamwork and collaboration required to achieve APO #6 will dovetail with the established effort to achieve the previously-approved APOs.

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

Request for Board Action 2020-02-25: *The Board approves new FY 2020 APO #6, Implement FY 2020 Legislation.*

REAPPOINTMENT OF IAC MEMBER

Mr. Schmitz presented the recommendation to reappoint W. Bryan Lewis to the Investment Advisory Committee (IAC) for a two-year term ending March 31, 2022. The Committee report was amended to reflect the correct date as presented in the requested Board action.

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 2020-02-26: *The Board reappoints W. Bryan Lewis to the Investment Advisory Committee for a two-year term ending March 31, 2022.*

APPOINTMENT OF DCPAC MEMBER

Ms. Bishop presented the recommendation to appoint Kathleen T. Seay to the Defined Contribution Plans Advisory Committee (DCPAC). Ms. Seay would fill the unexpired term of Allan Carmody, which ends June 20, 2020 and, given the short duration of the unexpired term, the Committee is recommending the subsequent reappointment of Ms. Seay to a full term that will end June 20, 2022.

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

Request for Board Action 2020-02-27: *The Board appoints Kathleen T. Seay to fill the unexpired term of Allan Carmody, which ends June 20, 2020, and reappoints Ms. Seay for a two-year term ending June 20, 2022.*

BUDGET UPDATE

Mr. Faison presented a budget update for FY 2020 to the Committee and noted that due to market and other conditions, actual incentive compensation was less than budgeted for investment professionals. Therefore, staff is requesting approval to reallocate the remaining funds to other key agency projects. The total amount to be reallocated is \$3,082,000.

Upon a motion by Mr. Nason, with a second by Ms. Cantor, the VRS Board of Trustees approved the reallocation of unused incentive compensation funds for other key agency projects.

Legislative Update

Ms. Wilkinson reviewed VRS-related legislation presented in the 2020 General Assembly session.

Report of the Director

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

Next, Ms. Bishop announced that the agency raised more than \$70,000 for the CVC Campaign.

Ms. Bishop concluded her report by noting the Board of Trustees Retreat is scheduled for March 24 and March 25 in Richmond, Virginia.

Mr. Nason thanked Ms. Bishop for her report.

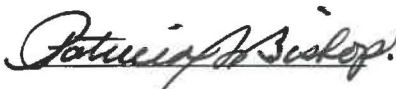
Lastly, Mr. Nason noted the following upcoming meetings:

- Defined Contribution Plans Advisory Committee – March 12, 2020 at 1:00 p.m.
- Audit and Compliance Committee – March 19, 2020 at 2:00 p.m.

There being no further business, the meeting adjourned at 2:04 p.m.



Chair*



Secretary

* Mr. McWilliams was appointed as VRS Chair after the date of the meeting.

Report

The Benefits and Actuarial Committee met on February 12, 2020 and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its November 19, 2019 meeting.

STATUTORY COST OF LIVING ADJUSTMENTS

VIRGINIA SICKNESS AND DISABILITY PROGRAM

Ms. Bishop and Mr. Badura presented the recommendations of Cavanaugh Macdonald Consulting, LLC, the Plan Actuary, regarding statutory annual adjustments to Virginia Sickness and Disability Program (VSDP) creditable compensation for members on long-term disability. For VSDP, Mr. Badura advised that the Plan Actuary recommends an increase in the creditable compensation for VRS pension benefit purposes of 4.00% effective July 1, 2020. In addition, a COLA in the amount of 1.81% shall be applied to long-term disability (LTD) benefit payments for Plan 1, Plan 2, and Hybrid Retirement Plan members who have been the recipients of LTD benefit for at least one year under VSDP.

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

Request for Board Action: Effective July 1, 2020 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% for a member who has been the recipient of long-term disability (LTD) benefits for at least one year under VSDP; and*
- *For members who have been the recipient of long-term disability (LTD) benefits for at least one year under VSDP, a cost-of-living adjustment of 1.81% shall be applied to the net LTD benefit payment for Plan 1 members vested prior to January 1, 2013, Plan 1 members not vested by January 1, 2013, and all Plan 2 and Hybrid Retirement Plan members.*

The calculations for increases in creditable compensation and the LTD COLAs were reviewed by VRS staff and Internal Audit.

VIRGINIA LOCAL DISABILITY PROGRAM

Mr. Badura advised that the Plan Actuary recommends an increase in the creditable compensation of 4.00% for each recipient of long-term disability (LTD) benefits under the Virginia Local Disability Program (VDLP) effective July 1, 2020. The calculations for the increase in creditable compensation were reviewed by VRS staff and Internal Audit.

Request for Board Action: Effective July 1, 2020, 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, 2020 is an increase of 4% to be applied to a recipient's creditable compensation.

INFORMATION ITEMS**2020 COLAs Called for Under Statute Not Requiring Board Approval**

Mr. Badura advised that the Plan 1, Plan 2 and Hybrid Retirement Plan members' COLA, effective July 1, 2020, is 1.81%. This figure was calculated by the VRS Plan Actuary, Cavanaugh Macdonald Consulting, LLC, and verified by VRS and Internal Audit Staff.

The Group Life Insurance Program minimum benefit for members retired with at least 30 years of service is to be increased by the same COLA applicable to VRS Plan 2 and Hybrid Retirement Plan members, or 1.81%, effective July 1, 2020. The new minimum life insurance payout effective July 1, 2020 will be \$8,616. The COLA did not require action by the Committee. The calculations were reviewed by VRS staff and Internal Audit.

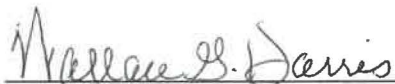
2020 Legislative Update

Ms. Wilkinson provided an update on the VRS-related legislation in the 2020 General Assembly session.

Upcoming B&A Committee meetings:

- 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 February 13, 2020.



Wallace G. Harris, Chair
Benefits and Actuarial Committee

Report

The Administration and Personnel Committee met February 13, 2020 and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its November 20, 2019 meeting.

TUITION REIMBURSEMENT AND TENURE AGREEMENT

Mr. Schmitz presented the request for authorization to execute a tenure agreement and reimburse tuition payments for certain investment professionals. The investment department adheres to the Education and Development for Investment Professionals Policy that covers the process for requesting, approving and reimbursing allowable expenses for training, tuition reimbursement and attainment of professional designations. The Policy supports the retention of current investment professionals and attraction of new talent.

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

Request for Board Action: *The VRS Board of Trustees authorizes the Chief Investment Officer to execute a tenure agreement with and reimburse tuition payments for certain investment professional staff.*

REVIEW AND APPROVE NEW FY 2020 AGENCY PERFORMANCE OUTCOME (APO) #6

Ms. Bishop and Mr. Cooper presented a new proposed new Agency Performance Outcome (APO) #6, Implement FY 2020 Legislation. A significant amount of legislation impacting VRS is expected to be approved during the 2020 General Assembly session, and is likely to require implementation by July 1, 2020. The resources required for legislation implementation will impact other key agency initiatives, including those outlined in the other FY 2020 APOs. The teamwork and collaboration required to achieve APO #6 will dovetail with the established effort to achieve the previously-approved APOs.

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

Request for Board Action: *The Board approves new FY 2020 APO #6, Implement FY 2020 Legislation.*

REAPPOINTMENT OF IAC MEMBER

Mr. Schmitz presented the recommendation to reappoint W. Bryan Lewis to the Investment Advisory Committee for a two-year term ending March 31, 2022.

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

Request for Board Action: *The Board reappoints W. Bryan Lewis to the Investment Advisory Committee for a two-year term ending March 31, 2022.*

APPOINTMENT OF DCPAC MEMBER

Ms. Bishop presented the recommendation to appoint Kathleen T. Seay to the Defined Contribution Plans Advisory Committee (DCPAC). Ms. Seay would fill the unexpired term of Allen Carmody which ends June 20, 2020 and, given the short duration of the unexpired term, the Committee is recommending the subsequent reappointment of Ms. Seay 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 Kathleen T. Seay to fill the unexpired term of Allen Carmody, which ends June 20, 2020, and reappoints Ms. Seay for a two-year term ending June 20, 2022.*

BUDGET UPDATE

Mr. Faison provided a budget update for FY 2020 to the Committee. Mr. Faison noted that due to market and other conditions, actual incentive compensation was less than budgeted for investment professionals. Therefore, staff is requesting approval to reallocate the remaining funds to other key agency projects. The total amount to be reallocated is \$3,082,000.

The Committee recommends approval of the reallocation of unused incentive compensation funds for other key agency projects.

Submitted to the Board of Trustees on February 13, 2020.



Mitchell L. Nason, Chair
Administration and Personnel Committee