
Minutes

An electronic meeting of the Virginia Retirement System Board of Trustees was held on June 11, 2020 in accordance with § 2.2-3708.2(A)(3) of the *Code of Virginia* and in accordance with guidance provided in § 4-0.01 of Chapters 1283 and 1289 of the 2020 Acts of Assembly, with the following members participating:

Board members participating:

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

Investment Advisory Committee:

Lawrence E. Kochard, Ph.D., Chair

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, Advait Apte, Rory Badura, Farley Beaton, Parham Behrooz, Delaney Brown, Ryan Carlson, Jeanne Chenault, Michael Cooper, Harriet Covey, Juanita Cribbs, Sara Denson, Valerie Disanto, Jordan Evans, Barry Faison, Laurie Fennell, Josh Fox, Jay Gentry, Brian Goodman, Katherine Grawe, JT Grier, Kelly Hiers, Dane Honrado, KC Howell, Ross Kasarda, Kristina Koutrakos, Matt Lacy, Ryan LaRochelle, Chung Ma, Curt Mattson, Steve McClelland, Walker Noland, Greg Oliff, Angela Payne, Cat Pelletier, Steve Peterson, Paula Reid, Tyler Sanders, Dan Schlussler, Michael Scott, Jillian Sherman, Larry Tentor, Lisa Turner, Leslie Weldon, Dan Whitlock and Cindy Wilkinson.

Guests participating were:

Adam Rosatelli, Senate Finance and Appropriations Committee; Elizabeth Myers, Assistant Attorney General, Office of the Attorney General; Von Hughes, Esq., PAAMCO Prisma; Bea Snidow, Virginia Education Association; Kimberly Sarte and Jamie Bitz, Joint Legislative Audit and Review Commission; Brian Deveney and Justin Ferrell, Auditor of Public Accounts; Dyice Ellis-Beckham, Invesco; Francesca Friday, Mandate Wire; Jeremy Bennett, Virginia Association of Counties; Jessica Ackerman, Virginia Municipal League; AJ Baltozer and Mary Wallace, DWS Group; Michael Jay, House Appropriations Committee.

The meeting convened at 1:06 p.m.

Opening Remarks

Mr. McWilliams called the meeting to order and welcomed everyone to the June 11, 2020 meeting of the Virginia Retirement System Board of Trustees.

Mr. McWilliams welcomed the new Human Resources Director, Paul Reid, to VRS. Paula joins VRS from Henrico County, where she served as the Director of Human Resources. Paula received her Master of Education degree from the College of William and Mary and holds the Society for Human Resource Management Certified Professional (SHRM-CP) and Professional in Human Resources (PHR) designations.

Mr. McWilliams noted that given the current circumstances related to COVID-19, the Board is unable to meet in person and, therefore, is using electronic means to hold the meeting. The meeting is being held in accordance with § 2.2-3708(A)(3) of the *Code of Virginia* and guidance provided in the Appropriation Act as it relates to conducting business during the pandemic.

Next, Mr. McWilliams took attendance with the following roll call of each of the trustees:

Ms. Cantor: Here
Mr. Bell: Here
Mr. Garrett: Here
Mr. Harris: Here
Mr. Hayes: Here
Mr. Leighty: Here
Mr. Montgomery: Here
Ms. Seward: Here
Mr. McWilliams: Here

Public Comment

In accordance with § 4-0.01(g) of Chapters 1283 and 1289 of the 2020 Acts of Assembly, the Board of Trustees opened the floor for public comment. Mr. McWilliams noted that no members of the public requested to comment at the electronic meeting.

Approve Minutes

Upon Mr. McWilliams' motion, with a second by Mr. Montgomery, the VRS Board of Trustees approved the minutes of its April 16, 2020 meeting upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye

Mr. McWilliams: Aye

Election of Board Vice Chair

Mr. McWilliams advised that, as this is the first regular meeting since his appointment as Chair, the Board of Trustees is required to elect a Vice Chair, in accordance with the VRS Governance Policy.

Mr. McWilliams nominated Diana Cantor to continue serving as Vice Chair of the VRS Board of Trustees. Mr. Harris seconded the nomination and the Board approved the motion upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Committee Assignments

Next, Mr. McWilliams advised that, in accordance with the Governance Policy, the Board of Trustees is required to review and approve committee assignments. Mr. McWilliams moved, with a second by Mr. Montgomery, that the Board approve the proposed committee assignments. The motion was approved upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Report of the Investment Advisory Committee

Next, Mr. Kochard, Chair of the Investment Advisory Committee (IAC), provided a report on the IAC's June 2, 2020 meeting to the Board. Mr. Kochard noted the IAC discussed current market conditions, asset allocation and tracking error. The COVID-19 pandemic has disrupted the global economy on an unprecedented scale and the Committee was provided with an update illustrating several COVID-19-driven investment scenarios. In response, the Investment staff has built several recovery scenarios and is working closely with Rory Badura, Senior Staff Actuary, to build scenario simulations to determine the potential implications for funded status, contribution rates and liquidity.

The Committee also discussed the proposed changes to the Fixed Income Benchmark phase in plan, and the defined benefit plan strategic asset allocation and allowable ranges to reflect the new Board target asset mix.

Mr. McWilliams thanked Mr. Kochard for his report.

Report of the Chief Investment Officer

Mr. Schmitz began his report with a market overview and discussed asset allocation, total fund portfolio performance and tracking error, concluding that risk measures are all within Board-approved levels. He noted that the Board will be receiving a request to correct the allocation percentage with respect to PIP and MAPS due to a transposition error in the chart in the RBA approved by the Board at its April meeting. Next, he reviewed the New Investment and Terminations report, the WaM Quarterly Summary and the Manager Referral Quarterly Summary.

Mr. McWilliams thanked Mr. Schmitz for his report and advised that the first request for Board action relates to the RBA approved by the Board in April regarding the Defined Benefit Plan Asset Allocation. He noted that the purpose and content of the RBA has not changed; however, the request is for the Board to approve the previous action with the corrected chart.

Request for Board Action 2020-06-29: The VRS Board of Trustees approves the recommended changes to update the Defined Benefit Plan Strategic Asset Allocation and Allowable Ranges to reflect the new Board target asset mix, effective July 1, 2020.

Upon a motion by Mr. McWilliams, with a second by Ms. Seward, the VRS Board of Trustees approved the RBA upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Abstain
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Mr. McWilliams noted the second request for Board action pertains to the Fixed Income Benchmark Study discussed by Mr. Kochard and Mr. Schmitz. The original RBA approved by the Board in October 2019 called for a transition from 100% Core to 80% Core/10% High Yield (HY)/10% Emerging Market Debt (EMD). The new RBA recommends stopping the phase in of the Fixed Income Benchmark at the current 90%/5%/5% weights and making these weights the permanent benchmark.

Request for Board Action 2020-06-30: The VRS Board of Trustees approves the recommended change to the Fixed Income benchmark, effective July 1, 2020.

Upon a motion by Mr. McWilliams, with a second by Mr. Montgomery, the VRS Board of Trustees approved the RBA upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Board Fiduciary Training

Next, Von Hughes, Managing Director and Partner of PAAMCO Prisma, provided the annual fiduciary training to the Board. The presentation focused on three elements: what is a fiduciary?; fiduciary responsibility; and trustee focus and governance best practices.

Following Mr. Hughes' presentation, the Board unanimously agreed to a five-minute break and the Chair reconvened the meeting at 2:47 p.m.

Report of the Defined Contribution Plans Advisory Committee

The Board received the Defined Contribution Plans Advisory Committee report and placed it on file.

Mr. Hayes began his report by advising the Board of the new Committee members, Brenda Madden, Director of Human Resources with Davenport Companies, and Kathy Seay, Deputy County Administrator for Hanover County.

Investments - Performance Reports

Mr. Hayes advised that staff provided an update of the April 30, 2020 performance reports, including the unbundled DC plans investment options and the new investment menu in the TIAA Retirement Choice (RC) contract for ORPHE that became effective January 2020. Staff noted a benchmark change for the Money Market Fund on the unbundled DC plans platform, also effective January 2020. Staff advised that Fidelity became a deselected ORPHE provider for new contributions in February 2020 and was no longer monitored by the VRS Investment Department.

Staff shared the performance of the individual fund options of the unbundled DC Plans platform, reflecting increased market volatility and economic stimulus related to COVID-19, and highlighted the market benchmark performance over short- and long-term time frames.

Staff provided an overview of the difference in naming conventions of like funds on both the unbundled DC Plans platform and bundled TIAA ORPHE platform, and also noted the market value and percentage allocation of assets in the TIAA ORPHE Retirement Choice (RC) contract as of December 31, 2019.

Staff informed the Committee that the *Callan 2020 DC Trends Survey* was included in the meeting materials Appendix for review.

Administrative Reports and Communication Update

Staff provided an update of administrative reports for the first quarter of 2020. 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 auto-escalation 2020, the new online withdrawal feature in Account Access and market volatility educational resources for plan participants.

Staff informed the Committee of the ICMA-RC Annual Service Review and benchmarking efforts, noting 2019 accomplishments and future initiatives. In addition, participation in the Public Retirement Research Lab was discussed.

ORPHE Update

Staff provided an overview of the ORPHE reports for the first quarter of 2020, including plan assets and accounts, and provider election data. Staff also shared a timeline overview of changes to the ORPHE over the past six years, concluding with the recent ORPHE 2020 initiative.

Staff included in the meeting materials Appendix the *Q1 2020 ICMA-RC Quarterly Review* and *VRS ICMA-RC Annual Strategy Document* for the Committee to review.

Legislative Update

Staff provided an overview of key provisions of recently enacted federal legislation (the SECURE Act and CARES Act), their impact on VRS members, employers and retirees, and efforts underway to implement the various provisions.

Staff provided an overview of the VRS-related bills approved during the 2020 legislative session of the General Assembly. Staff shared with the Committee approved 2020 budget changes and amendments with an impact to VRS that passed during the legislative session. Staff also informed the Committee of VRS-related bills that failed or were carried over.

DCPAC Appointment

Staff informed the Committee of the request for reappointment of Ravindra Deo to a two-year term ending June 20, 2022. His current term expires June 20, 2020.

The Committee recommended the request for the reappointment of Ravindra Deo to the Administration and Personnel Committee for consideration.

2020 Meetings

The DCPAC will meet August 27, 2020 at 1:00 p.m. and November 19, 2020 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. McWilliams thanked Mr. Hayes for his report.

Report of the Audit and Compliance Committee

The Board received the Audit and Compliance Committee report and placed it on file.

Update on the 2019 Employer Assurances Review

Mr. Leighty advised that the APA reported the Employer Assurances Review, covering GASB Statements No. 68 and 75, was progressing as planned and they should conclude their work on the Pension and Other Post-Employment Benefit (OPEB) plans and issue the related opinions by the end of July.

Entrance Conference with the APA for the VRS FY 2020 CAFR Audit

The Committee held its annual entrance conference with the APA to review the approach and scope of the examination of VRS' Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2020.

Audit Reports

The Committee received two audit reports.

- The review of *Investment Manager and Manager Compensation* determined compensation paid to external investment managers and the master custodian were reasonable and properly recorded.
- The review of *VRS' Conformance with VITA's Security Program* determined VRS' Security Policies and Standards are compliant with VITA's mandatory IT security program; however, the review resulted in one written recommendation in support of ensuring VRS' continued conformance.

Annual Report on Code of Ethics

The Chief Operating Officer and the Chief Administrative Officer provided their annual reports on their respective processes for communicating VRS' Code of Ethics and Conduct and for monitoring compliance, as required by the Audit and Compliance Committee Charter. Both indicated 100 percent compliance with the reporting and certification requirements for the respective programs.

Quarterly Review on Modernization Program – Phase 4

Management presented its status report on the Modernization Program – Phase 4, including budget and cost updates as of March 31, 2020. Management highlighted progress for the decommissioning of RIMS and Phase 4, noting the project plan for Phase 4 is shifting due to impacts of new legislation. The development of the remaining member portal functionality is now planned to be completed in October 2020. Related testing and roll-out activities will continue through the winter, possibly longer.

Internal Audit presented its review and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget and scope. Internal Audit acknowledged management's continued thoughtful and deliberate efforts to bring this phase to a close while ensuring protection of member and retiree information. Internal Audit facilitated a discussion between VRS staff and the only other state retirement system that has implemented similar functionality. Associated processes and tools were discussed, along with the possibility for future collaboration opportunities.

Audit Plan Progress as of December 31, 2019

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2019, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations and the related background. Internal Audit's remaining planned projects and resource impacts as a result of COVID-19 relative to the annual and long-term plans were also discussed.

Long-Range Audit Plan Development update for the Four Years Ended June 30, 2024

The Internal Audit Director presented a status update on the development of the long-range audit plan for the four years ending on June 30, 2024. The long-range audit plan will be presented at the September Committee meeting.

Quarterly Reports on Fraud, Waste and Abuse Hotline Cases

The Internal Audit Director shared that no Fraud, Waste and Abuse Hotline complaints were reported to Internal Audit via the Office of the State Inspector General or any other avenues during the period of November 1, 2019 through April 30, 2020.

Management's Quarterly Travel Expense and Per Diem Reports

The Committee received management's quarterly travel expense and per diem reports for the quarterly periods that ended December 31, 2019 and March 31, 2020.

Internal Audit's Review of Cost of Living Adjustments

Internal Audit noted its review of the proposed Cost of Living Adjustments, as calculated by VRS' plan actuary, Cavanaugh Macdonald Consulting, LLC, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2020.

Next Committee Meeting Date

The Committee's next meeting is scheduled for September 17, 2020¹ at 2:00 pm.

Mr. McWilliams thanked Mr. Leighty for his report.

Report of the Benefits and Actuarial Committee

The Board received the Benefits and Actuarial Committee report and placed it on file.

Approval of Minutes

The Committee approved the minutes of its February 12, 2020 meeting.

Health Insurance Credit for Local School Divisions (House Bill 1513)

Mr. Badura presented the revisions to the June 30, 2019 valuation reports for the Health Insurance Credit (HIC) for political subdivisions as the result of changes made by House Bill 1513 (HB1513). Mr.

¹ The date of the next Audit and Compliance Committee meeting was subsequently rescheduled for September 29, 2020 at 1:00 pm.

Badura explained that the current HIC for local employees is \$1.50 per year of service and only retirees with at least 15 years of service in participating localities or school divisions that have elected the benefit are eligible.

Beginning July 1, 2021, HB1513 requires school divisions providing retirement benefits to non-teacher employees to also provide a health insurance credit of \$1.50 per year of service to all employees who retire with at least 15 years of service. Eligible non-teacher employees who retired prior to July 1, 2021 may begin receiving the benefit in the August 1, 2021 benefit payment. HB1513 also removes the \$45 cap, and a school division may elect an additional \$1 per year, for a total HIC of \$2.50 per year of service.

The Department of Education estimates an additional state general fund cost of \$976,000 in FY 2021 and \$1,024,000 in FY 2022 to provide funding support for the \$1.50 per year of service HIC for funded Standards of Quality (SOQ) Non-Professional positions. Mr. Badura noted that the new benefit is payable beginning July 1, 2021; however, the legislation is effective July 1, 2020, so benefit funding begins then.

Request for Board Action 2020-06-31: After considering the recommendations of its Plan Actuary to implement the provisions of HB 1513 (Chapter 1091, 2020 Virginia Acts of Assembly), the Board accepts the revised June 30, 2019 valuation reports for the Health Insurance Credit (HIC) for political subdivisions, which set employer contribution rates for both FY 2021 and FY 2022, effective July 1, 2020.

Upon a motion by Mr. Harris, with a second by Mr. Leighty, the VRS Board of Trustees approved the RBA upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

SPORS and VALORS Rates and LODA Premiums

Mr. Badura presented the revised contribution rates for the State Police Officers' Retirement System (SPORS) and the Virginia Law Officers' Retirement System (VaLORS), and the revised LODA Fund premium.

HB 1495 and SB 54 permit retired sworn law enforcement officers to return to work as a school security officer after a break in service of at least 12 calendar months. Individuals who return to work under this provision would not be eligible for any cash match as detailed in Chapter 6.1 (§51.1-607 et seq., cash match plans) of Title 51.1, nor would any additional service be earned, and employers must pay contributions for these positions. As a result of this legislation, the SPORS contribution rate for

employers was increased from 26.26% to 26.33%, and VaLORS employer contribution rates were increased from 21.88% to 21.90% in the 2020 Appropriation Act.

The Governor's introduced budget included increased LODA Fund premiums to cover natural or adopted children of LODA participants who were previously provided health insurance coverage, but later became ineligible under the new LODA Health Benefits Plans. The General Assembly increased the LODA premium to reflect the following:

- Chapters 1150 and 1152: Adding corrections officers and full-time sworn members of the DMV enforcement division to those entitled to a presumption that certain infectious diseases are compensable occupational diseases covered by the Virginia Workers' Compensation Act.
- Chapters 498 and 499: Adding colon, brain and testes to the list of cancers presumed to be an occupational disease covered by the Virginia Workers' Compensation Act.
- Chapters 1206 & 1262: Adding post-traumatic stress disorder incurred by law enforcement officers or firefighters as an occupational disease covered by the Virginia Workers' Compensation Act.

As a result, the General Assembly provided funding for an adjusted LODA premium of \$717.31, an increase from the original June 30, 2019 valuation premium of \$695.18.

Request for Board Action 2020-06-32: The Board accepts the revised contribution rates for the State Police Officers' Retirement System (SPORS) and the Virginia Law Officers' Retirement System (VaLORS), and the increased premium for the Line of Duty Death and Health Benefits Trust Fund that are set out in the Appropriation Act for the 2020-2022 biennium.

Upon a motion by Mr. Harris, with a second by Ms. Seward, the VRS Board of Trustees approved the RBA upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Stress Test and Sensitivity Analysis Report

Mr. Badura presented the findings of the draft VRS Stress Test and Sensitivity Analysis report. He noted that the report is based on the June 30, 2019 actuarial valuation and focused on the current and future impacts of COVID-19 and risks to long-term funding, including investment volatility, contribution risk, and longevity risk.

The report contains illustrative COVID-19 economic recovery scenarios, which were used to derive estimated results for the VRS plans to show the magnitude of potential impacts on plan funding. While the full extent is unknown at this time, COVID-19 is expected to have an impact on fund returns and possibly cause challenges related to plan funding for employers over the next several years. Due to the uncertainty surrounding the COVID-19 recovery and the corresponding impacts on the economy at large, analysis of future impacts on the VRS fund will continue as new information becomes available.

Upcoming B&A Committee meetings:

- October 14, 2020 at 1:00 p.m.
- November 16, 2020 at 1:00 p.m.

Mr. McWilliams thanked Mr. Harris for his report.

Report of the Administration and Personnel Committee

The Board received the Administration and Personnel Committee report and placed it on file.

Approval of Minutes

The Committee approved the minutes of its February 13, 2020 meeting.

Verus Benchmark and Performance Hurdle Analysis

John Meier with Verus presented the results of the Benchmark and Performance Hurdle Analysis. Mr. Meier began his presentation by reviewing the characteristics of a good benchmark per the CFA Institute: unambiguous, investable, measurable, appropriate, specified in advance and reflective of current investment options. He then noted that excess return objectives should reflect the strategies and current capabilities of staff within each program as well as for the total fund. Mr. Meier reviewed his findings, to include the various recommended changes, and stated his findings were based on careful analysis of the risks and opportunities of the underlying markets and an analysis of the practices of peer funds, within the universe of public funds.

Request for Board Action 2020-06-33: The VRS Board of Trustees approves the recommended changes to the benchmarks and excess return objectives, effective July 1, 2020.

Upon a motion by Mr. McWilliams, with a second by Ms. Seward, the VRS Board approved the RBA upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Discussion and Consideration of FY 2021 Agency Performance Outcomes (APOs) and Operational Measures (OMs)

Mr. Cooper reviewed the proposed FY 2021 Agency Performance Outcomes (APOs) and operational measures. He noted that there are 4 APOs proposed for FY 2021. The first two APOs relate to myVRS enhancements and are a carryover from the current year. The third APO is the continuation of the agency's Enterprise Risk Management implementation. The fourth APO accounts for the Cardinal HCM Implementation project, for which VRS is responsible for three tracks. Staff would need to successfully complete 3 of the 4 APOs to qualify for the gainsharing bonus.

There are also 16 operational measures proposed for FY 2021. The 16 operational measures are the same as the current year metrics, with 13 of 16 measures required to meet their target for the year in order to qualify for the gainsharing bonus. Mr. Cooper also noted that staff continues to evaluate new measures for implementation in future years and will be piloting a few of them during the next year.

Request for Board Action 2020-06-34: The Board approves the FY 2021 Agency Performance Outcomes and Operational Measures.

Upon a motion by Mr. McWilliams, with a second by Mr. Harris, the VRS Board of Trustees approved the RBA upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Reappointment of IAC Members

Ron Schmitz discussed the expiring terms of two IAC members, Deborah Allen Hewitt and Theodore Economou. Mr. Schmitz indicated that Ms. Hewitt and Mr. Economou are interested in serving again, each for an additional two-year term.

Request for Board Action 2020-06-35: The Board reappoints to the Investment Advisory Committee Theodore Economou for a two-year term ending September 13, 2022, and Deborah Allen Hewitt, Ph.D., for a two-year term ending October 16, 2022.

Upon a motion by Mr. McWilliams, with a second by Ms. Cantor, the VRS Board of Trustees approved the RBA upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye

Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Reappointment of DCPAC Member

Trish Bishop advised the Committee that Ravindra Deo's term on the Defined Contribution Plans Advisory Committee (DCPAC) is set to expire on June 20, 2020. Mr. Deo is interested in serving another term on the committee.

Request for Board Action 2020-06-36: The Board reappoints Ravindra Deo to the Defined Contribution Plans Advisory Committee (DCPAC) for a two-year term ending June 20, 2022.

Upon a motion by Mr. McWilliams, with a second by Ms. Cantor, the VRS Board of Trustees approved the RBA upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Budget Update

Mr. Faison reviewed the year-to-date budget report with the Committee. Mr. Faison noted that due to the fiscal impacts of the COVID-19 pandemic the Governor's office requested that all executive branch agencies develop plans to reduce discretionary spending and institute a hiring freeze. Although not an executive branch agency, VRS is following this guidance where appropriate and prudent. Accordingly, Mr. Faison noted that the FY20 budget projections incorporate approximately \$623,000 in expected discretionary spending reductions as a result of the COVID-19 pandemic and subsequent information received from the Governor's office. These are in addition to the reduction in personnel spending associated with a freeze in hiring for vacant positions. Mr. Faison also noted that VRS will end the year with a positive balance, which will ultimately be returned to the Trust.

Other Business – Return to the Office Planning Update

Ms. Bishop provided an update to the Board on the status of the agency's planning for returning to the office. Ms. Bishop noted that the health, safety and welfare of our staff, members and employers is

paramount in the planning process. She indicated that VRS leadership has developed a draft plan, which is currently under review. With a few limited exceptions, staff will continue in telework status through Labor Day. Flexibility will be critical as VRS navigates through the return to the office process.

Commending Resolution of Service for Mitchell L. Nason

The Board reviewed and was asked to affirm the following resolution:

WHEREAS, Mitchell L. Nason was appointed to serve on the Virginia Retirement System Board of Trustees for his first term in February 2008 and was subsequently reappointed in February 2013; and

WHEREAS, the Governor of Virginia appointed him to serve as Chairman of the Virginia Retirement System Board of Trustees in May 2017, serving in this capacity with honor and distinction for an extended period; and

WHEREAS, Mr. Nason further contributed to the System by serving as a member, followed by service as Vice Chairman and then Chairman of the Benefits and Actuarial Committee, as a Member and then Chairman of the Administration and Personnel Committee, and as Vice Chairman of the Defined Contribution Plans Advisory Committee, and as a Member of the Investment Policy Committee, the Strategic Projects Committee and the Audit and Compliance Committee; and

WHEREAS, Mr. Nason began his service as a Trustee during one of the most turbulent market periods since the Great Depression and helped lead the system through this difficult period through his active participation in Board committees; and

WHEREAS, he witnessed a period of substantial change, including the implementation of two new retirement plans and administration responsibilities for the Line of Duty Act; and by virtue of his dedication and background developed extensive knowledge of the Virginia Retirement System employee benefits, financial, investment and economic matters, while making considerable contributions to the immeasurable success of the System, preserving the fund for future generations of members and retirees;

NOW, THEREFORE, BE IT RESOLVED, that on June 11, 2020, we, the members of the Board of Trustees of the Virginia Retirement System, hereby acknowledge Mr. Nason's superior leadership of the System, and express our deep gratitude for his exceptional contributions and unwavering dedication to the Board of Trustees, the Virginia Retirement System, its members and the Commonwealth of Virginia.

The VRS Board of Trustees affirmed the resolution with the following roll call:

Ms. Cantor: Aye

Mr. Bell: Aye

Mr. Garrett: Aye

Mr. Harris: Aye

Mr. Hayes: Aye

Mr. Leighty: Aye

Mr. Montgomery: Aye

Ms. Seward: Aye

Mr. McWilliams: Aye

Report of the Director

Ms. Bishop began her report with an overview of New Coverage Elections. Next, she provided an update on the Agency Roadmap. She noted that due to implementation of legislation, two projects have been delayed to FY 2021; however, despite working remotely staff has made great progress overall.

DPB Deficit Provision Acknowledgement Form

Mr. Faison noted that annually VRS and other state agencies are required to confirm that their obligations and expenditures do not exceed their appropriations. He advised that VRS expenditures and obligations did not exceed appropriations. The reporting form specifically states that each member of the Board has been provided with a copy of the notice. The executed form will be sent to the Department of Planning and Budget.

Custodial and Signature Authorization Resolutions

At Ms. Bishop's request, Mr. Faison presented the Resolution for Master Custodial Services and the Resolution for Payment of Retirement System Funds in the State Treasury and Signing Official Documents. The documents set out the Board's intentions regarding authority to sign documents. Mr. Faison noted the only change to both resolutions is updating the Chair's name and a staff member's name change.

Upon a motion by Mr. McWilliams, with a second by Mr. Harris, the Board approved the resolution upon the following roll call vote:

Ms. Cantor: Aye
Mr. Bell: Aye
Mr. Garrett: Aye
Mr. Harris: Aye
Mr. Hayes: Aye
Mr. Leighty: Aye
Mr. Montgomery: Aye
Ms. Seward: Aye
Mr. McWilliams: Aye

Update on Return to the Office Planning

As she did at the Administration and Personnel Committee, Ms. Bishop advised the full Board that as the Commonwealth continues its path to reopening, VRS leadership teams are developing a plan to return to the office building. The plan includes a phase-in approach and continued flexibility in order to ensure the safety, health and well-being of staff, members and retirees. She commended the dedication and agility of the entire VRS staff, as well as the foresight and preparation of the IT department during this time. Staff will remain in remote status until Labor Day and additional details will be forthcoming.

Ms. Bishop also noted that staff will follow up with Board members regarding future meetings that may need to be held electronically.

ERM Implementation Update

Mr. Cooper provided an update to the Board on the Enterprise Risk Management implementation project. He advised that the project has moved into the initial risk assessment process of Phase 2, involving workshops with internal stakeholders in order to formalize the initial risk response plan. Workshops with the Board are planned for later in the year.

Ms. Bishop advised that VRS' annual presentation to the Joint Legislative Audit and Review Commission (JLARC) is scheduled for July 6, 2020 at 10:00 a.m.

Ms. Bishop congratulated the Public Relations department for their collaboration on her speech to the National Association of State Retirement Administrators (NASRA). The speech received the Capital Award of Merit from the Richmond Chapter of the Public Relations Society of America.

She also congratulated staff for their work on the Hybrid Retirement Plan Auto-Escalation Campaign that recently won a Communicator Award in the marketing and effectiveness integrated campaign category. The Communicator Awards is the leading international award program honoring creative excellence for marketing and communications professionals.

Mr. McWilliams thanked Ms. Bishop for her report.

Upon a motion by Ms. Seward, with a second by Mr. Montgomery, the Board agreed to adjourn the meeting upon the following roll call vote (Mr. Leighty had exited the meeting prior to this vote):

Ms. Cantor: Aye

Mr. Bell: Aye

Mr. Garrett: Aye

Mr. Harris: Aye

Mr. Hayes: Aye

Mr. Montgomery: Aye

Ms. Seward: Aye

Mr. McWilliams: Aye

There being no further business, the meeting concluded at 3:38 p.m.



Chair



Secretary

RESOLUTION
FOR PAYMENT OF RETIREMENT SYSTEM FUNDS
IN THE STATE TREASURY AND SIGNING OFFICIAL DOCUMENTS

Pursuant to the authority vested in the Board of Trustees of the Virginia Retirement System by *Code of Virginia* § 51.1-149, on this 11th day of June 2020 it is hereby

RESOLVED, that all prior designations by the Board of Trustees of the Virginia Retirement System of persons authorized to sign vouchers and Voucher Transmittals issued by the Retirement System for the payment of funds of the Retirement System in the State Treasury are hereby revoked; and

BE IT FURTHER RESOLVED, that the State Treasurer, the Director of Operations, and the Director of Cash Management and Investments, or their designees, are hereby designated by the Board as those persons authorized to sign only those vouchers issued by the Retirement System for the payment of funds of the Retirement System in the State Treasury which are contained in Agency Business Unit 15800 Account Number 103607, which has been designated by the Comptroller as the short-term investment account, including but not limited to, funds used to purchase short-term securities to mature within two (2) years and to effect repurchase agreements involving securities of varying maturities which are held as short-term investments; and

BE IT FURTHER RESOLVED, that the Director of the Retirement System, the Chief Financial Officer, the Chief Operating Officer, the Customer Services Director and the Chief Technology Officer, whose signatures appear herein, are hereby designated by the Board as those persons authorized to sign Voucher Transmittals issued by the Retirement System for the payment of any and all funds of the Retirement System in the State Treasury and any and all accounts designated by the Comptroller as Retirement System funds accounts, including Agency Business Unit 15800 Account Number 103607, provided that such Voucher Transmittals shall be initialed by appropriate supervisory and management level staff personnel; and

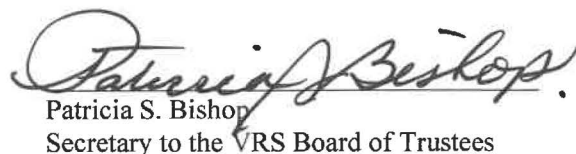
BE IT FURTHER RESOLVED, that the Chief Financial Officer, the Customer Services Director and the Chief Technology Officer are not authorized to sign a Voucher Transmittal prepared in their respective department; and

BE IT FURTHER RESOLVED, that the Director of the Retirement System, the Chief Operating Officer, the Chief Investment Officer or the Chief Administrative Officer - Investments are hereby designated full authority to sign any and all official documents in the name of the Board of Trustees of the Virginia Retirement System including, but not limited to, leases, deeds, contracts, equity index futures and options on such futures, signature cards, minutes and purchase orders; and

BE IT FURTHER RESOLVED, that a copy of this resolution shall be forward immediately to the Office of the Comptroller.

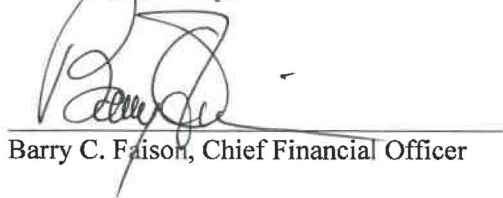
ATTEST:


O'Kelly E. McWilliams, III
Chairman, VRS Board of Trustees

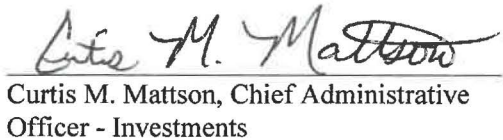

Patricia S. Bishop
Secretary to the VRS Board of Trustees

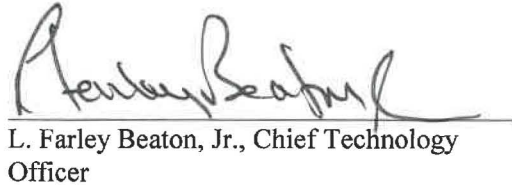
SIGNATURE PAGE
FOR PAYMENT OF RETIREMENT SYSTEM FUNDS
IN THE STATE TREASURY AND SIGNING OFFICIAL DOCUMENTS


Patricia S. Bishop, Director


Barry C. Faison, Chief Financial Officer


Michael P. Cooper, Chief Operating Officer


Curtis M. Mattson, Chief Administrative
Officer - Investments

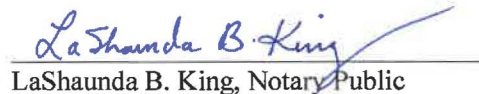

L. Farley Beaton, Jr., Chief Technology
Officer


Ronald D. Schmitz, Chief Investment Officer

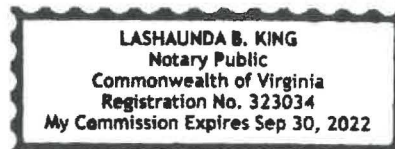

Robert L. Irving, Customer Services Director

COMMONWEALTH OF VIRGINIA
CITY OF RICHMOND, TO-WIT:

The foregoing instrument was acknowledged before me this 11th day of June 2020 by O'Kelly E. McWilliams, III; Patricia S. Bishop; Barry C. Faison; L. Farley Beaton, Jr.; Ronald D. Schmitz; Michael P. Cooper; Robert L. Irving and Curtis M. Mattson.


LaShaunda B. King, Notary Public

My commission expires Sept. 30, 2022.



**RESOLUTION
FOR MASTER CUSTODIAL SERVICES**

Pursuant to the authority vested in the Board of Trustees of the Virginia Retirement System by *Code of Virginia* § 51.1-149, on this 11th day of June 2020, it is HEREBY

PREVIOUS DESIGNATIONS REVOKED

RESOLVED, that all prior designations by the Board of Trustees of the Virginia Retirement System of persons authorized to sign investment invoices and actions involving the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control as well as actions involving administrative matters and proxies within their custodial control are hereby revoked; and

VRS ASSET TRANSFERS AND ACCOUNT PAYMENTS

BE IT FURTHER RESOLVED, that dual signatures, one of which shall be from the Director of the Virginia Retirement System, the Chief Financial Officer, the Chief Operating Officer, the Customer Services Director, or the Chief Technology Officer and the second shall be from the Chief Investment Officer, the Chief Administrative Officer - Investments, the Investments Compliance Officer or the Investments Office Administrator, are hereby required and that those persons are designated and authorized by the Board to sign for all actions involving the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control that (i) are not initiated by an authorized investment advisor associated with the settlement of a purchase or sale transaction and (ii) are not for the payment of investment management, consulting or custodian fees. If investment personnel are unavailable, any two of the listed VRS administrative personnel could sign. However, in no event shall both signatures be those of investment department personnel; and

VRS ACCOUNT ADMINISTRATIVE MATTERS

BE IT FURTHER RESOLVED, that the Director of the Virginia Retirement System, the Chief Investment Officer, the Chief Administrative Officer - Investments, the Investments Compliance Officer, the Investments Office Administrator, the Controller and the Manager of Investment Accounting are designated by the Board as those additional persons authorized to open and close accounts and take other administrative actions for the VRS accounts not involving the signing of official documents in the name of the Board of Trustees of the VRS or the distribution or payment of funds or transfer of assets of the Virginia Retirement System under your custodial control; and

PROXIES

BE IT FURTHER RESOLVED, that the Chief Investment Officer, the Chief Administrative Officer - Investments, or the Investments Compliance Officer are hereby designated by the Board as the persons authorized to sign proxies for the VRS accounts; and

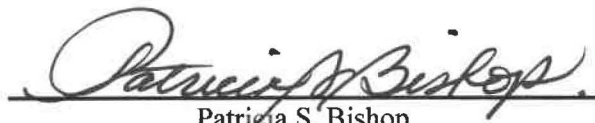
COMPLIANCE

BE IT FURTHER RESOLVED, that the Director of the Virginia Retirement System, the Chief Investment Officer, the Chief Administrative Officer - Investments, or the Investments Compliance Officer are hereby designated by the Board as those persons authorized to sign for all actions involving compliance issues to include, but not be limited to, class actions suits, tax exemptions, authorized signatures, stock and bond powers, required resolutions as needed, etc.

ATTEST:



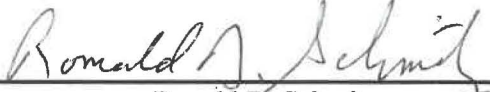
O'Kelly E. McWilliams, III, Chair
VRS Board of Trustees




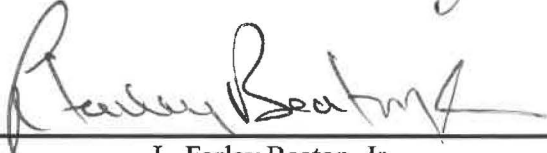
Patricia S. Bishop
Secretary to the Board/VRS Director


**VIRGINIA RETIREMENT SYSTEM AUTHORIZED SIGNATURES
FOR MASTER CUSTODIAL SERVICES**


Patricia S. Bishop
Director



Ronald D. Schmitz
Chief Investment Officer

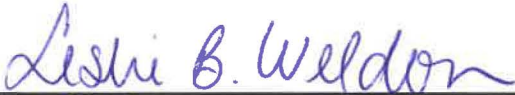

Barry C. Faison
Chief Financial Officer

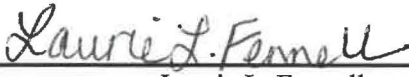

L. Farley Beaton, Jr.
Chief Technology Officer

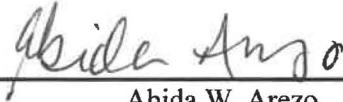

Michael P. Cooper
Chief Operating Officer

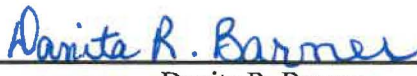

Robert L. Irving
Customer Services Director


Curtis M. Mattson
Chief Administrative Officer - Investments


Leslie B. Weldon
Controller

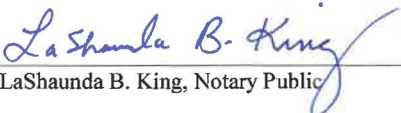

Laurie L. Fennell
Investments Compliance Officer


Abida W. Arezo
Manager of Investment Accounting

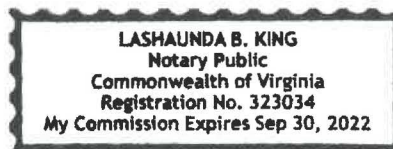

Danita R. Barnes
Investments Office Administrator

**COMMONWEALTH OF VIRGINIA
CITY OF RICHMOND, TO-WIT:**

The foregoing instrument was acknowledged before me this 11th day of June 2020 by O'Kelly E. McWilliams, III; Patricia S. Bishop; Ronald D. Schmitz; Barry C. Faison; L. Farley Beaton, Jr.; Michael P. Cooper; Robert L. Irving; Curtis M. Mattson; Leslie B. Weldon; Laurie L. Fennell, Abida W. Arezo and Danita R. Barnes.


LaShaunda B. King, Notary Public

My commission expires September 30, 2022.





Report

Pursuant to § 2.2-3700 et. seq. of the *Code of Virginia* and Chapter 1283 of the 2020 Acts of Assembly, the Defined Contribution Plans Advisory Committee (DCPAC) convened electronically on June 4, 2020 at 10:30 a.m., and took up the following matters:

WELCOME AND INTRODUCTION

Staff welcomed and introduced two new Committee members, Brenda Madden, Director of Human Resources with Davenport Companies, and Kathy Seay, Deputy County Administrator for Hanover County, to the DCPAC.

INVESTMENTS

Performance Reports

Staff provided an update of the April 30, 2020 performance reports to the DCPAC, including the unbundled DC plans investment options and the new investment menu in the TIAA Retirement Choice (RC) contract for ORPHE that took effect January 2020. Staff noted a benchmark change for the Money Market Fund on the unbundled DC plans platform, also effective January 2020. Staff shared with the Committee that Fidelity became a deselected ORPHE provider for new contributions in February 2020 and was no longer monitored by the VRS Investment Department.

Based on increased market volatility and economic stimulus related to COVID-19, staff also shared the performance of the individual fund options on the unbundled DC Plans platform, highlighting the market benchmark performance over short- and long-term time frames.

Staff provided an overview of the difference in naming convention of like funds on both the unbundled DC plans platform and bundled TIAA ORPHE platform and also noted the market value and percentage allocation of assets in the TIAA ORPHE Retirement Choice (RC) contract as of December 31, 2019.

Staff informed the Committee the *Callan 2020 DC Trends Survey* was included in the meeting materials Appendix for review.

ADMINISTRATION

Administrative Reports and Communication Update

Staff provided an update of administrative reports for the first quarter of 2020. 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 auto-escalation 2020, the new online withdrawal feature in Account Access, and market volatility educational resources for plan participants.

Staff informed the Committee of the ICMA-RC Annual Service Review and benchmarking efforts, noting 2019 accomplishments and future initiatives. In addition, participation in the Public Retirement Research Lab was discussed.

ORPHE Update

Staff provided an overview of ORPHE reports for the first quarter of 2020, including plan assets and accounts, and provider election data. Staff also shared with the Committee a timeline overview of changes to the ORPHE over the past six years, concluding with the recent ORPHE 2020 initiative.

Staff included in the meeting materials Appendix the *Q1 2020 ICMA-RC Quarterly Review* and *VRS ICMA-RC Annual Strategy Document* for the Committee to review.

OTHER BUSINESS

Legislative Update

Staff provided an overview of key provisions of recently enacted federal legislation such as the SECURE Act and CARES Act, their impact on VRS members, employers and retirees, and efforts underway to implement the various provisions.

Staff provided an overview of the VRS-related bills approved during the 2020 legislative session of the General Assembly. Staff shared with the Committee approved 2020 budget changes and amendments with an impact to VRS that passed during the legislative session. Staff also informed the Committee of VRS-related bills that failed, were carried over or amended but which had no impact to VRS.

DCPAC Appointment

Staff informed the Committee of the request for reappointment of Ravindra Deo to a two-year term ending June 20, 2022. His current term expires June 20, 2020.

Recommend RBA for Reappointment of DCPAC Member

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

Request for Board Action: The Board reappoints Ravindra Deo to the Defined Contribution Plans Advisory Committee (DCPAC) for a two-year term ending June 20, 2022.



Other Business

2020 MEETINGS

Staff confirmed the following DCPAC meeting dates for 2020:

- 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 June 11, 2020.

A handwritten signature in black ink, appearing to be 'Brett Hayes'.

**Brett Hayes, Chair
Defined Contribution Plans Advisory Committee**

Report

In accordance with Item 4-0.01 of Chapter 1283 of the 2020 Acts of Assembly of the *Code of Virginia* as it relates to conducting business during the COVID-19 pandemic, the Audit and Compliance Committee convened electronically on June 4, 2020 and discussed the following:

UPDATE ON THE 2019 EMPLOYER ASSURANCES REVIEW

The APA reported the Employer Assurances Review, covering GASB Statements No. 68 and 75, was progressing as planned and they should conclude their work over the Pension and Other Post-Employment Benefit (OPEB) plans and issue the related opinions by the end July.

ENTRANCE WITH THE APA FOR THE VRS 2020 CAFR AUDIT

The Committee held its annual entrance conference with the APA to review the approach and scope of the examination of VRS' Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ending June 30, 2020.

AUDIT REPORTS

The Committee received two audit reports.

- The review of *Investment Manager and Manager Compensation* determined compensation paid to external investment managers and the master custodian were reasonable and properly recorded.
- The review of *VRS' Conformance with VITA's Security Program* determined VRS' Security Policies and Standards are compliant with VITA's mandatory IT security program; however, the review resulted in one written recommendation in support of ensuring VRS' continued conformance.

ANNUAL REPORT ON CODE OF ETHICS

The Chief Operating Officer and the Chief Administrative Officer provided their annual reports on their respective processes for communicating VRS' Code of Ethics and Conduct and for monitoring compliance, as required by the Audit and Compliance Committee Charter. Both indicated 100 percent compliance with the reporting and certification requirements for their respective programs.

QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4

Management presented its status report on the Modernization Program - Phase 4, including budget and cost updates as of March 31, 2020. Management highlighted progress for the decommissioning of RIMS and Phase 4, noting the project plan for Phase 4 is shifting due to impacts of new legislation. The development of the remaining member portal functionality is now planned to be completed in October 2020. Related testing and roll-out activities will continue through the winter, possibly longer.

Internal Audit presented its review and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall schedule, budget, and scope. Internal Audit acknowledged management's continued thoughtful and deliberate efforts to bring this phase to a close while ensuring protection of member and retiree information. Internal Audit facilitated a discussion between VRS staff and the only other state retirement system who has implemented similar

functionality. Associated processes and tools uses were discussed, along with the possibility for future collaboration opportunities.

AUDIT PLAN PROGRESS AS OF DECEMBER 31, 2019

The Internal Audit Director reported on the progress on the annual Audit Plan as of December 31, 2019, the mid-point of the fiscal year, sharing changes to the planned timing of certain examinations and the related background. Internal Audit's remaining planned projects and resource impacts as a result of COVID-19 relative to the annual and long-term plans also were discussed.

LONG-RANGE AUDIT PLAN DEVELOPMENT UPDATE FOR THE FOUR YEARS ENDED JUNE 30, 2024

The Internal Audit Director presented a status update on the development of the long-range audit plan for the four years ending on June 30, 2024. The long-range audit plan will be presented at the September Committee meeting.

QUARTERLY REPORTS ON FRAUD, WASTE AND ABUSE HOTLINE CASES

The Internal Audit Director shared no Fraud, Waste and Abuse Hotline complaints were reported to Internal Audit via the Office of the State Inspector General or any other avenues during the period of November 1, 2019 through April 30, 2020.

MANAGEMENT'S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORTS

The Committee received management's quarterly travel expense and per diem reports for the periods ending December 31, 2019 and March 31, 2020.

MISCELLANEOUS UPDATES

Internal Audit's Review of Cost of Living Adjustments

Internal Audit noted its review of the proposed "Cost of Living Adjustments" as calculated by VRS' actuary, Cavanaugh Macdonald Consulting, LLC, was completed and the results were provided to the Benefits and Actuarial Committee and Board of Trustees at their respective meetings in February 2020.

Next Committee Meeting Date

The Committee's next meeting is scheduled for September 17, 2020 at 2 p.m.

Respectfully submitted to the Board of Trustees on June 11, 2020.


Mr. William H. Leighty, Chair
Audit and Compliance Committee

Report

Pursuant to § 2.2-3700 et. seq. of the *Code of Virginia* and Chapter 1283 of the 2020 Acts of Assembly, the Benefits and Actuarial Committee convened electronically on June 10, 2020 at 1:00 p.m. and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its February 12, 2020 meeting.

HEALTH INSURANCE CREDIT FOR LOCAL SCHOOL DIVISIONS

Mr. Badura presented the revisions to the June 30, 2019 valuation reports for the Health Insurance Credit (HIC) for political subdivisions as the result of changes made by House Bill 1513 (HB1513). Mr. Badura explained that the current HIC for local employees is \$1.50 per year of service and only retirees with at least 15 years of service in participating localities or school divisions that have elected the benefit are eligible.

Beginning July 1, 2021, HB1513 requires school divisions providing retirement benefits to non-teacher employees to also provide a health insurance credit of \$1.50 per year of service to all employees who retire with at least 15 years of service. Eligible non-teacher employees who retired prior to July 1, 2021 will begin receiving the benefit in the August 1, 2021 benefit payment. HB1513 removes the \$45 cap and a school division may elect an additional \$1 per year, for a total HIC of \$2.50 per year of service.

The Department of Education estimates an additional state general fund cost of \$976,000 in FY 2021 and \$1,024,000 in FY 2022 to provide funding support for the \$1.50 per year of service Health Insurance Credit for funded Standards of Quality (SOQ) Non-Professional positions. Mr. Badura noted that the new benefit is payable beginning July 1, 2021; however, the legislation is effective July 1, 2020, so benefit funding begins then.

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

Request for Board Action: After considering the recommendations of its Plan Actuary to implement the provisions of HB 1513 (Chapter 1091, 2020 Virginia Acts of Assembly), the Board accepts the revised June 30, 2019 valuation reports for the Health Insurance Credit (HIC) for political subdivisions, which set employer contribution rates for both FY 2021 and FY 2022, effective July 1, 2020.

SPORS AND VALORS RATES AND LODA PREMIUMS

Mr. Badura presented the revised contribution rates for the State Police Officers' Retirement System (SPORS) and the Virginia Law Officers' Retirement System (VaLORS) and the revised LODA Fund premium.

HB 1495 and SB 54 permit retired sworn law enforcement officers to return to work as a school security officer after a break in service of at least 12 calendar months. Individuals who return to work under this provision would not be eligible for any cash match as detailed in Chapter 6.1 (§51.1-607 et seq., cash

match plans) of Title 51.1, nor would any additional service be earned, and employers must pay contributions for these positions. As a result of this legislation, the SPORS contribution rate for employers was increased from 26.26% to 26.33%, and VaLORS employer contribution rates were increased from 21.88% to 21.90% in the 2020 Appropriation Act.

The Governor's introduced budget included increased LODA Fund premiums to cover natural or adopted children of LODA participants who were previously provided coverage, but later became ineligible under the new LODA Health Benefits Plans. The General Assembly increased the LODA premium to reflect the following:

- Chapters 1150 & 1152: Adding corrections officers and full-time sworn members of the DMV enforcement division to those entitled to a presumption of certain infectious diseases that are compensable occupational diseases.
- Chapters 498 and 499: Adding colon, brain, or testes to the list of cancers presumed to be an occupational disease covered by the Virginia Workers' Compensation Act.
- Chapters 1206 & 1262: Adding post-traumatic stress disorder incurred by law enforcement officers or firefighters as an occupational disease covered by the Virginia Workers' Compensation Act.

As a result, the General Assembly provided funding for an adjusted LODA premium of \$717.31, an increase from the original June 30, 2019 valuation premium of \$695.18.

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

Request for Board Action: *The Board accepts the revised contribution rates for the State Police Officers' Retirement System (SPORS) and the Virginia Law Officers' Retirement System (VaLORS) and the increased premium for the Line of Duty Death and Health Benefits Trust Fund that are set out in the Appropriation Act for the 2020-2022 biennium.*

INFORMATION ITEMS

Stress Test and Sensitivity Analysis Report

Mr. Badura presented the findings of the draft VRS Stress Test and Analysis report. He noted that the report is based on the June 30, 2019 actuarial valuation and focused on the current and future impacts of COVID-19 and risks to long-term funding including investment volatility, contribution risk, and longevity risk.

The report contains illustrative COVID-19 economic recovery scenarios, which were used to derive estimated results for the VRS plans to show the magnitude of potential impacts on plan funding. While the full extent is unknown at this time, COVID-19 is expected to have an impact on fund returns and possibly cause challenges related to plan funding for employers over the next several years. Due to the uncertainty surrounding the COVID-19 recovery and the corresponding impacts on the economy at large, analysis of future impacts on the VRS fund will continue as new information becomes available.



Upcoming B&A Committee meetings:

- October 14, 2020 at 1:00 p.m.
- November 16, 2020 at 1:00 p.m.

Submitted to the Board of Trustees on June 11, 2020.

A handwritten signature in blue ink that reads "Wallace G. Harris".

Wallace G. Harris, Chair
Benefits and Actuarial Committee

Report

Pursuant to § 2.2-3700 et. seq. of the *Code of Virginia* and Chapter 1283 of the 2020 Acts of Assembly, the Administration and Personnel Committee convened electronically on June 10, 2020 at 10:00 a.m. and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its February 13, 2020 meeting.

VERUS- BENCHMARK AND PERFORMANCE HURDLE ANALYSIS

John Meier with Verus presented the results of the Benchmark and Performance Hurdle Analysis. Mr. Meier began his presentation by reviewing the characteristics of a good benchmark per the CFA Institute: unambiguous, investable, measurable, appropriate, specified in advance, and reflective of current investment options. He then noted that excess return objectives should reflect the strategies and current capabilities of staff within each program as well as for the total fund. Mr. Meier reviewed his findings, to include the various recommended changes, and stated his findings were based on careful analysis of the risks and opportunities of the underlying markets and an analysis of the practices of peer funds, within the universe of public funds.

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

Request for Board Action: *The VRS Board of Trustees approves the recommended changes to the benchmarks and excess return objectives, effective July 1, 2020.*

DISCUSSION AND CONSIDERATION OF FY 2021 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES (OMs)

Michael Cooper reviewed the proposed FY 2021 agency performance outcomes (APOs) and operational measures. He noted that there are 4 APOs proposed for FY 2021. The first two APOs relate to myVRS enhancements, and are a carryover from the current year. The third APO is the continuation of the agency's Enterprise Risk Management implementation. The fourth APO accounts for the Cardinal HCM Implementation project, for which VRS is responsible for three tracks. Staff would need to successfully complete 3 of the 4 APOs to qualify for the gainsharing bonus.

There are also 16 operational measures proposed for FY 2021. The 16 operational measures are the same as the current year metrics, with 13 of 16 measures required to meet their target for the year in order to qualify for the gainsharing bonus. Mr. Cooper also noted that staff continues to evaluate new measures for implementation in future years and will be piloting a few of them during the next year.

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

Request for Board Action: *The Board approves the FY 2021 Agency Performance Outcomes and Operational Measures.*

REAPPOINTMENT OF IAC MEMBERS

Ron Schmitz discussed the expiring terms of two IAC members, Deborah Allen Hewitt and Theodore Economou. Mr. Schmitz indicated that Ms. Hewitt and Mr. Economou are interested in serving again, each for an additional 2-year term.

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

Request for Board Action: *The Board reappoints to the Investment Advisory Committee Theodore Economou for a two-year term ending September 13, 2022, and Deborah Allen Hewitt, Ph.D., for a two-year term ending October 16, 2022.*

REAPPOINTMENT OF DCPAC MEMBER

Trish Bishop advised the Committee that Ravi Deo's term on the Defined Contribution Plans Advisory Committee (DCPAC) is set to expire on June 20th. Mr. Deo is interested in serving another term on the committee.

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

Request for Board Action: *The Board reappoints Ravindra Deo to the Defined Contribution Plans Advisory Committee (DCPAC) for a two-year term ending June 20, 2022.*

BUDGET UPDATE

Barry Faison reviewed the year-to-date budget report with the Committee. Mr. Faison noted that due to the fiscal impacts of the COVID-19 pandemic the Governor's office requested that all executive branch agencies develop plans to reduce discretionary spending and institute a hiring freeze. Although not an executive branch agency, VRS is following this guidance where appropriate and prudent. Accordingly, Mr. Faison noted that the FY20 budget projections incorporate approximately \$623,000 in expected discretionary spending reductions as a result of the COVID-19 pandemic and subsequent information received from the Governor's office. These are in addition to the reduction in personnel spending associated with a freeze in hiring for vacant positions Mr. Faison also noted that VRS will end the year with a positive balance, which will ultimately be returned to the Trust.

OTHER BUSINESS – RETURN TO THE OFFICE PLANNING UPDATE

Trish Bishop provided an update to the Committee on the status of the agency's return to the office planning. Ms. Bishop noted that the health, safety and welfare of our staff, members and employers is paramount in the planning process. She indicated that VRS leadership has developed a draft plan, which is currently under review. With a few limited exceptions, staff will continue in telework status through Labor Day. Flexibility will be critical as VRS navigates through the return to the office process.



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Submitted to the Board of Trustees on June 11, 2020.

A handwritten signature in black ink, reading 'O'Kelly E. McWilliams, III'.

O'Kelly E. McWilliams, III, Chair
Administration and Personnel Committee