



**Administration and Personnel Committee (A&P) Meeting**

**GoToWebinar**

**Tuesday, 10/13/2020**

**1:00 - 3:00 PM ET**

**I. Public Comment**

**II. Approve Minutes**

- **September 16, 2020**

*A&PC Minutes 9.16.20 - Page 2*

**III. RBA – Approve Amendments to the Administrative Pay Plan, Executive Pay Plan, Investment Operations and Administration Pay Plan and the Investment Professionals’ Pay Plan**

*RBA - Amending Pay Plans - Page 9*

*Possible Pay Plan Amendments - Page 10*

*VRS Administrative Pay Plan Policy\_Red Line - Page 15*

*VRS Executive Pay Plan\_Red Line - Page 27*

*VRS Investment Operations and Administration Pay Plan\_Red Line - Page 33*

*VRS Investment Professionals' Pay Plan\_Red Line - Page 46*

**IV. Informational Item**

- **RBA – Approve Audit Director’s Performance Bonus**

*RBA - Approve Internal Audit Director Bonus - Page 66*

- **RBA – Approve Salary Adjustment for the Audit Director**

*RBA - Approve Internal Audit Director Salary Adjustment - Page 67*

**V. Information Technology Security Update**

*Information Technology Security Update - Page 68*

**VI. Budget Variance Report**

*Budget Update - Page 84*

## Minutes

An electronic meeting of the Administration and Personnel Committee of the VRS Board of Trustees was held on September 16, 2020 in accordance with § 2.2-3700 et seq. of the *Code of Virginia* and in accordance with guidance provided in Chapter 1289 of the 2020 Acts of Assembly, with the following members participating:

O'Kelly E. McWilliams, III, Chair  
Wallace G. Harris, Ph.D.  
Joseph W. Montgomery

Board members present:  
Hon. J. Brandon Bell, II  
Michael P. Disharoon  
Susan T. Gooden, Ph.D.  
Troilen G. Seward, Ed.S.

VRS Staff:

Trish Bishop, Ron Schmitz, Jennifer Schreck, Farley Beaton, Jeanne Chenault, Michael Cooper, Juanita Cribbs, Valerie Disanto, Barry Faison, Brian Goodman, Robert Irving, LaShaunda King, Ryan LaRochelle, Curt Mattson, Angela Payne, Cat Pelletier, Matt Priestas, Paula Reid, Jillian Sherman, and Cindy Wilkinson.

Guests participating were:

Michael Oak and Maureen Reilly of McLagan, and Jamie Bitz, Joint Legislative Audit and Review Commission.

The meeting convened at 10:37 a.m.

### Opening Remarks

Mr. McWilliams called the meeting to order and welcomed everyone to the September 16, 2020 meeting of the Administration and Personnel Committee.

Mr. McWilliams introduced the newest Board members, Dr. Susan Gooden and Mr. Michael Disharoon. Dr. Gooden is the Dean of VCU's L. Douglas Wilder School of Government and Public Affairs, and Mr. Disharoon is a Principal and Portfolio Manager at Palladium.

Mr. McWilliams noted that given the current circumstances related to COVID-19, the Committee is unable to meet in person and, therefore, is using electronic means to hold the meeting. The meeting is being held in accordance with § 2.2-3700 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:

Mr. Bell: Here

Mr. Disharoon: Here  
Dr. Gooden: Here  
Mr. Harris: Here  
Mr. Montgomery: Here  
Ms. Seward: Here  
Mr. McWilliams: Here

#### Public Comment

In accordance with Item 4-0.01 of Chapter 1289 of the 2020 Acts of Assembly, the Committee opened the floor for public comment. Mr. McWilliams noted that no members of the public registered to comment at the electronic meeting.

#### Approve Minutes

Upon a motion by Mr. Harris, with a second by Mr. Montgomery, the Committee approved the minutes of its June 10, 2020 meeting upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Abstain  
Dr. Gooden: Abstain  
Mr. Harris: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Abstain  
Mr. McWilliams: Aye

Ms. Seward, Dr. Gooden and Mr. Disharoon elected to abstain as they were not present at the June 10, 2020 meeting.

Next, Mr. McWilliams provided an overview of the primary purpose for the A&P meeting every September, including a review of the agency's performance for the past fiscal year, bonuses and incentive compensation. Mr. McWilliams further noted that the pandemic created a period of uncertainty for everyone, including participating employers, and therefore he asked staff to provide various options for the Committee's consideration as it reviews performance results and compensation.

After some discussion, the Committee agreed that, in striking a balance, incentive compensation should be provided to staff in accordance with the current pay plans but directed staff to develop guidance for the October meeting regarding changes to the pay plans to expressly clarify that at the Board's discretion, incentive compensation will potentially be delayed, reduced, adjusted or cancelled during a period of extreme fiscal stress.

#### Review Attainment of FY 2020 APOs and Operating Measures

Next, Mr. Cooper provided the results of the FY 2020 Agency Performance Outcomes (APOs) and Operational Measures (OMs) to the Committee. He noted that the agency began with five APOs for the fiscal year; however, an additional APO was added in the spring to account for implementation of legislation impacting VRS. The goal for the year was to accomplish four of the six APOs and staff met that target. The two APOs not met were myVRS enhancement projects that were impacted by resource

constraints related to the new legislation implementation. Mr. Cooper noted that those projects are included in the FY 2021 APOs and are back on schedule.

Staff surpassed the goal of meeting or exceeding the performance target for thirteen of the sixteen Operational Measures, successfully completing fifteen. The only measure not accomplished related to disability retirement processing timeframes that were affected by the transition from RIMS to VNAV.

**RBA: Approve attainment of FY 2020 APOs and Operational Measures and corresponding lump-sum bonus equal to 2.5% of salary for eligible administrative employees and Investment Department operations and administration employees.**

***Request for Board Action:*** *The VRS Board of Trustees approves (i) the attainment of FY 2020 APOs and Operational Measures and (ii) a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

Upon a motion by Mr. Montgomery, with a second by Mr. Harris, the Committee recommended approval of the action to the full Board of Trustees upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

#### **Review Performance Bonuses for Eligible Administrative and Investment Operations and Administration Employees**

Next, Mr. Cooper discussed the proposed lump-sum bonuses for eligible administrative employees and Investment Department operations and administration employees. Those eligible employees who receive an overall rating of “exceptional” will receive a 4% bonus and those who receive an overall rating of “exceeds” will receive a 2% bonus, based on their salary as of June 30, 2020.

**RBA: Approve lump-sum performance bonuses for eligible administrative employees and Investment Department operations and administration employees.**

***Request for Board Action:*** *The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.*

Upon a motion by Mr. Harris, with a second by Mr. Montgomery, the Committee recommended approval of the action to the full Board of Trustees upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Montgomery: Aye

Ms. Seward: Aye

Mr. McWilliams: Aye

**Approve First Amendment to the Defined Contribution Plan for Investment Personnel (DCPIP)**

Next, Ms. Wilkinson discussed the proposed amendments to Defined Contribution Plan for Investment Personnel (DCPIP). She noted that the title was amended to the “Defined Contribution Incentive Plan for VRS Personnel” to reflect that it includes the VRS Director. Additional changes were made to clarify conformance with Internal Revenue Code provisions. Ms. Wilkinson advised the Committee that staff and outside counsel will conduct a more detailed review of the plan to incorporate additional changes and will present the restated plan at an upcoming Committee meeting.

**RBA: Approve First Amendment to the Defined Contribution Plan for Investment Personnel (DCPIP) recommended by outside benefits counsel, effective January 1, 2020.**

***Request for Board Action:*** *The VRS Board of Trustees approves the First Amendment to the DCPIP as recommended by outside benefits counsel, effective January 1, 2020.*

Upon a motion by Mr. Montgomery, with a second by Mr. Harris, the Committee recommended approval of the action to the full Board of Trustees upon the following roll call vote:

Mr. Bell: Aye

Mr. Disharoon: Aye

Dr. Gooden: Aye

Mr. Harris: Aye

Mr. Montgomery: Aye

Ms. Seward: Aye

Mr. McWilliams: Aye

**Budget Variance Report (Year End Results)**

Mr. Faison presented the year-end budget variance report to the Committee. He noted that VRS ended with a favorable variance of \$9,705,000 for FY 2020, which will be returned to the Trust.

Ms. Pelletier presented the FY 2021 budget to actual projections and explained that, although VRS is an independent agency, the current budget reflects reductions made considering the guidance provided to executive branch agencies by the Governor’s office in response to the COVID-19 pandemic.

**Competitive Pay Analysis – Chief Investment Officer**

Next, Michael Oak of McLagan presented the results of its Chief Investment Officer (CIO) Competitive Pay Analysis to the Committee. Mr. Oak advised that the analysis compared the salary and target total cash compensation levels of VRS’ CIO to the equivalent position at peer firms. The analysis found that the VRS CIO’s base salary fell below the targeted 75<sup>th</sup> percentile of other leading public funds, which is consistent with previous years’ findings. Mr. Oak noted that target total cash compensation approached the targeted 50<sup>th</sup> percentile of the 75/25 blended peer group.

Mr. McWilliams thanked Mr. Oak for his presentation.

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**Compensation and Benefits – CLOSED MEETING**

Mr. Harris then moved, with a second by Mr. Montgomery, that the Administration and Personnel Committee of the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act to discuss the compensation and benefits of specific employees pursuant to the personnel exemption at *Code of Virginia* § 2.2-3711(A)(1).

The closed meeting convened upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Dr. Gooden: Aye  
Mr. Harris: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

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

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

NOW, THEREFORE, BE IT RESOLVED, that the Committee 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 Committee.

The Committee approved the resolution upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Harris: Aye  
Mr. McWilliams: Aye

Dr. Gooden and Mr. Montgomery left the meeting prior to this vote. Ms. Seward was at the meeting but unable to vote due to technical difficulties.

**Review 2020 Incentive Pay for Investment Professionals****RBA: Approve FY 2020 incentive payments for VRS investment professionals**

***Request for Board Action:*** *The VRS Board of Trustees approves payment of an incentive amount of approximately \$3,351,572 for FY 2020 to VRS investment professionals as authorized by the Investment Professionals' Pay Plan.*

Upon a motion by Mr. Harris, with a second by Mr. Bell, the Committee recommended approval of the action to the full Board of Trustees upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Harris: Aye  
Mr. McWilliams: Aye

**Director's Performance Review and CIO Employment Agreement**

**RBA: Approve performance bonus and supplemental payment to the VRS Director as authorized in the 2020 Appropriation Act**

***Request for Board Action:** The VRS Board of Trustees approves a performance bonus for the VRS Director payable on October 16, 2020 and a supplemental payment made December 1, 2020 as authorized in the 2020 Appropriation Act.*

Upon a motion by Mr. Harris, with a second by Mr. Bell, the Committee recommended approval of the action to the full Board of Trustees upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Harris: Aye  
Mr. McWilliams: Aye

**RBA: Approve Fourth Amendment to the CIO Employment Agreement**

***Request for Board Action:** The VRS Board of Trustees approves the Fourth Amendment to the Chief Investment Officer's (CIO's) Employment Agreement.*

Upon a motion by Mr. Harris, with a second by Mr. Bell, the Committee recommended approval of the action to the full Board of Trustees upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Harris: Aye  
Mr. McWilliams: Aye

**Adjournment**

Lastly, Mr. McWilliams noted that the Board of Trustees will meet on September 22, 2020.

Upon a motion by Mr. Bell, with a second by Mr. Harris, the Committee agreed to adjourn the meeting upon the following roll call vote:

Mr. Bell: Aye  
Mr. Disharoon: Aye  
Mr. Harris: Aye  
Mr. McWilliams: Aye

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There being no further business, the meeting concluded at 1:03 p.m.

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Chair

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Secretary





**Approve Amendments to the Administrative Pay Plan, Executive Pay Plan, Investment Operations and Administration Pay Plan and the Investment Professionals' Pay Plan.**

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**Requested Action**

The Virginia Retirement System Board of Trustees approves amendments to the Administrative Pay Plan, Executive Pay Plan, Investment Operations and Administration Pay Plan and the Investment Professionals' Pay Plan, effective October 15, 2020.

**Description/Background**

In his Administration & Personnel Committee report at the September 22, 2020 Board meeting, Board chair Mr. McWilliams presented an overview of the primary purpose for that Committee meeting every September, which includes a review of the agency's performance for the past fiscal year, bonuses and incentive compensation. Mr. McWilliams further noted that the pandemic created a period of uncertainty for everyone, including participating employers, and therefore asked staff to provide various options for the Committee's consideration as it reviews performance results and compensation.

The Committee discussed the options presented and agreed that, in striking a balance, incentive compensation should be provided to staff in accordance with the current pay plans but directed staff to develop guidance for the October meeting regarding changes to the pay plans to expressly clarify that at the Board's discretion, incentive compensation will potentially be delayed, reduced, adjusted or canceled during a period of extreme fiscal stress.

In response to this direction, VRS staff developed amendments to the pay plans, and a blacklined version of each pay plan is attached to this RBA. The Administration and Personnel Committee recommends that these amendments be approved by the full Board.

**Authority for Requested Action**

*Code of Virginia* § 51.1-124.22(A)(11) authorizes the Board to establish and administer a compensation plan for officers and employees of the Retirement System.

The above action is approved.

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

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Date

# Possible Pay Plan Amendments Regarding Extreme Fiscal Stress

## Governance Policy

### II. Incentive Pay Plan

#### PLAN ADMINISTRATION

The VRS Board of Trustees, the Plan Administrator, through the Administration and Personnel (A&P) Committee, administers the Incentive Plan (Plan) and retains full and complete discretion:

- To increase or decrease incentives for any and/or all Plan participants.
- To modify, amend or rescind any aspect of the Plan at any time for any and/or all Plan participants.
- While the Plan Administrator remains mindful of the value that staff adds to the organization and supportive of the pay plan, the Plan Administrator also specifically reserves the right to cancel, reduce, or delay the amount of any incentives payable under this plan when, in the sole discretion of the Plan Administrator, extreme budgetary pressures, economic, market or other conditions are such that the Plan Administrator deems such action necessary under the circumstances.
- Consistent with the preceding paragraph, payment of incentives under this plan is not guaranteed.

The Plan Administrator may delegate certain aspects of this Plan's day-to-day operation to the VRS CIO and the VRS Director of Human Resources. However, any substantive Plan-related questions or issues impacting incentive payouts for the CIO require the Plan Administrator's prior approval.

## Admin Pay Plan

### 3. Performance

Performance bonuses are provided agency wide following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of "exceptional" will receive a 4% bonus and employees who receive an overall rating of "exceeds" will receive a 2% bonus, based on their salary as of June 30. Employees who receive an overall "meets," "does not meet" or "needs improvement" rating will not receive a performance bonus.

The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30.

## Performance Management Policy

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

#### **4. Gainsharing**

Gainsharing bonuses are provided when it is determined the agency has successfully attained the Agency Performance Outcomes (APO) and Operational Measures (OM).

Subject to the approval of the VRS Board of Trustees, attainment of the APOs and OMs may result in eligible employees receiving a lump-sum bonus of 2.5%, or other amount determined by the Board, based on their salary as of June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.

## **Executive Pay Plan**

### **IV. Compensation Components**

#### **A. VRS Director**

##### **1. Base Salary**

The base salary of the Director is stated in the respective year's Appropriation Act. The Director is eligible to receive statewide salary increases identified in the Appropriation Act. The Board does not have the discretion to provide additional base salary adjustments.

## **2. Bonus**

The Appropriation Act allows the Board to grant performance bonuses up to 5 percent based on an annual assessment of performance, in accordance with policies and procedures established by such appointing or governing authority.

The guidelines as stated within Section IV. Procedure, D. Bonuses, 3. Performance of the Administrative Pay Plan do not apply to the Director.

While the VRS Board of Trustees remains mindful of the value that the Director adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of any performance bonuses under this plan is not guaranteed.

## **3. Supplemental Pay**

The Appropriation Act allows the Board to consider supplementing the salary of the Director based on the following provisions:

- The Board may choose to defer all or a portion of the supplemental pay. The amount to be deferred cannot exceed the limitation for 401(a) contributions under Internal Revenue Code § 415(c)(1)(A).
- The supplement provided should ensure the total compensation, which includes the base salary plus the supplement, is consistent with that of similar officials in comparable public pension plans.

The Board shall report such criteria and potential supplement level to the Chairs of the Senate Finance and House Appropriations Committees at least 60 days prior to the effectuation of the compensation action. The Board shall report approved supplements to the Department of Human Resource Management (DHRM) for retention in its records.

## **4. Gainsharing**

In addition to any bonus or supplement provided, the Director is eligible for the gainsharing bonus, generally 2.5 percent, or another percentage as authorized by the Board, for achieving the Agency Performance Outcomes and Operating Measures.

While the VRS Board of Trustees remains mindful of the value that the Director adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when,

in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of any gainsharing bonuses under this plan is not guaranteed.

## **B. Chief Investment Officer**

### **1. Base Salary**

The base salary of the CIO is stipulated in the required employment contract as approved by the Board of Trustees. See § 51.1-124.24 of the Code of Virginia. The CIO is eligible to receive statewide salary increases as identified in the Appropriation Act.

### **2. Bonus**

The Investment Professionals' Pay Plan sets out the criteria for evaluating the performance of the CIO for purposes of determining the level of incentive compensation under that Plan.

The CIO may be eligible for additional incentives (i.e., retention bonuses) based on the terms of the employment contract.

While the VRS Board of Trustees remains mindful of the value that the CIO adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of any performance bonuses under this plan is not guaranteed, except those additional incentive payments based on and as set forth in the terms and conditions of the CIO's employment contract.

### **3. Supplemental Pay**

Any additional compensation (i.e., payment to a defined contribution plan) should be stipulated in the required employment contract as approved by the Board.

### **4. Gainsharing**

The CIO is not eligible to receive a gainsharing bonus as outlined in the Administrative Pay Plan.

## **C. Audit Director**

### **1. Base Salary**

The base salary of the Audit Director is determined by the Board. The Audit Director's rate of pay shall fall within the established pay range of the Administrative Pay Plan.

Adjustments may be made to the base salary of the Audit Director based on market study findings. The Audit Director is eligible to receive statewide salary increases as identified in the Appropriation Act.

## **2. Bonus**

The Board may consider a performance bonus for the Audit Director. It is not necessary for a formal performance review to be completed. Performance determinations may be based on, but not limited to, observation, productivity, outcomes, and feedback.

The guidelines as stated within Section IV. Procedure, D. Bonuses, 3. Performance of the Administrative Pay Plan do not apply to the Audit Director.

While the VRS Board of Trustees remains mindful of the value that the Audit Director adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of any performance bonuses under this plan is not guaranteed.

## **3. Supplemental Pay**

The Audit Director may be eligible for additional compensation as determined by the Board.

## **4. Gainsharing**

In addition to any bonus or supplement provided, the Audit Director is eligible for the gainsharing bonus, generally 2.5 percent, or another percentage as authorized by the Board, for achieving the Agency Performance Outcomes and Operating Measures.

While the VRS Board of Trustees remains mindful of the value that the Audit Director adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of any gainsharing bonuses under this plan is not guaranteed.



VIRGINIA RETIREMENT SYSTEM  
HUMAN RESOURCES POLICIES AND PROCEDURES

**Title:** ADMINISTRATIVE PAY PLAN  
**Policy Number:** 3.10  
**Supersedes:** [7/1/186/10/19](#)  
**Effective Date:** -  
[6/10/1910/15/20](#)

**I. Authority**

The Director is authorized under the Appropriation Act to use agency funds or funds appropriated, if any, to implement the provisions of new or existing performance-based pay plans.

**II. Purpose**

The purpose of the Administrative Pay Plan (Plan) is to attract, motivate and retain skilled employees within a compensation framework that is competitive with the external market, internally equitable and performance based. VRS is committed to providing a total rewards package tied to the attainment of individual and team results and the achievement of organizational goals.

**III. Policy**

The Plan applies to all full and part-time (non-wage) employees who work under the administrative and audit authorities of VRS. Wage employees' pay complies with the provisions of the state classification and pay plan. The Plan ensures that agency salaries are competitive with the market average of a mix of public and private sector organizations. Comparative market salary data is typically reviewed every two (2) years to ensure competitiveness of the salary structure.

The Plan includes 17 salary grades for general classifications and 14 salary grades for technology classifications as identified in Appendix 1.

There is a broad span between the minimum and maximum salary of each salary grade to allow, in most cases, for salary growth or other possible adjustments over an employee's span of employment.

**IV. Procedure**

**A. Job Placement**

Placement of jobs in each grade is determined by measuring the degree of expertise and accountability required for each position in four areas:

1. **Knowledge and Expertise** measures the amount and depth of knowledge, experience and skills

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necessary for functioning effectively in a specified role. This expertise may be in technical disciplines, procedures specific to the organization, ability to use certain equipment, and/or management responsibility for planning, organizing and integrating the work of others.



2. **Complexity and Conceptual Thinking** measures the amount of analytical and problem-solving skills required in the position to evaluate and diagnose differing situations and devise new approaches relating to the organization as a whole and/or its business strategies.
3. **Contribution and Impact** measures the breadth of the position's contribution to the advancement of VRS' vision, "To be the trusted leader in the delivery of benefits and services to those we serve." This ranges from improving work processes in the work unit to influencing agency-wide results.
4. **Effective Communication** measures the position's requirements for interacting with and/or influencing coworkers, team members, contacts in other units/departments, members, retirees or contacts outside the organization.

Each job is evaluated in objective terms, not only to ascertain its demands on the individual, but also to determine its worth in comparison to other jobs in the agency and its importance to VRS' success.

Salary ranges are established for all grades by recognizing the level of education, knowledge, skill, and experience needed to perform each job. The salary range demonstrates the interrelationships of the jobs used by the agency in addition to comparing salaries paid for similar classifications in private and public sectors. The salary range for a job includes a minimum, midpoint and maximum salary.

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** is the median salary for the grade.
- **Maximum** is the highest salary paid for a position within the salary grade.

Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer, or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

#### **B. Starting Salary**

The respective member of the Director's Executive Committee (DEC) approves the hiring salary range when the recruitment is formally requested. Hiring supervisors and second line supervisors recommend the starting salary for new employees and the respective member of the DEC approves the starting salary, in coordination with the human resources director.

The salaries paid to employees in the department; the candidate's education, skills, work experience; and salary history are typically considered when determining the appropriate salary to offer a candidate. Starting salaries typically do not exceed the salary grade midpoint. Additional justification is required to support offering salaries above the midpoint.

### **C. Salary Adjustments**

#### **1. Introductory Increases**

The introductory period for new employees is 12 months from the date of hire. The introductory period serves as an adjustment period for employees to establish a working relationship with their supervisors, to acclimate to their new job duties and to learn about VRS.

When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations.

The Performance Management Policy outlines details.

#### **2. Promotions**

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

#### **3. Lateral**

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the appropriate DEC member.

#### 4. Downward Assignments (Voluntary or Involuntary)

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

- **Voluntary** – An employee initiated request to transition to a position within a lower salary grade.
- **Involuntary** – A management initiated request to transition an employee to a position within a lower salary grade, typically due to performance, corrective action or restructuring.

A downward assignment would typically result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range. Any exception to this guideline will require additional justification, an internal equity review and approval of the appropriate DEC member.

In unique situations, such as job abolishment or agency reorganization, an employee's salary may exceed the maximum of the lower grade and the salary remain unchanged. Salaries remain frozen until market adjustments allow additional increases (red-circle). These employees remain eligible to receive applicable performance or gainsharing bonus awards if performance criteria are met.

#### 5. Job Reclassifications

Job reclassifications occur when the employee's duties and responsibilities change substantially, which may result in a different pay grade. Reclassification is based on job content and not the performance of the incumbent. Job studies are performed by human resources, with input by management.

**Reclassification Upward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a higher salary grade.

Employees typically receive salary increases between 2% and 15%. Reclassification increases are approved by the appropriate DEC member, in coordination with the human resources director. Salaries must be at or above the minimum of the new pay grade.

**Reclassification Laterally:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within the same salary grade.

No salary increase is awarded. Any exception to this guideline will require additional justification, an internal equity review, and approval of the appropriate DEC member, in coordination with the human resources director.

**Reclassification Downward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a lower salary grade.

This will result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range. Any exception to this guideline will require additional justification, an internal equity review, and approval of the appropriate DEC member, in coordination with the human resources director.

## 6. Regrade

Regrades occur when the classification is determined to warrant a different pay grade. This is typically determined by a market analysis or internal classification review, performed by HR in coordination with the DEC member.

Employees typically receive salary increases between 2% and 15%. Regrade increases are approved by the appropriate DEC member, in coordination with human resources. Salaries must be at or above the minimum of the new pay grade.

## 7. Acting Pay

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

**Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received while performing the "acting" job responsibilities.

**Beyond Two Years Duration:** When employees are deemed to be "acting" by performing the full duties of a position for more than two years, the supervisor may choose to promote the individual without going through a competitive process. If the employee is promoted, the employee is eligible for a promotional increase. Otherwise, the position will be open for recruitment. The permanent filling of the position may involve no change in current salary or could include a pay increase, depending upon the circumstances and available budget.

If an employee is acting in a position that is the same salary grade, acting pay would not be provided unless there is sufficient justification to support that the duties of the acting position are substantially different.

## 8. In-grade

In-grade salary adjustments occur when employees receive an increase in base pay to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, or responsibilities outside of the position classification process. These adjustments should only be provided once per fiscal year. Listed below are the categories and descriptions of in-grade salary adjustments.

**Market adjustment:** Warranted in cases where external market forces exist due to high demand for a particular skill or position which may result in significantly higher turnover. Market adjustments may also occur if it is determined that an individual's salary is significantly lower than market study findings. Salary adjustments can apply to an individual or classification of employees to ensure competitiveness and retention of staff. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Internal alignment adjustment:** Warranted when employees' salaries are unusually low or out of comparability with other employees in the work unit. Factors considered include experience, education, knowledge, skills and abilities. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Individual accomplishment adjustment:** May be awarded to recognize the attainment of a higher level of expertise through professional certification requiring continuing education credits (CEUs). In-grade adjustments are awarded at the time of the original certification. If the certification does not require CEUs, an in-grade adjustment will not be provided; however, a bonus may be considered. Additionally, an in-grade adjustment for completion of a degree that relates to a current or career path position may be provided. Other similar situations may be considered as justification for an individual accomplishment adjustment. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Skill acquisition and application adjustment:** May be awarded to recognize the acquisition and application of relevant, pre-defined, job-based skills, resulting in increased value to the organization. Typically, an Individual Development Plan identifies the needed skills and the skill acquisition plan. Formal assessments, through testing or demonstration of the skills acquired and applied to the job, may result in an in-grade adjustment. An in-grade adjustment of 1% to 4% of salary is typically provided.

The employee's supervisor must request the in-grade adjustment in writing and include documentation supporting the need for a pay adjustment. The respective DEC member approves in-grade adjustments, in coordination with the human resources director.

When an employee's salary is at or above the salary maximum for his/her job grade, a bonus payment may be awarded. The respective member of the DEC approves the bonus, in coordination with the human resources director.

## 9. Competitive

A competitive pay increase is an option available to supervisors to retain top performers, who have received an external job offer, when the loss is determined to be detrimental to the organization. Employees must furnish a copy of the respective job offer.

The supervisor requests, in writing, a competitive pay increase and includes documentation supporting the need for an adjustment and justification for the increase. The respective member of the DEC approves the increase, in coordination with the human resources director.

Competitive pay increases apply to base salary and may not exceed the salary maximum for the salary range. In extraordinary circumstances, when an employee's base salary is at maximum, a bonus is an option. In these situations, the respective member of the DEC, in coordination with the human resources director, submits the request for agency director approval.

## 10. Increases Governed by the Appropriation Act

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

### D. Bonuses

#### 1. Sign-on

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

The amount of the sign-on bonus will vary depending on the position and the supply of candidates. The amount of the bonus typically ranges from 1% to 20% of the midpoint of the salary range.

Fifty percent of the sign-on bonus will be paid in the first ~~pay check~~paycheck with the remainder of the bonus being paid following the successful completion of the one year introductory period.

Refer to the **Employee Sign-on Bonus Program Policy**.

#### 2. Referral

Referral bonuses may be provided to full and part-time employees who refer a candidate hired into a full-time position.

The amount of the referral bonus is \$1,000. Fifty percent is paid in the paycheck following the referred employee's first full pay cycle with the remainder of the bonus being paid following the successful completion of the referred employee's introductory period.

Refer to the **Employee Referral Program Policy**.

### 3. Performance

Performance bonuses are provided agency wide following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of "exceptional" will receive a 4% bonus and employees who receive an overall rating of "exceeds" will receive a 2% bonus, based on their salary as of June 30. Employees who receive an overall "meets," "does not meet" or "needs improvement" rating will not receive a performance bonus.

The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

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### 4. Gainsharing

Gainsharing bonuses are provided when it is determined the agency has successfully attained the Agency Performance Outcomes (APO) and Operational Measures (OM).

Subject to the approval of the VRS Board of Trustees, attainment of the APOs and OMs may result in eligible employees receiving a lump-sum bonus of 2.5%, or other amount determined by the Board, based on their salary as of June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

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[Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.](#)

#### **5. Employee Recognition Bonus**

Employee recognition bonuses may be provided to full and part-time employees for individual or team accomplishments typically associated with special projects, process improvements, innovation or other outstanding accomplishments.

Bonuses range from \$50 to \$5,000 depending upon the value of individual or team accomplishments.

Bonuses up to and including \$1,000 require approval by the appropriate DEC member. Special Recognition Bonuses, above \$1,000 through \$5,000, require approval by the DEC member and Agency Director, Chief Investment Officer, or Internal Audit Director. The fiscal year bonus cap is \$5,000 per employee.



The **Recognition and Awards Program Policy** outlines details.

## V. Additional Information

### A. VRS Pay Plans

In addition to the Administrative Pay Plan, VRS maintains several other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Investment Operations and Administration Staff Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure.
- **Executive Pay Plan** – This pay plan provides the annual salary and bonus amounts provided to the Agency Director, Chief Investment Officer and Audit Director by the VRS Board of Trustees.

### B. Key Terms

**FLSA** - The Fair Labor Standards Act

**Exempt** – Employees who are not covered by or are exempted from the minimum wage and overtime provisions of the Fair Labor Standards Act

**Non-exempt** – Employees who are subject to the minimum wage and overtime provisions of the Fair Labor Standards Act

**Salary grade** – A series of specific pay rates assigned to a classification as the compensation for that classification

**Pay rate** – A specific dollar amount, expressed as either an annual or hourly rate

**Red-circle** – A designation for salaries that exceed the maximum of a specified salary range. Employees are not eligible for further base pay increases until the range maximum surpasses the employee's salary.

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**APPENDIX 1 – PAY RANGES**

<b>Administrative SALARY RANGES</b>			
<b>Grade</b>	<b>Min</b>	<b>Mid</b>	<b>Max</b>
1	\$25,573	\$39,912	\$54,250
2	\$29,803	\$45,749	\$61,695
3	\$32,782	\$49,861	\$66,940
4	\$36,061	\$54,385	\$72,709
5	\$39,667	\$59,362	\$79,056
6	\$43,634	\$64,836	\$86,037
7	\$49,307	\$72,664	\$96,020
8	\$54,238	\$79,468	\$104,698
9	\$59,661	\$86,953	\$114,244
10	\$65,626	\$95,185	\$124,744
11	\$72,189	\$104,242	\$136,295
12	\$79,408	\$114,204	\$148,999
13	\$87,348	\$125,162	\$162,976
14	\$96,083	\$137,216	\$178,349
15	\$105,692	\$150,476	\$195,260
16	\$116,261	\$165,062	\$213,862
17	\$127,888	\$181,106	\$234,323

<b>Technology SALARY RANGES</b>			
<b>Grade</b>	<b>Min</b>	<b>Mid</b>	<b>Max</b>
T1	\$36,117	\$54,437	\$72,757
T2	\$39,728	\$59,418	\$79,108
T3	\$43,701	\$64,898	\$86,095
T4	\$48,070	\$70,926	\$93,781
T5	\$52,878	\$77,556	\$102,233
T6	\$58,166	\$84,850	\$111,533
T7	\$63,983	\$92,873	\$121,762
T8	\$70,380	\$101,697	\$133,014
T9	\$77,420	\$111,406	\$145,391
T10	\$85,160	\$122,083	\$159,006
T11	\$93,678	\$133,830	\$173,982
T12	\$103,045	\$146,751	\$190,456
T13	\$113,349	\$160,964	\$208,578
T14	\$124,683	\$177,060	\$229,436



VIRGINIA RETIREMENT SYSTEM  
HUMAN RESOURCES POLICIES AND PROCEDURES

**Title:** EXECUTIVE PAY PLAN

**Policy Number:** 3.0

**Effective Date:** ~~7/1/18~~10/15/20

### **I. Authority**

Sections 51.1-124.24 and 51.1-124.22 (A)(1) of the Code of Virginia authorize the Board of Trustees to employ a Chief Investment Officer and a Director, respectively. Section IV. H. of the Board of Trustees Governance Policy authorizes the Board to appoint an Audit Director. Section 51.1-124.22(11) of the Code of Virginia authorizes the Board of Trustees to establish and administer a compensation plan for the officers and employees of the Retirement System.

### **II. Purpose**

The purpose of the executive pay plan is to provide guidelines regarding the annual salary and bonus amounts provided to the Director, Chief Investment Officer (CIO) and Audit Director.

The Director, CIO and Audit Director report directly to the Board of Trustees (Board), which approves salary actions for these employees based on recommendations from the Administration and Personnel Committee (Director and CIO) and the Audit and Compliance Committee (Audit Director).

### **III. Pay Philosophy**

VRS believes in attracting, motivating and retaining skilled executives by ensuring their compensation is competitive with the external market, internally equitable and performance based. The agency is committed to providing a total rewards package tied to the attainment of individual and team results and the achievement of organizational goals. The executive pay plan may incorporate the elements of base salary, bonus/incentive pay, and deferred compensation/supplements to the extent allowed by law.

### **IV. Compensation Components**

#### **A. VRS Director**

##### **1. Base Salary**

The base salary of the Director is stated in the respective year's Appropriation Act. The Director is eligible to receive statewide salary increases identified in the Appropriation Act. The Board does not have the discretion to provide additional base salary adjustments.

## **~~2. Bonus~~**

The Appropriation Act allows the Board to grant performance bonuses up to 5 percent based on an annual assessment of performance, in accordance with policies and procedures established by such appointing or governing authority.

The guidelines as stated within Section IV. Procedure, D. Bonuses, 3. Performance of the Administrative Pay Plan do not apply to the Director.

While the VRS Board of Trustees remains mindful of the value that the Director adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of any performance bonuses under this plan is not guaranteed.

## **3. Supplemental Pay**

The Appropriation Act allows the Board to consider supplementing the salary of the Director based on the following provisions:

- The Board may choose to defer all or a portion of the supplemental pay. The amount to be deferred cannot exceed the limitation for 401(a) contributions under Internal Revenue Code § 415(c)(1)(A).
- The supplement provided should ensure the total compensation, which includes the base salary plus the supplement, is consistent with that of similar officials in comparable public pension plans.

The Board shall report such criteria and potential supplement level to the Chairs of the Senate Finance and House Appropriations Committees at least 60 days prior to the effectuation of the compensation action. The Board shall report approved supplements to the Department of Human Resource Management (DHRM) for retention in its records.

## **4. Gainsharing**

In addition to any bonus or supplement provided, the Director is eligible for the gainsharing bonus, generally 2.5 percent, or another percentage as authorized by the Board, for achieving the Agency Performance Outcomes and Operating Measures.

While the VRS Board of Trustees remains mindful of the value that the Director adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market

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~~2. Bonus~~  
or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.  
Consistent with the preceding paragraph, payment of any gainsharing bonuses under this plan is not guaranteed.

**B. Chief Investment Officer**

**1. Base Salary**

The base salary of the CIO is stipulated in the required employment contract as approved by the Board of Trustees. See § 51.1-124.24 of the *Code of Virginia*. The CIO is eligible to receive statewide salary increases as identified in the Appropriation Act.

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**~~2. Bonus~~**

The Investment Professionals' Pay Plan sets out the criteria for evaluating the performance of the CIO for purposes of determining the level of incentive compensation under that Plan.

The CIO may be eligible for additional incentives (i.e., retention bonuses) based on the terms of the employment contract.

While the VRS Board of Trustees remains mindful of the value that the CIO adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of any performance bonuses under this plan is not guaranteed, except those additional incentive payments based on and as set forth in the terms and conditions of the CIO's employment contract.

**3. Supplemental Pay**

Any additional compensation (i.e., payment to a defined contribution plan) should be stipulated in the required employment contract as approved by the Board.

**4. Gainsharing**

The CIO is not eligible to receive a gainsharing bonus as outlined in the Administrative Pay Plan.

**C. Audit Director**

**1. Base Salary**

The base salary of the Audit Director is determined by the Board. The Audit Director's rate of pay shall fall within the established pay range of the Administrative Pay Plan.

Adjustments may be made to the base salary of the Audit Director based on market study findings. The Audit Director is eligible to receive statewide salary increases as identified in the Appropriation Act.

**2. Bonus**

The Board may consider a performance bonus for the Audit Director. It is not necessary for a formal performance review to be completed. Performance determinations may be based on, but not limited to, observation, productivity, outcomes, and feedback.

The guidelines as stated within Section IV. Procedure, D. Bonuses, 3. Performance of the Administrative

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~~2. Bonus~~  
Pay Plan do not apply to the Audit Director.

While the VRS Board of Trustees remains mindful of the value that the Audit Director adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of any performance bonuses under this plan is not guaranteed.

### 3. Supplemental Pay

The Audit Director may be eligible for additional compensation as determined by the Board.

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#### **4. Gainsharing**

In addition to any bonus or supplement provided, the Audit Director is eligible for the gainsharing bonus, generally 2.5 percent, or another percentage as authorized by the Board, for achieving the Agency Performance Outcomes and Operating Measures.

While the VRS Board of Trustees remains mindful of the value that the Audit Director adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of any gainsharing bonuses under this plan is not guaranteed.

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#### **V. Additional Information**

##### **Other VRS Pay Plans**

In addition to the Executive Pay Plan, VRS maintains other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Investment Operations and Administration Staff Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure.
- **Administrative Pay Plan** – This pay plan is separate from the investment professionals' and investment operations' pay plans and includes its own salary and classification structure.



**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan

Page 1 of 9



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Supersedes:

~~07/01/16~~11/20/19

Effective Date:

~~11/20/19~~10/15/20

### **I. Purpose**

The pay plan (the “Plan”) applies to all full and part-time (non-wage) Investment Department operations and administration staff and associated positions. This includes all Investment Department employees who are not included in the Investment Professionals’ Pay Plan. Wage employees’ pay complies with the provisions of the state classification and pay plan. The Plan recognizes that Investment Department supervisors and managers are in the best position to assess, appraise and reward the performance of individuals under their supervision. The objective of the Plan is to compensate employees reasonably and equitably, to encourage constructive individual and team effort, and to recognize that these positions require specialized experience and expertise.

The Plan ensures that Investment Department operations and administration salaries are competitive with the market average of a mix of public and private sector organizations. Human Resources (HR) contracts for comparative market salary data about every two years, to ensure competitiveness of the salary structure.

### **II. Policy**

The salary for each position has a minimum, midpoint and maximum:

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** represents the target market salary paid to employees who are fully qualified and meet all competencies required to fulfill each of the position’s responsibilities.
- **Maximum** is the highest salary paid for a position within the salary grade.

The midpoint of each grade is set equal to the market average. Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan

Page 2 of 9



See Salary Ranges and Position Titles and Salary Grades tables in the Appendix.

**Performance Assessment**

Investment Department operations and administration staff will receive a formal performance assessment annually, using the following five point rating scale: “Does Not Meet Expectations,” “Needs Improvement,” “Meets Expectations,” “Exceeds Expectations,” and “Exceptional,” based on the criteria described in employees’ position descriptions. However, the VRS expects supervisors and managers to give informal performance feedback at least quarterly and more frequently to co-workers who are inexperienced in their position or who are not meeting the performance expectations of their supervisor or manager. In the latter case, the feedback must be in writing to employees.

The Rating Scale definitions are as follows.

**Does Not Meet Expectations** - Performance must improve substantially within a reasonable period if the individual is to remain in this position. The employee is not meeting the job requirements. The person consistently fails to meet the objective(s) described in the goal area.

**Needs Improvement** - Performance is noticeably less than expected. The employee generally meets most job requirements, but struggles to meet them all. The need for further development and improvement is clearly recognized.

**Meets Expectations** - Performance clearly and fully meets all the requirements of the position in terms of quality, timeliness and quantity of work. The assessment is a good, solid performance. While minor deviations may occur, the overall level of performance meets all position requirements. The person consistently meets, and may occasionally exceed the objective(s) described in the goal area. Employees that attain and maintain this rating are performing their jobs as expected, meeting deadlines and delivering good quality results.

**Exceeds Expectations** - Performance frequently exceeds job requirements. Accomplishments are regularly above expected levels. Performance is sustained and uniformly high with thorough and on-time results. Tasks assigned are consistently completed with good quality and on time or ahead of schedule, and the tasks are sometimes completed even if they are not directly assigned. The person will often perform tasks that fall outside their jobdescription.

**Exceptional** - Performance levels and accomplishments far exceed normal expectations. This category is for the employee who truly stands out and clearly and consistently demonstrates exceptional accomplishments in terms of quality and quantity of work that is easily recognized, as truly exceptional by others. This rating is very difficult to achieve in the regular execution of one’s job. An opportunity has to present itself and the person needs to identify it and take full advantage of it. It is difficult to define the precise criteria on a performance plan that will allow

**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan  
Page 3 of 9



a person to achieve an exceptional rating, but “you will know it when you see it.”

**Starting Salary**

The VRS Chief Investment Officer (CIO) approves a position’s grade and salary range when signing the VRS Position Approval form. Hiring supervisors and second-line supervisors recommend the starting salary for new employees, with the final approval by the CIO, in coordination with HR. When making salary offers, consider salaries presently paid to employees in the department and the candidate’s education, skills and work experience. Starting salaries typically do not exceed the salary grade midpoint of the job. Additional justification is required to support offering salaries above the midpoint.

**Salary Adjustments**

**A. Introductory Period**

The introductory period for new employees is normally six months from the date of hire, but can be up to a year for selected positions. This is the adjustment period for employees to establish a working relationship with their supervisors and to acclimate to their new job duties.

When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations. The VRS may discharge employees with or without cause at any time during the introductory period.

In situations that warrant additional time to evaluate employees’ performance, skill level or suitability for the job, VRS may extend the introductory period up to an additional six months. Supervisors will communicate the extension of the introductory period in writing to the employee and HR prior to the conclusion of the employee’s initial introductory period. Communications should include reasons for the extension and improvements needed by the employee to meet performance expectations successfully during the extended introductory period. VRS expects these employees to improve their performance to "Meets" or they face termination, demotion, or transfer to a suitable job, if such an opportunity exists.

**B. Promotions**

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the

## Administrative Policies

Policy Title: Investment Operations and Administration Staff Pay Plan

Page 4 of 9



minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

### C. Lateral

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the CIO in coordination with HR.

### D. Downward Assignments (Voluntary or Performance Related)

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

**Voluntary** – An employee initiated request to transition to a position within a lower salary grade.

**Involuntary** – A management initiated request to transition an employee to a position within a lower salary grade, typically due to performance, corrective action or restructuring.

A downward assignment would typically result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range. Any exception to this guideline will require additional justification, an internal equity review and approval of the CIO in coordination with HR.

In unique situations, such as job abolishment or agency reorganization, an employee's salary may exceed the maximum of the lower grade and the salary remain unchanged. Salaries remain frozen until market adjustments allow additional increases. These employees remain eligible to receive applicable performance or gainsharing bonus awards if performance criteria are met.

### E. Job Reclassifications

Job reclassifications occur when the employee's duties and responsibilities change substantially, which may result in a different pay grade. Reclassification is based on job content and not the performance of the incumbent. Job studies are performed by HR, with input by management.

**Reclassification Upward:** Occurs when it is determined that an individual's job duties and

## Administrative Policies

Policy Title: Investment Operations and Administration Staff Pay Plan

Page 5 of 9



responsibilities have changed significantly enough to transition the position into a different classification within a higher salary grade.

Employees typically receive salary increases between 2% and 15%. Reclassification increases are approved by the CIO, in coordination with HR. Salaries must be at or above the minimum of the new pay grade.

**Reclassification Laterally:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within the same salary grade.

No salary increase is awarded. Any exception to this guideline will require additional justification, an internal equity review, and approval of the CIO, in coordination with HR.

**Reclassification Downward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a lower salary grade.

This will result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range. Any exception to this guideline will require additional justification, an internal equity review and approval of the CIO, in coordination with HR.

### F. Regrade

Regrades occur when the classification is determined to warrant a different pay grade. This is typically determined by a market analysis or internal classification review, performed by HR in coordination with the CIO.

Employees typically receive salary increases between 2% and 15%. Regrade increases are approved by the CIO, in coordination with HR. Salaries must be at or above the minimum of the new pay grade.

### G. Acting Pay

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

**Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received

## Administrative Policies

**Policy Title:** Investment Operations and Administration Staff Pay Plan  
Page 6 of 9



while performing the “acting” job responsibilities.

**Beyond Two Years Duration:** When employees are deemed to be “acting” by performing the full duties of a position for more than two years, the supervisor may choose to promote the individual without going through a competitive process. If the employee is promoted, the employee is eligible for a promotional increase. Otherwise, the position will be open for recruitment. The permanent filling of the position may involve no change in current salary or could include a pay increase, depending upon the circumstances and available budget.

If an employee is acting in a position that is the same salary grade, acting pay would not be provided unless there is sufficient justification to support that the duties of the acting position are substantially different.

### H. In-grade Adjustments

In-grade salary adjustments occur when employees receive an increase in base pay to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, or responsibilities outside of the position classification process. These adjustments should only be provided once per fiscal year. Listed below are the categories and descriptions of in-grade salary adjustments.

**Market adjustment:** Warranted in cases where external market forces exist due to high demand for a particular skill or position which may result in significantly higher turnover. Market adjustments may also occur if it is determined that an individual’s salary is significantly lower than market study findings. Salary adjustments can apply to an individual or classification of employees to ensure competitiveness and retention of staff. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Internal alignment adjustment:** Warranted when employees’ salaries are unusually low or out of comparability with other employees in the work unit. Factors considered include experience, education, knowledge, skills and abilities. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Individual accomplishment adjustment:** May be awarded to recognize the attainment of a higher level of expertise through professional certification requiring continuing education credits (CEUs). In-grade adjustments are awarded at the time of the original certification. If the certification does not require CEUs, an in-grade adjustment will not be provided; however, a bonus may be considered. Additionally, an in-grade adjustment for completion of a degree that relates to a current or career path position may be provided. Other similar situations may be considered as justification for an individual accomplishment adjustment. An in-grade adjustment of 1% to 10% of salary is typically provided.

**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan  
Page 7 of 9



**Skill acquisition and application adjustment:** May be awarded to recognize the acquisition and application of relevant, pre-defined, job-based skills, resulting in increased value to the organization. Typically, an Individual Development Plan identifies the needed skills and the skill acquisition plan. Formal assessments, through testing or demonstration of the skills acquired and applied to the job, may result in an in-grade adjustment. An in-grade adjustment of 1% to 4% of salary is typically provided.

The employee’s supervisor must request the in-grade adjustment in writing and include documentation supporting the need for a pay adjustment. The CIO approves in-grade adjustments, in coordination with HR.

When an employee’s salary is at or above the salary maximum for his/her job grade, a bonus payment may be awarded. The CIO approves the bonus, in coordination with HR.

**I. Competitive Pay Increases**

A competitive pay increase is an option available to supervisors to retain top performers, who have received an external job offer, when the loss is determined to be detrimental to the organization. Employees must furnish a copy of the respective job offer.

The supervisor requests, in writing, a competitive pay increase and includes documentation supporting the need for an adjustment and justification for the increase. The CIO approves the increase, in coordination with HR.

Competitive pay increases apply to base salary and may not exceed the salary maximum for the salary range. In extraordinary circumstances, when an employee’s base salary is at maximum, a bonus is an option. In these situations, the CIO approves the action, in coordination with HR.

**J. Increases Governed by the Appropriation Act**

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

**Bonuses**

**A. Sign-on**

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

The amount of the sign-on bonus will vary depending on the position and the supply of candidates. The amount of the bonus typically ranges from 1% to 20% of the midpoint of the

**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan  
Page 8 of 9



salary range.

Fifty percent of the sign-on bonus will be paid in the first pay-check with the remainder of the bonus being paid following the successful completion of the introductory period.

Refer to the Employee Sign-on Bonus Program Policy.

**B. Referral**

Referral bonuses may be provided to full and part-time employees who refer a candidate hired into a full-time position.

The amount of the referral bonus is \$1,000. Fifty percent is paid in the paycheck following the referred employee's first full pay cycle with the remainder of the bonus being paid following the successful completion of the referred employee's introductory period.

Refer to the Employee Referral Program Policy.

**C. Performance**

Performance bonuses, where applicable, are provided to the Investment operations and administration staff following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of "exceptional" will receive a 4% bonus and employees who receive an overall rating of "exceeds" will receive a 2% bonus, based on their salary as of June 30. Employees who receive an overall "meets," "does not meet" or "needs improvement" rating will not receive a performance bonus.

The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

**D. Gainsharing**

The Investment Department's operations and administration staff employees may receive a lump-sum bonus equal to 2.5% of salary if their performance "meets expectations", "exceeds

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**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan

Page 9 of 9



expectations” or is “exceptional”, as rated in their annual performance assessment and the employee consistently works, as a team member, to accomplish the goals of the Investment Department. Additionally, Investment Department’s operations and administration staff employees are eligible to be recognized and rewarded under the provisions of the VRS Recognition and Awards Program.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.

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**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan  
Page 9 of 9



**Other VRS Pay Plans**

In addition to the Investment Operations and Administration Staff Pay Plan, VRS maintains several other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Administrative Pay Plan** - This pay plan is separate from the investment operations and administration staff pay plan and includes its own salary and classification structure.
- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Executive Pay Plan** – This pay plan provides the annual salary and bonus amounts provided to the Agency Director, Chief Investment Officer and Audit Director by the VRS Board of Trustees.

**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan

**Appendix**



**Salary Ranges**

<b>Grade</b>	<b>Minimum</b>	<b>Midpoint</b>	<b>Maximum</b>
1	\$38,950	\$48,688	\$58,425
2	\$43,819	\$54,774	\$65,728
3	\$49,296	\$61,620	\$73,945
4	\$55,557	\$69,446	\$83,335
5	\$62,611	\$78,264	\$93,917
6	\$70,548	\$88,185	\$105,822
7	\$79,366	\$99,208	\$119,050
8	\$89,067	\$111,334	\$133,600
9	\$100,531	\$125,664	\$150,796
10	\$112,876	\$141,097	\$169,316
11	\$126,987	\$158,733	\$190,480
12	\$142,860	\$178,574	\$214,290
Minimum is 80% of midpoint. Maximum is 120% of midpoint.			
Bandwidth is 50%.			
Difference between grades is 10-15%.			

**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan

**Appendix**



**Position Titles and Salary Grades**

Group	Title	Grade
Executive	Chief Administrative Officer	12
Executive	Deputy Chief Administrative Officer	11
Regulatory and Legal	Regulatory and Legal Officer	10
Regulatory and Legal	Regulatory and Legal Lead Senior Analyst	9
Regulatory and Legal	Regulatory and Legal Analyst III	8
Regulatory and Legal	Regulatory and Legal Analyst II	6
Regulatory and Legal	Regulatory and Legal Analyst I	4
Regulatory and Legal	Office Administrator	6
Compliance	Compliance Officer	10
Compliance	Compliance Lead Senior Analyst	9
Compliance	Compliance Analyst III	8
Compliance	Compliance Analyst II	6
Compliance	Compliance Analyst I	5
Operations	Operations Manager	10
Operations	Operations Lead Senior Analyst	9
Operations	Operations Analyst III	8
Operations	Operations Analyst II	6
Operations	Operations Analyst I	4
Systems	Decision Systems Manager	10
Systems	Decision Systems Principal	10
Systems	Decision Systems Analyst III	9
Systems	Decision Systems Analyst II	8
Systems	Decision Systems Analyst I	7

**Administrative Policies**

**Policy Title:** Investment Operations and Administration Staff Pay Plan

**Appendix**



Group	Title	Grade
Systems	Decision Data Analyst II	6
Systems	Decision Data Analyst I	4
Admin	Portfolio Assistant	3
Admin	Executive Assistant	3
Admin	Administrative Assistant	1



**VIRGINIA RETIREMENT SYSTEM**  
**INVESTMENT PROFESSIONALS' PAY PLAN**  
Effective ~~November 14, 2018~~ October 15,  
2020

Investment Professionals' Pay Plan  
Effective ~~November 14,~~  
2018October 15, 2020

## OVERVIEW & PAY PHILOSOPHY

The Virginia Retirement System's (VRS) Board of Trustees has designed this investment professionals' pay plan after working with an independent compensation consultant. In addition, the Board has adopted benchmarks, recommended by an independent investment consultant, to be used as part of this pay plan.

This pay plan includes three core elements:

- Base Salary (described in Section I of this document)
- Incentive Pay Plan (described in Section II)
- Deferred Compensation Plan for VRS Investment Management Personnel (DCPIP) (described in Section III)

Overall, this pay plan design is to:

- Attract, motivate and retain skilled investment professionals by offering competitive compensation opportunities.
- Directly align compensation with long-term, superior relative and absolute investment performance.
- Reinforce risk management priorities and standards.
- Attract and retain senior investment professionals by deferring a portion of incentive compensation on a tax-deferred basis.
- Benefit all stakeholders – VRS' beneficiaries, VRS' employees, and Virginia's taxpayers – through a compensation plan that is clear, aligned with performance, competitive and cost effective.

Importantly, this pay plan anchors on two broad and long-standing philosophical principles:

1. VRS should pay base salaries consistent with the 75<sup>th</sup> percentile of a peer group of other leading public funds. The primary guidelines for determining VRS' leading public fund peer group will be (1) funds of similar size (AUM) as VRS and (2) funds with significant (>25%) assets managed internally. Additional criteria the Board may consider is asset allocation / diverse portfolio similar to VRS, degree of delegation to the CIO and staff, use of outside investment consultants, and Board pay decision making authority.
2. VRS should provide incentive compensation opportunities such that, in combination with base salary, total compensation levels approximate the median (50<sup>th</sup> percentile) of a blended group weighted 75% to the total compensation levels of leading peer group public funds and 25% to the total compensation levels of a broad range of private-sector firms that employ investment professionals.

## I. Base Salary

### SALARY RANGES

This pay plan establishes a salary range for each job class taking into account its relative importance to VRS and the salaries paid for comparable types of jobs in other leading public funds.

Minimum, midpoint, and maximum salary rates define the salary range for each job class/position. The midpoint of each job class/position approximates the 75th percentile salaries of a peer group of leading public pension funds. Actual salaries can be higher or lower than the midpoint depending on factors such as job performance, professional education and certifications, the willingness to assume new and higher-level duties and responsibilities, the ability to learn quickly and apply new knowledge and skills, being a team player, and the length of time in the position.

Each position's salary range includes a defined:

- **Minimum** is the lowest base salary paid for a job within the job class/position.
- **Midpoint** represents the market salary paid to a fully qualified employee, who has the institutional knowledge and practical experience to fulfill independently all of the responsibilities of the job/position.
- **Maximum** is the highest salary rate for the jobclass/position.

Grade	Position	Salary Range (in thousands)		
		Min	Mid	Max
12	Chief Investment Officer	\$311	\$389	\$466
11	Deputy Chief Investment Officer	256	320	384
10	Managing Director	248	310	372
9	Program Director	202	252	302
7	Director- Strategy, Research, Risk and/or Investment Decision Support	184	230	276
7	Senior Portfolio Manager	184	230	276
6	Portfolio Manager	160	200	239
5	Manager – Strategy, Research, Risk and/or Investment Decision Support	143	179	214
4	Senior Investment Officer	118	147	176
3	Investment Officer	88	110	132
2	Senior Investment Analyst	71	89	107
1	Investment Analyst	58	73	87

In considering the above salary range, it important to note the following:

- **Market Pay Reviews:** The VRS normally conducts a comparative market total pay study at least every two years to ensure competitiveness of the salary and incentive structures. Typically, the VRS conducts the study in the 1<sup>st</sup> quarter of the calendar year (in even years) with an effective date of July 1 (the beginning of the fiscal year).
- **Changes in Salary Ranges:** The Board must approve changes to the salary scale and incentive structure.



## **SALARY ADJUSTMENTS**

### **Oversight & Administration**

The VRS Board approves across-the-board performance-based salary increases, market-based salary increases and incentive pools, for VRS investment professionals, subject to limitations in and consistent with the Code of Virginia and Appropriation Act. The Chief Investment Officer (CIO) approves salary adjustments for individual investment professionals and, as described later in this document, sign-on bonuses, incentive payments, and relocation expenses subject to the limitations in the Code of Virginia and other applicable state or federal law and regulation.

### **Merit Increases**

- Salary increases are based on meeting individual performance standards. The supervisor completes the evaluation after the end of the fiscal year. If a participant in the investment employees' pay plan does not meet overall performance standards, then the participant is ineligible for performance increases to their base salary and market adjustments to their base salary for that performance cycle. Performance cycles are on a fiscal year, July 1 through June 30, and typically begin, with an effective date of performance plans in the first quarter of the ~~new fiscal~~ new fiscal year.
- The CIO will receive base salary increases as approved by the VRS Board of Trustees and in accordance with the terms in the CIO's Employment Agreement, with approved effective dates established by the VRS Board of Trustees.

### **Starting Salaries**

The starting salary for a new employee considers the rates presently paid to other employees in the department and those in the same job class (when applicable), the candidate's education, skills, work experience, and salary history. The starting salary normally does not exceed the salary grade midpoint.

### **Reallocation**

Occurs when a job classification is reviewed ~~by Human~~ by Human Resources and it is determined that the job duties and responsibilities have changed significantly enough to place the job in a different job title and job class. Unless the CIO authorizes an exception, this would not exceed a 15% increase.

However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

### **In-grade Adjustments**

Occur to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, attainment of a degree or certification, or significant increases in responsibilities within the job class. Unless the CIO authorizes an exception, adjustments will not exceed a 10% increase.

### **Promotions**

Promotions occur when an individual moves into a position in a higher job class. Promotions can be competitive (selected through a recruitment and hiring process) or non-competitive (through a job reclassification or reallocation.) Unless the CIO approves an exception, promotions will not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

### **Downward Assignment**

Downward adjustment occurs when an employee changes positions whether voluntarily, or because of unsatisfactory performance, resulting in a downward change in job class. A reduction in salary may occur based on a review of the salary and range and the circumstances associated with the downward move. In downward assignments, an individual's salary cannot exceed the maximum of the new salary range.

## II. Incentive Pay Plan

### PLAN ADMINISTRATION

The VRS Board of Trustees, the Plan Administrator, through the Administration and Personnel (A&P) Committee, administers the Incentive Plan (Plan) and retains full and complete discretion:

- To increase or decrease incentives for any and/or all Plan participants.
- To modify, amend or rescind any aspect of the Plan at any time for any and/or all Plan participants.
- While the Plan Administrator remains mindful of the value that staff adds to the organization and supportive of the pay plan, the Plan Administrator also specifically reserves the right to cancel, reduce, or delay the amount of any incentives payable under this plan when, in the sole discretion of the Plan Administrator, extreme budgetary pressures, economic, market or other conditions are such that the Plan Administrator deems such action necessary under the circumstances.
- Consistent with the preceding paragraph, payment of incentives under this plan is not guaranteed.

The Plan Administrator may delegate certain aspects of this Plan's day-to-day operation to the VRS CIO and the VRS Director of Human Resources. However, any substantive Plan-related questions or issues impacting incentive payouts for the CIO require the Plan Administrator's prior approval.

### PLAN ELIGIBILITY

Incumbents in the positions listed below are eligible to participate in this incentive plan, provided they:

- Are active VRS employees.
- Work for VRS at least forty hours per week. Plan participants who work less than full-time may be eligible to receive a prorated incentive payment. Wage employees are not eligible to participate in the plan.
- Receive an individual performance evaluation of at least "meets expectations" for the relevant performance year (i.e., the year preceding the normally scheduled year of payment).
- Remain in compliance with the VRS Investment Department Code of Ethics and Standards of Professional Conduct Policy.

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Investment Professionals' Pay Plan  
Effective ~~November 14,~~  
~~2018~~ October 15, 2020

**Positions Eligible to Participate in the  
Investment Professional's Pay Plan**

Chief Investment Officer  
Deputy Chief Investment Officer  
Managing Director- Strategy, Research, Risk and/or Investment Decision Support  
Managing Director- Internal Assets  
Managing Director- Global Investments  
Program Director  
Director- Strategy, Research, Risk and/or Investment Decision Support  
Senior Portfolio Manager  
Portfolio Manager  
Manager – Strategy, Research, Risk and/or Investment Decision Support  
Senior Investment Officer  
Investment Officer  
Senior Investment Analyst  
Investment Analyst

The CIO will determine the design of the incentive plan structure for the positions supporting the Defined Contribution Plans, with both quantitative and qualitative elements.

Generally, employees on an approved leave of absence are considered active employees. The CIO will resolve all questions regarding eligibility or, in the case of the CIO, eligibility will be determined by the Board.

Participation in this Plan in any one year does *not* confer the right to participate in this Plan in any other year *nor* to receive Plan payouts for the current and/or any future year. Participation in this Plan does not confer the right to continued employment. Subject to the provisions of this Plan, only active VRS employees may receive payments under this Plan.

**OVERALL INCENTIVE PLAN MECHANICS**

As described in more detail throughout this document, under the terms of this Plan:

- Eligible Plan participants will be assigned an incentive opportunity, expressed as a percentage of their actual earned base salary.
- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.
- Incentives are weighted or allocated to separate Plan components, described below, with the specific components and weightings varying by position:
  1. Total Fund relative investment performance
  2. Asset Class relative investment performance
  3. Average of Asset Class Multipliers (for positions that support multiple asset classes)
  4. Qualitative – focuses on individual achievement of assigned objectives.
- After year-end, payouts under each Plan component would be determined based on performance.

Investment Professionals' Pay Plan  
Effective ~~November 14,~~  
~~2018~~October 15, 2020

- Each participant's preliminary award would equal the sum of all of their performance-adjusted Plan components.
- Final awards would equal preliminary awards adjusted, up or down, based on the Total Fund's one-year absolute returns. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 7%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return (e.g., if Total Fund one-year actual absolute return equals +10%, then the preliminary awards will be increased by 3%). There will be a negative one-for-one adjustment for returns less than 0% (e.g., if Total Fund one-year actual absolute return equals -15%, then the preliminary awards will be reduced by 15%). This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles on the health of the pension plan by providing a mechanism to reflect the impact of up and down markets ~~on incentive~~ on incentive compensation.
  - 50% of eligible senior staff-members' awards (up to IRS limits) will be deferred into tax-qualified accounts. See section III, Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP). While deferred, awards are subject to the Total Fund's annual absolute returns.
  - All other awards paid in cash.

Generally, a Participant must be employed on the date of payment of the award. However, see INCENTIVE PLAN PROVISIONS, *Termination of Employment Due to Death, Disability or Retirement*.

#### **INCENTIVE OPPORTUNITIES**

Incentive opportunities will vary by position based on multiple criteria:

- The position's potential effect on the VRS' investment performance.
- Competitive market pay requirements.
- Internal equity considerations.
- Other factors determined by the CIO or, in the case of the Chief Investment Officer's position, by VRS' Board.

Actual awards can vary based on performance.

For the fiscal year ending June 30, 2013 and all subsequent years, unless as otherwise determined, the Plan's incentive opportunities are as follows:

Incentive Levels	
VRS Position	Incentive (1) (% salary)
Chief Investment Officer	70% (2)
Deputy Chief Investment Officer	65% (2)
Managing Director- Strategy, Research, Risk and/or Investment Decision Support	65% (2)
Managing Director- Internal Assets	65% (2)
Managing Director- Global Investments	65% (2)
Program Director	60% (2)
Director – Strategy, Research, Risk and/or Investment Decision Support	50%
Senior Portfolio Manager	50%
Portfolio Manager	40%
Manager – Strategy, Research, Risk and/or Investment Decision Support	30%
Senior Investment Officer	30%
Investment Officer	30%
Senior Investment Analyst	25%
Investment Analyst	5%

(1) Performance-adjusted preliminary awards can vary from zero to two times these incentive

(2) A portion, up to 50%, of these positions' earned incentives is subject to mandatory deferral.

Investment Professionals' Pay Plan  
Effective ~~November 14,~~  
~~2018~~October 15, 2020

#### **INCENTIVE WEIGHTINGS**

Each participant's incentive award will be weighted or allocated to separate, stand-alone Plan components. Importantly, all participants have a portion of their incentive opportunities weighted:

- To the Total Fund Plan component – which helps reinforce the importance of collective success as measured by the Total Fund's relative investment results.
- To the Qualitative Plan component – this helps reinforce achievement of specific initiatives and professional development.

Described below are the specific Plan weightings and the approach for determining awards under each of these Plan components.

Investment Professionals' Pay Plan  
 Effective ~~November 14,~~  
~~2018~~ October 15, 2020

Incentive Weightings By Plan Component						
VRS Position	Total Fund	Quantitative Average of			Qualitative	Total
		Asset Class Multipliers	Asset Class			
(% of total incentive weighted to each component)						
Chief Investment Officer	60%	20%	(1)		20%	100%
Deputy Chief Investment Officer	60%	20%	(1)		20%	100%
Managing Director- Strategy, Research, Risk and/or Investment Decision Support	60%	20%	(1,4)		20%	100%
Managing Director- Internal Assets	40%	40%	(2,4)		20%	100%
Managing Director- Global Investments	40%	40%	(3)		20%	100%
Program Director	30%	50%	(5)	50%	20%	100%
Director- Strategy, Research, Risk and/or Investment Decision Support	30%	50%	(1)		20%	100%
Senior Portfolio Manager	20%			60%	20%	100%
Portfolio Manager	20%			60%	20%	100%
Manager – Strategy, Research, Risk and/or Investment Decision Support	30%	50%	(1)		20%	100%
Senior Investment Officer	20%	60%	(5)	60%	20%	100%
Investment Officer	20%	60%	(5)	60%	20%	100%
Senior Investment Analyst	20%	30%	(5)	30%	50%	100%
Investment Analyst	20%	30%	(5)	30%	50%	100%

(1) Average multiplier based on the multipliers of all asset classes under the incumbent's purview.

(2) The MD Internal Assets average multiplier is based on the multipliers of the internal asset classes under the incumbent's purview.

(3) The MD Global Investments average multiplier is based on the multipliers of the external asset classes under the incumbent's purview.

(4) There is currently a single person taking on the role of MD Strategy, Research, Risk and/or Investment Decision Support and MD Internal Assets. The incentive for this individual is a 50/50% blend of the two separate MD positions.

(5) These positions may support a specific asset class or multiple asset classes. If the position supports a specific asset class, then the multiplier is based on the asset class multiplier. If the position supports multiple asset classes, then the multiplier is based on the average of the multipliers of the asset classes supported.

Investment Professionals' Pay Plan  
Effective ~~November 14,~~  
~~2018~~October 15, 2020

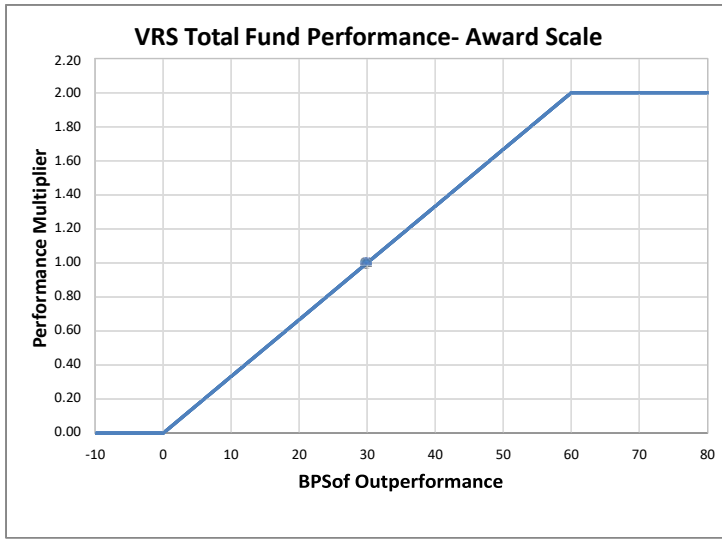
#### QUANTITATIVE PLAN COMPONENTS

These Plan components link participants' incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted 50%).

For purposes of this Plan:

- Measurement of relative investment performance is net of third-party fees, which consist of investment management fees and performance fees paid to investment managers, custodian fees, legal fees, internal investment staff administrative expenses, and [miscellaneous fees](#).
- A performance-award scale defines the linkage between relative investment performance and a corresponding Performance Multiplier. Illustrating this approach at the Total Fund level, when VRS' relative investment performance:
  - Equals zero or less (i.e., no relative value added), then the VRS\_Performance Multiplier will equal zero and there will be no incentive payouts under this Plan component.
  - Equals 30 bps, then the VRS Performance Multiplier will equal 1.00 and there will be a 100% payout of this Plan component.
  - Equals 60 bps or more, then the VRS Performance Multiplier will equal 2.00 and there will be a 200% payout of this Plan component.
  - Is anywhere between zero and 60 bps, then the VRS Performance Multiplier is determined on an interpolated, straight-line basis.





- Selected participants whose responsibilities span multiple asset classes may have a portion of their incentive weighted to a component that is determined based on the average multipliers of asset classes they support. The intent of this Plan component is to recognize and reward superior relative investment performance, regardless of the level of the associated assets.

The Board is responsible for setting the basis point outperformance standards for the Total Fund. The CIO is responsible for setting the basis point outperformance standards for individual asset classes, subject to the Board's final review and approval.

#### QUALITATIVE PLAN COMPONENT

The qualitative incentive multiplier can range from 0.00 to 2.00 at the CIO's discretion, with input from applicable senior staff regarding individual performance levels. This Plan component links participants' incentive compensation to achievement of individual and/or position-specific performance objectives and VRS' overall performance objectives. Actual awards under this plan component will reflect:

- Position- and/or incumbent-specific performance criteria.
- Achievement of key VRS performance objectives, including:

Investment Professionals' Pay Plan  
 Effective ~~November 14,~~  
~~2018~~ October 15, 2020

- Building an effective organization.
- Enhancing investment excellence.
- Developing staff.

The Board will annually determine the CIO's qualitative incentive multiplier after assessing attainment of the qualitative performance objectives, considering input and recommendations provided by the A&P Committee.

**DETERMINING PRELIMINARY AWARDS**

After the end of each fiscal year, a preliminary award will be determined for each Plan participant by aggregating all of their performance multiplier-adjusted weighted Plan components. In particular:

- Performance multipliers will be determined for each Plan component based on actual results.
- Preliminary payouts under each weighted Plan component will be determined by multiplying the incentive dollars weighted to that component by the associated performance multiplier.
- Total preliminary awards would be determined by adding up all of that participant's weighted Plan components.

Illustrated below is this approach for a position with an incentive of \$80,000.

Plan Component	Weighted Portion of Incentive		Performance Multiplier	=	Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200
<b>Preliminary Award</b>					<b>\$91,200</b>

**DETERMINING FINAL AWARDS**

Final awards, if any, would be determined after each fiscal year-end by adjusting the sum of each participant's preliminary award, up or down, based on VRS' one-year absolute return for the most recently completed fiscal year. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 7%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return. There will be a negative one-for-one adjustment for returns less than 0%. Illustrated below is the process for determining final awards.

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

**Scenario #1:**  
 The Total Fund's One-Year Absolute Returns are +5%

	Preliminary Award	\$91,200
X no adjustment		0%
	<b>Final Award</b>	<b>\$91,200</b>

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

**Scenario #2:**  
 The Total Fund's One-Year Absolute Returns are +10%

	Preliminary Award	\$91,200
X 1+ VRS Fund's One-Year Rate of Return less assumed rate of return		103%
	<b>Final Award</b>	<b>\$93,936</b>

Plan Component	Weighted Portion of Incentive		Performance Multiplier		Actual Award
Total Fund	\$16,000	X	1.50	=	\$24,000
Asset Class	48,000	X	1.00	=	48,000
Qualitative	16,000	X	1.20	=	19,200

**Scenario #3:**  
 The Total Fund's One-Year Absolute Returns are -15%

	Preliminary Award	\$91,200
X 1+ VRS Fund's One-Year Rate of Return		85%
	<b>Final Award</b>	<b>\$77,520</b>

## PAYING OUT FINAL AWARDS

### Board Review

Prior to payout of any and/or all awards, the CIO will present a schedule of aggregate incentives to the Board of Trustees, through the A&P Committee, in advance. This report will include, in aggregate, the awards, the multipliers awarded for each component, the actual dollar awards earned for each component and the total awards. Internal Audit and Human Resources will review the calculations. As requested by the A&P Committee, the CIO will provide additional information prior to the Board approving the payout of any and/or all awards.

### Final Award Payout

Final awards will be paid out as follows:

- For VRS' most senior staff (i.e., incumbents in positions at or above the level of Program Director) when awards are paid, 50% of total award amounts up to the specified Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be deferred into the DCPIP plan. All other amounts paid in cash. Section III of this document describes the terms of the § 415(c)(1)(A) plan.
- For all other Plan participants, awards paid 100% in cash.

### Timing of Cash Payouts

When the Board approves incentive awards, the VRS will make payments between July 1 and December 31 after VRS' fiscal year end.

- Awards to senior staff paid as follows: 50% deferred into DCPIP (subject to IRS limits) and the remainder in cash.
- Awards to all other plan participants paid out 100% in cash.

## INCENTIVE PLAN PROVISIONS

- ***New employees, promoted employees and other employees who transfer into another position covered in this payplan:***
  - Employees who join the VRS Investment Department after the commencement of the fiscal year may be eligible to participate in the Plan. Incentives will be computed ~~on the~~ on the incentive percentage and their actual earned salary for the year.
  - Promoted employees and employees who transfer into another position covered in this pay plan will have their incentives calculated based on their actual earned ~~salary for~~ salary for the year and a proportional incentive percentage.
- ***Minimum Individual Performance Standard:*** Employees with an individual performance rating of "Does Not Meet Expectations" are not eligible to receive any incentive payment under the Plan.
- ***Termination of Employment Due to Death, Disability, or Retirement:*** Terminated employees may be eligible to receive a time-weighted portion of their final award for the current performance year. Plan participants who terminate employment due to death or disability or who retire during a fiscal year will be eligible to receive a time-weighted portion of their Board approved award (1/12 for each complete month worked in their last year of service). The incentive payments for the year in which death, disability or retirement occurs shall be paid 100% in cash to such employee or his representative between July 1 and December 31 following the end of the fiscal year in which such death, disability or retirement occurs.
- ***Termination for all Other Reasons:*** Except as specifically determined by the CIO for all positions other than the CIO, and by the A&P Committee for the CIO's position, participants

Investment Professionals' Pay Plan  
Effective ~~November 14,~~  
~~2018~~ October 15, 2020

who terminate employment with VRS for all other reasons prior to the normally scheduled date of payout forfeit all rights under the plan.

- **Clawback:** In the event of termination for malfeasance related to duties as an investment professional, VRS retains the right to seek repayment for any and/or all paid incentive awards.

### **III. Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP)**

#### **PARTICIPATION**

This plan covers VRS investment professionals at or above the level of Program Director. Such positions currently include CIO, Deputy CIO, Managing Director, and Program Director. The Board retains the discretion to modify, at any time, the positions that are eligible to participate in this plan.

#### **AMOUNTS SUBJECT TO ANNUAL DEFERRAL**

- Deferrals into this plan only occur in years when VRS' Board decides, at its full and complete discretion, to allow payment of incentive awards.
- Commencing with (and including fiscal 2013), in years when VRS' Board decides to pay incentive awards, 50% of participants' final awards up to specified IRC § 415(c)(1)(A) limits will be deferred into this plan. All other amounts paid in cash.

#### **INVESTMENT RETURN**

Participants' deferred accounts in the DCPIP and the § 415(m) plan will earn an "investment return" (positive or negative) equaling the current annual rate of return of the VRS Fund. However, upon attaining age 55, the DCPIP permits members of the Investment Management Committee who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion into the Virginia Cash Match Plan. This transfer right allows DCPIP participants at age 55 or at any time after attaining age 55, to select any combination of the investment options then offered by the Cash Match Plan. Notwithstanding the transfer right, members of the Investment Management Committee at age 55 or older must leave at least a minimal balance amount in their DCPIP account, to avoid having to re-open the account. The VRS Defined Contribution Plan Administrator will assist participants with these transfers.

#### **FUND TRANSFERS and DISTRIBUTIONS**

Participants of the DCPIP cannot transfer funds from the § 415(m) plan into the Cash Match Plan because the § 415(m) plan is a non-qualified "excess plan" not permitted to be held in trust for the exclusive benefit of the plan participants. The § 415(m) plan closed as of June 30, 2013, except for the CIO. The distribution of the balance in the § 415(m) plan will be made in cash to the Participant.

The accumulated DCPIP trust balances will be distributed to the Participant upon termination of employment with the Commonwealth of Virginia. The participant may elect to receive the balance in the DCPIP either in cash or as a "roll-over" into another retirement or related benefit vehicle/trust, or a combination of both. All payouts/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available, by the date of the payment.

All applicable laws and regulations will govern the creation, funding and distributions of the DCPIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer.

Investment Professionals' Pay Plan  
Effective ~~November 14,~~  
~~2018~~ October 15, 2020

#### **TAXATION**

Taxation of the amount contributed to the DCPIP and § 415(m) plans is deferred until distribution from the respective plan.

#### **IV. Other Compensation Plan Information**

##### **Competitive Pay Increases**

Competitive pay increases are an option available to retain a highly valued employee who has received a job offer from another employer. Requests for competitive pay increases should take into consideration the employee's experience, level of education, performance and contribution to the agency, and the salaries of other employees in comparable jobs. A written job offer must be received to provide a competitive pay increase.

##### **Sign-on Bonuses**

Investment professionals hired at the VRS may be eligible for sign-on bonuses, as described in the VRS Employee Sign-on Bonus Program Policy.

##### **Relocation Expenses**

Investment professionals hired at the VRS may be eligible for reimbursement of relocation expenses, if approved by the CIO. The reimbursement of the expenses must comply with the Department of Accounts Moving and Relocation Policy.

##### **Employment at Will**

The investment employees covered by this policy are exempt from the provisions of the Virginia Personnel Act and employment in these positions is at will. Just as the employee retains the right to resign at any time, the VRS has a similar right to end at will employment with or without cause. An at-will employee does not serve an introductory period. An at-will employee is not eligible to use the agency's grievance procedure to resolve employment disputes.

Investment employees covered by this policy are eligible for all other employment benefits and subject to agency policies that do not contradict their "at will" status.

##### **409A Compliance**

The intent of the Board is that payments and benefits under this plan either comply with Section 409A of the Internal Revenue Code and applicable guidance issued thereunder ("Code Section 409A") or qualify for an exemption from Code Section 409A and, accordingly, all provisions of this Plan shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. The Board shall not take any action to accelerate or delay the payment of any monies and/or provision of any benefits in any matter which would not be in compliance with Code Section 409A to the extent Code Section 409A applies to such payment or benefit. Notwithstanding any of the provisions of this pay plan, the Board shall not be liable to the employee if any payment or benefit which is to be provided pursuant to this Plan and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

## **CLASS STRUCTURE**

The following descriptions are the summaries of VRS' investment professional job classes/positions:

### **Chief Investment Officer**

The CIO manages and directs investment programs, determines appropriate program structure, implementation, and monitoring. The CIO manages investment professionals who are directly responsible for internal and external investment programs. The CIO heads the Executive and Management Committees, which are responsible for reviewing all investment recommendations. The CIO collaborates with the VRS Board-appointed Investment Advisory Committee (IAC) and delivers frequent reports and updates to the VRS Board.

### **Deputy CIO**

Working under the direction of the CIO, this position is responsible for assisting in developing and implementing the Fund's overall investment policies and programs. The Deputy CIO serves as an internal consultant to the CIO on a range of investment strategies, works on special investment related projects, serves on the Executive and Management Committees and assumes many of the CIO responsibilities, allowing the CIO to focus on investment management, Board relations, and other critical Fund-level activities or initiatives.

### **Managing Director**

The Managing Director is a senior investment position reporting directly to the CIO. This position serves on the Investment Executive and Management Committees. The Executive Committee is a department wide resource to the CIO for management and administrative issues. The Management Committee participates in asset allocation and manager/fund allocation decisions.

### **Program Director**

The Program Director has deep asset class knowledge and carries full managerial responsibility for a VRS investment program, including all internally and externally managed assets. The Program Director may also support multiple asset classes. The Program Director participates on the Investment Management Committee and regularly presents information to the IAC and the Board. The Program Director, as applicable, operates within an explicit risk budget and has investment performance objectives that are regularly measured. The Program Director has full responsibility for negotiating on behalf of VRS.

### **Director or Manager - Strategy, Research, Risk and/or Investment Decision Support**

**Strategy** – The positions within Strategy identify and evaluate relative value based tilt opportunities that have the potential to 1) improve the fund's return without materially increasing the risk, 2) reduce the fund's risk without materially reducing the return, or 3) some combination of these objectives. In addition, staff within Strategy 1) review and evaluate the implications of macro-economic conditions, 2) analyze current conditions and opportunities within major asset classes and key asset class subsectors, 3) monitor and evaluate the tactical and strategic tilts of key VRS investment partners, and 4) identify strategy ideas including risk and return expectations for base case and alternative scenarios.

**Research** – The positions within Research have responsibility to support both basic and applied research efforts for all VRS investment staff. This effort includes monitoring, coordinating, facilitating, and implementing current best practices and methods to ensure optimal investment performance and risk management at both the program and plan level.

**Risk** – The positions within Risk have responsibility in the design, implementation, and management of the risk management program including project management (solicitation and queueing of projects from clients), guidance and coordination within the group, mathematical and statistical analysis of empirical problems, risk management, and high-level programming. Additionally, staff within Risk assist with the design and implementation of an opportunistic portfolio allocation to manage the risk exposures of the total fund.

**Investment Decision Support** – The positions within Investment Decision Support have

Investment Professionals' Pay Plan  
Effective ~~November 14,~~  
~~2018~~October 15, 2020

responsibility for the design and delivery of investment program, risk management, strategy, and research analytic systems. As a component of this, staff is responsible for all investments data as well as the design, development and implementation of the quantitative infrastructure for the VRS investment programs. This includes a data warehouse, various data retrieval tools, quantitative analysis tools, program level reporting tools and support applications that retrieve, consolidate and report information.

**Senior Portfolio Manager**

The Senior Portfolio Manager positions have responsibility for multiple portfolio strategies and/or may supervise one or more Senior Investment Officers or Portfolio Managers.

The Senior Portfolio Manager positions provide a potential career progression ladder for Portfolio Managers over time, considering the contributions, experience and sustained performance for the incumbents.

**Portfolio Manager**

The Portfolio Manager provides critical input to strategy development and is responsible for the more complicated and higher risk investments. The Portfolio Manager may delegate to the Senior Investment Officer certain portions of the investment program. The Portfolio Manager will begin to negotiate terms on behalf of VRS. The Portfolio Manager, from time to time, makes presentations and recommendations to the Management Committee, and perhaps the IAC and Board.

The Portfolio Manager supporting the Defined Contribution Plans is a senior investment position reporting directly to the Managing Director of Global Investments. This position provides critical input to the design, implementation, and monitoring of all investment related aspects of the VRS defined contribution plans (DC). Responsibilities include (1) evaluation and selection of new investment strategies, managers and/or funds, (2) negotiating terms on behalf of VRS, (3) monitoring and management of relationships with existing defined contribution investment managers, (4) implementing investment policy as determined by the VRS Board, (5) presenting to the Defined Contribution Plans Advisory Committee and the Board, and (6) any other projects or duties relating to the defined contribution program as may be assigned from time to time.

**Senior Investment Officer**

The Senior Investment Officer has higher level monitoring responsibilities that tend to involve higher risk and strategies that are more complicated. Some Senior Investment Officers may have day-to-day responsibilities for managing internal portfolios, subject to risk limits prescribed by the program director. The Senior Investment Officer will increasingly become involved in strategy development and formal recommendations to the Program Director.

**Investment Officer**

The Investment Officer, in addition to analytical responsibilities, may have direct responsibility for monitoring some portion of the existing portfolio, or some strategies or managers under consideration in the future. Such assignments will typically be in lower risk and less complicated strategies. The Investment Officer may continue to be involved in monitoring, compliance, and administration, but will also begin to make formal investment recommendations to the Program Director.

**Senior Investment Analyst**

The Senior Investment Analyst performs various types of analysis at the direction of more senior staff members. Analyst activities are geared around providing support for senior staff members more directly involved in the decision making process. Such activities will include research, reporting, monitoring, compliance, and administration.

**Investment Analyst**

The Investment Analyst assists other investment professionals in their daily operations, including investment research and analysis, trading, and portfolio management. Analysts follow and report current market information relating to assigned sectors of the market. In addition, the Analyst conducts independent research on various topics, performs data maintenance, integrity, and report



Investment Professionals' Pay Plan  
Effective ~~November 14,~~  
~~2018~~October 15, 2020

generation tasks.

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**Approve a 7% performance bonus for the Audit Director.**

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**Requested Action**

The VRS Board of Trustees approves a 7% performance bonus for the Audit Director.

**Description/Background**

The Audit and Compliance Committee reviewed and evaluated the performance of the Audit Director. Based on this review and evaluation, the Committee recommends that the Board approve a 7% performance bonus for the Audit Director, payable October 30, 2020.

**Rationale for Requested Action**

The Audit and Compliance Committee recommends that the Board approve a 7% performance bonus for the Audit Director, payable October 30, 2020, based on the Committee's review and evaluation of the Audit Director's performance during FY 2020. The Audit and Compliance Committee Charter in paragraph 8 of the duties and responsibilities section states "Review and evaluate the performance of the Audit Director in all areas for which he or she is responsible and report the results and conclusions to the Board." Section IV. H.(8) of the Board Governance Policy provides that the Board may review, monitor and oversee the performance of the Audit Director. Also, the Executive Pay Plan contemplates granting a performance bonus to the Audit Director.

**Authority for Requested Action**

*Code of Virginia* § 51.1-124.22(11) authorizes the Board to establish and administer a compensation plan for officers and employees of the Retirement System.

The above action is approved.

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

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Date



**Approve a 3% (\$4,906.82) salary adjustment  
for the Audit Director.**

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**Requested Action**

The VRS Board of Trustees approves a 3% (\$4,906.82) salary adjustment for the Audit Director.

**Description/Background**

The Audit and Compliance Committee reviewed and evaluated market study data for the Audit Director. Based on this review and evaluation, the Committee recommends that the Board approve a 3% (\$4,906.82) salary adjustment for the Audit Director, effective October 25, 2020.

**Rationale for Requested Action**

The Audit and Compliance Committee recommends that the Board approve a 3% (\$4,906.82) salary adjustment for the Audit Director, effective October 25, 2020 based on the Committee's review of market comparison data for similar positions. The Audit and Compliance Committee Charter in paragraph 8 of the duties and responsibilities section states "Review and evaluate the performance of the Audit Director in all areas for which he or she is responsible and report the results and conclusions to the Board." Section IV. H.(8) of the Board Governance Policy provides that the Board may review, monitor and oversee the performance of the Audit Director. Also, the Executive Pay Plan contemplates making adjustments to the Audit Director's salary as deemed necessary.

**Authority for Requested Action**

*Code of Virginia* § 51.1-124.22(11) authorizes the Board to establish and administer a compensation plan for officers and employees of the Retirement System.

The above action is approved.

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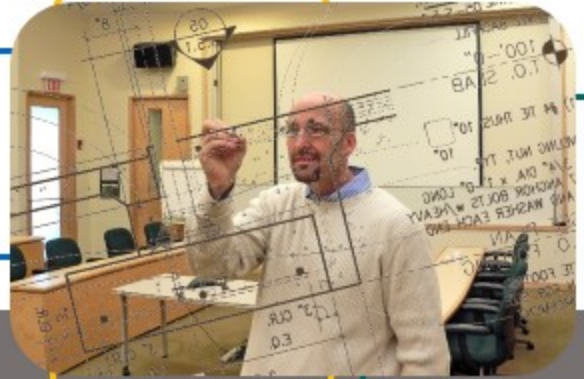
O'Kelly E. McWilliams, III, Chairman  
VRS Board of Trustees

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Date

# Technology Security Update

Administration and Personnel Committee  
October 13, 2020



- Recent enhancements to the VRS Technology Security Program
  - New management role (Director of Technology Security Operations)
  - New mass alerting/communications platform (VRS Aware)
  - Reengineered Business Continuity of Operations Plan (COOP)
    - Upgrades to our disaster response capabilities
  - myVRS authentication and security analytics enhancements
  - Miscellaneous upgrades
- On the horizon

- Background
  - VRS is required to adhere to the Commonwealth's security standards and policies (i.e. SEC-501)
  - A recent change requires the VITA-designated Information Security Officer (ISO) to report directly to the agency head
- ISO functions are defined in SEC-501
  - Maintain security program compliance with VITA standards
  - Validate all systems are classified for sensitivity
  - Maintain a security awareness training program
  - Maintain appropriate controls for IT systems
  - Report security incidents
  - Liaison with Commonwealth Information Security Officer

- Considerations
  - VITA made this policy change to ensure security weaknesses are elevated to the agency head for action/funding when necessary
  - Security responsibilities at VRS are broad and complex
  - A collaborative partnering relationship between VRS security staff and other technology staff helps ensure security is proactively addressed
  - The complexity and workload of our security program continues to increase with evolving threats

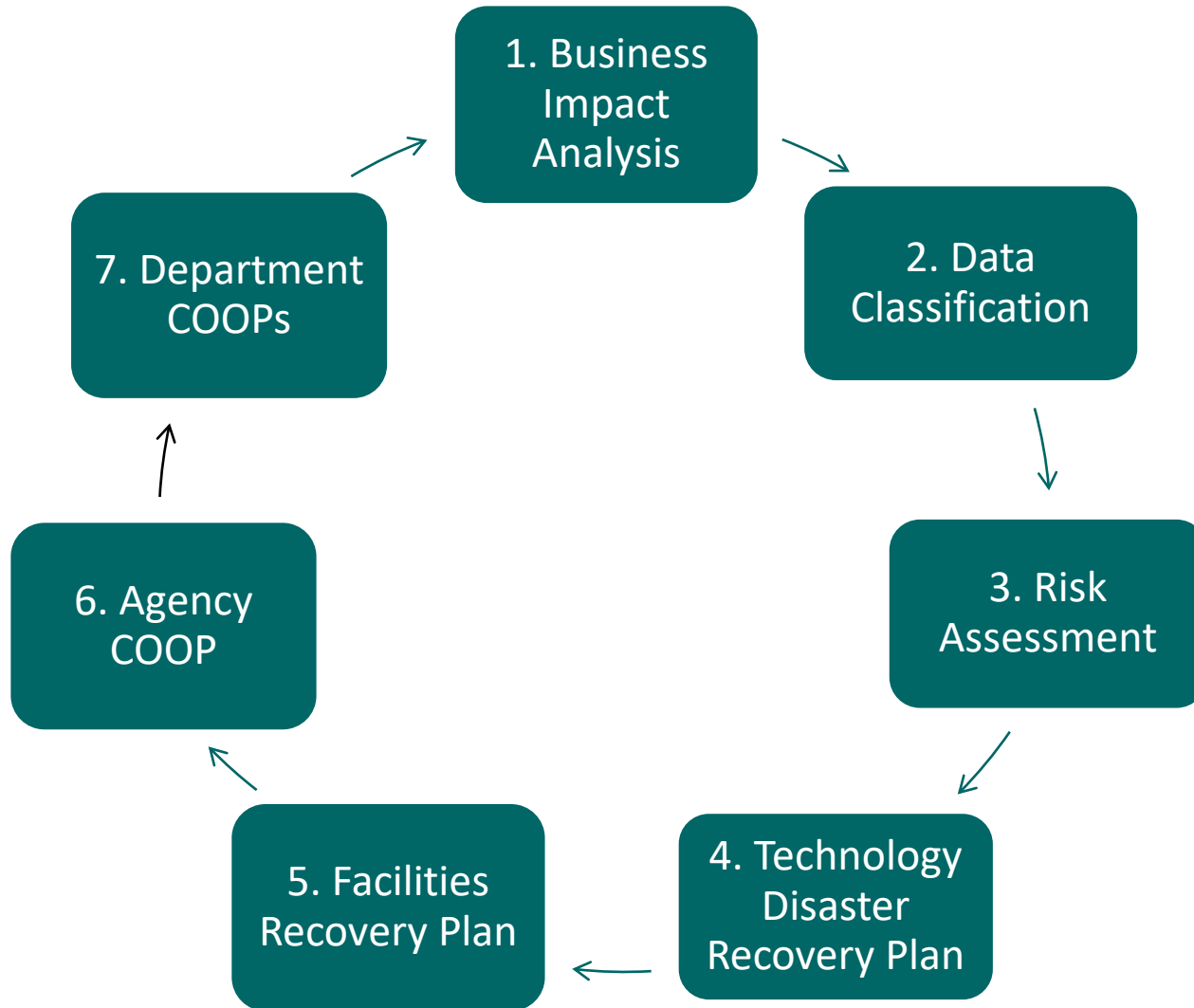
- Organizational Changes
  - VRS ISO will have responsibility for VRS compliance with VITA standards and will report to the Director
  - Director of Technology Security Operations (new position) will have responsibility for daily execution of security controls and oversight of the security team; will report to Chief Technology and Security Officer
  - Strong collaboration between these two roles will enhance our ability to respond to the growing/evolving threats and workload while protecting VRS systems and member data
- John Craft has joined VRS as Director of Technology Security Operations
  - Previously the Deputy Chief Information Security Officer for the Commonwealth of Virginia, with oversight responsibility for security at all Commonwealth agencies



- VRS Mass Alerting Service (VRS Aware)
  - Alert all employees at once, through multiple channels (email, text message, text to speech phone calls)
  - Send alerts to targeted groups (all users of a system, leadership, specific teams or specific buildings)
  - Alerts are saved as templates with pre-defined subject, content and audience
  - Alerts can be triggered from an online portal or through a mobile device application
- Broad range of applications
  - Business continuity events
  - Inclement weather (closing or delayed opening)
  - Severe weather events (tornado, earthquake)
  - Intruder incidents
  - IT service alerts (entire network outage, email system outage, etc.)
  - IT security alerts (cyber attack, breach, etc.)

- For more than a decade our Business Continuity Plan (BCP) has been limited to eight key processes
  - Primary system (RIMS) was not redundant – dependent on VITA for recovery
  - A robust recovery strategy was not possible
- With the full implementation of VNAV and the Raleigh data center, technology is no longer a limiting factor
  - Created the opportunity to rethink our approach to business continuity
- Because of magnitude of change, we used a private partner (Assura) to help develop the various required documents and ensure compliance with VITA standards

# Business Continuity Planning Cycle



- Business Impact Analysis determines the criticality of activities, the impact of a disruption, and recovery objectives
  - Interviews with over fifty leaders and subject matter experts documented 197 business processes and their recovery related-data
- Data Classification assesses systems for sensitivity relative to confidentiality, integrity, and/or availability
  - Seven VRS-Owned Sensitive Information Systems and thirteen non-VRS owned sensitive systems
- Risk Assessments identify and evaluate potential vulnerabilities and threats within VRS sensitive systems
  - 23 low risks were identified (e.g. fire, earthquake, etc.)
  - Eighteen potential control vulnerabilities were identified

- The Technology Disaster Recovery Plan guides IT-specific disaster recovery processes
  - Includes system-specific recovery plans, activation guidance and a communications plan which will utilize the new VRS Aware system to contact Technology staff
- The Facilities Recovery Plan provides guidance on alternate workspace should one of the VRS Main Street buildings be unable to house staff
  - Assumes much of the workforce would work remotely

- The Continuity of Operations Plan provides enterprise-level guidance for recovering all VRS business functions
  - Service redundancy & high availability now built into VRS technology systems – focus shifted from a technology limitation to staff availability
  - Enhanced guidance on plan activation and recovery time objectives
- 42 department-specific Continuity of Operations Plans guide each department through a recovery specific to their operation and staffing
  - Easily understood and used by the affected managers and staff within each unit
  - Defines alternative means of sustaining each business process in the event of a facility loss, technology outage, or diminished staffing

- During the COOP rewrite we identified several opportunities to enhance our disaster response capabilities that we are now implementing
- Expansion of remote access capabilities
  - VRS networks were sized assuming a limited number of concurrent users during a disaster
  - During the pandemic we manually balanced the workload between the two data centers to accommodate all staff
  - We are installing the necessary equipment to allow all employees to connect remotely through either data center

- Expansion of disaster recovery hot site functionality
  - VRS leases space at Southside Regional Hospital in Dinwiddie County as an alternate work site for staff in the event of a disaster
  - The secure space is available 24x7 and will accommodate 30 – 35 staff
  - Restricted access to VRS facilities during the pandemic highlighted limitations in several technology-enabled business functions
    - Document imaging
    - Centralized print services
    - Mail room services
    - Check scanning
  - We are establishing redundant capabilities to support these critical business processes in the DR hot site



- Require multi-factor authentication for all access to myVRS
  - User provides an authentication code sent to their mobile text number or email address each time login to myVRS
- Enhanced risk analysis
  - Reducing reliance on knowledge-based authentication (KBA) questions – no longer considered best practice
  - New third-party data source providing identity risk score and extensive identity attributes for risk analysis

# Miscellaneous Upgrades

- New enterprise backup solution
- New Web Application Firewall
- Advanced phishing simulation and training
- Antivirus and malware Protection
- Privileges management system

- Winter 2020 - New tool for managing elevated system privileges
- Winter 2020 - Updated security awareness training
- Spring 2021 - New Intrusion Protection/Detection System
- Spring 2021 - Security Program Maturity Assessment



## Virginia Retirement System (VRS) FY 2021 Budget to Actual Projections

	Current Budget A	Expenses through 09/30/20 B	Projected Remaining Expenses C	Projected Total Expenses <sup>1</sup> D = B + C	Projected Variance Favorable/ (Unfavorable) E = A - D	% Remaining E / A
<b>Administration</b>						
<b>Personnel</b>						
Salaries, Wages & Benefits	23,171,000	6,091,000	15,147,000	21,238,000	1,933,000	8.3%
Incentive Compensation	1,162,000	-	1,110,000	1,110,000	52,000	4.5%
<b>Contractual Services</b>						
Communication Services	950,000	152,000	707,000	859,000	91,000	9.6%
Employee Development Services <sup>2</sup>	295,000	30,000	202,000	232,000	63,000	21.4%
Management & Informational Services <sup>3, 4</sup>	2,550,000	202,000	1,946,000	2,148,000	402,000	15.8%
Medical Review Services	1,000,000	89,000	860,000	949,000	51,000	5.1%
Support Services <sup>5</sup>	582,000	124,000	334,000	458,000	124,000	21.3%
Technical Services <sup>6, 7</sup>	291,000	170,000	121,000	291,000	-	0.0%
<b>Equipment &amp; Supplies</b>	98,000	28,000	50,000	78,000	20,000	20.4%
<b>Facility</b>	2,059,000	532,000	1,471,000	2,003,000	56,000	2.7%
<b>Insurance, Claims &amp; Bonds</b>	86,000	5,000	80,000	85,000	1,000	1.2%
<b>Service Charges</b>	164,000	-	164,000	164,000	-	0.0%
<b>Administration Total</b>	<b>32,408,000</b>	<b>7,423,000</b>	<b>22,192,000</b>	<b>29,615,000</b>	<b>2,793,000</b>	<b>8.6%</b>
<b>Information Technology</b>						
<b>Personnel</b>						
Salaries, Wages & Benefits	12,964,000	2,981,000	8,049,000	11,030,000	1,934,000	14.9%
Incentive Compensation	1,000	1,000	-	1,000	-	0.0%
<b>Contractual Services</b>						
Communication Services	813,000	83,000	700,000	783,000	30,000	3.7%
Employee Development Services <sup>2</sup>	53,000	5,000	47,000	52,000	1,000	1.9%
Management & Informational Services <sup>3</sup>	9,000	5,000	4,000	9,000	-	0.0%
Support Services <sup>5</sup>	5,000	-	5,000	5,000	-	0.0%
Technical Services	11,756,000	2,510,000	9,246,000	11,756,000	-	0.0%
<b>Equipment &amp; Supplies</b>	7,480,000	276,000	7,203,000	7,479,000	1,000	0.0%
<b>Facility</b>	414,000	69,000	342,000	411,000	3,000	0.7%
<b>Insurance, Claims &amp; Bonds</b>	95,000	-	95,000	95,000	-	0.0%
<b>Information Technology Total</b>	<b>33,590,000</b>	<b>5,930,000</b>	<b>25,691,000</b>	<b>31,621,000</b>	<b>1,969,000</b>	<b>5.9%</b>



## Virginia Retirement System (VRS) FY 2021 Budget to Actual Projections

	Current Budget A	Expenses through 09/30/20 B	Projected Remaining Expenses C	Projected Total Expenses <sup>1</sup> D = B + C	Projected Variance Favorable/ (Unfavorable) E = A - D	% Remaining E / A
<b>Investment Management</b>						
<b>Personnel</b>						
Salaries, Wages & Benefits	18,903,000	4,912,000	12,438,000	17,350,000	1,553,000	8.2%
Incentive Compensation	7,425,000	-	3,579,000	3,579,000	3,846,000	51.8%
<b>Contractual Services</b>						
Communication Services	59,000	7,000	51,000	58,000	1,000	1.7%
Employee Development Services <sup>2</sup>	801,000	62,000	384,000	446,000	355,000	44.3%
Management & Informational Services <sup>3</sup>	2,005,000	455,000	1,376,000	1,831,000	174,000	8.7%
Technical Services <sup>6</sup>	9,591,000	1,347,000	7,947,000	9,294,000	297,000	3.1%
<b>Equipment &amp; Supplies</b>	224,000	47,000	152,000	199,000	25,000	11.2%
<b>Facility</b>	659,000	163,000	487,000	650,000	9,000	1.4%
<b>Insurance, Claims &amp; Bonds</b>	27,000	-	27,000	27,000	-	0.0%
<b>Investment Management Total</b>	<b>39,694,000</b>	<b>6,993,000</b>	<b>26,441,000</b>	<b>33,434,000</b>	<b>6,260,000</b>	<b>15.8%</b>
<b>VRS Subtotal</b>	<b>105,692,000</b>	<b>20,346,000</b>	<b>74,324,000</b>	<b>94,670,000</b>	<b>11,022,000</b>	<b>10.4%</b>
Appropriation Pending - Central Accounts <sup>8</sup>	146,000	-	-	-	146,000	
<b>VRS Total</b>	<b>105,838,000</b>	<b>20,346,000</b>	<b>74,324,000</b>	<b>94,670,000</b>	<b>11,168,000</b>	<b>10.6%</b>

<sup>1</sup> Projected Total Expenses are best estimates as of the creation of this report and are subject to change.

<sup>2</sup> Employee Development Services includes organization memberships, subscriptions, employee trainings and related travel, and tuition reimbursement. Although in-person training and related travel spending were naturally reduced beginning in March 2020 due to the COVID-19 pandemic, online training has been encouraged.

<sup>3</sup> Management and Informational Services includes fiscal services, management services, legal services, media services, food services and business travel.

<sup>4</sup> Includes \$300K budgeted for the Retirement Commission, which currently has no planned expenditures.

<sup>5</sup> Support Services includes clerical and manual labor services.

<sup>6</sup> Technical Services includes hardware/software maintenance, technology contractors and data feeds.

<sup>7</sup> Represents the Modernization project, which received a budget transfer of \$291K to complete implementation of myVRS functionality. The project was extended into FY 2021 due to the reallocation of resources in FY 2020 to implement the provisions of legislation enacted by the 2020 General Assembly.

<sup>8</sup> \$146K is the estimated net impact of actions authorized by Chapter 1289 of the 2020 Acts of Assembly; appropriation is pending transfer to VRS by the Department of Planning and Budget (DPB). Per standard practice, the transfer is expected to occur in the second half of the fiscal year. VRS will coordinate with DPB to determine the final amount of the transfer.