
Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on February 14, 2019 in Richmond, Virginia with the following members present:

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

Also present:

Patricia Bishop, Ron Schmitz, Rory Badura, Farley Beaton, Jeanne Chenault, Thomas Coleman, Michael Cooper, Harriet Covey, Sara Denson, Barry Faison, Josh Fox, Bryan Gardiner, Brian Goodman, JT Grier, Dane Honrado, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Matt Lacy, Chung Ma, Curt Mattson, Jennifer MacKnight, Steve McClelland, Taylor Melton, Andrea Peeks, Jillian Sherman, Capri Stanley-Smith, Dan Whitlock, Cindy Wilkinson, and Nick Zizzo of the VRS Staff;

Latosha Johnson, Department of Planning and Budget;
J. Marshall Terry and Rick Fowler, Virginia Governmental Employees Association;
Lauren Axselle, Joint Legislative Audit and Review Commission; and
Bea Snidow, Virginia Education Association.

The meeting convened at 1:02 p.m.

Approval of Minutes

Upon a motion by Mr. McWilliams, with a second by Ms. Seward, the minutes of the January 14, 2019 meeting were approved.

Report of the Chief Investment Officer

Mr. Schmitz began his report with a market overview. Next, he discussed the performance summary for the quarter ending December 2018 as well as an overview of calendar year 2018 performance and market activity. He then discussed asset allocation, tracking error and fund volatility. He concluded that risk measures are all within Board-approved levels. Lastly, Mr. Schmitz reviewed the New Investments and Terminations Report.

Mr. Nason thanked Mr. Schmitz for his report.

Report of the Benefits & Actuarial Committee

The Board received the Benefits and Actuarial Committee report of February 12, 2019 and placed it on file. Mr. Harris gave the report from the Benefits and Actuarial Committee.

Mr. Harris stated that Ms. Bishop and Mr. Badura presented the recommendations of the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC regarding cost of living adjustments (COLAs). For the Virginia Sickness and Disability Program (VSDP), Mr. Badura advised that the plan actuary recommends an increase in the creditable compensation for VRS pension benefit purposes of 4.00%, effective July 1, 2019; a COLA of 2.44% to be applied to long-term disability (LTD) benefits, after offsets, of eligible VSDP LTD Plan 1 recipients vested prior to January 1, 2013; and a COLA of 2.22% for LTD recipients who are Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members. Mr. Badura advised that for the Virginia Local Disability Program (VLDP), the plan actuary recommends an increase in the creditable compensation used at retirement of 4.00%, effective July 1, 2019. The VLDP plan does not provide for a COLA on LTD benefits being received. The calculations for both COLAs were reviewed by VRS staff and Internal Audit.

Mr. Harris noted that Mr. Badura reminded the Committee that the Code of Virginia provides that maximum optional life insurance benefits are to be reviewed every five years, and were last increased in 2014. He advised that the maximum benefit levels are increased by the change in the average Consumer Price Index for All Urban Consumers (CPI-U), as published by the Bureau of Labor Statistics of the U.S. Department of Labor over the five-year period, which was 7.79%. The plan actuary recommends increasing the maximum limits for optional life insurance to \$800,000 for active insured employees, and \$300,000 for active retirees.

Mr. Harris concluded that the Committee recommends that the Board approve the following three actions:

On a motion from Mr. Harris and second from Mr. McWilliams, the VRS Board of Trustees approved the following:

Request for Board Action: Effective July 1, 2019, for a Plan 1, Plan 2 or Hybrid member who has been the recipient of long-term disability (LTD) benefits for at least one calendar year under the Virginia Sickness and Disability Program (VSDP), a cost of living adjustment will be applied in the amount of (i) 4.00% to the recipient's creditable compensation used for calculating the member's average final compensation at retirement, and a cost of living adjustment to the recipient's net LTD benefit payment of (ii) 2.44% for Plan 1 members vested prior to January 1, 2013, or (iii) 2.22% for Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members.

On a motion from Mr. Harris and second from Mr. McWilliams, the VRS Board of Trustees approved the following:

Request for Board Action: Effective July 1, 2019, each recipient of long-term disability (LTD) benefits under the Virginia Local Disability Program (VLDP) who has been receiving LTD for at least one calendar

year, and who ultimately retires directly from LTD, will have a cost of living adjustment applied in the amount of 4.00% to the recipient's creditable compensation.

On a motion from Mr. Harris and second from Mr. McWilliams, the VRS Board of Trustees approved the following:

Request for Board Action: Effective July 1, 2019, the maximum Optional Life, Accidental Death, and Dismemberment insurance coverage for active insured employees shall increase to \$800,000, and the maximum Optional Life insurance coverage for active retirees shall increase to \$300,000.

Mr. Harris continued with the Committee report, which also included a review of the following statutory COLAs that do not require Board action.

Post-Retirement Supplement COLAs

VRS cost of living increases are based on the CPI-U. Plan 1 members receive 100% of the first 3% increase in the CPI-U and 50% of any increase between 3% and 7%, capped at 5%. Plan 2 and Hybrid plan members receive 100% of the first 2% increase in the CPI-U and 50% of any increase between 2% and 4%, capped at 3%. The Plan 1 COLA, effective July 1, 2019, is 2.44%. The COLA for Plan 2 and Hybrid members, also effective July 1, 2019, is 2.22%. These figures were calculated by the VRS plan actuary and verified by VRS and Internal Audit staff. The COLA did not require action by the Committee.

Hazardous Duty Supplement

Mr. Harris reported that Mr. Badura also advised that in accordance with the requirements of the Code of Virginia, the Hazardous Duty Supplement is increased biennially using applicable cost of living adjustments published by the Social Security Administration since the last applicable increase. The biennial Social Security increase is 4.86%, resulting in an increase in the annual Hazardous Duty Supplement from \$13,584 to \$14,244 for fiscal year 2020. The hazardous duty supplement increase did not require action by the Committee.

COLA for Group Life Insurance

The COLA for the Group Life Insurance Program minimum benefit for members retired with at least 30 years of service will be increased by the same COLA applicable to VRS Plan 2 and Hybrid members, or 2.22%, effective July 1, 2019. The new minimum life insurance payout effective July 1, 2019 will be \$8,463. The COLA did not require action by the Committee.

2019 Legislative Update

Mr. Harris noted that Ms. Bishop reviewed legislation presented in the 2019 General Assembly session.

Changes to Funding Policy

Ms. Bishop further advised that the House has proposed amendments to the Appropriation Act to provide additional VRS contributions and to reduce the OPEB amortization period for the State and Teachers' Health Insurance Credit programs. If these amendments are approved in the final

Appropriation Act, VRS may need to revise the funding policy to allow for increased contributions and shorter amortization periods for these programs. If changes are required in response to the enacted Appropriation Act, proposed revisions to the funding policy will be brought to a future Committee meeting for recommendation to the Board.

Other Business

Mr. Harris also noted that, as required by the Committee Charter, Ms. Bishop updated the Committee on a determination, delegated to the Director under the Board Governance Policy, section V(A), regarding purchase of prior service (PPS) that is outside of normal business operations. Ms. Bishop provided a memo to the Committee describing an error in system calculations related to the statutory changes to PPS that were implemented in 2017, and that affected approximately sixty VRS members. In consultation with outside counsel, staff determined that members who overpaid for purchases of refunded service will receive refunds of the overpayment amount, and the price agreed to in the contract will be honored for members with existing contracts who have underpaid for refunded service. Ms. Bishop requested Committee affirmation that the following actions taken are appropriate: the purchase of refunded service will be manual until future system modifications can be made, members who overpaid will be refunded the overpayment amount, and members who underpaid will have their PPS contracts honored at the lower price. The Committee unanimously affirmed the actions of the Director described above and in further detail in the memo to the Committee.

Upcoming B&A Committee Meetings

The Committee's next scheduled meeting is June 11, 2019 at 1:30 p.m., if needed. Remaining meetings are:

- October 16, 2019 at 1:00 p.m.
- November 19, 2019 at 1:00 p.m.

Mr. Nason thanked Mr. Harris for his report.

Legislative Update

Ms. Bishop reviewed legislation presented in the 2019 General Assembly session.

Budget Update

Ms. Peeks presented the July 2018 to February 2019 Budget Variance Report. The report reflected VRS year-to-date information.

Report of the Director

Ms. Bishop began her report by updating the Board on New Coverage Elections. She then reviewed the FY 2019 Roadmap. Ms. Bishop reported that VRS is still keeping track of the progress on the Cardinal payroll system. The host agency, the Department of Accounts (DOA), continues to evaluate its revised project schedule. VRS has completed all requirements to date and will resume project activities when

the new project schedule is released. She explained that Modernization Phase 4's development pace, complexity of business logic and externalities have impacted the project schedule, but Phase 4 is set to go live in spring of 2019.

Ms. Bishop noted that contributions by VRS employees to the Commonwealth of Virginia Campaign (CVC) increased by 12% this year, with over \$35,000 provided through direct donations or VRS employee fund raising activities.

Ms. Bishop announced that VRS has been selected as a finalist for the PLANSPONSOR plan sponsor of the year award in the Public Defined Contribution Plan Category. VRS will be notified on March 28, 2019 of the outcome. VRS has also been named as a finalist in the Pension & Investments' 2019 Eddy Awards program for the agency's Financial Wellness Program. Winners will be notified of placement (1st, 2nd or 3rd) on March 11, 2019.

Mr. Nason thanked Ms. Bishop for her report.

Litigation Update (Closed Session)

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

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

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

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

NOW, THEREFORE, BE IT RESOLVED, that the Board certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Board.

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

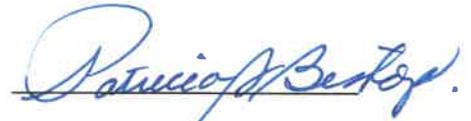
Mitchell L. Nason: Aye
Diana F. Cantor: Aye
Wallace G. Harris: Aye
W. Brett Hayes: Aye
William H. Leighty: Aye

O'Kelly E. McWilliams, III: Aye
Joseph W. Montgomery: Aye
Troilen G. Seward: Aye

There being no further business, the meeting adjourned at 2:30 p.m.



Chair



Secretary

Report

The Benefits and Actuarial Committee met on February 12, 2019 and took up the following matters:

Action Items

The Committee took up the following three action items, with associated requests for Board action.

2019 Cost of Living Adjustments (COLAs)

Ms. Bishop and Mr. Badura presented the recommendations of the VRS plan actuary, Cavanaugh Macdonald Consulting, LLC regarding cost of living adjustments (COLAs). For the Virginia Sickness and Disability Program (VSDP), Mr. Badura advised that the plan actuary recommends an increase in the creditable compensation for VRS pension benefit purposes of 4.00%, effective July 1, 2019; a COLA of 2.44% to be applied to long-term disability (LTD) benefits, after offsets, of eligible VSDP LTD Plan 1 recipients vested prior to January 1, 2013; and a COLA of 2.22% for LTD recipients who are Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members.

Mr. Badura advised that for VLDP, the plan actuary recommends an increase in the creditable compensation used at retirement of 4.00%, effective July 1, 2019. The VLDP plan does not provide for a COLA on LTD benefits being received. The calculations for both COLAs were reviewed by VRS staff and Internal Audit.

Mr. Badura reminded the Committee that the Code of Virginia provides that maximum optional life insurance benefits are to be reviewed every five years, and were last increased in 2014. He advised that the maximum benefit levels are increased by the change in the average CPI-U over the five year period, which was 7.79%. The plan actuary recommends increasing the maximum limits for optional life insurance to \$800,000 for active insured employees, and \$300,000 for active retirees.

The Committee recommends that the Board approve the following three actions, and I so move that:

Request for Board Action: Effective July 1, 2019, for a Plan 1, Plan 2 or Hybrid member who has been the recipient of long-term disability (LTD) benefits for at least one calendar year under the Virginia Sickness and Disability Program (VSDP), a cost of living adjustment will be applied in the amount of (i) 4.00% to the recipient's creditable compensation used for calculating the member's average final compensation at retirement, and a cost of living adjustment to the recipient's net LTD benefit payment of (ii) 2.44% for Plan 1 members vested prior to January 1, 2013, or (iii) 2.22% for Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members.

Request for Board Action: Effective July 1, 2019, each recipient of long-term disability (LTD) benefits under the Virginia Local Disability Program (VLDP) who has been receiving LTD for at least one calendar year, and who ultimately retires directly from LTD, will have a cost of living adjustment applied in the amount of 4.00% to the recipient's creditable compensation.

Request for Board Action: Effective July 1, 2019, the maximum Optional Life, Accidental Death, and Dismemberment insurance coverage for active insured employees shall increase to \$800,000, and the maximum Optional Life insurance coverage for active retirees shall increase to \$300,000.

Informational Items

The Committee also reviewed the following statutory COLAs that do not require Board action:

Post-Retirement Supplement COLAs

VRS cost of living increases are based on the consumer price index for all items, all urban consumers, as published by the Bureau of Labor Statistics of the U.S. Department of Labor. Plan 1 members receive 100% of the first 3% increase in CPI-U and 50% of any increase between 3% and 7%, capped at 5%. Plan 2 and Hybrid plan members receive 100% of the first 2% increase in CPI-U and 50% of any increase between 2% and 4%, capped at 3%. The Plan 1 COLA, effective July 1, 2019, is 2.44%. The COLA for Plan 2 and Hybrid members, also effective July 1, 2019, is 2.22%. These figures were calculated by the VRS plan actuary and verified by VRS and Internal Audit staff. The COLA did not require action by the Committee.

COLA for Hazardous Duty Supplement

Mr. Badura also advised that in accordance with the requirements of the *Code of Virginia*, the Hazardous Duty Supplement is increased biennially using applicable cost of living adjustments published by the Social Security administration since the last applicable increase. The biennial Social Security increase is 4.86%, resulting in an increase in the annual Hazardous Duty Supplement from \$13,584 to \$14,244 for fiscal year 2020. The COLA did not require action by the Committee.

COLA for Group Life Insurance

The COLA for the Group Life Insurance Program minimum benefit for members retired with at least 30 years of service is to be increased by the same COLA applicable to VRS Plan 2 and Hybrid members, or 2.22%, effective July 1, 2019. The new minimum life insurance payout effective July 1, 2019 will be \$8,463. The COLA did not require action by the Committee.

2019 Legislative Update

Ms. Bishop reviewed legislation presented in the 2019 General Assembly session.

Changes to Funding Policy

Ms. Bishop advised that the House has proposed amendments to the Appropriation Act to provide additional VRS contributions and to reduce the OPEB amortization period for the State and Teachers' Health Insurance Credit programs. If these amendments are approved in the final Appropriation Act, VRS may need to revise the funding policy to allow for increased contributions and shorter amortization

periods for these programs. If changes are required in response to the enacted Appropriation Act, proposed revisions to the funding policy will be brought to a future Committee meeting for recommendation to the Board.

Other Business

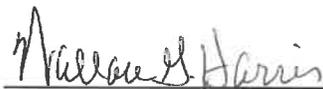
As required by the Committee Charter, Ms. Bishop updated the Committee on a determination, delegated to the Director under the Board Governance Policy, section V(A), regarding purchase of prior service (PPS) that is outside of normal business operations. Ms. Bishop provided a memo to the Committee describing an error in system calculations related to the statutory changes to PPS that were implemented in 2017, and that affected approximately sixty VRS members. In consultation with outside counsel, staff determined that members who overpaid for purchases of refunded service will receive refunds of the overpayment amount, and members who have existing contracts underpaying for refunded service will be honored at the price agreed to in the contract. Ms. Bishop requested Committee affirmation that the following actions taken are appropriate: the purchase of refunded service will be manual until future system modifications can be made, members who overpaid will be refunded the overpayment amount, and members who underpaid will have their PPS contracts honored at the lower price. The Committee moved to affirm the actions of the Director described above and in further detail in the memo to the Committee.

Next Committee Meetings

The Committee's next scheduled meeting is June 11, 2019 at 1:30 p.m., if needed. Remaining meetings are:

- October 16, 2019 at 1:00 p.m.
- November 19, 2019 at 1:00 p.m.

Submitted to the Board of Trustees on February 14, 2019.



Wallace G. Harris, Chair
Benefits and Actuarial Committee