



We welcome visitors and remind you that public comment is not received at VRS meetings.

Written comments may be sent by:

- Email: trustees@varetire.org
- Mail: P.O. Box 2500, Richmond, VA 23218

About VRS

The Virginia Retirement System, an independent state agency, delivers retirement and other benefits to covered Virginia public sector employees. Learn more at varetire.org.



Benefits and Actuarial Committee (B&A) Meeting

901 East Cary Street
James Center, 4th Floor
Wednesday, 6/17/2026
9:00 - 10:00 AM ET

I. Welcome and Introductions

II. Approve Minutes

- **February 4, 2026**

B&A Minutes 02.04.2026 final - Page 3

III. Election of Committee Vice Chair

IV. Early Retirement Factors Study

ERF Project Update 2.24.26 - Page 7

V. Information Items

- **Group Life Insurance**

- Review decrease in optional life rates, effective July 1, 2026.

- **Stress Test and Sensitivity Analysis Report**

Stress Test Sensitivity Analysis June 2026 B&A Final - Page 35

Minutes

A regular meeting of the Virginia Retirement System Benefits and Actuarial Committee was held on February 4, 2026, in Richmond, Virginia with the following members participating:

John M. Bennett, Chair
Lindsey K. Pantele, Vice Chair
Jessica L. Hood

Board members participating:

Lawrence A. Bernert, III, Board Vice Chair (*remotely from Virginia Beach, VA under § 2.2-3708.3(B)(3)*)
J. Clifford Foster, IV

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Rory Badura, Ty Bowers, Jessica Budd, Dorothy Chiddo, Michael Cooper, Sara Denson, Curtis Doughtie, Antonio Fisher, Robert Irving, Sandy Jack, Angela Payne, Virginia Sowers, Amethyst Sloane and Emily Trent.

Guests:

Jacob Hodges, Encore; and Alexandra Jansson, Joint Legislative Audit and Review Commission

The meeting convened at 1:01 p.m.

Opening Remarks

Mr. Bennett called the meeting to order and welcomed everyone to the February 4, 2026, meeting of the VRS Benefits and Actuarial Committee. Mr. Bennett noted the meeting was being held in accordance with § 2.2-3708.3(B)(3) of the *Code of Virginia* and advised that no public comment would be accepted at the meeting. Members of the public who wish to submit comments may email the Board at trustees@varetire.org or by mail at P.O. Box 1200, Richmond, VA 23218.

Next, Mr. Bennett took attendance with the following roll call:

Ms. Hood: Present.
Ms. Pantele: Present.
Mr. Foster: Present.
Mr. Bernert: Present.
Mr. Bennett: Present.

Approval of Minutes

Upon a motion by Ms. Pantele, with a second by Mr. Foster, the Committee unanimously approved the minutes of its November 12, 2025, meeting.

Overview of Cost-of-Living Increases

Rory Badura, Senior Staff Actuary, presented an overview of the 2026 cost-of-living adjustments (COLAs). Mr. Badura advised that per § 51.1-166 of the *Code of Virginia*, COLAs are to be based on the monthly CPI-U averages and, while the month of October was not reported due to the federal government shutdown, the Bureau of Labor Statistics published the 11 month average for 2025, which was used in the calculations to determine the annual post-retirement increases.

Virginia Sickness and Disability Program

Gabriel, Roeder, Smith & Company (GRS), the plan actuary, provided VRS staff with recommendations regarding statutory annual adjustments to the Virginia Sickness and Disability Program (VSDP) creditable compensation for members receiving long-term disability. For VSDP, Mr. Badura advised that the Plan Actuary recommends an increase in the creditable compensation for VRS pension benefit purposes of 4.00%, effective July 1, 2026. In addition, a cost-of-living adjustment (COLA) in the amount of 2.63% shall be applied to long-term disability (LTD) benefit payments for Plan 1 members vested prior to January 1, 2013. A COLA of 2.32% shall be applied for Plan 1 members not vested prior to January 1, 2013, and all Plan 2 and Hybrid Retirement Plan members who have been recipients of LTD benefits for at least one year.

The calculations were reviewed by VRS staff and Internal Audit.

Virginia Local Disability Program

Next, Mr. Badura reviewed the Plan Actuary's recommendations regarding increases in the Virginia Local Disability Program (VLDP) creditable compensation. Increases in VLDP creditable compensation are calculated each year based on the combined average increase in the pay rate for Teachers and Political Subdivisions participating in the Hybrid Retirement Plan at the beginning and end of the most recent plan year before the date of determination of the COLA. These increases are not applied on an annual basis but are applied to a member's average final compensation if the member retires directly from long-term disability.

Mr. Badura advised the VLDP increase in creditable compensation for VRS pension benefit purposes will be 4.00%. Unlike VSDP, members of VLDP do not receive a cost-of-living adjustment on LTD benefits. The calculations for the increase in creditable compensation were reviewed by VRS staff and Internal Audit.

Following some discussion, the Committee considered the proposed requests for board action.

Upon a motion by Ms. Pantele, with a second by Mr. Foster, the Committee recommended approval of the following action to the full Board of Trustees:

RBA: Approval of July 1, 2026, increases relating to VSDP creditable compensation and VSDP COLA.

Request for Board Action: *Effective July 1, 2026, the following increases shall apply:*

- *The creditable compensation used in calculating the member's average final compensation at retirement shall be increased in the amount of 4.00% 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); and*
- *A cost-of-living adjustment shall be applied to the net LTD benefit payment of 2.63% for Plan 1 members vested prior to January 1, 2013, or 2.32% for Plan 1 members not vested by January 1, 2013, and all Plan 2 and Hybrid members.*

Upon a motion by Ms. Pantele, with a second by Mr. Foster, the Committee recommended approval of the following action to the full Board of Trustees:

RBA: Approval of July 1, 2026, increase relating to VLDP creditable compensation.

Request for Board Action: *Effective July 1, 2026, each recipient of LTD benefits under the Virginia Local Disability Program (VLDP) who has been receiving LTD benefits for at least one calendar year, and who ultimately retires directly from LTD, will have their creditable compensation at date of disability increased by an amount set by the Board to be used in determining the member's average final compensation for disability retirement. The recommendation applicable to July 1, 2026, is an increase of 4.00% to be applied to a recipient's creditable compensation.*

Information Items

2026 COLAs Called for Under Statute Not Requiring Board Approval

Next, Mr. Badura noted that, by statute, 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. Mr. Badura advised that the COLA increase effective July 1, 2026, of 2.63% is applicable to eligible Plan 1 members vested prior to January 1, 2013. A COLA increase of 2.32% is applicable to Plan 1 members not vested prior to January 1, 2013, and all Plan 2 and Hybrid Plan members effective July 1, 2026. This figure was calculated by GRS, the VRS plan actuary, and verified by VRS and Internal Audit staff. The COLA did not require action by the Committee.

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 members, or 2.32%, effective July 1, 2026. The new minimum life insurance payout, effective July 1, 2026, will be \$9,995. The Group Life Insurance Program minimum did not require action by the Committee. The calculations were reviewed by VRS staff and Internal Audit.

Mr. Bennett thanked Mr. Badura for his presentations.

Legislative Update

Sandy Jack, Director of Policy, Planning and Compliance, provided an update on the VRS-related legislation in the 2026 General Assembly session.

Mr. Bennett thanked Ms. Jack for her report.

Other Business

Lastly, Mr. Bennett noted the Committee is scheduled to meet next on April 15, 2026¹. The Investment Policy Committee will meet on February 5 at 11:00 a.m., followed by the full Board of Trustees at 1:00 p.m.

Adjournment

Upon a motion by Ms. Pantele, with a second by Mr. Foster, the Committee agreed to adjourn the meeting.

There being no further business, the meeting concluded at 1:36 p.m.

Date

John M. Bennett, Chair
Benefits and Actuarial Committee

¹ The April 15, 2026, meeting was subsequently cancelled.

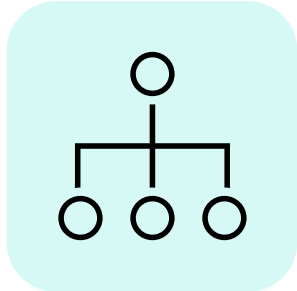


Factors Study – Early Retirement Reduction Factors (ERFs)

- Factor Study Update – Phase 2 Early Retirement Factors
- What are Early Retirement Factors (ERFs)
- VRS Factors by Plan Type
- VRS Early Retirement Statistics
- What do other State Systems use as ERFs?
- Observations and Recommendations



Factors Study



- VRS optional form factors and early retirement reduction factors should be based on actuarial equivalence methods per statute.
 - There have been several updates to plan discount rate and mortality tables which impacts actuarial equivalence, therefore review was needed.
- First phase was optional form factors which were implemented in August 2024. Changes were made to reflect new mortality and discount rates.



- Joint and Survivor
 - Partial Lump-Sum Option (PLOP)
 - Advanced Pension Option (APO)
-
- **Second phase is a review of early retirement reduction factors.**

- What are Early Retirement Factors (ERFs)



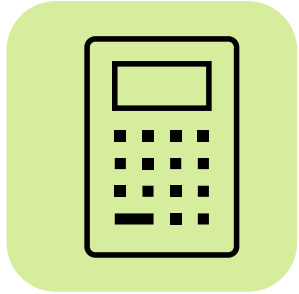
Early Retirement Eligibility



- Pension plans are generally designed to produce a benefit that starts at normal retirement age:
 - Plan 1 – Age 65 or any age after 50 if 30 years of service
 - Plan 2/Hybrid Retirement Plan – Social Security normal retirement age (SSNRA) or any age if age plus service equals 90
 - Hazardous Duty – Age 60 or age 50 with 25 years of service

- However, VRS plans allow you to retire with a reduced benefit earlier than those ages if you meet certain criteria:
 - Plan 1 – Age 55 with five years of service or age 50 with 10 years of service
 - Plan 2/Hybrid – Age 60 with five years of service
 - Hazardous Duty – Age 50 with 5 years of service

Early Retirement Factors



- The Code of Virginia states that members who meet certain eligibilities may commence benefits prior to normal retirement.
- In an effort to “equalize” the value that a member will receive from the fund the retirement allowance is to be reduced on an actuarial equivalent basis for the period by which the actual retirement date precedes the unreduced retirement date.

Early Retirement Factors - Methods

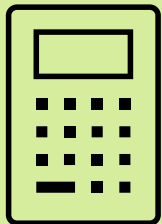
True Actuarial Equivalent

Reductions based on life expectancy (mortality tables) and plans expected investment returns (interest rates).

Actuarial Adjacent - Fixed-Rate

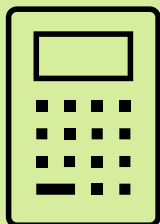
A popular alternative method is to use fixed-rate reductions based on age or service, such as 5% reduction per year.

Early Retirement Factors – Fixed Rate



- VRS currently uses fixed-rate reductions.
- Fixed rate reduction factors carry a similar risk profile or economic impact as true actuarial equivalents and provides comparable results while being easier to administer and communicate with members.
- Reasonable and actuarially acceptable method for early retirement reduction factors.

Early Retirement Factors – Fixed-Rate



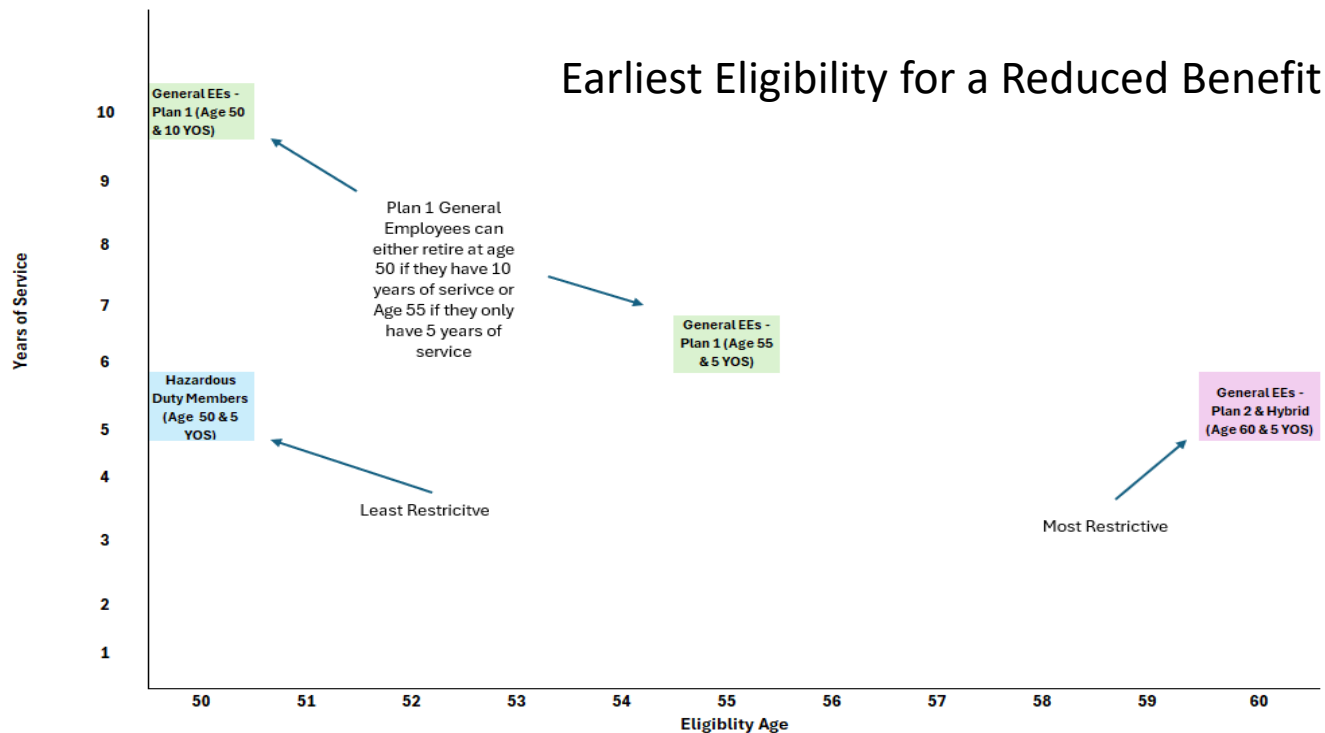
- Fixed rate reduction factors often include a subsidy or provide a slightly more valuable benefit than a true actuarial equivalent, meaning the employer covers some of the cost of the earlier retirement.
- Most prevalent method used by State retirement systems.
- Easier for members to understand.
- Updating needed less frequently since not tied directly to plan assumptions.

VRS Early Retirement Reductions Factors



- VRS uses fixed-rate reductions.
- Three different fixed-rate tables are required due to varying retirement eligibilities amongst covered members.
- Basis for developing reduction factors is similar for all three tables:
 - Plan 1, Plan2/Hybrid, Enhanced Hazardous Duty
 - Flat percentage reduction from Normal Retirement age to age of early commencement

Early Retirement Eligibility



- Hazardous Duty members are able to retire at age 50 with 5 years of service.
- General employees in Plan 1 can retire at age 55 with 5 years of service or age 50 with 10 years of service.
- General employees in Plan 2 or Hybrid are not eligible to retire until age 60 with 5 years of service.

VRS Early Retirement Factors



Early Retirements Factors Plan 1

Age	Service	ERF	A.E.	Subsidy
65	30	1.0000	1.0000	0.00%
64	29	0.9400	0.9074	3.59%
63	28	0.8800	0.8248	6.69%
62	27	0.8200	0.7509	9.20%
61	26	0.7600	0.6847	11.00%
60	25	0.7000	0.6252	11.97%
59	24	0.6520	0.5716	14.07%
58	23	0.6040	0.5233	15.43%
57	22	0.5560	0.4795	15.94%
56	21	0.5080	0.4400	15.47%
55	20	0.4600	0.4041	13.85%
54		0.4269	0.3714	14.93%
53		0.3938	0.3417	15.22%
52		0.3606	0.3147	14.60%
51		0.3275	0.2900	12.93%
50		0.2944	0.2675	10.06%

- Reduction of 0.5% for each month prior to unreduced retirement age for the first 60 months, 0.4% reduction for the next 60 months.
- From age 55: 0.6% reduction for each month prior to age 55 back to age 50.

- ERF Reductions range from 6.0% down to 3.3% depending on retirement age. Reductions would need to range from 9.6% down to 2.2% to remove the subsidy.

Early Retirements Factors

Hazardous Duty Plan 1 & Plan 2

Age	Service	ERF	Plan 1		Plan 2	
			Act. Eq.	Subsidy	Act. Eq.	Subsidy
60	25	1.0000	1.0000	0.00%	1.0000	0.00%
59	24	0.9400	0.9143	2.81%	0.9149	2.74%
58	23	0.8800	0.8370	5.14%	0.8380	5.01%
57	22	0.8200	0.7671	6.90%	0.7685	6.70%
56	21	0.7600	0.7037	8.00%	0.7055	7.73%
55	20	0.7000	0.6463	8.31%	0.6483	7.97%
54	19	0.6520	0.5941	9.75%	0.5963	9.34%
53	18	0.6040	0.5467	10.48%	0.5490	10.02%
52	17	0.5560	0.5034	10.45%	0.5058	9.92%
51	16	0.5080	0.4640	9.48%	0.4664	8.92%
50	15	0.4600	0.4279	7.50%	0.4304	6.88%

- Reduction of 0.5% for each month prior to unreduced retirement age for the first 60 months, 0.4% reduction for the next 60 months.

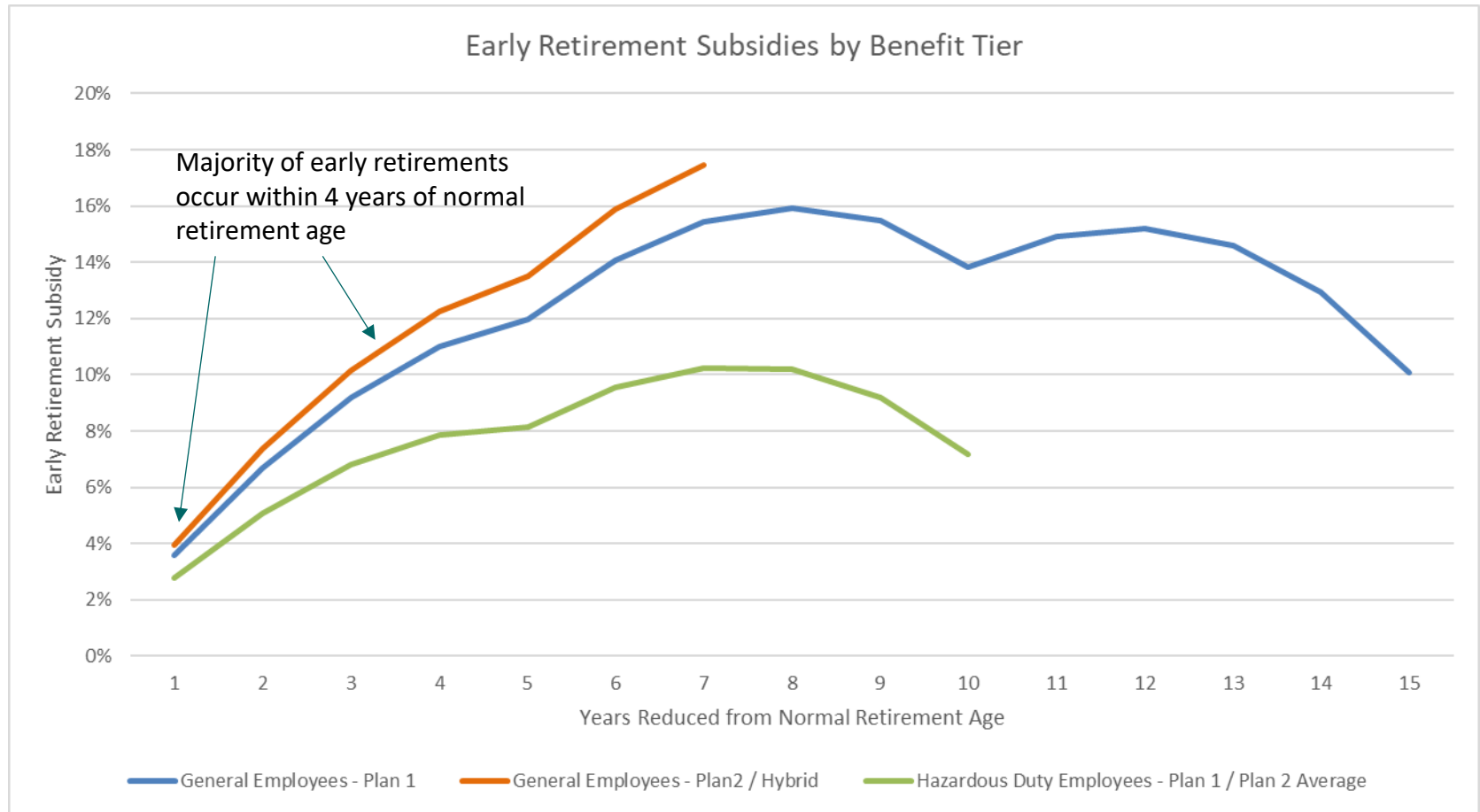
- ERF Reductions range from 6.0% down to 4.8% depending on retirement age. Reductions would need to range from approximately 8.6% down to 3.6% to remove the subsidy.

Early Retirements Factors Plan 2 & Hybrid

Age	1960 or Later			
	Rule90	ERF	Act. Eq.	Subsidy
67	90	1.0000	1.0000	0.00%
66	89	0.9400	0.9045	3.93%
65	88	0.8800	0.8197	7.36%
64	87	0.8200	0.7443	10.17%
63	86	0.7600	0.6770	12.26%
62	85	0.7000	0.6167	13.50%
61	84	0.6520	0.5627	15.87%
60	83	0.6040	0.5141	17.48%

- Reduction of 0.5% for each month prior to unreduced retirement age for the first 60 months, 0.4% reduction thereafter.
- ERF Reductions range from 6.0% down to 4.8% depending on retirement age. Reductions would need to range from 9.6% down to 4.9% to remove the subsidy.

Early Retirement Subsidies by Benefit Tier



- While subsidies exist, the level of subsidies has decreased over time.
- Changes to plan discount rate and mortality tables have caused reductions in subsidies.



- VRS Retirement Plans
Early Retirement
Statistics

Early Retirements by Benefit Tier

Retirements

General Retirees

Benefit Tier	Unreduced	Reduced	Total	% with ERF
Plan 1	126,561	71,297	197,858	36.0%
Plan 2	3,729	4,733	8,462	55.9%
Hybrid	1,361	1,376	2,737	50.3%
Total	131,651	77,406	209,057	37.0%

- Approximately 36% of Plan 1 members retired with a reduced benefit.

Hazardous Duty Retirees

Benefit Tier	Unreduced	Reduced	Total	% with ERF
Plan 1	14,213	3,982	18,195	21.9%
Plan 2	403	275	678	40.6%
Total	14,616	4,257	18,873	22.6%

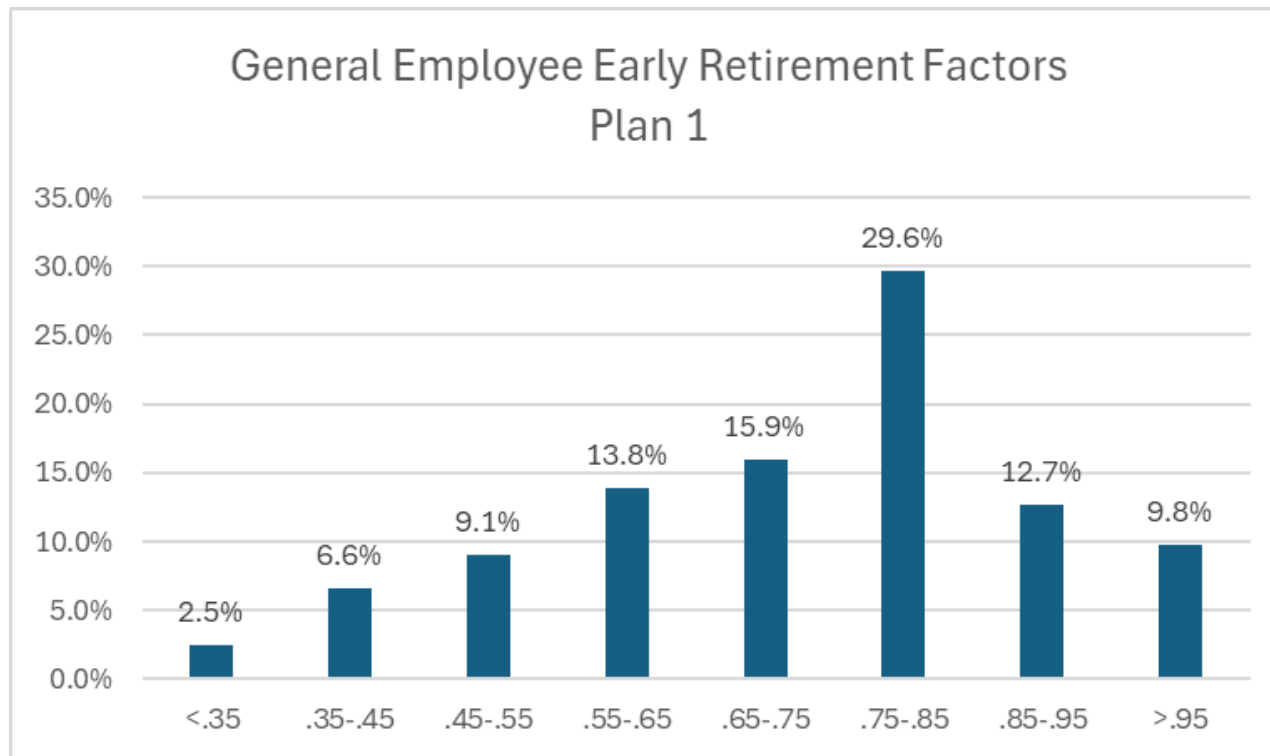
- Approximately half of Plan 2 and Hybrid members are retiring with a reduced benefit.

Total Retirees

Benefit Tier	Unreduced	Reduced	Total	% with ERF
Plan 1	140,774	75,279	216,053	34.8%
Plan 2	4,132	5,008	9,140	54.8%
Hybrid	1,361	1,376	2,737	50.3%
Total	146,267	81,663	227,930	35.8%

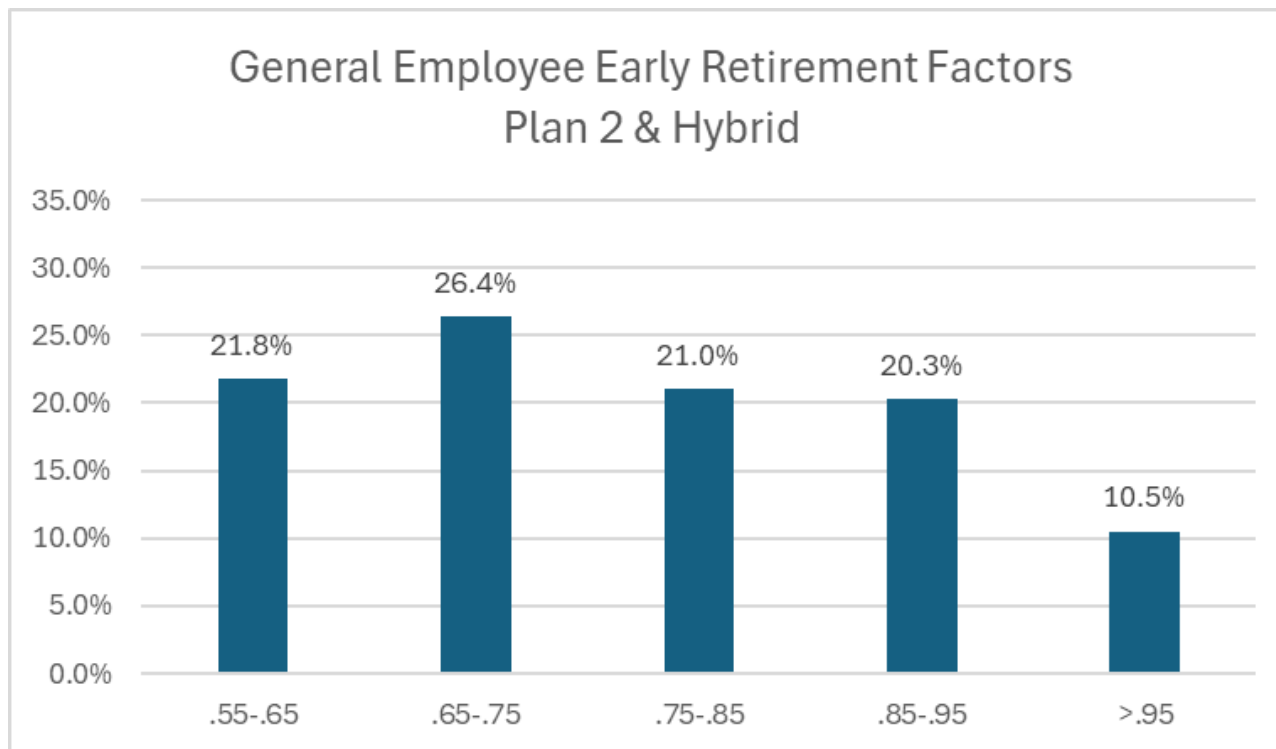
- Increase in early retirements with Plan 2 and Hybrid likely due to increase in retirement eligibility age for these benefit tiers.

Early Retirements Reductions by Benefit Tier



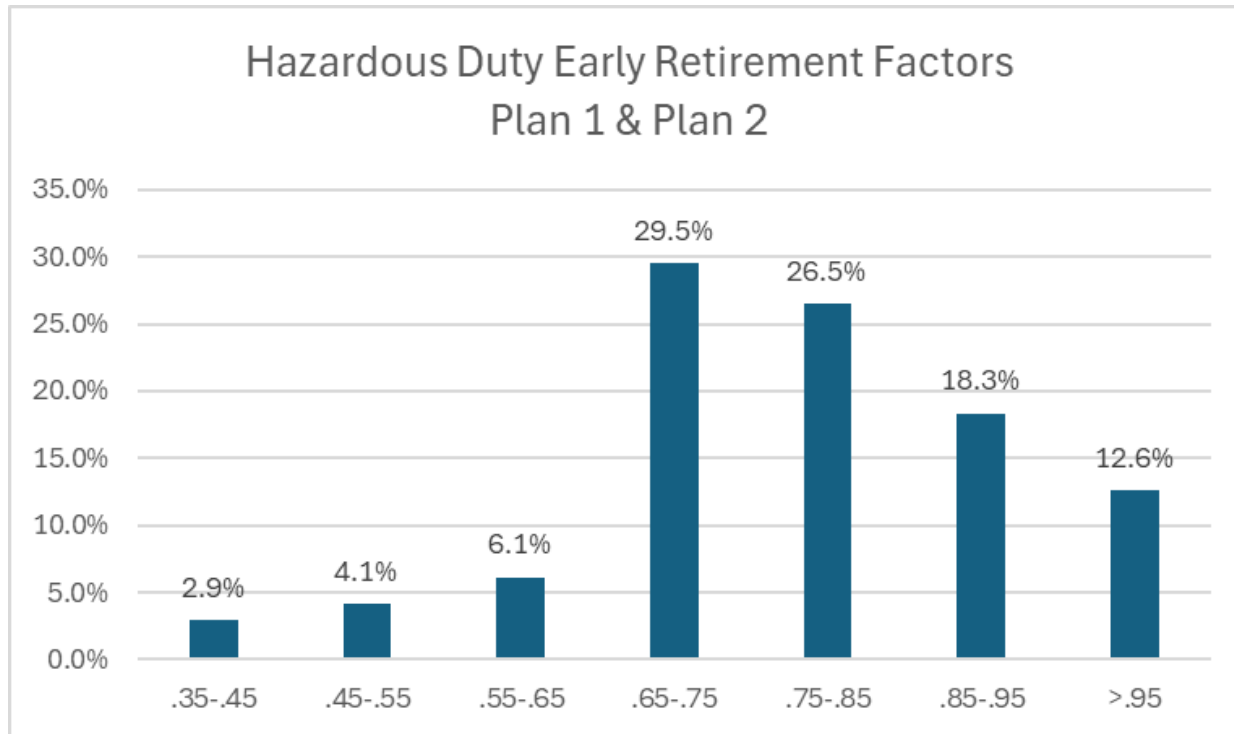
- Over 52% of early retirements in have a reduction of less than 25%.
- This would equate to approximately age 61 or 26 years of service at retirement.

Early Retirements Reductions by Benefit Tier



- Over 52% of early retirements have a reduction of less than 25%.
- This would equate to approximately age 63 or Rule of 90 of 86 at retirement.

Early Retirements Reductions by Benefit Tier



- Over 57% of early retirements have a reduction of less than 25%.
- This would equate to approximately age 56 or 21 years of service at retirement.



- How do VRS early retirement factors compare to other State retirement systems?

Comparison to Other State Plans

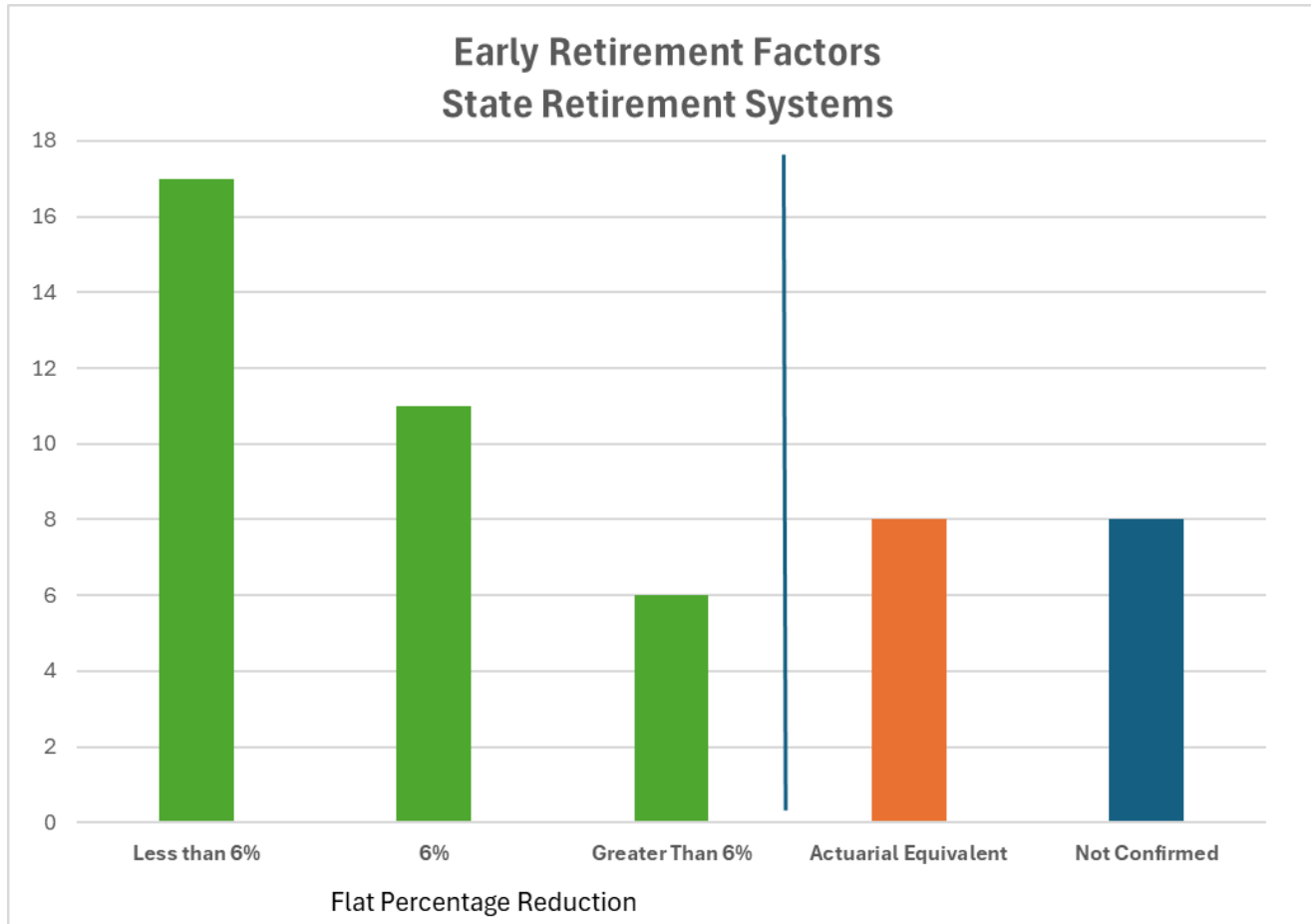


- Public Sector plans use either:
 - Flat percentage per year (like 3-6%), or
 - Actuarial equivalent reduction factor

- Nearly 70% of State plans use a flat percentage reduction rather than a true actuarial equivalent*.
 - VRS also uses a flat percentage reduction.

** National Association of State Retirement Systems (NASRA) provided details related to early retirement factors used by other State retirement systems*

Comparison to Other State Plans



Public sector pension plans with flat percentage reductions often include an **early retirement subsidy** because the reductions are not strictly **actuarially equivalent**.

VRS uses flat factor reductions that starts at 6% and reduces below 6% at earlier retirement ages.

- Observations and Recommendations



Observations



- Current approach for calculating early retirement factors is well within common practice among statewide public sector plans.
- Flat percentage easier to communicate and understand.
- Use of actuarial equivalent factors could require more frequent updates if underlying assumptions change during quadrennial experience studies.

Observations (continued)



- While subsidy is larger for Plan 2 and Hybrid members, eligibility to retire early is more difficult to achieve than Plan 1 general employees and hazardous duty members.
- GRS reviewed all analysis and provided that “VRS early retirement factors are well within common practice among State retirement systems both in terms of the use of simple factors and the subsidies provided”.

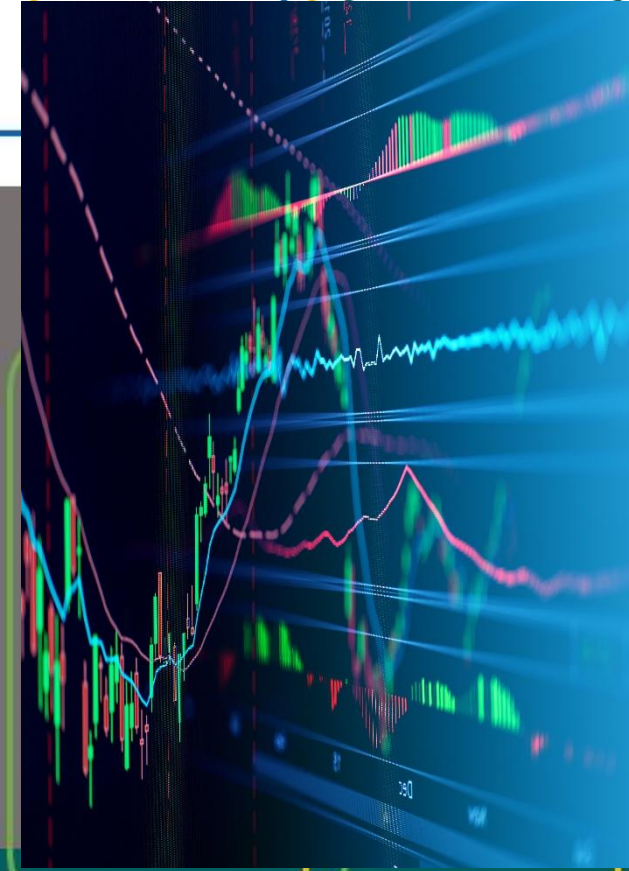
Recommendation

- Maintain current structure and continue to monitor early retirement patterns as Plan 2 and Hybrid retirements become more prevalent.
- Review actual experience during next quadrennial assumption review in 2029.

VRS Stress Test and Sensitivity Analysis

Report Summary

June 2026



Stress Testing and Sensitivity Analysis Mandate

- In accordance with § 51.1-124.30:1 of the Code of Virginia, VRS has adopted a policy to regularly report sensitivity and stress testing analyses for members of the General Assembly.
- Stress testing assesses the financial resilience of VRS plans against adverse economic conditions. It helps to highlight vulnerabilities in investment strategies and funding policies to help minimize or avoid unfavorable outcomes.
- The report provides an analysis of the potential impact of various economic scenarios and hypothetical situations on VRS-administered retirement plans and supports transparency for the future health of the retirement system.

VRS Stress Test and Sensitivity Analysis

Based on June 30, 2025 Actuarial Valuations

Report includes:

- Economic scenario testing
- Review of other risks to plan funding
- Strategies to enhance funding



VRS Stress Test and Sensitivity Analysis

Report to the General Assembly of Virginia

June 2026

- Consecutive years of higher than assumed rates of return have contributed to improving the funded status and lowering the employer contribution rates for both the retirement and other post-employment benefits (OPEB) plans.
- Recent uncertainty in the markets highlights the need to explore opportunities to further strengthen the health of the plans.
 - Markets started strong in fiscal year 2026, but as of this writing geopolitical uncertainty is creating volatility in the markets.
 - Uncertainty also exists related to a variety of causes, including tariffs, inflation concerns, lower net immigration, and the potential for an AI bubble.

- Cash flow requirements across all benefit plans are expected to trend higher over the next 10 years due to anticipated increases in retirements and decreases in employer contribution rates.
- Analysis suggests that accelerating the payback of the legacy unfunded liabilities could provide significant long-term savings and better position the statewide plans to weather future volatility in investment returns, serving to reduce investment risk.
- As plan health has improved, legislative proposals looking to expand benefits have begun to increase. Expansion of benefits across pension and OPEBs without corresponding immediate funding to cover the increases in liabilities is not recommended, especially while plans remain funded below 100%.

Future Risk Analysis

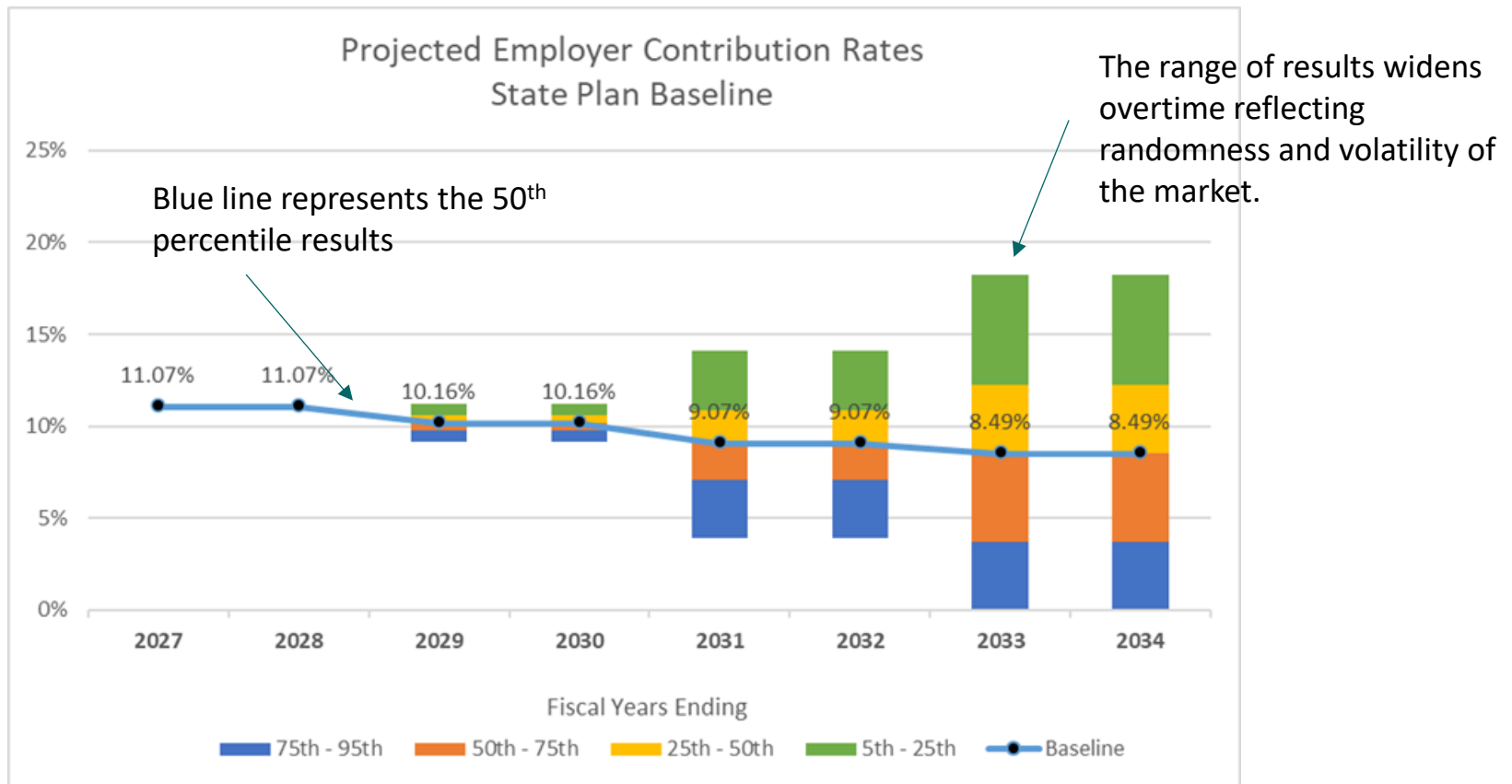
Capital Market Outlook and Target Allocation

VRS Target Allocation

Asset Class	2025			2024		
	Wt.	Exp.Ret	Exp.Vol	Wt.	Exp.Ret	Exp.Vol
Public Equity	32.0%	6.6%	15.5%	33.0%	6.7%	16.2%
Private Equity	16.0%	8.6%	22.4%	16.0%	8.7%	22.5%
Real Assets	14.0%	7.1%	10.2%	14.0%	7.2%	10.5%
Credit Strategies	16.0%	8.2%	6.3%	14.0%	8.1%	6.9%
Diversifying Strategies	5.0%	6.8%	4.2%	4.0%	5.8%	4.6%
Private Investment Partnerships	2.0%	7.9%	16.1%	2.0%	8.0%	16.6%
Fixed Income	16.0%	5.1%	5.4%	16.0%	5.4%	5.7%
Cash	2.0%	4.1%	0.1%	2.0%	3.0%	0.1%
Leverage	-3.0%	4.6%	0.1%	-1.0%	3.5%	0.1%
Total Fund		7.1%	10.5%		7.1%	11.0%

- VRS Investment Team outlook as of fiscal year end 2025 continued to support 6.75% discount rate with slight drop in volatility in 2025 allocation.
- This becomes our baseline scenario.

Stochastic modeling uses probability theory and random-variable simulations to produce a range of results, rather than a single answer, that correspond to thousands of different simulated economic scenarios.



Selected scenarios will be measured against the baseline result.

When analyzing the impacts of the scenario testing, we focus on three key measures:

**Employer
contribution
rates**

**Plan funded
status**

Assets as
compared to
liabilities

**Liquidity or
Cash flow**

Benefit
payments and
expenses minus
contributions

Scenario Testing

Unexpected or Unpredictable Events

- The VRS investment team compiled economic scenarios that provide framing of global economic outcomes that could possibly occur over the next several years.
- Although merely illustrations, the scenarios help to highlight the vulnerability of the fund to unexpected market shocks and the magnitude by which these scenarios can quickly degrade funded status and accelerate employer contributions requirements.

Scenario Testing

Unexpected or Unpredictable Events

Baseline

Assumes we consistently meet are expected long-term rate of return assumptions.

Productivity Boost

Productivity gains fuel ongoing growth with muted inflationary impacts given more efficient production.

Secular Stagflation

Slow growth and productivity. Global growth slows on tariffs and trade policy.

Technology Bubble

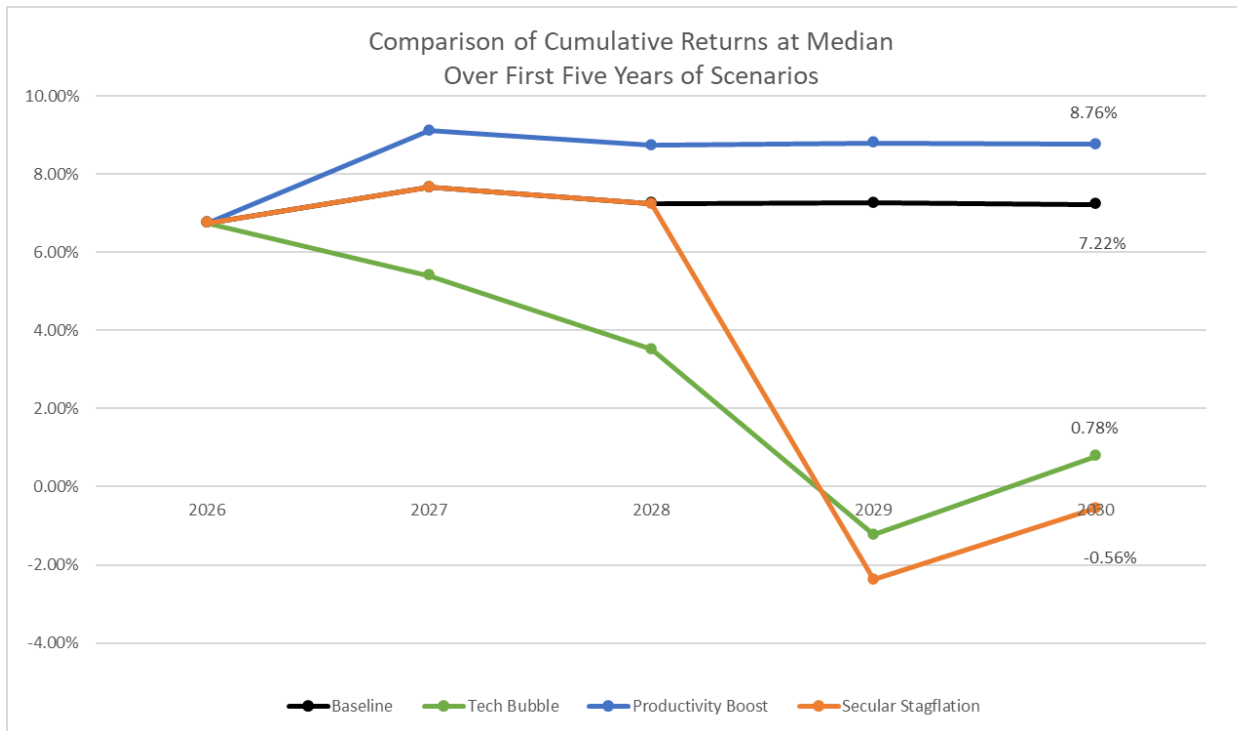
Reminiscent of surge in share prices on tech stocks seen in 1990s. Includes correction and bear market lasting two years.

There is no degree of certainty that any of these scenarios will correctly simulate what will actually occur over the next several years.

Future Risk Analysis

Economic Scenarios – Rates of Return

- Scenarios with negative impacts occur within the first five years of the scenario.



Estimated average return over first five years

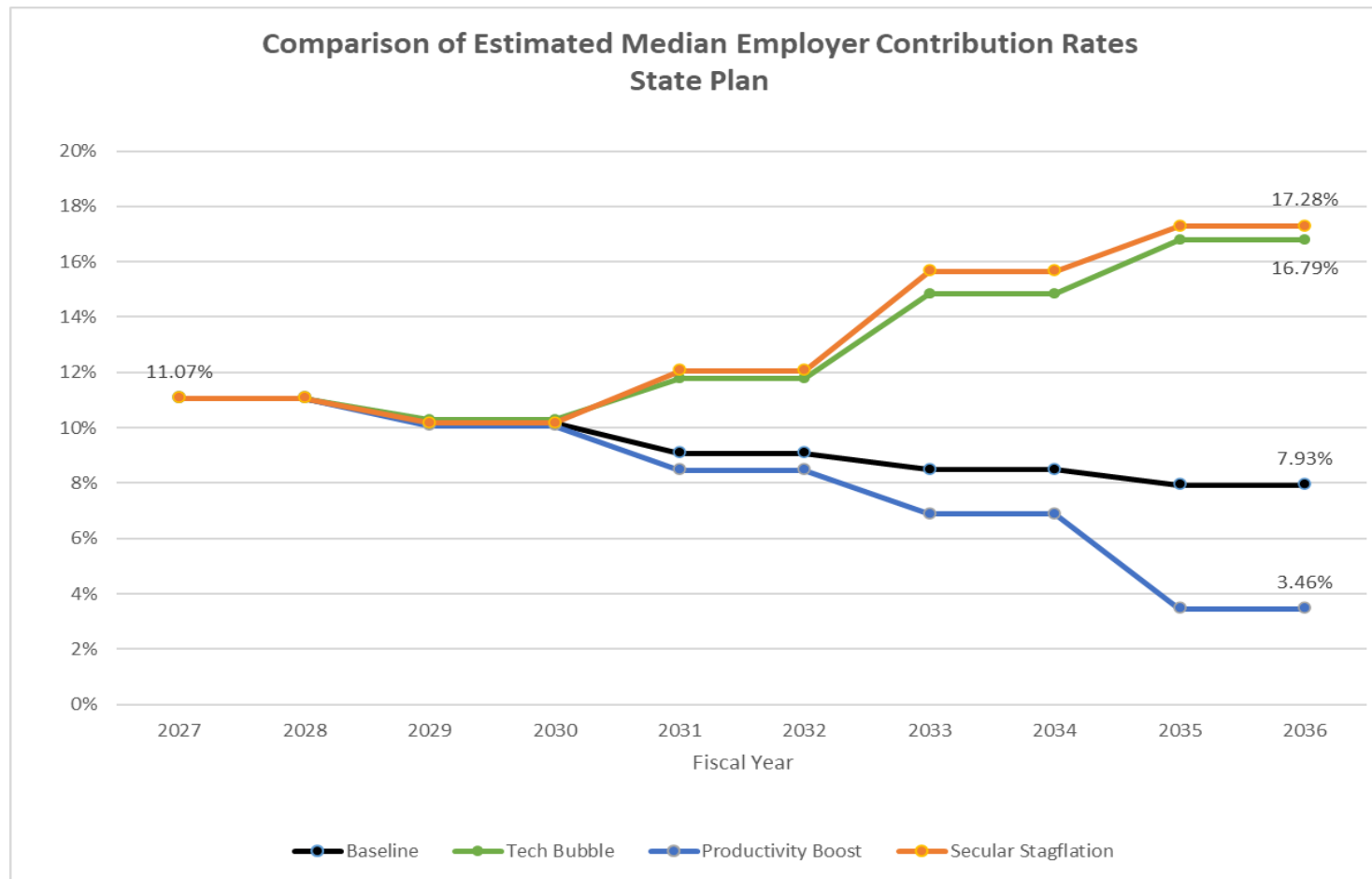
Baseline: 7.13%
 Tech Bubble: 1.95%
 Productivity Boost: 8.35%
 Secular Stagflation: 0.86%

Large investment losses require disproportionately higher gains to recover. A 20% investment draw down needs a 25% return to recover to original value. (Volatility Drag).

Future Risk Analysis

Employer Contribution Rates

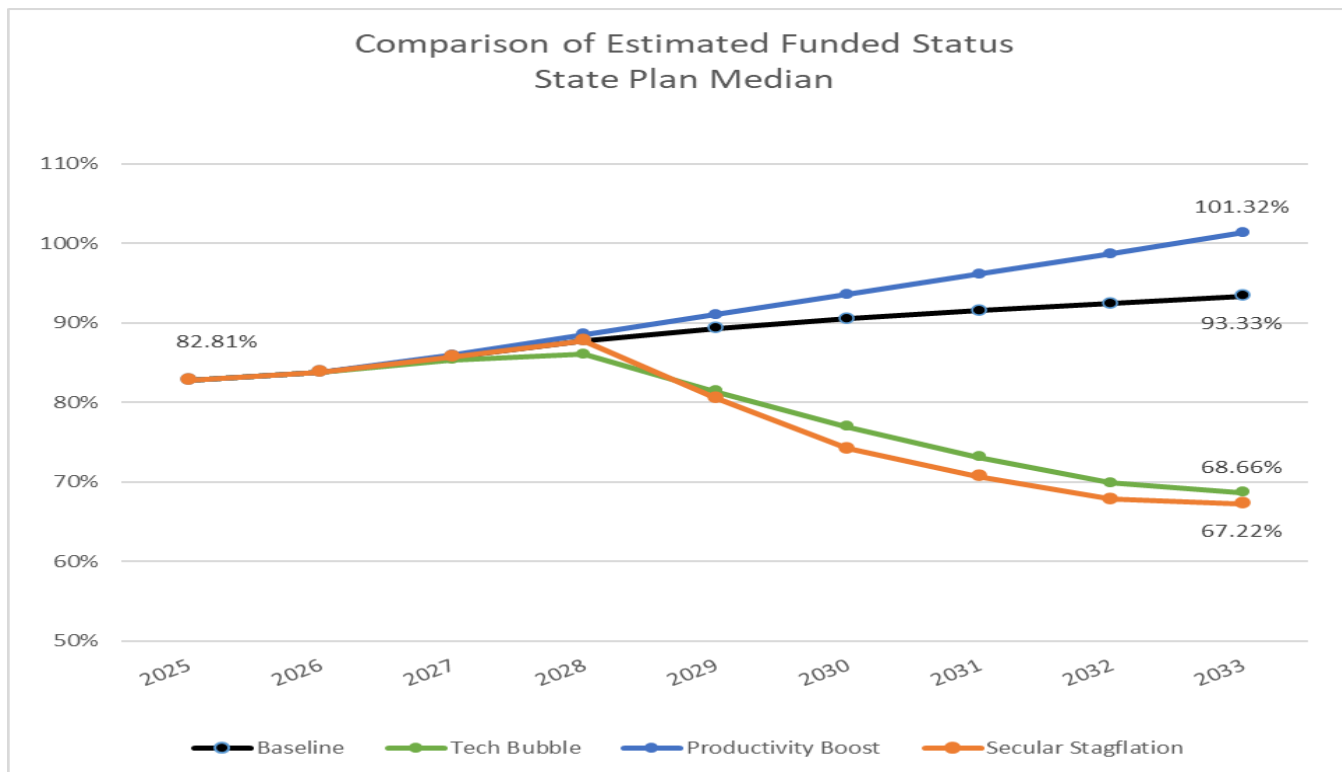
- Full impact market shocks are not immediate due to actuarial smoothing.
- It can take 6-8 years to fully reflect impacts in employer rates.



Future Risk Analysis

Plan Funded Status

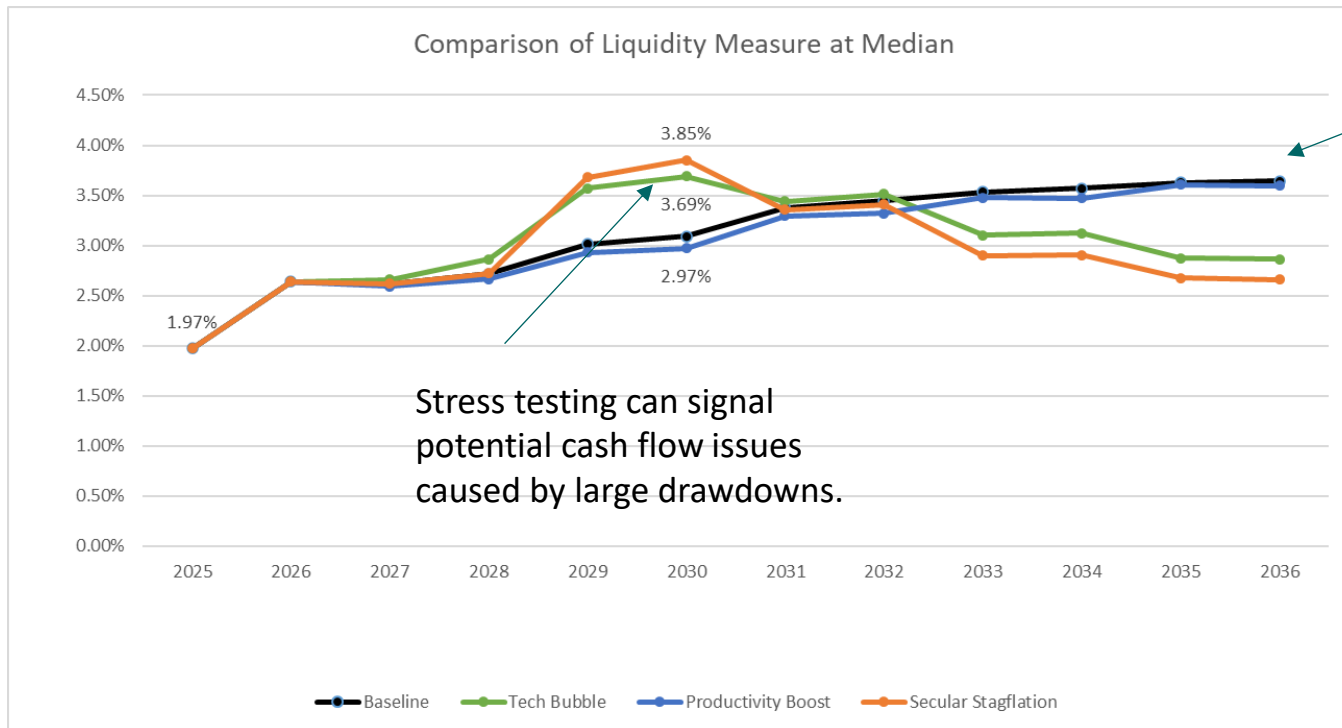
- While funded status is impacted sooner, paying down liability losses can take up to 20 years due to amortization policy.
- The magnitude of the drop is impacted by the duration of returns below the assumed rate of return.



Future Risk Analysis

Liquidity / Cashflow

- VRS pension plans are mature, therefore benefit payments exceed plan contributions (cash flow negative).
- The liquidity measure essentially represents the investment return needed to be cash flow neutral. The higher the liquidity percentage the higher benefit payments and expenses are of the total assets.



As contributions decrease under favorable conditions, plan will be more reliant on investment returns to keep plan cash flow neutral.

Other Risks

Item	Current Assumption	Impacts	Contribution Impacts	Cash Flow Impacts
Inflation	2.50%	Benefit Payments & Liabilities	Amortized over 20 Years	Immediate
Merit Increases	Variable based on Age & Service	Payroll & Normal Cost Rates	Immediate	Immediate
Longevity	Improvements factored in each year	Liabilities	Amortized over 20 Years	Small Impact Immediately
Unanticipated Retirements	Based on Plan Experience & Updated Every 4 Years	Benefit Payments, Covered Payroll, and increased Cash Flow	Amortized over 20 Years	Immediate
Workforce Reduction	Not Assumed	Lower Normal Cost but also Lower Covered Payroll	Immediate	Smaller Contributions but higher rates as percentage of payroll. Shifting costs in cost-sharing plans.
Legislative Changes	Not Assumed	Depends on Design	Depends on Design	Most Likely Immediate
Contribution Risk	100% of Actuarially Determined Contribution will be made	Cash Flow and Unfunded Liabilities	Amortized over 20 Years	Immediate Impact puts pressure on investment income to cover cash flow needs
Artificial Intelligence	Not Assumed	Varies	Varies	Developing

- List of non-investment related risks that can have a significant impact on plan funding.
- Higher Inflation and legislative efforts to expand benefits have been recent challenges.
- AI is new risk that is could have impacts on workforce, investments, and administration.

Strategies to Enhance Funding

- Opportunities exist to proactively address some of these concerns and to better position the retirement plans to provide financial stability for current and future members of VRS.
- Accelerating payback of the legacy unfunded liability has the potential to save billions in future employer contributions while enhancing the funded status of the retirement plans. As economic conditions permit, this could be achieved by:

Reducing amortization periods for remaining legacy unfunded payments.

Maintaining higher employer contribution rates when positive experience would allow for a reduction in employer rates.

Ad hoc cash infusions to pay down unfunded liabilities

Avoiding the expansion of benefits while plans remain underfunded.

- Due to the current economic conditions, including higher inflation, slowing growth, and geopolitical developments, analysis of future impacts on the VRS fund will continue as new information becomes available.
- While actions taken by the Governor and General Assembly, including maintaining higher contribution rates and infusing additional dollars, serve to improve plan health, these actions do not immunize the fund from downside risk because unfunded liabilities remain.
- VRS will continue to monitor the health of the plans and is committed to providing robust analysis for consideration by the Board and other key stakeholders.