



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, 10/14/2026
1:00 - 3:30 PM ET

I. Welcome and Introductions

II. Approve Minutes

- **June 17, 2026**

B&A Minutes 06.17.2026 final - Page 3

III. Election of Committee Vice Chair

IV. VRS Funding Policy Statement Amendments

RBA - Amendments to Funding Policy Statement - Page 6

Funding Policy Update - Surplus 10.14.26 - Page 8

VRS Funding Policy 10.1.26 redlined - Page 16

VRS Funding Policy 10.1.26 clean - Page 33

V. Actuarial Valuation Results for the Five Statewide Retirement Plans, Group Life Insurance, State and Teacher Retiree Health Insurance Credit, and the Virginia Sickness and Disability Program (includes self-funded Long-Term Care)

RBA - Accept Plan Valuations - Page 48

October 14 2026 StatewideBNA - Page 49

Minutes

A regular meeting of the Virginia Retirement System Benefits and Actuarial Committee was held on June 17, 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
William H. Leighty

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Rory Badura, Cassandra Coles, Michael Cooper, David Cotter, Sara Denson, Curtis Doughtie, Antonio Fisher, Robert Irving, Leslie LaBrie, Angela Payne, Paula Reid and Virginia Sowers.

Guests:

NaTosha Palmer, Securian Financial.

The meeting convened at 9:01 a.m.

Opening Remarks

Mr. Bennett called the meeting to order and welcomed everyone to the June 17, 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. Leighty: Present.
Mr. Bernert: Present.
Mr. Bennett: Present.

Approval of Minutes

Upon a motion by Ms. Pantele, with a second by Mr. Leighty, the Committee unanimously approved the minutes of its February 4, 2026, meeting.

Election of Committee Vice Chair

Following a nomination by Ms. Pantele, the Committee unanimously elected Ms. Hood to serve as Committee Vice Chair.

Early Retirement Factors Study

Rory Badura, Senior Staff Actuary, presented an update on the Early Retirement Factors Study to the Committee. Mr. Badura advised the first phase of the factors study involved updating the optional form factors to reflect the new mortality and discount rates for joint and survivor options, partial lump-sum option (PLOP), and the advanced pension option (APO). The new optional form factors went into effect for retirements after August 1, 2024. The second phase of the study is a review of the early retirement reduction factors.

Mr. Badura noted the *Code of Virginia* allows members who meet certain eligibility criteria to receive benefits prior to normal retirement and, in an effort to equalize the value that a member will receive from the Fund, such retirement allowance will be reduced for the period by which the actual retirement date precedes the unreduced retirement date. VRS currently uses fixed-rate reductions rather than a true actuarial equivalent. This method is used by most State retirement systems as it is easier to communicate and requires less frequent updating; however, it does provide a subsidy that varies by age and service.

Mr. Badura advised the Plan Actuary, Gabriel, Roeder, Smith & Company (GRS), reviewed the data and determined the 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. At this time, staff recommends maintaining the current structure and will continue to monitor early retirement patterns as Plan 2 and Hybrid retirements increase and will review the actual experience during the next quadrennial assumption review in 2029.

Mr. Bennett thanked Mr. Badura for his presentation.

Information Items

Group Life Insurance

Robert Irving, Customer Services Director, presented an administrative update regarding recommendations for the Group Life Insurance premium rate to the Committee. Mr. Irving advised VRS' third-party administrator, Securian Financial, administers the life insurance program which provides members with opportunities to purchase optional life insurance coverage. Reviews of premium rates are conducted annually and recommendations to maintain, increase or reduce rates are provided to VRS. Mr. Irving advised the recommendation, effective July 1, 2026, is an overall reduction of 3.00% for those aged 50-70 in the optional life insurance premiums for certain age groups.

Mr. Bennett thanked Mr. Irving for his report.

Stress Test and Sensitivity Analysis Report

Lastly, Mr. Badura presented the findings of the VRS Stress Test and Sensitivity Analysis Report. The report helps to identify possible vulnerabilities in investment strategies and funding policies and provides an analysis of potential impacts of various economic scenarios on VRS-administered retirement plans to support the future health of the retirement system. The current report is based on the June 30, 2025, actuarial valuations and focused on economic scenario testing, a review of other risks to plan funding, and strategies to enhance funding.

Mr. Badura advised that consecutive years of higher than assumed rates of return contributed to improving the funded status and lowering employer contribution rates for both retirement and other post-employment benefits (OPEB) plans; however, recent uncertainty in the markets highlights the need to identify opportunities to further strengthen the health of the plans. Due to current economic conditions, VRS will continue to analyze future impacts on the fund as new information becomes available.

Mr. Bennett thanked Mr. Badura for his presentation.

Other Business

Lastly, Mr. Bennett reviewed the upcoming meeting schedule:

- Administration, Finance and Talent Management Committee – June 17 at 10:30 a.m.
- Benefits and Actuarial Committee – October 14 at 1:00 p.m.

Adjournment

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

There being no further business, the meeting concluded at 10:19 a.m.

Date

Lawrence A. Bernert, III, Chair
Benefits and Actuarial Committee



**Amend VRS Funding Policy Statement
Regarding the Surplus Funding Policy
for all Pension and OPEB Plans**

Requested Action

The Board approves the changes to the VRS Funding Policy Statement (Funding Policy) regarding how to amortize surpluses in all pension and OPEB plans once any such plan reaches 100% funded status. Effective October 15, 2026, for actuarial valuations effective as of June 30, 2026, for all plans that reach or exceed a funded status on an AVA basis, surplus funding will be amortized in accordance with the following schedule:

Funded Ratio on AVA Basis	Amortization Period
100-120%	20 year open
120-140%	15 year open
140-160%	10 year open
160%+	5 year open

In addition, for statewide pension and OPEB plans, the minimum contribution be at least equal to the plan's administrative expense.

There are also technical amendments to the Funding Policy to remove unnecessary appendices.

Description/Background

The VRS Funding Policy Statement memorializes the methods by which the Board has elected to fund each plan.

Rationale for Requested Action

VRS staff recommends this change to the Funding Policy in order to establish a strategy when plans get at or ahead of the funding schedule. The strategies prioritize protecting the plan's funded status and reducing future risks.

Redlined and clean versions of the amended Funding Policy are attached to this RBA.

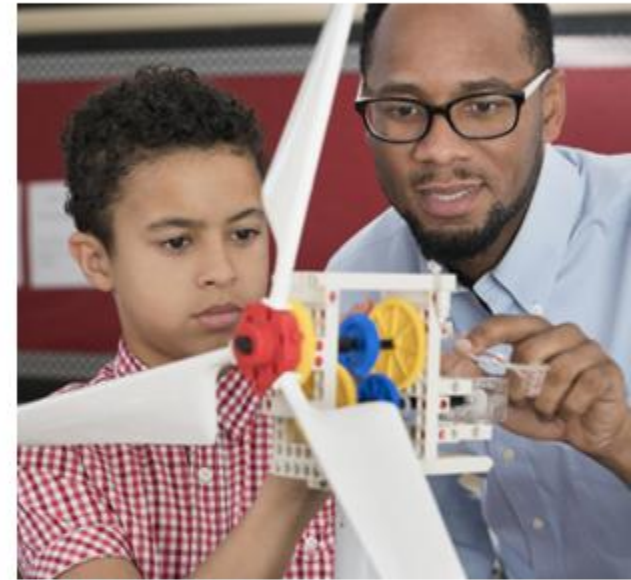
Authority for Requested Action

Article X, § 11 of the *Constitution of Virginia* requires that VRS benefits be funded using methods that are consistent with generally accepted actuarial principles, and *Code of Virginia* § 51.1-124.22(A)(8) authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1.

The above action is approved.

Susan T. Gooden, Ph.D., Chair
VRS Board of Trustees

Date



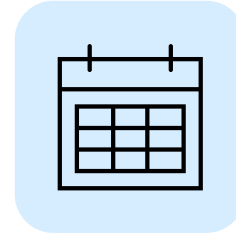
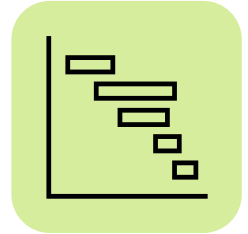
VRS Funding Policy

Presentation to the Benefits and Actuarial Committee

October 14, 2026

VRS Funding Policy

- The VRS Funding Policy Statement memorializes the methods by which the Board has elected to fund each plan.
- Recommended Funding Policy changes
 - establish a strategy for fully funded plans, and
 - prioritize protecting a plan's funded status and reducing future risks.



Funding Policy Change for Fully Funded Plans

June 2025 – the Board approved a method to amortize surplus for statewide plans that were over 100% funded on an actuarial asset basis.

- Excess assets not recognized until plan achieved 120% funding.
- At or over 120% funding, a 20-year open amortization would go into effect.

Political subdivision plans were not included at that time due to over 200 employers with pension plans already above 100% funded.

- Additional analysis was required to determine the impact any new policy would have on employer costs.

VRS Funding Policy – Proposed Changes

Amortization method to recognize surplus assets that are greater than accrued liabilities.

Designed to recognize surplus at a slower rate in order to maintain funding level for plans once they reach 100% funded.

Closed versus Open Amortization

Closed: a fixed period

- Pays down a liability or recognizes a surplus over a set number of years

Open: the period resets each year

- Includes an annual payment, but repeatedly extending the period slows repayment of the balance and actual amortization will exceed the intended amortization period.

VRS Approach

- VRS adopted closed amortization in 2013.
- For plans below 100% funded, VRS establishes a separate 20-year closed amortization schedule for each year's bases of gains or losses.

Closed versus Open Amortization Example

- Five-year amortization of \$100,000 assuming 6.75% interest rate and 3.0% salary growth

Five Year Closed Amortization Method

Valuation Year	Surplus Beginning of Year	Amortization Payment	Amortization Period	Surplus End of Year with Interest
Year 1	\$100,000	\$21,455	5	\$83,846
Year 2	\$83,846	\$22,099	4	\$65,915
Year 3	\$65,915	\$22,762	3	\$46,066
Year 4	\$46,066	\$23,445	2	\$24,148
Year 5	\$24,148	\$24,148	1	\$0

Five Year Open Amortization Method

Valuation Year	Surplus Beginning of Year	Amortization Payment	Amortization Period	Surplus End of Year with Interest
Year 1	\$100,000	\$21,455	5	\$83,846
Year 2	\$83,846	\$17,990	5	\$70,302
Year 3	\$70,302	\$15,084	5	\$58,946
Year 4	\$58,946	\$12,647	5	\$49,424
Year 5	\$49,424	\$10,604	5	\$41,440

Funding Policy Recommendation

- Effective October 15, 2026, for actuarial valuations as of June 30, 2026, for all plans that reach or exceed a funded status over 100% on an actuarial value of assets (AVA) basis, surplus funding will be amortized in accordance with the following schedule:

Funded Ratio on AVA Basis	Amortization Period
100 - 120%	20-year Open
120 - 140%	15-year Open
140 - 160%	10-Year Open
160% +	5-Year Open

Funding Policy Recommendation (continued)



Reduce the impact on employers.

Varying the amortization period based on funded percentage will help ease the impact of the policy change on employers.

Varying amortization periods will also help plans from becoming excessively overfunded.



Preserve a cushion against market downturns.

Method will preserve some overfunding rather than forcing the plan back to 100%.

Helps to create a cushion in case of any future market downturns.



Maintain minimum contributions for statewide plans.

Statewide plans will include a minimum contribution rate equal to the administrative expenses.

Preserves a state budget funding allocation rather than introducing contribution rate holidays.

VRS Funding Policy Statement¹

1. Introduction

A plan funding policy determines how much should be contributed each year by employers and participants to provide for the secure funding of benefits in a systematic fashion.

The principal goal of a funding policy is to ensure that future contributions along with current plan assets are sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due. The funding policy should seek to manage and control future contribution volatility to the extent reasonably possible, consistent with other policy goals. The actuarially determined contribution should be calculated in a manner that fully funds the long-term costs of promised benefits, while balancing the goals of 1) keeping contributions relatively stable and 2) equitably allocating the costs over the employees' period of active service.

The current funding policy used by the VRS Board sets contribution rates using the Entry Age Normal cost method, an investment return assumption of 6.75%, an inflation assumption of 2.5%, and a closed 20-year amortization period for unfunded liabilities (Legacy unfunded liabilities as of 6/30/13 are amortized over a closed 30-year amortization period).

Article X, § 11 of the *Constitution of Virginia* provides that the Virginia Retirement System benefits shall be funded using methods which are consistent with generally accepted actuarial principles. Until 2012, the Annual Required Contribution (ARC) as described in the Governmental Accounting Standards Board's (GASB's) Statements No. 25 and No. 27 was a de facto funding policy for many public- sector retirement systems, including the Virginia Retirement System.

The Board sets contribution rates for all local employers under this policy. However, with respect to the plans for state employees and the teacher plan, while the rates developed under the Board's policy are the certified contribution rates, the Governor and the General Assembly determine the funding that they will provide through the state budget process toward the Board certified contribution rates for the State and Teachers and other statewide OPEB plans. Beginning in FY 2013, § 51.1-145.K1 of the Code of Virginia set out guidelines for the General Assembly to follow for the funding of the contribution rates certified by the VRS Board, phasing in from approximately 67% of Board-certified rate to 100% of the Board-certified rate over the next four biennia. These statutory guidelines do not apply to funding levels for Other Postemployment Benefits (OPEBs) administered by VRS.

¹ Adopted October 17, 2013; amended November 14, 2013, June 7, 2016, November 15, 2017, November 20, 2019, October 18, 2022, October 18, 2023, February 8, 2024, ~~and~~ June 18, 2025, and October 15, 2026.

In June 2012, GASB revised public pension accounting standards and has communicated an important message in the process: accounting standards are no longer funding standards. However, GASB did not address how employers should calculate the annual required contribution (ARC). To assist state and local government employers, several national groups developed policy guidelines for funding standards. This document is the result of an extensive review of the current funding policy, industry standards and best practices, and the development and approval of funding policy assumptions effective with the June 30, 2013 valuation. A copy of Request for Board Action 2013-07-18 adopting the funding policy assumptions is attached. This Funding Policy is intended to provide guidance to future Boards on how to set employer contribution rates and support the plan's primary goals of contribution and budgetary predictability, accumulation of required assets over time to provide for all benefits earned and achievement of intergenerational equity.

In June 2015, GASB adopted two new statements regarding OPEBs. GASB statement 74, *Financial Reporting for Postemployment Benefits Other than Pension Plans*, and GASB statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. These statements replace GASB 43 and GASB 45. As was the case with GASB 67 and 68, these new statements represent a significant change to the methods used to account for postemployment benefits and provide for a clear separation between accounting for and funding of OPEBs. The new standards require the adoption of a new funding policy for OPEB plans. The current VRS funding policy has been modified to accommodate funding requirements for the VRS OPEB plans.

The VRS OPEB plans include the Health Insurance Credit Program, Group Life Insurance Program, the Virginia Sickness and Disability Program (VSDP), the Virginia Local Disability Program (VLDP) and the Long Term Care benefits associated with the VSDP and VLDP. The Line of Duty Act Fund is also a defined benefit OPEB plan, although it is not a benefit exclusively for VRS members.²

² As of April 2016, all VRS OPEBs already incorporate the actuarial methods outlined in the Funding Policy, with the following exceptions:

- Health Insurance Credit Program for Political Subdivisions will incorporate a five-year asset smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- The Long Term Care valuation will incorporate the Entry-Age Normal cost method and five-year smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- Line of Duty Act Program (LODA) is currently not prefunded and as set forth in the *Code* shall be funded on a current disbursement basis or in other words is considered a "pay-as-you-go" plan. As such, the plan has no unfunded liabilities and uses market value of assets for valuation purposes. In the event that the General Assembly takes action to begin prefunding this program, the Board of Trustees would move to adopt the various funding provisions contained in this document including moving the program to a five-year asset smoothing method for funding valuations effective with any decision to prefund the LODA program.

These changes were approved by the Board of Trustees at its June 7, 2016 meeting, and were incorporated into this amended Funding Policy. Where a particular actuarial method was already in use, the Funding Policy notes that the Board confirms the actuarial methods for OPEBs.

The Funding Policy addresses the following general policy objectives:

- ☐ Ensure funding of plans is based on actuarially determined contributions;
- ☐ Build funding discipline into the policy to ensure promised benefits can be paid;
- ☐ Maintain intergenerational equity so the cost of employee benefits is paid by the generation of individuals who receive services;
- ☐ Make employer costs a consistent percentage of payroll; and
- ☐ Require clear reporting to show how and when plans will be adequately funded.

This document serves as the Funding Policy for VRS. It has been prepared by VRS in collaboration with the Board and the VRS Plan Actuary and is effective as of the June 30, 2013 valuation, and modified to accommodate the OPEB plans effective as of the June 30, 2016 valuation.

2. Authority

The Virginia Retirement System is administered in accordance with Title 51.1, chapters 1, 2, 2.1, 3 and 4 of the *Code of Virginia*. The contribution to be paid by members of VRS is fixed at a level that covers only part of the cost of accruing benefits. The balance of the cost is paid by employers within the Trust Fund (the “Fund”).

The OPEB plans are administered in accordance with Title 51.1, chapters 5, 11, 11.1, and 14 of the *Code of Virginia*. The cost associated with OPEBs is generally borne by the employer and benefits are paid from the various trust funds. An exception to this practice is the Group Life Insurance Program. The Board determines the amount each insured shall contribute for the cost of insurance and by statute this amount is capped at \$0.70 per month for each \$1,000 of annual salary. Each employer determines whether this cost will be paid by the member or funded by the employer. The balance of the cost is paid by employers within the Fund. The Group Life Insurance plan, however, is a cost-sharing plan so all employers are charged the same rate.

The Funding Policy focuses on the pace at which these liabilities are funded and, in so far as is practical, the measures to ensure that employers pay for their own liabilities.

The Funding Policy is authorized by a framework that includes:

- Article X, § 11 of the *Constitution of Virginia*
- Title 51.1 of the *Code of Virginia*

This is the framework within which the VRS Plan Actuary carries out valuations to set employer contribution rates and provide recommendations to the Board when other funding decisions are required. The Funding Policy applies to all employers participating in the Fund.

The methods and assumptions used in the VRS funding policy are periodically reviewed as part of the quadrennial experience study as required under § 51.1-124.22(A)(4). As such, the content of this document may be updated to reflect changes approved by the VRS Board of Trustees.

3. Contributions

The Funding Policy provides for periodic employer contributions set at actuarially determined rates in accordance with recognized actuarial principles (§51.1-145(A)). Originally based on parameters set out in GASB 25/27 and GASB 43/45, the contribution should include the employer's normal cost and provisions for amortizing any unfunded actuarial accrued liability (UAAL) in accordance with the requirements originally defined in GASB 25/27 and GASB 43/45.

Member and employer contributions for retirement are required by §§ 51.1-144 and -145 of the *Code of Virginia*. Chapters 5, 11, 11.1, and 14 of Title 51.1 of the *Code of Virginia* and the applicable provisions in each year's Appropriation Act relate to contribution requirements for OPEB plans administered by VRS.

Employer contributions are normally made up of two main elements³:

- a) the estimated cost of future benefits being accrued, referred to as the "normal cost"; and
- b) an adjustment for the funding position of accrued benefits relative to the Fund's actuarially adjusted assets, or the "amortization payment UAAL." If there is a surplus there may be a contribution reduction; if there is a deficit, there will be a contribution addition, with the amount of surplus or deficit being spread over a number of years.

Items a) and b) above are then combined and expressed as a percentage of covered payroll.

Employer contribution rates are set each biennium and are in effect for the entire biennium. Valuations in the "off" years are for informational purposes only. Generally, employers with well-funded pension plans consistently pay their annual required contribution in full.

Where this process as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the VRS staff, working with the Plan Actuary, may determine alternative funding requirements that would maintain the political subdivision's solvency while also meeting the other objectives of this Funding Policy Statement. For employers with no active members who still have retirees or inactive members eligible for future VRS benefits, this includes ad hoc payments that may be necessary to cover future benefits if employer assets are insufficient to cover future cash flow needs.

With respect to statewide plans, if unfunded liabilities exist in a plan, the Board may recommend alternative contribution rates in excess of the actuarially determined rates if opportunities exist to accelerate paydown of unfunded liabilities. Examples of alternative rates could potentially include approaches such as maintaining rates from the prior year if rates drop in subsequent rate setting or maintaining a higher level contribution rate until a certain funded status is achieved.

³ Contributions also include administrative expenses.

4. Funding Target

VRS operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on an ongoing basis. This means that contribution rates are set with the intent of funding 100% of a member's benefits during a member's working lifetime. The Line of Duty Act Fund is an exception, as employer contributions are currently determined by the Board on a current disbursement basis per statute. As such, the target funding level for all ongoing employers for LODA is at or near 0% of its accrued liabilities.

Funded Status is defined as the ratio of the actuarial value of assets to the value placed on the benefits, or plan's liabilities, by the VRS Plan Actuary. The VRS Plan Actuary reports on the funded status of each plan in the system in each annual valuation.

5. Actuarial Cost Method

The actuarial cost method is the means by which the total present value of all future benefits for current active and retired participants is allocated to each year of service (i.e., the "normal cost" for each year) including past years (i.e., the "actuarial accrued liability"). There are several available actuarial cost methods, but most governmental plans use the entry age normal (EAN) cost method while a significant minority use the projected unit credit (PUC) method. In the past, VRS has used the EAN method for most of the plans it administers.

Although the EAN and PUC cost methods are both considered reasonable under actuarial standards of practice and GASB 25 and GASB 43 in most circumstances, it is important for plan stakeholders to understand the implications of either method. EAN tends to recognize actuarial liabilities sooner than PUC, and it also tends to result in a more stable normal cost pattern over time for pay-related benefits, even in the face of demographic shifts. The more stable normal cost pattern over time should help in reducing the risk of higher levels of future contributions.

Under the PUC method, the plan's normal cost is the present value of the benefits "earned" during the year, but based on projected pay levels at retirement. For an individual participant, the PUC normal costs increase each year because the present value increases as the participant gets a year closer to retirement. In contrast, under the EAN method, the normal cost is specifically determined to remain a level percentage of pay over each participant's career.

Because EAN normal cost rates are level for each participant, the normal cost pattern for the entire plan under EAN is more stable for pay-related benefits in the face of demographic shifts in the workforce. It is this normal cost stability that makes the EAN method the preferred funding method for pay-related benefits of public plans.

GASB has reaffirmed its decision to require governmental pension plans to base their financial statement reporting on the EAN method. For comparability, GASB has also decided to require governmental OPEB plans, which may not provide pay-related benefits, to base their financial statement reporting on the EAN method.

Effective with the June 30, 2013 valuation, the Board has adopted the Entry-Age Normal cost method in deriving plan liabilities. This is a continuation of the Board's existing cost method. Effective with the June 30, 2016 valuation, the Board has adopted the Entry-Age Normal cost method for all OPEB plans.

6. Asset Valuation Method

Because investment markets are volatile and because pension plans typically have long investment horizons, asset-smoothing techniques can be an effective tool to manage contribution volatility and provide a more consistent measure of plan funding over time. Asset-smoothing methods reduce the effect of short-term market volatility on contributions, while still tracking the overall movement of the market value of plan assets, by recognizing the effects of investment gains and losses over a period of years. This is also in keeping with § 51.1-145(A), which requires that contribution rates be determined in a manner so as to remain relatively level from year to year.

Determining the ideal asset-smoothing policy involves balancing the two goals of ensuring fairness across generations and controlling contribution volatility for plan sponsors. A very long smoothing period will greatly reduce contribution volatility, but this may mean the impact of recent investment experience is deferred to future generations. However, a very short smoothing period (or none at all) may result in contribution requirements that fluctuate dramatically from year to year.

Such volatility may also result from an asset-smoothing method that constrains how far the smoothed value differs from the market value by imposing a market value "corridor." A corridor is typically expressed as a ratio of the smoothed value of assets to the market value of assets. Actuarial standards of practice and related actuarial studies seek to identify asset-smoothing methods that achieve a reasonable balance between how long it takes to recognize investment experience (the smoothing period) and how much smoothing is allowed in the meantime (the corridor). The resulting smoothing periods are in the range of three to 10 years (with five the most common) and a corridor wide enough to allow the smoothing method to function except in the most extreme conditions.

While the smoothing period for governmental plans is not limited by federal laws or regulations, the Actuarial Standards Board has set out principles for asset smoothing in ASOP No. 44. Under these principles, when a smoothed asset valuation method is used, the actuary should select a method so that the smoothed asset values fall within a reasonable range of the corresponding market values and any differences between the actuarial value and market value of assets should be recognized within a reasonable period.

Effective with the June 30, 2013 valuation, the Board has adopted a five-year asset smoothing period, which also includes a corridor that will restrict the smoothed value from falling below 80% of the true market value or exceeding 120% of the true market value. This is a continuation of the Board's existing asset valuation method. Effective with the June 30, 2016 valuation, the Board has adopted the same asset smoothing period and corridors for the OPEB plans, with the exception of the LODA program, which, by statute, does not prefund benefits. In the event a change to the statutory contribution requirements

of the LODA program necessitate an asset valuation method, the same asset smoothing period and corridors should be applied to the LODA program at that time.

7. Amortization Method

Amortization of unfunded liabilities is a major component of the annual contribution. Amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. The Plan Actuary uses the specific amortization periods adopted by the Board for all employers when developing a method over which to pay down any unfunded liabilities that may exist. The amortization period should allow adjustments to contributions to be made over periods that appropriately balance intergenerational equity against the goal of keeping contributions level as a percentage of payroll over time as required by § 51.1-145.

Amortization of the unfunded actuarial accrued liability (UAAL) determines how current and future UAAL will be paid off or “amortized,” and so includes how changes in benefits or actuarial assumptions that affect the actuarial accrued liability should be funded over time. Even more than with asset smoothing methods, amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. Longer amortization periods help keep contributions stable, but excessively long periods may inappropriately shift costs to future generations. In seeking to achieve an appropriate balance between these two important policy goals, a comprehensive amortization policy will involve the following distinct elements:

- ☐ Payment basis
- ☐ Payment structure
- ☐ Amortization period

A. Payment Basis: Level Dollar vs. Level Percent of Pay

One of the first considerations is whether amortization payments will be set at a level dollar amount (similar to a home mortgage) or as a level percent of pay. The great majority of public pension plans use level-percent-of-pay amortization where the payments toward the UAAL increase each year at the same rate as is assumed for payroll growth. Compared with the level-dollar approach, payments start at a lower dollar amount under the level percent approach, but then increase in proportion to payroll. The level-dollar method is more conservative in that it funds the UAAL faster in the early years. However, the level-percent-of-pay approach is consistent with the pay-related structure of benefits under most public plans. Moreover, because the normal cost is also determined as a level percent of pay, level percent amortization provides a total cost that remains level as a percentage of pay. In contrast, level-dollar amortization of UAAL will produce a total cost that decreases as a percentage of pay over the amortization period. A plan should balance these considerations in choosing between level-percent and level dollar amortization. Section 51.1-145(A) of the *Code of Virginia* provides in part that “[t]he total annual employer contribution for each employer, expressed as a percentage of the annual membership payroll, shall be determined in a manner so as to remain relatively level from year to year....”

Effective with the June 30, 2013 valuation the Board has elected to use the level percent of pay payment basis. This is consistent with historical VRS practice. Effective with the June 30, 2016 valuation the Board confirms the continued use of the level percent of pay payment basis put in effect June 30, 2013 for the OPEB plans when an actuarially determined contribution is calculated.

B. Payment Structure

Amortization policy must also consider how amortization payments should be structured. For example, a determination needs to be made as to whether the entire UAAL should be aggregated and amortized as a single amount, or whether the plan should track individual bases for each source of UAAL or surplus each year, and amortize these separately. Amortization periods can be fixed, open or “rolling” (with the amortization period restarted each year).

Although use of a single amortization base provides simplicity, use of separate amortization bases for each source of UAAL has the advantage of tracking separately each new portion of UAAL and providing another mechanism to stabilize contribution rates. Under this approach, over time there will be a series of bases, one for each year’s gain or loss as well as for any other changes in UAAL. This provides useful information to stakeholders, as they can view the history of the sources of a plan’s UAAL in any year. The use of separate amortization bases should help balance the annual ups and downs in the UAAL. In practice, the number of bases will be limited by the length of the amortization period as eventually bases will be fully amortized, and so will no longer be part of the UAAL.

Fixed amortization periods identify a date certain by which each portion of the UAAL will be funded. This can be contrasted with open or rolling amortization, whereby the plan “resets” its amortization period every year. This is analogous to a homeowner who refinances his mortgage each year. Although both methods are common in current practice, fixed amortization periods have the advantage of providing stakeholders with a clearer understanding of the ultimate funding target (full funding) and the path to get there. It is the structure required for private sector pensions, and is increasingly common for public pension plans.

Effective with the June 30, 2013 valuation the Board has elected to use individual bases for each source of UAAL or surplus each year and to use fixed amortization periods rather than open or rolling periods. This is a change from past VRS practice but is consistent with industry best practices. Effective with the June 30, 2016 valuation the Board confirms the continued use of individual bases for each source of UAAL or surplus each year and the use of fixed amortization periods rather than open or rolling periods put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open period. In the event a change to the statutory contribution requirements of the LODA program necessitate a payment structure, individual bases for each source of UAAL or surplus each year and fixed amortization periods, rather than open or rolling periods, will be used by the LODA program at that time.

C. Amortization period

Amortization period is a determination of the appropriate period of time over which amortization should occur. The answer can depend on the source of the UAAL being amortized, as discussed below:

UAAL Due to Actuarial Gains/ Losses

Actuarial gains and losses arise when there is a difference between the actuary's estimates (assumptions) and the actual experience of the plan. They can result from demographic experience (e.g., the number of new retirees is higher or lower than expected), investment experience (e.g., returns that are higher or lower than expected), or other economic experience (e.g., payroll growth that is higher or lower than expected). In determining the appropriate period for amortizing gains and losses, plan sponsors should strike a balance between reducing contribution volatility (which would lead to longer amortization periods) and maintaining a closer relationship between contributions and routine changes in the UAAL (which would lead to shorter amortization periods). For many plans, amortization periods in the range of 15 to 20 years for gains and losses would assist plans in achieving a balance between these objectives.

UAAL Due to Changes in Actuarial Assumptions

Assumption changes will result in an increase or decrease in the UAAL. Unlike gains and losses, which reflect actual past experience, assumptions are modified when future expectations about plan experience change. This amounts to taking the effect of future expected gains or losses and building it into the cost today. For that reason, and because of the long-term nature of assumption changes, a plan could be justified in using a longer amortization period than that used for actuarial gains or losses, perhaps in the range of 15 to 25 years.

Amortization of UAAL Due to Plan Amendments

Because plan amendments are under the control of the plan sponsor, managing contribution volatility is generally not a consideration for plan amendments. This means that the primary rationale in selecting the period is to support intergenerational equity by matching the amortization period to the demographics of the participants receiving the benefit. This leads to shorter, demographically based amortization periods. For active participants, this could be the average future working lifetime of the active participants receiving the benefit improvement, while for retirees, this could be the average life expectancy of the retired participants receiving the benefit improvement. This approach would usually result in no longer than a 15-year amortization period for benefit improvements.

An equitable amortization policy should ensure that the UAAL will be paid off in a reasonable period of time. Long amortization periods can make paying down the UAAL appear more affordable, but, because interest charges accrue and compound on the unpaid UAAL, it is prudent to set amortization periods that are not excessively long. This is especially important where level

percent of pay amortization is used.

In an effort to balance the need to pay down the current unfunded liability while managing already increasing contribution rates, the Board elected to manage the paydown of any unfunded liabilities created prior to June 30, 2013 over a 30-year closed period. In an effort to better manage intergenerational equity and to build funding discipline into the VRS policy, the Board also decided that future unfunded liabilities would be best amortized over 20-year closed periods.

With long amortization periods, the UAAL may increase during the early years of amortization period, even though contributions are being made to amortize the UAAL. This phenomenon, known as “negative amortization”, occurs only with level percent of pay amortization. This happens because, under level percent of pay amortization, the lower early payments can actually be less than interest on the outstanding balance, so that the outstanding balance increases instead of decreases. For typical public plans, this happens whenever the average amortization period is longer than approximately 20 years.

While there is nothing inherently wrong with negative amortization in the context of a public plan, stakeholders should be aware of its consequences, especially for amortization periods substantially longer than 20 years. Negative amortization is a particular concern for plans using open, or rolling, amortization periods. As described above, plans that use open/rolling amortization methods “reset” to a new amortization period every year. By contrast, a plan using a closed amortization commits to paying down the UAAL over a fixed period.

Effective with the June 30, 2013 valuation the Board has elected to amortize the legacy unfunded liability as of June 30, 2013, over a closed 30-year period. New sources of unfunded liability will be explicitly amortized over closed 20-year periods. The amortization period for the deferred contributions from the 2010-2012 biennium will remain a 10-year closed period. These amortization periods reflect a shift to closed amortization periods and tiered successive 20-year closed periods for new sources of unfunded liability. This is a change from past VRS practice of using a 20-year rolling method. Effective with the June 30, 2016 valuation the Board confirms the continuation of the amortizations put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open 30- year period. In the event a change to the statutory contribution requirements of the LODA program necessitate an amortization period, the LODA program will, at that time, explicitly amortize new sources of unfunded liability over closed 20-year periods.

Effective November 20, 2019, the Board amends this policy to clarify that amortization periods of explicit bases may be shortened in an effort to pay off unfunded liabilities of either pensions or OPEBs earlier than originally scheduled.

Effective October 18, 2022, the Board amends this policy to set the amortization period for unfunded liabilities generated by plan amendments to be 10 years rather than 20 years.

Effective October 18, 2023, the Board amends this policy for pension and OPEB plans to allow for the legacy unfunded liability, which was originally amortized over a 30-year period in 2013,

and all subsequent amortization bases established between 2014 and 2023, which were initially amortized over 20 years, to be amortized over a new 20-year period. New layers will be established in future years according to the parameters of the funding policy. The reset would exclude unfunded liabilities being amortized over a shorter 10-year period associated with new employers or benefit enhancements elected by certain political subdivision employers.

Effective July 1, 2025, the Board amends this policy for statewide pension and OPEB plans that reach a funded status of over 100% to only begin recognizing a surplus credit in the derivation of the employer contribution amount once the plan reaches a funded status of 120% on an AVA basis. The amortization of such overfunding, over 100%, will use a rolling 20-year period.

Effective October 15, 2026, for actuarial valuations effective as of June 30, 2026, the Board amends this policy for all pension and OPEB plans that reach or exceed a funded status of 100% on an AVA basis to amortize surplus funding as follows:

Funded Ratio on AVA Basis	Amortization Period
100-120%	20 year open
120-140%	15 year open
140-160%	10 year open
160%+	5 year open

For statewide pension and OPEB plans, the minimum contribution will at least equal the plan's administrative expense. Note that if a plan is less than 100% funded on an AVA basis, meaning that it still has unfunded liabilities, the current rules for amortization over a 10 or 20-year closed period remain in effect. This new policy supersedes the prior policy adopted for statewide plans on July 1, 2025, that would have suspended credits until the plan achieved a funded status of at least 120% on an AVA basis.

8. Actuarial Assumptions

Setting actuarial assumptions is critical to the funding of a plan. Forward-looking assumptions about plan demographics, wages, inflation, investment returns and more drive the measurement of liabilities and costs, and therefore affect funding. Unlike the selection of funding methods, which involves a fair degree of policy discretion, the selection of assumptions should be based solely on best estimates of actual future experience. While it may be tempting to set assumptions based on how they might affect current contribution requirements, such “results-based assumption setting” should be avoided. ***It is the plan's actual experience that ultimately determines the cost of the benefits, so the assumptions should try to anticipate actual experience.*** Periodic reexamination of plan assumptions is an essential part of any plan's actuarial processes. As a general rule, many plans conduct an experience study every three to five years, an interval that should help ensure that assumptions remain appropriate in the face of evolving conditions and experience. VRS reviews assumptions every four years as required under § 51.1-124.22(A)(4).

All assumptions should be consistent with Actuarial Standards of Practice and reflect professional judgment regarding future outcomes.

VRS plans to continue experience studies once every four years as required by § 51.1-124.22(A)(4) to determine whether changes in the actuarial assumptions are appropriate.

Appendix A contains a chart summarizing some of the current assumptions used for the various benefit plans managed by the VRS.

~~Appendix B is RBA 2013-07-18, which documents the approval of VRS funding policy assumptions.~~

~~Appendix C is RBA 2013-11-26, which documents the approval of revisions to the VRS funding policy assumptions for political subdivisions.~~

~~Appendix D is RBA 2016-06-15, which documents the approval of VRS funding policy methods and assumptions with regard to the OPEB plans.~~

~~Appendix E is RBA 2016-06-16, which documents the Board's approval of changes to actuarial methods for certain OPEB plans.~~

~~Appendix F is RBA 2017-04-9, which documents the approval of VRS funding policy assumptions.~~

~~Appendix G is RBA 2019-10-13, which documents approval of a discount rate of 6.75% for actuarial valuations effective with the June 30, 2019 valuations.~~

~~-~~

~~Appendix H is RBA 2019-11-20, which documents the approval of the use of shortened amortization periods for unfunded liabilities and maintaining prior contribution rates to assist in paying unfunded liabilities.~~

~~Appendix I is RBA 2022-10-23 which documents changes in funding policy related to health insurance credit funding requirements.~~

~~Appendix J is RBA 2023-10-23 which documents resetting of total unfunded accrued liability as of June 30, 2023 over 20 years and establishing funding rules associated with modifications to health insurance credit program.~~

~~Appendix K is RBA 2025-06-11 which documents approval of method to amortize surplus funding once plans reach 100% funded status.~~

9. Additional Considerations

Where the Funding Policy Statement as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the Board authorizes the VRS staff, working with the Plan Actuary, to determine alternative funding requirements that would

maintain the plan's solvency while also meeting the other objectives as stated in the Board's funding policy.

1. **Additional Funding Contribution** - The Additional Funding Charge is the contribution rate needed, if necessary, to allow the local system to use the plan's assumed Investment Return Rate as its Single Equivalent Interest Rate (SEIR) under GASB Statement No. 67. The additional funding contribution rate, if needed, allows for the use of the 6.75% investment return as the single equivalent investment return assumption for purposes of the GASB 67/68 statements. To determine the SEIR, the Fiduciary Net Position (FNP) must be projected into the future for as long as there are anticipated benefits payable under the plan's provisions applicable to the members and beneficiaries of the system on the Measurement Date. If the FNP is not projected to be depleted at any point in the future, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR. If the FNP is projected to be depleted, an Additional Funding Charge is developed to avoid depletion.
2. **Surcharge for "At Risk" Plans** – Political subdivision plans identified as potentially "at-risk" due to low funded levels may require an additional surcharge or shortened amortization periods to bring the funding level of the plan to a sustainable level as determined by the Plan Actuary. For employers with no active covered positions who still have liabilities associated with retirees or inactive members eligible for future VRS benefits, this would include ad hoc lump sum contributions to cover the liabilities associated with former members who are still due a benefit.
3. **Limitation on Benefit Enhancements Increasing Liability** - Benefit enhancements to a political subdivision pension plan that would have the effect of increasing the plan's liabilities by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become non-forfeitable may take effect during any plan year if the political subdivision's current funded ratio for such plan year would be at least 75 percent after taking into account such amendment.

In order to increase benefits in circumstances where the funded ratio would be less than 75 percent after taking into account the amendment, the political subdivision would be required to make a lump sum contribution in the amount necessary to bring the funding level to 75 percent as of the effective date of the change, in addition to any increase in annual funding due to plan enhancements.

Any accrued liability generated by the plan amendment that is not covered by the lump sum contribution will be amortized over no more than 10 years.

4. **Pension Plans for New Employers** –
Any new employer must have a funded status of at least 75 percent for pension benefits.
Any past service that is granted by the employer or purchased at the time the employer joins VRS must be at least 75 percent funded at the join date with the remaining amount amortized over no more than 10 years.
5. **Health Insurance Credit (HIC) Elections** –
Any employer (new and existing VRS employers) that elects the HIC benefit is required to pay an initial contribution equal to the greater of two years of expected benefit payments or

the amount required to reach at least 25 percent funded for its HIC plan, with the remainder of the unfunded liability amortized over no more than 10 years.

In addition, Any employer (new and existing employers) that wishes to enhance the health insurance credit by electing the extra \$1.00 of coverage per year of creditable service or expand coverage to additional non-covered members is required to meet the following requirements:

- If the funded status of the plan is below 50% prior to the change, the employer must make an initial contribution equal to the full increase in the plan's liability associated with enhancing the HIC benefit.
- If the funded status of the plan is greater than 50% but below 75% prior to the change, the employer must make an initial contribution equal to 50% of the increase in the plan's liability associated with enhancing the HIC benefit, with the remaining additional liability to be amortized over 10 years.
- If the funded status of the plan is greater than 75% prior to the change, the employer must make an initial contribution in the amount necessary to keep the funded status at the 75% threshold after the change, with any remaining additional liability to be amortized over 10 years.

10. Conclusion

In funding defined benefit pension plans and OPEBs, governments must satisfy a range of objectives. In addition to the fundamental objective of funding the long-term costs of promised benefits to plan participants, governments also work to:

1. Keep employer's contributions relatively stable from year to year
2. Allocate pension costs on an equitable basis
3. Manage pension risks
4. Pay off unfunded liabilities over reasonable time periods

This Funding Policy was developed to help decision-makers understand the tradeoffs involved in reaching these goals and to document the reasoning that underlies the Board's decisions.

11. Policy Amendment History

RBA 2013-07-18 documented the approval of VRS funding policy assumptions.

RBA 2013-11-26 documented the approval of revisions to the VRS funding policy assumptions for political subdivisions.

RBA 2016-06-15 documented the approval of VRS funding policy methods and assumptions with regard to the OPEB plans.

RBA 2016-06-16 documented the Board's approval of changes to actuarial methods for certain OPEB plans.

RBA 2017-04-9 documented the approval of VRS funding policy assumptions.

RBA 2019-10-13 documented approval of a discount rate of 6.75% for actuarial valuations effective with the June 30, 2019, valuations.

RBA 2019-11-20 documented the approval of the use of shortened amortization periods for unfunded liabilities and maintaining prior contribution rates to assist in paying unfunded liabilities.

RBA 2022-10-23 documented changes in funding policy related to health insurance credit funding requirements.

RBA 2023-10-23 documented resetting of total unfunded accrued liability as of June 30, 2023, over 20 years and establishing funding rules associated with modifications to health insurance credit program.

RBA 2025-06-11 documented approval of method to amortize surplus funding once plans reach 100% funded status.

RBA 2026-10-XX documents approval to amortize over open periods once a plan exceeds 100% funded status on an AVA basis.

Adopted October 17, 2013

Amended November 14, 2013, June 7, 2016, November 15, 2017, November 20, 2019, October 18, 2022, February 8, 2024, ~~and~~ June 18, 2025, and October 15, 2026.

Policy	State	Teachers	SPORS	VALORS	JRS	Locals		HIC	Group Life	VSDP	LODA
						Non-LEOS	LEOS				
Actuarial Cost Method	Entry-age Normal										
Asset Valuation Method	5 Year Smoothing 80/120 Corridor										Market Value *
Amortization Method	30 year decreasing each year down to 20 then remains open - Level % of Pay										30 Year Open Level % of Pay

* LODA is statutorily required to be funded on a current disbursement or "pay-as-you-go" basis. Accordingly, the market value of assets is used.

Actuarial Assumptions	State	Teachers	SPORS	VALORS	JRS	Locals		HIC	Group Life	VSDP	LODA
						Non-LEOS	LEOS				
- Discount Rate	6.75%										4.75%
- Payroll Growth Rate	3.00%										
- Inflation Assumption	2.50%										
- Salary Increases	Inflation rate of 2.5% plus real wage component of 1.0% & step-rate component that varies by Plan and Service							Same as Retirement Plans		N/A	
Year 1	5.35%	5.95%	4.75%	4.75%	4.50%	5.35%	4.75%				
Year 5	4.45%	5.45%	4.65%	4.65%	4.50%	4.45%	4.65%				
Year 10	4.00%	4.85%	4.00%	4.00%	4.50%	4.00%	4.00%				
Year 20	3.50%	3.50%	3.50%	3.50%	4.50%	3.50%	3.50%				
- Cost-of-Living Adjustments	Plan 1 vested - 2.50% per year / Plan 1 non-vested & Plan 2 - 2.25% per year							N/A	N/A	Same as Retirement Plans	N/A
- Mortality Rates	RP 2014 Mortality Table projected to 2020 for males and females										
* Pre Retirement	Adjustments vary based on employer group and gender										
* Post Retirement	Adjustments vary based on employer group and gender							Adjustments similar to retirement plans, by group covered			
* Post Disability	RP 2014 Disability Table with varying setbacks based on employer group and genders										
- Withdrawal Rates	"Experience Related" Varies by Plan, Gender and Service at Retirement										
- Disability Rates	"Experience Related" Varies by Plan, Gender and Age at Disability										
- Retirement Rates	"Experience Related" Varies by Plan, Gender, Age and Service at Retirement										

○

VRS Funding Policy Statement¹

1. Introduction

A plan funding policy determines how much should be contributed each year by employers and participants to provide for the secure funding of benefits in a systematic fashion.

The principal goal of a funding policy is to ensure that future contributions along with current plan assets are sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due. The funding policy should seek to manage and control future contribution volatility to the extent reasonably possible, consistent with other policy goals. The actuarially determined contribution should be calculated in a manner that fully funds the long-term costs of promised benefits, while balancing the goals of 1) keeping contributions relatively stable and 2) equitably allocating the costs over the employees' period of active service.

The current funding policy used by the VRS Board sets contribution rates using the Entry Age Normal cost method, an investment return assumption of 6.75%, an inflation assumption of 2.5%, and a closed 20-year amortization period for unfunded liabilities (Legacy unfunded liabilities as of 6/30/13 are amortized over a closed 30-year amortization period).

Article X, § 11 of the *Constitution of Virginia* provides that the Virginia Retirement System benefits shall be funded using methods which are consistent with generally accepted actuarial principles. Until 2012, the Annual Required Contribution (ARC) as described in the Governmental Accounting Standards Board's (GASB's) Statements No. 25 and No. 27 was a de facto funding policy for many public- sector retirement systems, including the Virginia Retirement System.

The Board sets contribution rates for all local employers under this policy. However, with respect to the plans for state employees and the teacher plan, while the rates developed under the Board's policy are the certified contribution rates, the Governor and the General Assembly determine the funding that they will provide through the state budget process toward the Board certified contribution rates for the State and Teachers and other statewide OPEB plans. Beginning in FY 2013, § 51.1-145.K1 of the Code of Virginia set out guidelines for the General Assembly to follow for the funding of the contribution rates certified by the VRS Board, phasing in from approximately 67% of Board-certified rate to 100% of the Board-certified rate over the next four biennia. These statutory guidelines do not apply to funding levels for Other Postemployment Benefits (OPEBs) administered by VRS.

¹ Adopted October 17, 2013; amended November 14, 2013, June 7, 2016, November 15, 2017, November 20, 2019, October 18, 2022, October 18, 2023, February 8, 2024, June 18, 2025, and October 15, 2026.

In June 2012, GASB revised public pension accounting standards and has communicated an important message in the process: accounting standards are no longer funding standards. However, GASB did not address how employers should calculate the annual required contribution (ARC). To assist state and local government employers, several national groups developed policy guidelines for funding standards. This document is the result of an extensive review of the current funding policy, industry standards and best practices, and the development and approval of funding policy assumptions effective with the June 30, 2013 valuation. A copy of Request for Board Action 2013-07-18 adopting the funding policy assumptions is attached. This Funding Policy is intended to provide guidance to future Boards on how to set employer contribution rates and support the plan's primary goals of contribution and budgetary predictability, accumulation of required assets over time to provide for all benefits earned and achievement of intergenerational equity.

In June 2015, GASB adopted two new statements regarding OPEBs. GASB statement 74, *Financial Reporting for Postemployment Benefits Other than Pension Plans*, and GASB statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. These statements replace GASB 43 and GASB 45. As was the case with GASB 67 and 68, these new statements represent a significant change to the methods used to account for postemployment benefits and provide for a clear separation between accounting for and funding of OPEBs. The new standards require the adoption of a new funding policy for OPEB plans. The current VRS funding policy has been modified to accommodate funding requirements for the VRS OPEB plans.

The VRS OPEB plans include the Health Insurance Credit Program, Group Life Insurance Program, the Virginia Sickness and Disability Program (VSDP), the Virginia Local Disability Program (VLDP) and the Long Term Care benefits associated with the VSDP and VLDP. The Line of Duty Act Fund is also a defined benefit OPEB plan, although it is not a benefit exclusively for VRS members.²

² As of April 2016, all VRS OPEBs already incorporate the actuarial methods outlined in the Funding Policy, with the following exceptions:

- Health Insurance Credit Program for Political Subdivisions will incorporate a five-year asset smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- The Long Term Care valuation will incorporate the Entry-Age Normal cost method and five-year smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- Line of Duty Act Program (LODA) is currently not prefunded and as set forth in the *Code* shall be funded on a current disbursement basis or in other words is considered a "pay-as-you-go" plan. As such, the plan has no unfunded liabilities and uses market value of assets for valuation purposes. In the event that the General Assembly takes action to begin prefunding this program, the Board of Trustees would move to adopt the various funding provisions contained in this document including moving the program to a five-year asset smoothing method for funding valuations effective with any decision to prefund the LODA program.

These changes were approved by the Board of Trustees at its June 7, 2016 meeting, and were incorporated into this amended Funding Policy. Where a particular actuarial method was already in use, the Funding Policy notes that the Board confirms the actuarial methods for OPEBs.

The Funding Policy addresses the following general policy objectives:

- ☐ Ensure funding of plans is based on actuarially determined contributions;
- ☐ Build funding discipline into the policy to ensure promised benefits can be paid;
- ☐ Maintain intergenerational equity so the cost of employee benefits is paid by the generation of individuals who receive services;
- ☐ Make employer costs a consistent percentage of payroll; and
- ☐ Require clear reporting to show how and when plans will be adequately funded.

This document serves as the Funding Policy for VRS. It has been prepared by VRS in collaboration with the Board and the VRS Plan Actuary and is effective as of the June 30, 2013 valuation, and modified to accommodate the OPEB plans effective as of the June 30, 2016 valuation.

2. Authority

The Virginia Retirement System is administered in accordance with Title 51.1, chapters 1, 2, 2.1, 3 and 4 of the *Code of Virginia*. The contribution to be paid by members of VRS is fixed at a level that covers only part of the cost of accruing benefits. The balance of the cost is paid by employers within the Trust Fund (the “Fund”).

The OPEB plans are administered in accordance with Title 51.1, chapters 5, 11, 11.1, and 14 of the *Code of Virginia*. The cost associated with OPEBs is generally borne by the employer and benefits are paid from the various trust funds. An exception to this practice is the Group Life Insurance Program. The Board determines the amount each insured shall contribute for the cost of insurance and by statute this amount is capped at \$0.70 per month for each \$1,000 of annual salary. Each employer determines whether this cost will be paid by the member or funded by the employer. The balance of the cost is paid by employers within the Fund. The Group Life Insurance plan, however, is a cost-sharing plan so all employers are charged the same rate.

The Funding Policy focuses on the pace at which these liabilities are funded and, in so far as is practical, the measures to ensure that employers pay for their own liabilities.

The Funding Policy is authorized by a framework that includes:

- Article X, § 11 of the *Constitution of Virginia*
- Title 51.1 of the *Code of Virginia*

This is the framework within which the VRS Plan Actuary carries out valuations to set employer contribution rates and provide recommendations to the Board when other funding decisions are required. The Funding Policy applies to all employers participating in the Fund.

The methods and assumptions used in the VRS funding policy are periodically reviewed as part of the quadrennial experience study as required under § 51.1-124.22(A)(4). As such, the content of this document may be updated to reflect changes approved by the VRS Board of Trustees.

3. Contributions

The Funding Policy provides for periodic employer contributions set at actuarially determined rates in accordance with recognized actuarial principles (§51.1-145(A)). Originally based on parameters set out in GASB 25/27 and GASB 43/45, the contribution should include the employer's normal cost and provisions for amortizing any unfunded actuarial accrued liability (UAAL) in accordance with the requirements originally defined in GASB 25/27 and GASB 43/45.

Member and employer contributions for retirement are required by §§ 51.1-144 and -145 of the *Code of Virginia*. Chapters 5, 11, 11.1, and 14 of Title 51.1 of the *Code of Virginia* and the applicable provisions in each year's Appropriation Act relate to contribution requirements for OPEB plans administered by VRS.

Employer contributions are normally made up of two main elements³:

- a) the estimated cost of future benefits being accrued, referred to as the "normal cost"; and
- b) an adjustment for the funding position of accrued benefits relative to the Fund's actuarially adjusted assets, or the "amortization payment UAAL." If there is a surplus there may be a contribution reduction; if there is a deficit, there will be a contribution addition, with the amount of surplus or deficit being spread over a number of years.

Items a) and b) above are then combined and expressed as a percentage of covered payroll.

Employer contribution rates are set each biennium and are in effect for the entire biennium. Valuations in the "off" years are for informational purposes only. Generally, employers with well-funded pension plans consistently pay their annual required contribution in full.

Where this process as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the VRS staff, working with the Plan Actuary, may determine alternative funding requirements that would maintain the political subdivision's solvency while also meeting the other objectives of this Funding Policy Statement. For employers with no active members who still have retirees or inactive members eligible for future VRS benefits, this includes ad hoc payments that may be necessary to cover future benefits if employer assets are insufficient to cover future cash flow needs.

With respect to statewide plans, if unfunded liabilities exist in a plan, the Board may recommend alternative contribution rates in excess of the actuarially determined rates if opportunities exist to accelerate paydown of unfunded liabilities. Examples of alternative rates could potentially include approaches such as maintaining rates from the prior year if rates drop in subsequent rate setting or maintaining a higher level contribution rate until a certain funded status is achieved.

³ Contributions also include administrative expenses.

4. Funding Target

VRS operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on an ongoing basis. This means that contribution rates are set with the intent of funding 100% of a member's benefits during a member's working lifetime. The Line of Duty Act Fund is an exception, as employer contributions are currently determined by the Board on a current disbursement basis per statute. As such, the target funding level for all ongoing employers for LODA is at or near 0% of its accrued liabilities.

Funded Status is defined as the ratio of the actuarial value of assets to the value placed on the benefits, or plan's liabilities, by the VRS Plan Actuary. The VRS Plan Actuary reports on the funded status of each plan in the system in each annual valuation.

5. Actuarial Cost Method

The actuarial cost method is the means by which the total present value of all future benefits for current active and retired participants is allocated to each year of service (i.e., the "normal cost" for each year) including past years (i.e., the "actuarial accrued liability"). There are several available actuarial cost methods, but most governmental plans use the entry age normal (EAN) cost method while a significant minority use the projected unit credit (PUC) method. In the past, VRS has used the EAN method for most of the plans it administers.

Although the EAN and PUC cost methods are both considered reasonable under actuarial standards of practice and GASB 25 and GASB 43 in most circumstances, it is important for plan stakeholders to understand the implications of either method. EAN tends to recognize actuarial liabilities sooner than PUC, and it also tends to result in a more stable normal cost pattern over time for pay-related benefits, even in the face of demographic shifts. The more stable normal cost pattern over time should help in reducing the risk of higher levels of future contributions.

Under the PUC method, the plan's normal cost is the present value of the benefits "earned" during the year, but based on projected pay levels at retirement. For an individual participant, the PUC normal costs increase each year because the present value increases as the participant gets a year closer to retirement. In contrast, under the EAN method, the normal cost is specifically determined to remain a level percentage of pay over each participant's career.

Because EAN normal cost rates are level for each participant, the normal cost pattern for the entire plan under EAN is more stable for pay-related benefits in the face of demographic shifts in the workforce. It is this normal cost stability that makes the EAN method the preferred funding method for pay-related benefits of public plans.

GASB has reaffirmed its decision to require governmental pension plans to base their financial statement reporting on the EAN method. For comparability, GASB has also decided to require governmental OPEB plans, which may not provide pay-related benefits, to base their financial statement reporting on the EAN method.

Effective with the June 30, 2013 valuation, the Board has adopted the Entry-Age Normal cost method in deriving plan liabilities. This is a continuation of the Board's existing cost method. Effective with the June 30, 2016 valuation, the Board has adopted the Entry-Age Normal cost method for all OPEB plans.

6. Asset Valuation Method

Because investment markets are volatile and because pension plans typically have long investment horizons, asset-smoothing techniques can be an effective tool to manage contribution volatility and provide a more consistent measure of plan funding over time. Asset-smoothing methods reduce the effect of short-term market volatility on contributions, while still tracking the overall movement of the market value of plan assets, by recognizing the effects of investment gains and losses over a period of years. This is also in keeping with § 51.1-145(A), which requires that contribution rates be determined in a manner so as to remain relatively level from year to year.

Determining the ideal asset-smoothing policy involves balancing the two goals of ensuring fairness across generations and controlling contribution volatility for plan sponsors. A very long smoothing period will greatly reduce contribution volatility, but this may mean the impact of recent investment experience is deferred to future generations. However, a very short smoothing period (or none at all) may result in contribution requirements that fluctuate dramatically from year to year.

Such volatility may also result from an asset-smoothing method that constrains how far the smoothed value differs from the market value by imposing a market value "corridor." A corridor is typically expressed as a ratio of the smoothed value of assets to the market value of assets. Actuarial standards of practice and related actuarial studies seek to identify asset-smoothing methods that achieve a reasonable balance between how long it takes to recognize investment experience (the smoothing period) and how much smoothing is allowed in the meantime (the corridor). The resulting smoothing periods are in the range of three to 10 years (with five the most common) and a corridor wide enough to allow the smoothing method to function except in the most extreme conditions.

While the smoothing period for governmental plans is not limited by federal laws or regulations, the Actuarial Standards Board has set out principles for asset smoothing in ASOP No. 44. Under these principles, when a smoothed asset valuation method is used, the actuary should select a method so that the smoothed asset values fall within a reasonable range of the corresponding market values and any differences between the actuarial value and market value of assets should be recognized within a reasonable period.

Effective with the June 30, 2013 valuation, the Board has adopted a five-year asset smoothing period, which also includes a corridor that will restrict the smoothed value from falling below 80% of the true market value or exceeding 120% of the true market value. This is a continuation of the Board's existing asset valuation method. Effective with the June 30, 2016 valuation, the Board has adopted the same asset smoothing period and corridors for the OPEB plans, with the

exception of the LODA program, which, by statute, does not prefund benefits. In the event a change to the statutory contribution requirements of the LODA program necessitate an asset valuation method, the same asset smoothing period and corridors should be applied to the LODA program at that time.

7. Amortization Method

Amortization of unfunded liabilities is a major component of the annual contribution. Amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. The Plan Actuary uses the specific amortization periods adopted by the Board for all employers when developing a method over which to pay down any unfunded liabilities that may exist. The amortization period should allow adjustments to contributions to be made over periods that appropriately balance intergenerational equity against the goal of keeping contributions level as a percentage of payroll over time as required by § 51.1-145.

Amortization of the unfunded actuarial accrued liability (UAAL) determines how current and future UAAL will be paid off or “amortized,” and so includes how changes in benefits or actuarial assumptions that affect the actuarial accrued liability should be funded over time. Even more than with asset smoothing methods, amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. Longer amortization periods help keep contributions stable, but excessively long periods may inappropriately shift costs to future generations. In seeking to achieve an appropriate balance between these two important policy goals, a comprehensive amortization policy will involve the following distinct elements:

- ☐ Payment basis
- ☐ Payment structure
- ☐ Amortization period

A. Payment Basis: Level Dollar vs. Level Percent of Pay

One of the first considerations is whether amortization payments will be set at a level dollar amount (similar to a home mortgage) or as a level percent of pay. The great majority of public pension plans use level-percent-of-pay amortization where the payments toward the UAAL increase each year at the same rate as is assumed for payroll growth. Compared with the level-dollar approach, payments start at a lower dollar amount under the level percent approach, but then increase in proportion to payroll. The level-dollar method is more conservative in that it funds the UAAL faster in the early years. However, the level-percent-of-pay approach is consistent with the pay-related structure of benefits under most public plans. Moreover, because the normal cost is also determined as a level percent of pay, level percent amortization provides a total cost that remains level as a percentage of pay. In contrast, level-dollar amortization of UAAL will produce a total cost that decreases as a percentage of pay over the amortization period. A plan should balance these considerations in choosing between level-percent and level-dollar amortization. Section 51.1-145(A) of the *Code of Virginia* provides in part that “[t]he total

annual employer contribution for each employer, expressed as a percentage of the annual membership payroll, shall be determined in a manner so as to remain relatively level from year to year....”

Effective with the June 30, 2013 valuation the Board has elected to use the level percent of pay payment basis. This is consistent with historical VRS practice. Effective with the June 30, 2016 valuation the Board confirms the continued use of the level percent of pay payment basis put in effect June 30, 2013 for the OPEB plans when an actuarially determined contribution is calculated.

B. Payment Structure

Amortization policy must also consider how amortization payments should be structured. For example, a determination needs to be made as to whether the entire UAAL should be aggregated and amortized as a single amount, or whether the plan should track individual bases for each source of UAAL or surplus each year, and amortize these separately. Amortization periods can be fixed, open or “rolling” (with the amortization period restarted each year).

Although use of a single amortization base provides simplicity, use of separate amortization bases for each source of UAAL has the advantage of tracking separately each new portion of UAAL and providing another mechanism to stabilize contribution rates. Under this approach, over time there will be a series of bases, one for each year’s gain or loss as well as for any other changes in UAAL. This provides useful information to stakeholders, as they can view the history of the sources of a plan’s UAAL in any year. The use of separate amortization bases should help balance the annual ups and downs in the UAAL. In practice, the number of bases will be limited by the length of the amortization period as eventually bases will be fully amortized, and so will no longer be part of the UAAL.

Fixed amortization periods identify a date certain by which each portion of the UAAL will be funded. This can be contrasted with open or rolling amortization, whereby the plan “resets” its amortization period every year. This is analogous to a homeowner who refinances his mortgage each year. Although both methods are common in current practice, fixed amortization periods have the advantage of providing stakeholders with a clearer understanding of the ultimate funding target (full funding) and the path to get there. It is the structure required for private sector pensions, and is increasingly common for public pension plans.

Effective with the June 30, 2013 valuation the Board has elected to use individual bases for each source of UAAL or surplus each year and to use fixed amortization periods rather than open or rolling periods. This is a change from past VRS practice but is consistent with industry best practices. Effective with the June 30, 2016 valuation the Board confirms the continued use of individual bases for each source of UAAL or surplus each year and the use of fixed amortization periods rather than open or rolling periods put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open period. In the event a change to the statutory contribution requirements of the LODA

program necessitate a payment structure, individual bases for each source of UAAL or surplus each year and fixed amortization periods, rather than open or rolling periods, will be used by the LODA program at that time.

C. Amortization period

Amortization period is a determination of the appropriate period of time over which amortization should occur. The answer can depend on the source of the UAAL being amortized, as discussed below:

UAAL Due to Actuarial Gains/ Losses

Actuarial gains and losses arise when there is a difference between the actuary's estimates (assumptions) and the actual experience of the plan. They can result from demographic experience (e.g., the number of new retirees is higher or lower than expected), investment experience (e.g., returns that are higher or lower than expected), or other economic experience (e.g., payroll growth that is higher or lower than expected). In determining the appropriate period for amortizing gains and losses, plan sponsors should strike a balance between reducing contribution volatility (which would lead to longer amortization periods) and maintaining a closer relationship between contributions and routine changes in the UAAL (which would lead to shorter amortization periods). For many plans, amortization periods in the range of 15 to 20 years for gains and losses would assist plans in achieving a balance between these objectives.

UAAL Due to Changes in Actuarial Assumptions

Assumption changes will result in an increase or decrease in the UAAL. Unlike gains and losses, which reflect actual past experience, assumptions are modified when future expectations about plan experience change. This amounts to taking the effect of future expected gains or losses and building it into the cost today. For that reason, and because of the long-term nature of assumption changes, a plan could be justified in using a longer amortization period than that used for actuarial gains or losses, perhaps in the range of 15 to 25 years.

Amortization of UAAL Due to Plan Amendments

Because plan amendments are under the control of the plan sponsor, managing contribution volatility is generally not a consideration for plan amendments. This means that the primary rationale in selecting the period is to support intergenerational equity by matching the amortization period to the demographics of the participants receiving the benefit. This leads to shorter, demographically based amortization periods. For active participants, this could be the average future working lifetime of the active participants receiving the benefit improvement, while for retirees, this could be the average life expectancy of the retired participants receiving the benefit improvement. This approach would usually result in no longer than a 15-year amortization period for benefit improvements.

An equitable amortization policy should ensure that the UAAL will be paid off in a reasonable period of time. Long amortization periods can make paying down the UAAL appear more affordable, but, because interest charges accrue and compound on the unpaid UAAL, it is prudent to set amortization periods that are not excessively long. This is especially important where level percent of pay amortization is used.

In an effort to balance the need to pay down the current unfunded liability while managing already increasing contribution rates, the Board elected to manage the paydown of any unfunded liabilities created prior to June 30, 2013 over a 30-year closed period. In an effort to better manage intergenerational equity and to build funding discipline into the VRS policy, the Board also decided that future unfunded liabilities would be best amortized over 20-year closed periods.

With long amortization periods, the UAAL may increase during the early years of amortization period, even though contributions are being made to amortize the UAAL. This phenomenon, known as “negative amortization”, occurs only with level percent of pay amortization. This happens because, under level percent of pay amortization, the lower early payments can actually be less than interest on the outstanding balance, so that the outstanding balance increases instead of decreases. For typical public plans, this happens whenever the average amortization period is longer than approximately 20 years.

While there is nothing inherently wrong with negative amortization in the context of a public plan, stakeholders should be aware of its consequences, especially for amortization periods substantially longer than 20 years. Negative amortization is a particular concern for plans using open, or rolling, amortization periods. As described above, plans that use open/rolling amortization methods “reset” to a new amortization period every year. By contrast, a plan using a closed amortization commits to paying down the UAAL over a fixed period.

Effective with the June 30, 2013 valuation the Board has elected to amortize the legacy unfunded liability as of June 30, 2013, over a closed 30-year period. New sources of unfunded liability will be explicitly amortized over closed 20-year periods. The amortization period for the deferred contributions from the 2010-2012 biennium will remain a 10-year closed period. These amortization periods reflect a shift to closed amortization periods and tiered successive 20-year closed periods for new sources of unfunded liability. This is a change from past VRS practice of using a 20-year rolling method. Effective with the June 30, 2016 valuation the Board confirms the continuation of the amortizations put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open 30- year period. In the event a change to the statutory contribution requirements of the LODA program necessitate an amortization period, the LODA program will, at that time, explicitly amortize new sources of unfunded liability over closed 20-year periods.

Effective November 20, 2019, the Board amends this policy to clarify that amortization periods of explicit bases may be shortened in an effort to pay off unfunded liabilities of either pensions or OPEBs earlier than originally scheduled.

Effective October 18, 2022, the Board amends this policy to set the amortization period for unfunded

liabilities generated by plan amendments to be 10 years rather than 20 years.

Effective October 18, 2023, the Board amends this policy for pension and OPEB plans to allow for the legacy unfunded liability, which was originally amortized over a 30-year period in 2013, and all subsequent amortization bases established between 2014 and 2023, which were initially amortized over 20 years, to be amortized over a new 20-year period. New layers will be established in future years according to the parameters of the funding policy. The reset would exclude unfunded liabilities being amortized over a shorter 10-year period associated with new employers or benefit enhancements elected by certain political subdivision employers.

Effective July 1, 2025, the Board amends this policy for statewide pension and OPEB plans that reach a funded status of over 100% to only begin recognizing a surplus credit in the derivation of the employer contribution amount once the plan reaches a funded status of 120% on an AVA basis. The amortization of such overfunding, over 100%, will use a rolling 20-year period.

Effective October 15, 2026, for actuarial valuations effective as of June 30, 2026, the Board amends this policy for all pension and OPEB plans that reach or exceed a funded status of 100% on an AVA basis to amortize surplus funding as follows:

Funded Ratio on AVA Basis	Amortization Period
100-120%	20 year open
120-140%	15 year open
140-160%	10 year open
160%+	5 year open

For statewide pension and OPEB plans, the minimum contribution will at least equal the plan's administrative expense. Note that if a plan is less than 100% funded on an AVA basis, meaning that it still has unfunded liabilities, the current rules for amortization over a 10 or 20-year closed period remain in effect. This new policy supersedes the prior policy adopted for statewide plans on July 1, 2025, that would have suspended credits until the plan achieved a funded status of at least 120% on an AVA basis.

8. Actuarial Assumptions

Setting actuarial assumptions is critical to the funding of a plan. Forward-looking assumptions about plan demographics, wages, inflation, investment returns and more drive the measurement of liabilities and costs, and therefore affect funding. Unlike the selection of funding methods, which involves a fair degree of policy discretion, the selection of assumptions should be based solely on best estimates of actual future experience. While it may be tempting to set assumptions based on how they might affect current contribution requirements, such "results-based assumption setting" should be avoided. ***It is the plan's actual experience that ultimately determines the cost of the benefits, so the assumptions should try to anticipate actual experience.*** Periodic reexamination of plan assumptions is an essential part of any plan's actuarial processes. As a general rule, many plans conduct an experience study every three to

five years, an interval that should help ensure that assumptions remain appropriate in the face of evolving conditions and experience. VRS reviews assumptions every four years as required under § 51.1-124.22(A)(4).

All assumptions should be consistent with Actuarial Standards of Practice and reflect professional judgment regarding future outcomes.

VRS plans to continue experience studies once every four years as required by § 51.1-124.22(A)(4) to determine whether changes in the actuarial assumptions are appropriate.

Appendix A contains a chart summarizing some of the current assumptions used for the various benefit plans managed by the VRS.

9. Additional Considerations

Where the Funding Policy Statement as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the Board authorizes the VRS staff, working with the Plan Actuary, to determine alternative funding requirements that would maintain the plan's solvency while also meeting the other objectives as stated in the Board's funding policy.

1. **Additional Funding Contribution** - The Additional Funding Charge is the contribution rate needed, if necessary, to allow the local system to use the plan's assumed Investment Return Rate as its Single Equivalent Interest Rate (SEIR) under GASB Statement No. 67. The additional funding contribution rate, if needed, allows for the use of the 6.75% investment return as the single equivalent investment return assumption for purposes of the GASB 67/68 statements. To determine the SEIR, the Fiduciary Net Position (FNP) must be projected into the future for as long as there are anticipated benefits payable under the plan's provisions applicable to the members and beneficiaries of the system on the Measurement Date. If the FNP is not projected to be depleted at any point in the future, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR. If the FNP is projected to be depleted, an Additional Funding Charge is developed to avoid depletion.
2. **Surcharge for "At Risk" Plans** – Political subdivision plans identified as potentially "at-risk" due to low funded levels may require an additional surcharge or shortened amortization periods to bring the funding level of the plan to a sustainable level as determined by the Plan Actuary. For employers with no active covered positions who still have liabilities associated with retirees or inactive members eligible for future VRS benefits, this would include ad hoc lump sum contributions to cover the liabilities associated with former members who are still due a benefit.
3. **Limitation on Benefit Enhancements Increasing Liability** - Benefit enhancements to a political subdivision pension plan that would have the effect of increasing the plan's liabilities by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become non-forfeitable may take effect during any plan year if the political subdivision's current funded ratio for such plan year would be at least 75 percent after taking into account such amendment.

In order to increase benefits in circumstances where the funded ratio would be less than 75 percent after taking into account the amendment, the political subdivision would be required to make a lump sum contribution in the amount necessary to bring the funding level to 75 percent as of the effective date of the change, in addition to any increase in annual funding due to plan enhancements.

Any accrued liability generated by the plan amendment that is not covered by the lump sum contribution will be amortized over no more than 10 years.

4. Pension Plans for New Employers –

Any new employer must have a funded status of at least 75 percent for pension benefits.

Any past service that is granted by the employer or purchased at the time the employer joins VRS must be at least 75 percent funded at the join date with the remaining amount amortized over no more than 10 years.

5. Health Insurance Credit (HIC) Elections –

Any employer (new and existing VRS employers) that elects the HIC benefit is required to pay an initial contribution equal to the greater of two years of expected benefit payments or the amount required to reach at least 25 percent funded for its HIC plan, with the remainder of the unfunded liability amortized over no more than 10 years.

In addition, Any employer (new and existing employers) that wishes to enhance the health insurance credit by electing the extra \$1.00 of coverage per year of creditable service or expand coverage to additional non-covered members is required to meet the following requirements:

- If the funded status of the plan is below 50% prior to the change, the employer must make an initial contribution equal to the full increase in the plan's liability associated with enhancing the HIC benefit.
- If the funded status of the plan is greater than 50% but below 75% prior to the change, the employer must make an initial contribution equal to 50% of the increase in the plan's liability associated with enhancing the HIC benefit, with the remaining additional liability to be amortized over 10 years.
- If the funded status of the plan is greater than 75% prior to the change, the employer must make an initial contribution in the amount necessary to keep the funded status at the 75% threshold after the change, with any remaining additional liability to be amortized over 10 years.

10. Conclusion

In funding defined benefit pension plans and OPEBs, governments must satisfy a range of objectives. In addition to the fundamental objective of funding the long-term costs of promised benefits to plan participants, governments also work to:

1. Keep employer's contributions relatively stable from year to year
2. Allocate pension costs on an equitable basis
3. Manage pension risks

4. Pay off unfunded liabilities over reasonable time periods

This Funding Policy was developed to help decision-makers understand the tradeoffs involved in reaching these goals and to document the reasoning that underlies the Board's decisions.

11. Policy Amendment History

RBA 2013-07-18 documented the approval of VRS funding policy assumptions.

RBA 2013-11-26 documented the approval of revisions to the VRS funding policy assumptions for political subdivisions.

RBA 2016-06-15 documented the approval of VRS funding policy methods and assumptions with regard to the OPEB plans.

RBA 2016-06-16 documented the Board's approval of changes to actuarial methods for certain OPEB plans.

RBA 2017-04-9 documented the approval of VRS funding policy assumptions.

RBA 2019-10-13 documented approval of a discount rate of 6.75% for actuarial valuations effective with the June 30, 2019, valuations.

RBA 2019-11-20 documented the approval of the use of shortened amortization periods for unfunded liabilities and maintaining prior contribution rates to assist in paying unfunded liabilities.

RBA 2022-10-23 documented changes in funding policy related to health insurance credit funding requirements.

RBA 2023-10-23 documented resetting of total unfunded accrued liability as of June 30, 2023, over 20 years and establishing funding rules associated with modifications to health insurance credit program.

RBA 2025-06-11 documented approval of method to amortize surplus funding once plans reach 100% funded status.

RBA 2026-10-XX documents approval to amortize over open periods once a plan exceeds 100% funded status on an AVA basis.

Adopted October 17, 2013

Amended November 14, 2013, June 7, 2016, November 15, 2017, November 20, 2019, October 18, 2022, February 8, 2024, June 18, 2025, and October 15, 2026.

Appendix A
Amended Effective July 1, 2019
by RBA-2019-10-13

Policy	State	Teachers	SPORS	VALORS	JRS	Locals		HIC	Group Life	VSDP	LODA
						Non-LEOS	LEOS				
Actuarial Cost Method	Entry-age Normal										
Asset Valuation Method	5 Year Smoothing 80/120 Corridor										Market Value *
Amortization Method	30 year decreasing each year down to 20 then remains open - Level % of Pay										30 Year Open Level % of Pay

* LODA is statutorily required to be funded on a current disbursement or "pay-as-you-go" basis. Accordingly, the market value of assets is used.

Actuarial Assumptions	State	Teachers	SPORS	VALORS	JRS	Locals		HIC	Group Life	VSDP	LODA
						Non-LEOS	LEOS				
- Discount Rate	6.75%										4.75%
- Payroll Growth Rate	3.00%										
- Inflation Assumption	2.50%										
- Salary Increases	Inflation rate of 2.5% plus real wage component of 1.0% & step-rate component that varies by Plan and Service							Same as Retirement Plans		N/A	
Year 1	5.35%	5.95%	4.75%	4.75%	4.50%	5.35%	4.75%				
Year 5	4.45%	5.45%	4.65%	4.65%	4.50%	4.45%	4.65%				
Year 10	4.00%	4.85%	4.00%	4.00%	4.50%	4.00%	4.00%				
Year 20	3.50%	3.50%	3.50%	3.50%	4.50%	3.50%	3.50%				
- Cost-of-Living Adjustments	Plan 1 vested - 2.50% per year / Plan 1 non-vested & Plan 2 - 2.25% per year							N/A	N/A	Same as Retirement Plans	N/A
- Mortality Rates	RP 2014 Mortality Table projected to 2020 for males and females										
* Pre Retirement	Adjustments vary based on employer group and gender										
* Post Retirement	Adjustments vary based on employer group and gender							Adjustments similar to retirement plans, by group covered			
* Post Disability	RP 2014 Disability Table with varying setbacks based on employer group and genders										
- Withdrawal Rates	"Experience Related" Varies by Plan, Gender and Service at Retirement										
- Disability Rates	"Experience Related" Varies by Plan, Gender and Age at Disability										
- Retirement Rates	"Experience Related" Varies by Plan, Gender, Age and Service at Retirement										

○



**Accept the Plan Actuary's Valuations as of
June 30, 2026, for the Five Statewide
Retirement Plans and associated OPEBS.**

Requested Action

The Virginia Retirement System Board of Trustees accepts the June 30, 2026, Actuarial Valuations conducted by the VRS plan actuary, Gabriel, Roeder, Smith & Company, for (i) the Five Statewide Retirement Plans: State Employees, Teachers, Judicial Retirement System, State Police Officers' Retirement System, and Virginia Law Officers' Retirement System; and (ii) the associated other post-employment benefits (OPEBs): Group Life Insurance, Health Insurance Credit Plans for both State and Teachers, and the Virginia Sickness and Disability Program, including self-funded Long-Term Care.

Description/Background

The VRS plan actuary conducts actuarial valuations annually as of the close of the fiscal year (June 30). The results of the valuations are used to establish employer contribution rates in odd-numbered years. The results in even-numbered years are shared with the Board of Trustees to inform the Board of any emerging trends or indications of the magnitude and direction of contribution rates.

Authority for Requested Action

Code of Virginia § 51.1-124.22(A)(3) authorizes the Board to employ an actuary as its technical advisor for the administration of the Retirement System.

The above action is approved.

Susan T. Gooden, Ph.D., Chair
VRS Board of Trustees

Date



June 30, 2026 Annual Actuarial Valuation Results

**Presenters: Becky Stouffer, ASA, MAAA, FCA,
Jim Anderson, FSA, EA, MAAA, FCA**



Agenda

- Big Picture – Pension & OPEB
- Highlights of 2026 Pension Valuations
- Highlights of 2026 OPEB Valuations
- Appendix

October Meeting Content: Informational

Pension Valuations	Other Post-Employment Benefits (OPEB) Valuations
Virginia Retirement System • State Employees • Teachers	Health Insurance Credit (HIC) • State Employees • Teachers
Virginia Law Officers (VaLORS)	Group Life Insurance
State Police Officers (SPORS)	Virginia Sickness and Disability Program
Judicial (JRS)	

November Meeting Content – Informational: Political Sub. Pension and HIC; VLDP Teachers and Political Subs; HIC – Constitutional Officers, Social Service Employees, Registrars; Line of Duty Act Fund



2026 Actuarial Valuation Results

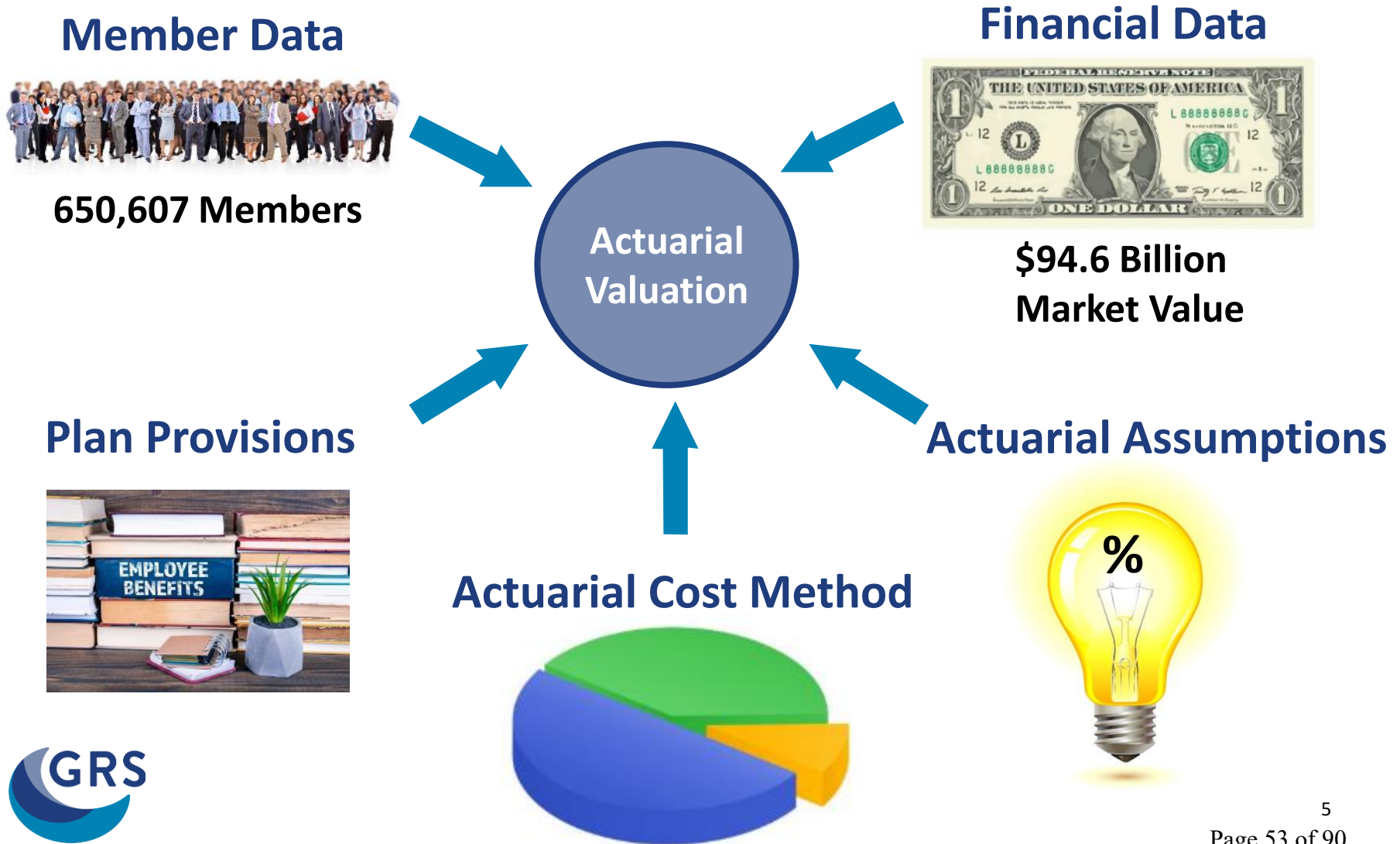
- VRS Pension and OPEB Informational Results
 - Measure funding progress as of June 30, 2026
 - Develop inputs for use in June 30, 2027 valuations
- Odd year valuations develop contribution rates for 2 years

General Funding Objectives

- Intergenerational equity of plan costs
- Stable or increasing ratio of assets to liabilities
- Stable pattern of contribution rates
 - *VRS Code Section 51.1-145*



Big Picture: Actuarial Valuation Process – (Statewide Pension Excluding Political Subdivisions)



Valuation Results Highlights

- Funded status increased
- Contributions decreased
 - except for SPORS and VaLORS
- Experience during 2025-2026 driving results:
Asset gains, Salary Gains (except for Teachers)
- No Legislative updates
- Modeling updates

Valuation Results Highlights – Modeling Updates

- Valuation of Inactive/Active elsewhere records
 - Represent working members with multiple records (at least 2 – one active and one inactive)
 - At retirement, benefits for multiple employments are split amongst employers
 - Updated coding to better align with member experience
- Valuation of COLA benefits, per Actuarial Audit

Cost impacts of above modeling updates offset, with minimal impact other than for VaLORS



Valuation Results Highlights

Funding policy change for plans once they become over 100% funded (if later <100%, return to current closed amortization method)

- Decreases VSDP contribution amount to floor equal to administrative expenses for statewide pension and OPEB plans
- New amortization schedule

Funded Ratio	Amortization Period
<100%	No change
100-120%	20 year open
120-140%	15 year open
140-160%	10 year open
160%+	5 year open



Statewide Pension Participants/% Change in '26

ACTIVES			INACTIVES			RETIREEES		
State	81,700	+0.5%	State	73,329	+5.2%	State	74,920	+1.2%
Teachers	160,858	-0.1%	Teachers	106,425	+6.0%	Teachers	116,394	+1.6%
SPORS	1,888	-0.7%	SPORS	898	+7.5%	SPORS	1,931	+2.6%
VaLORS	7,322	-1.8%	VaLORS	16,161	+6.2%	VaLORS	7,664	+2.7%
JRS	477	+0.8%	JRS	11	-26.7%	JRS	629	+2.6%
Total	252,245		Total	196,824		Total	201,538	

**Total Annual Salary:
\$19 Billion**

26% are Plan 1

95% are Plan 1

**Total Annual Benefit
Payments: \$5.4 Billion**



Actives: Changes in Average Salary

System	2025	2026	% Change
State	\$ 77,218	\$ 78,035	1.1%
Teachers	69,331	72,027	3.9%
SPORS	96,071	95,891	-0.2%
VaLORS	58,011	58,029	0.0%
JRS	208,551	208,682	0.1%

% Change for Continuing ¹	
Expected	Actual
4.5%	2.1%
5.1%	5.9%
4.2%	2.7%
4.7%	1.4%
4.0%	0.3%

¹ Continuing are members active in both the current and prior valuation.

Return to Work (RTW) payroll increased 25% during the fiscal year growing from \$20 million to approximately \$25 million

- RTW payroll is included to pay contributions for members who have retired and returned to work and not accruing benefits



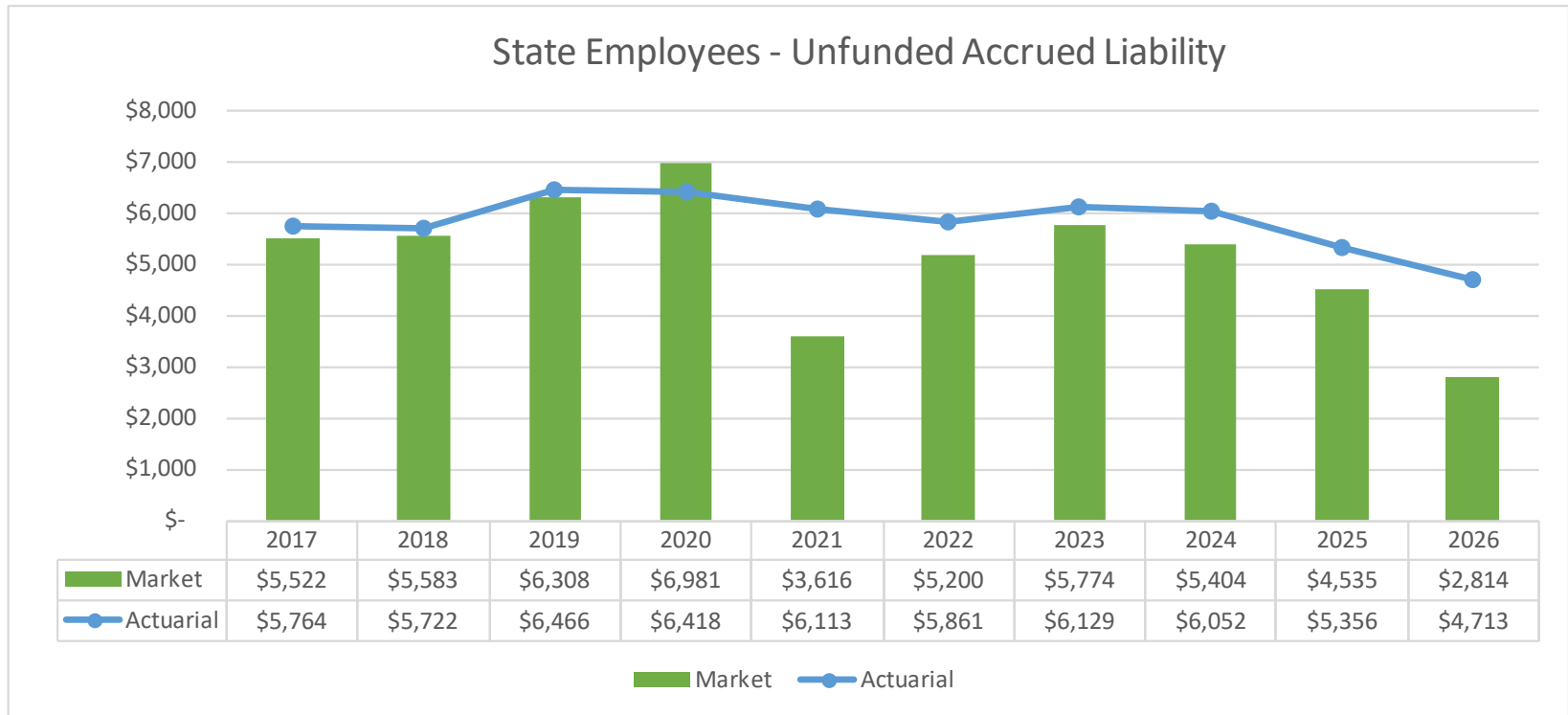
Actuarial Value Assets: State Employees Pension in \$ Millions – **12.1%/8.0% MVA/AVA Return**

	2026	2027	2028	2029	2030
Actual Investment Return	3,114				
Assumed Investment Return	1,769				
Gain/(Loss) to be Phased-in	1,345				
Phased-in Recognition					
-Current year	269	?	?	?	?
-1 st prior year	187	269	?	?	?
-2 nd prior year	137	187	269	?	?
-3 rd prior year	(13)	137	187	269	?
-4 th prior year	(313)	(13)	137	187	269
Total Recognized Gain/(Loss)	267	580	593	456	269

2027-2030: Expect \$1.9 billion in deferred asset GAINS
Future investment losses could offset current deferred gains



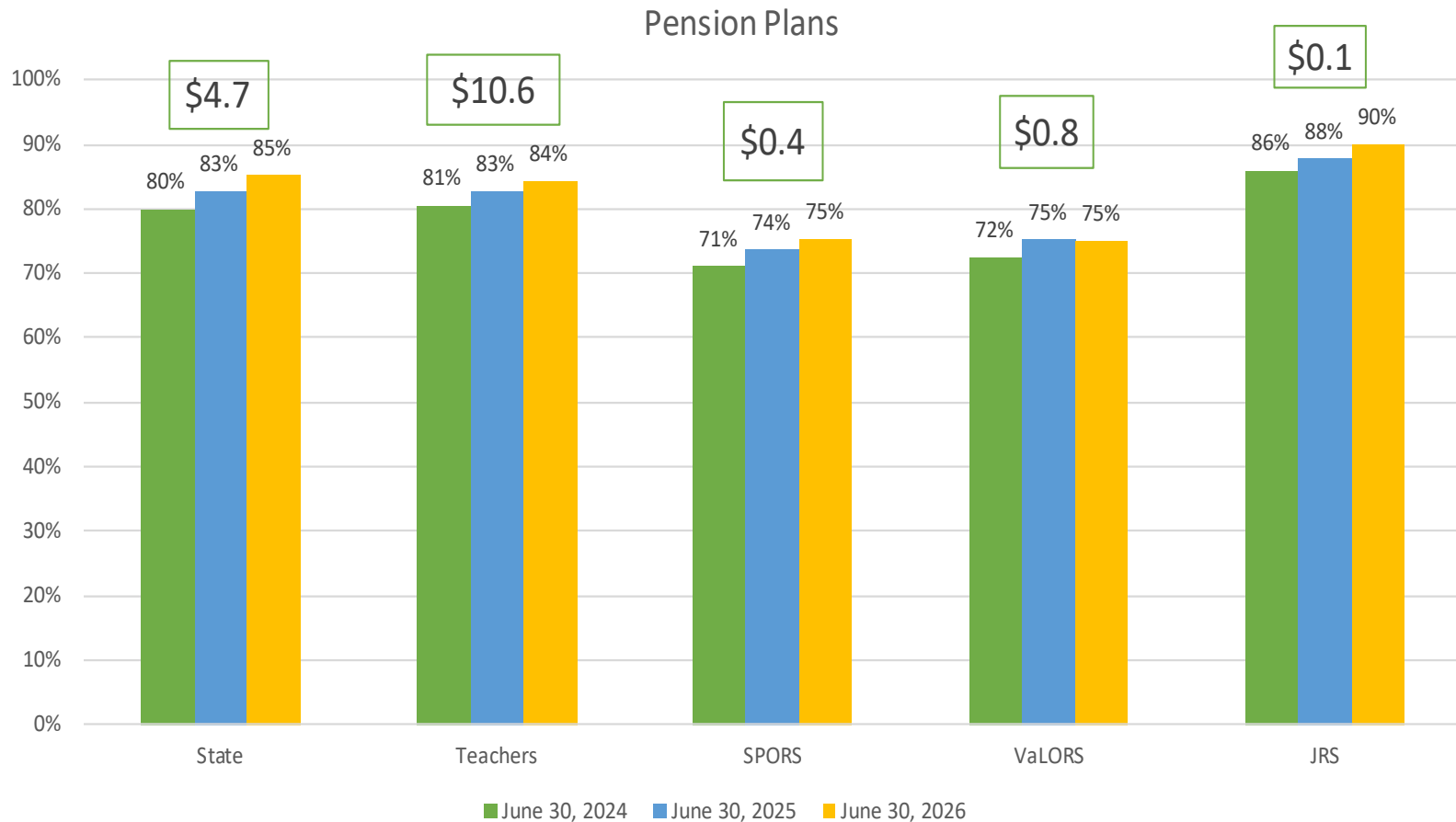
Why We Smooth Asset Returns



- * Unfunded liabilities will trend to Market Value basis over time
- * Helps achieve level percent contributions objective in VA Code

Funded Status and Unfunded Liabilities (AVA)

June 30, 2026 Unfunded Liabilities in \$Billions



Calculated Employer Contributions

Will vary significantly for System/Plan/Employer based on:

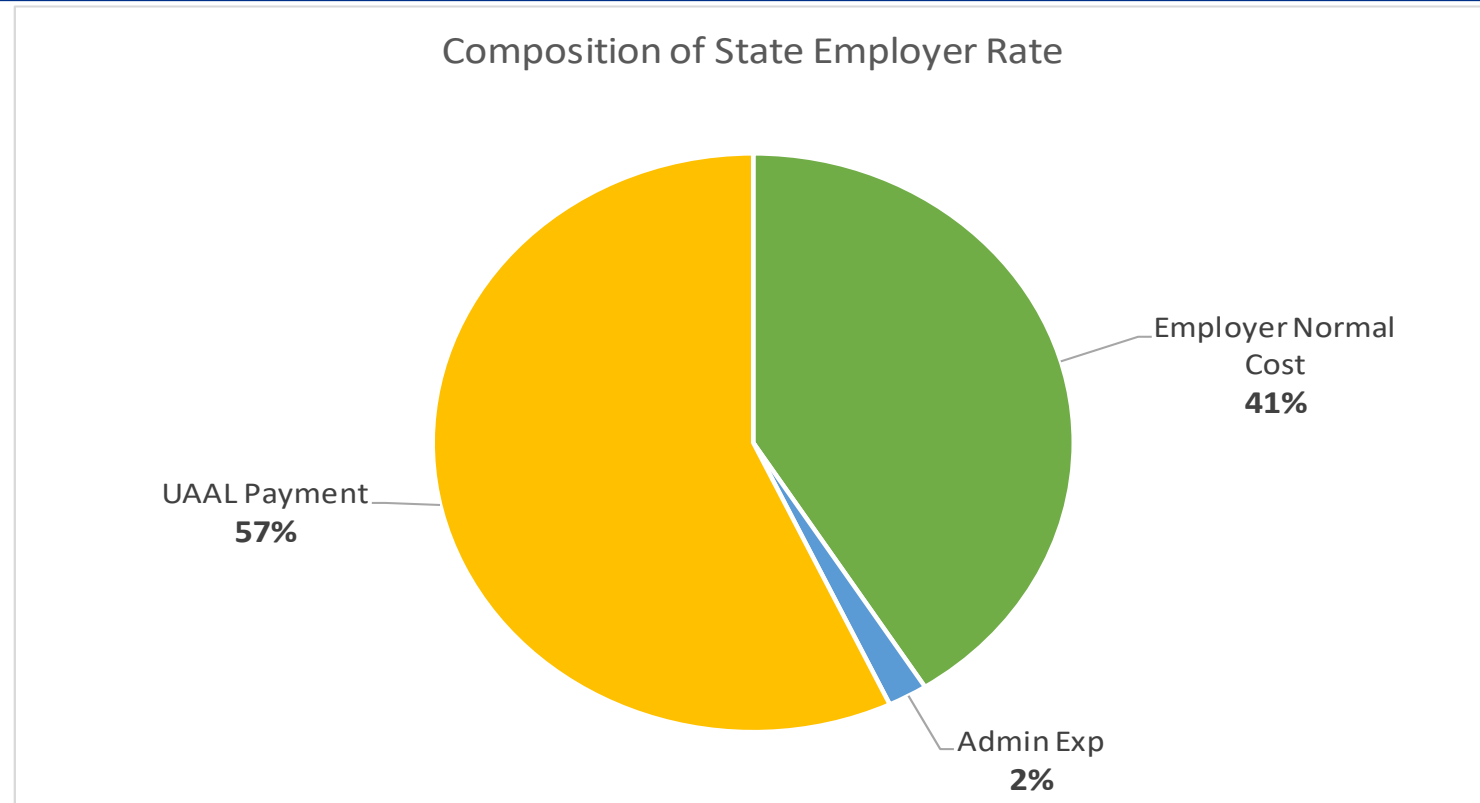
- Benefit Features
- Demographics
- Funded Status

Two Main Components:

- Normal Cost – this represents the cost of the current year benefit earned by each active member
- Amortization of Unfunded Liability – uses a systematic method (funding policy) to pay off the unfunded liability for each employer

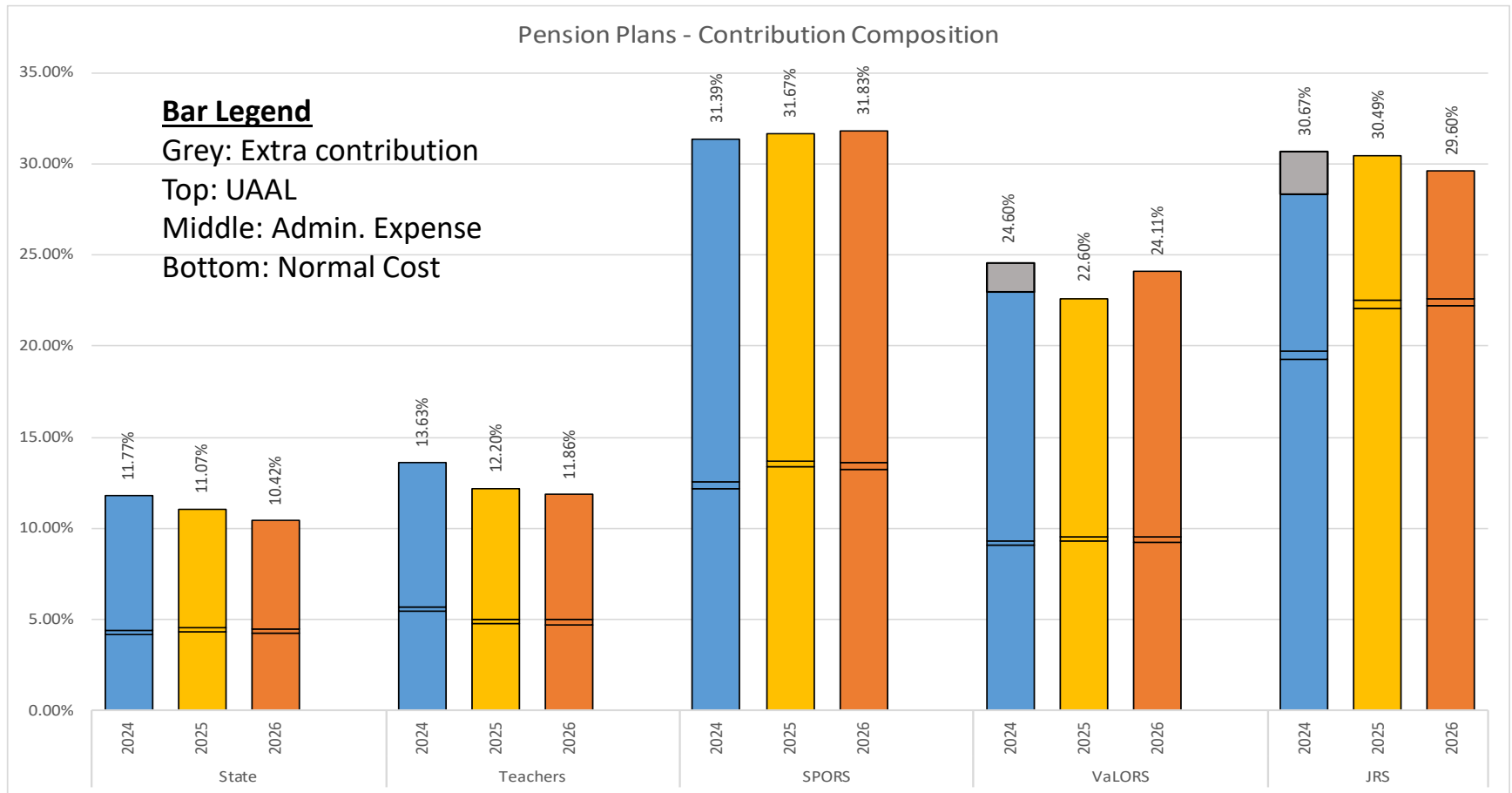


Employer Pension Contribution – State Plan



UAL amortization payment = approximately 60% of total contribution
Normal Cost ultimately decreases to Plan 2/Hybrid level
Total State employer rate = 10.42%

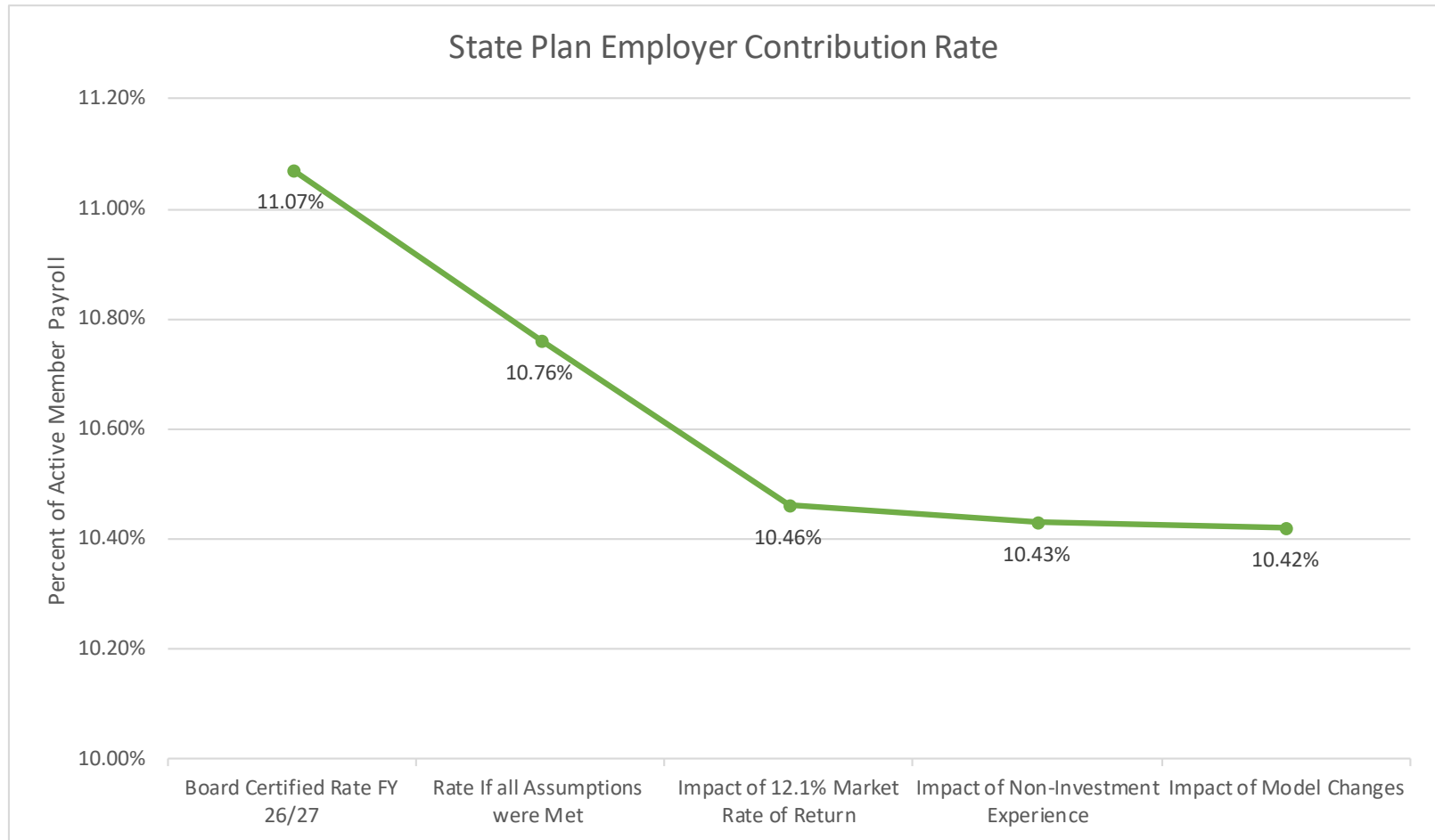
Actuarially Determined Employer Contribution Rates – Pension Plans



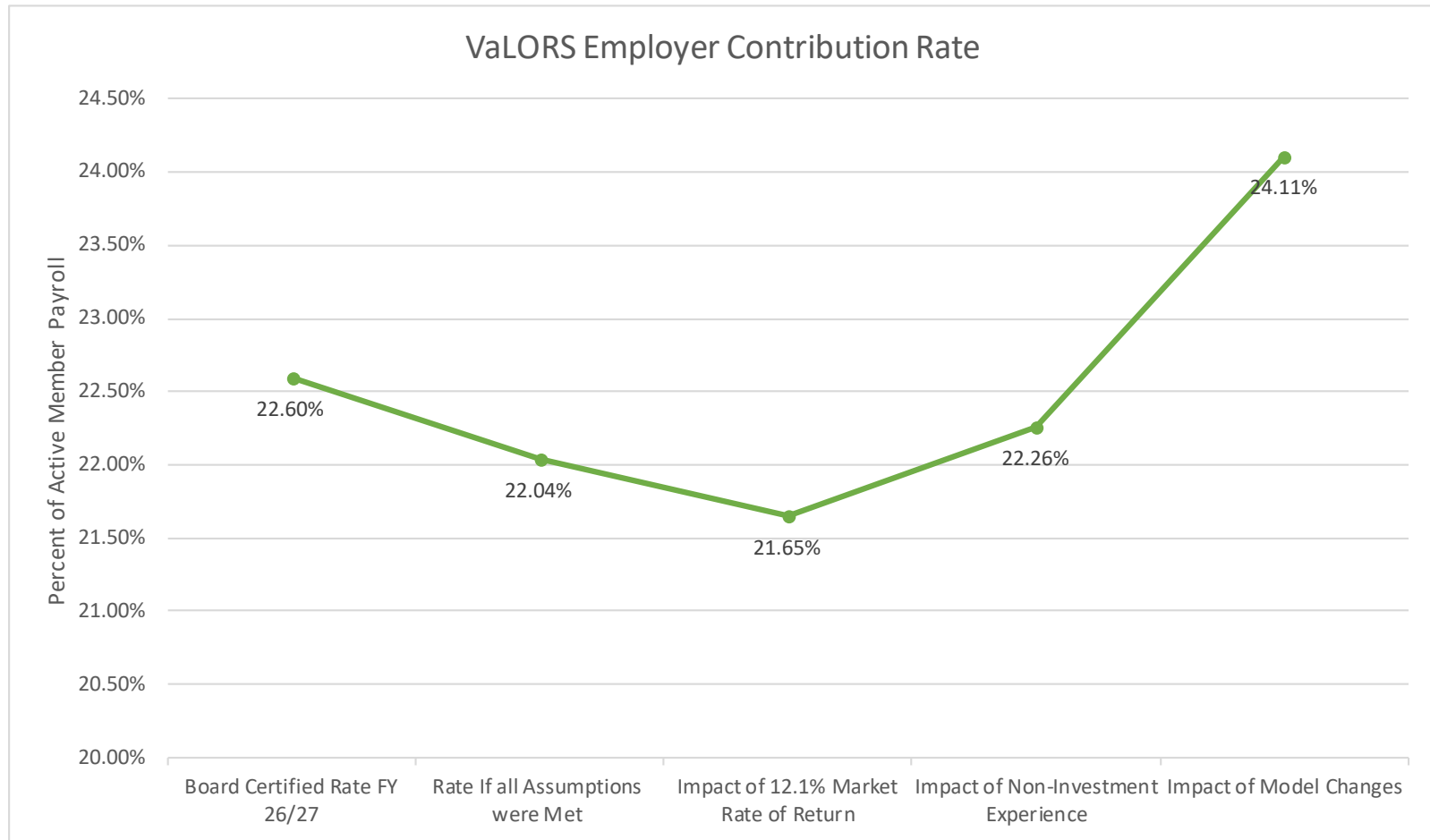
- Additional Contributions in 2024 to maintain rate for VaLORS and JRS
- State and Teacher Plans with Hybrid benefit tier have additional required Defined Contribution plan contributions of 1.0%-3.5% of Hybrid payroll



Pension Contribution Changes – State



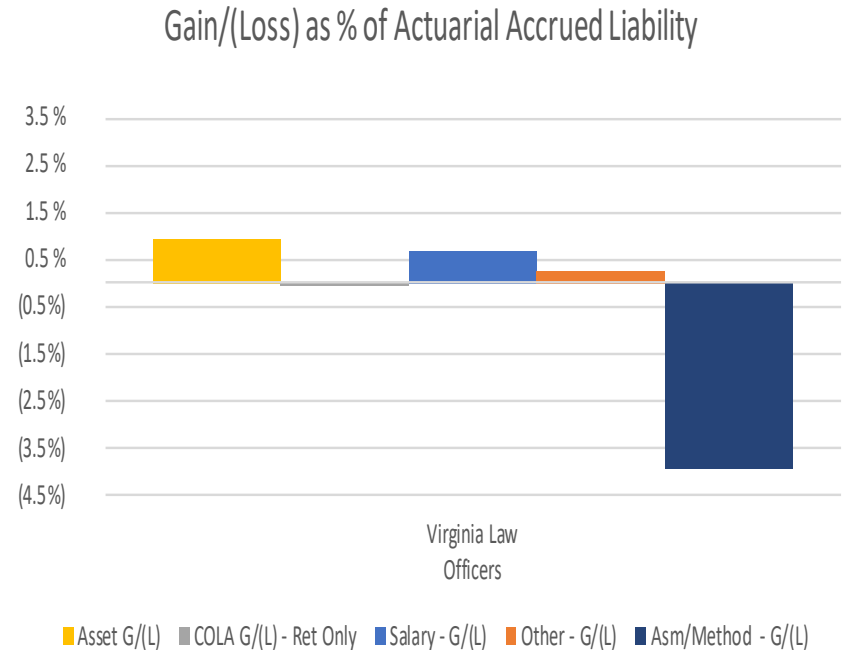
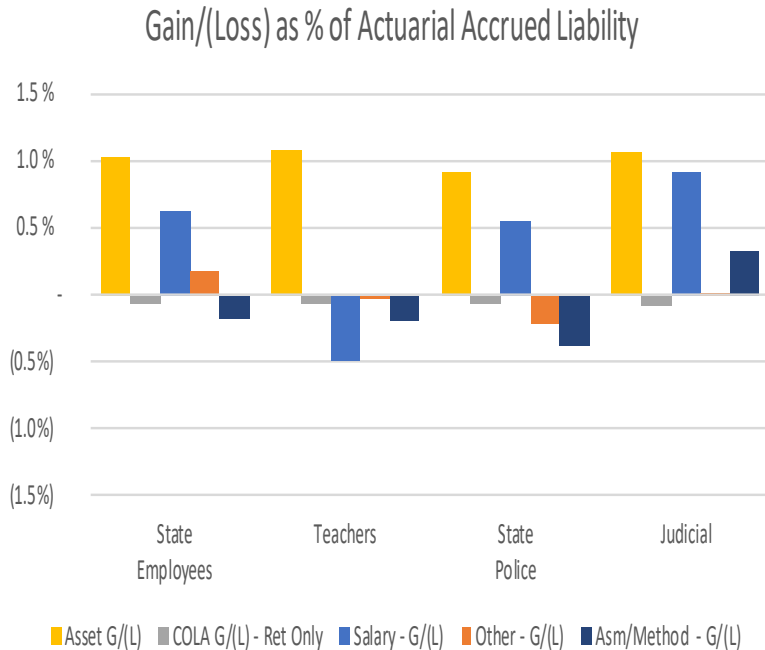
Pension Contribution Changes – VaLORS



Experience 2025-2026: Pension Plans (in \$millions)

	State	Teachers	SPORS	VaLORS	JRS
UAAL Last Valuation	\$ 5,356.0	\$ 11,179.1	\$ 434.4	\$ 717.6	\$ 103.5
Prior Year (PY) Normal Cost	556.6	1,123.6	33.3	60.8	27.0
Actual PY Contributions	(1,070.1)	(2,231.1)	(65.1)	(126.5)	(33.9)
Extra Contributions	-	-	-	-	-
Interest	363.0	755.1	29.4	48.3	7.7
Expected UAAL	5,205.5	10,826.8	432.0	700.1	104.3
UAAL This Valuation	4,712.5	10,621.2	418.3	762.1	85.3
Total Gain/(Loss)	\$ 493.0	\$ 205.5	\$ 13.7	\$ (62.0)	\$ 19.0
– Asset Gain/(Loss)	\$ 322.9	\$ 700.8	\$ 15.3	\$ 27.5	\$ 9.0
– Assumption/Method Change	(55.6)	(125.6)	(6.1)	(114.1)	2.8
– Plan Change	-	-	-	-	-
– Liability Gain/(Loss)	225.7	(369.7)	4.6	24.6	7.2

Pension Gain/Loss Commentary (%s)

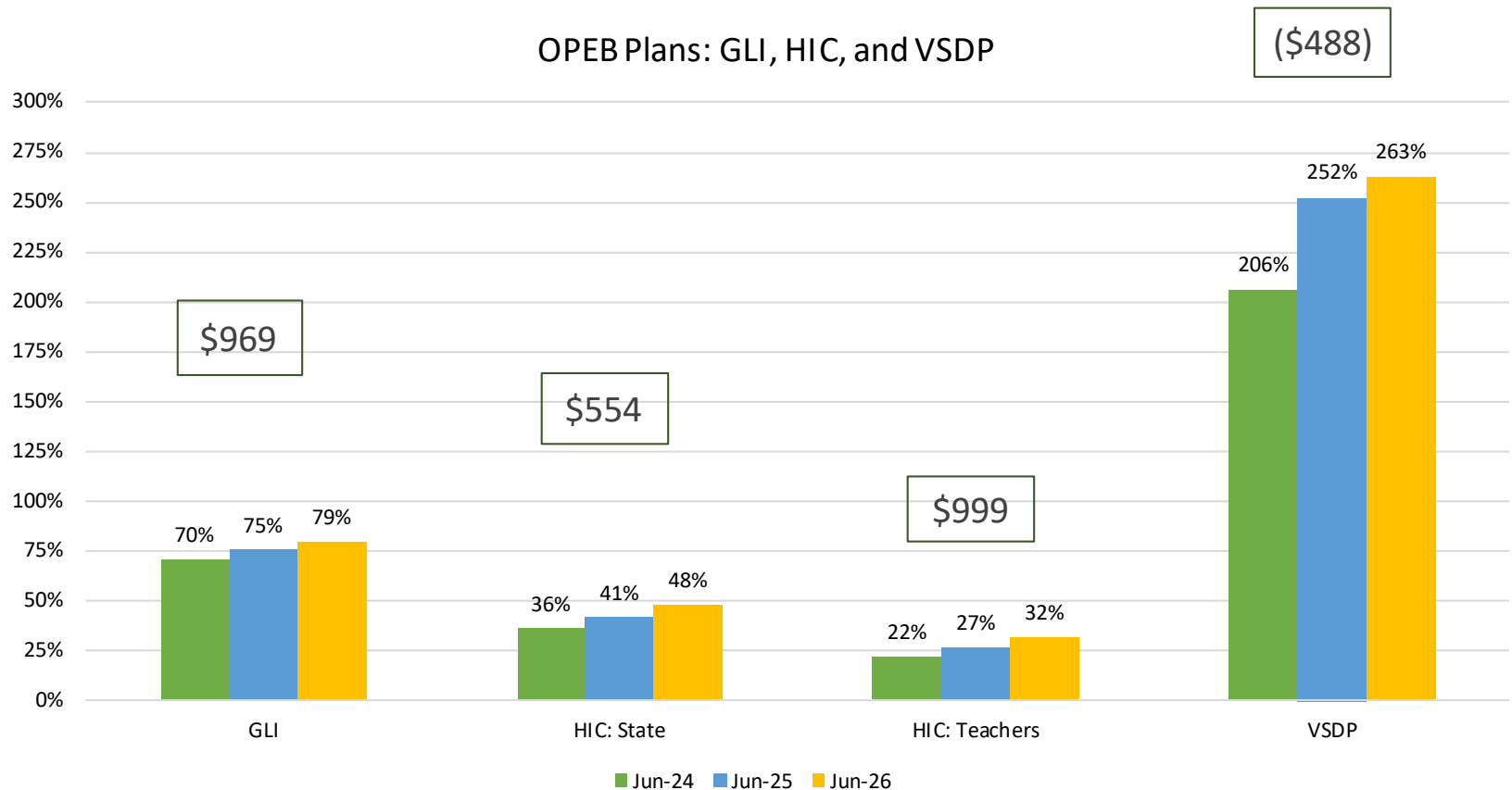


- Primary impacts: Investment and Salary experience
- COLA Loss (Actual vs Assumption)
 - Plan 1: 2.63%/2.5%
 - Plan 2/Hybrid: 2.32%/2.25%
- Modeling changes had a larger impact on VaLORS



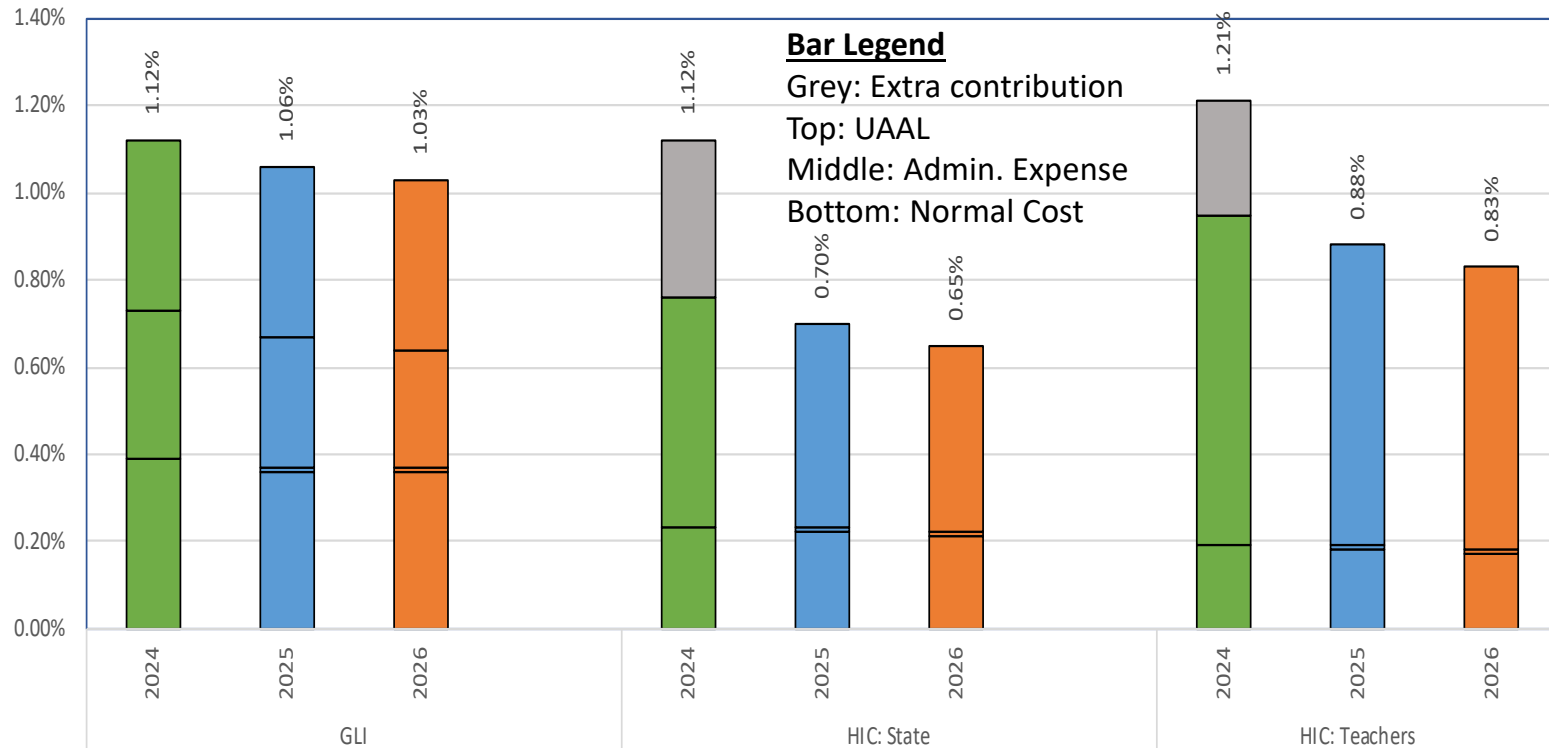
Funded Status (AVA) and Unfunded Liabilities – OPEB Plans

June 30, 2026 Unfunded Liabilities in \$Millions



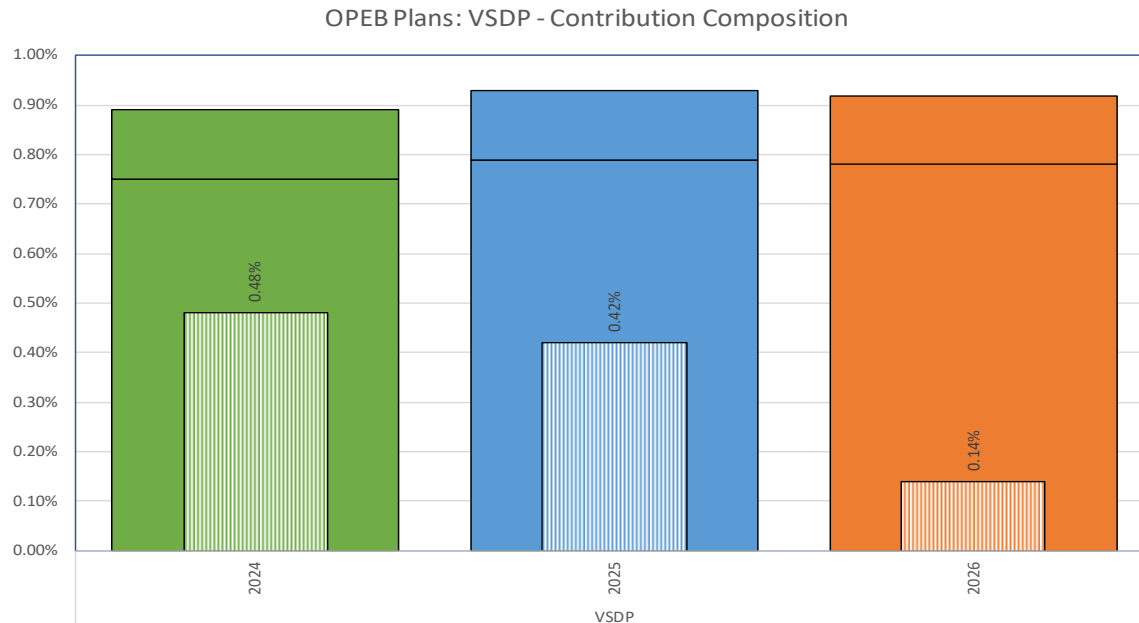
Actuarially Determined Employer Contribution Rates – OPEB Plans

OPEB Plans: GLI and HIC - Contribution Composition



- Additional Contributions in 2024 to maintain rate for State and Teachers

Actuarially Determined Employer Contribution Rates – OPEB Plans: VSDP



- The solid bars represent the normal cost and administrative expense. Since the plan is overfunded the credit associated with the surplus offsets these amounts resulting in the lower contribution rate which is the smaller shaded bar.
- 2026 prior to the change in funding policy resulted in a contribution rate of 0.40% of covered payroll. After change, minimum rate = administrative expenses of 0.14%

Experience 2025-2026: OPEB (in \$millions)

	GLI	HIC: State	HIC: Teachers	VSDP
UAL Last Valuation	\$ 1,115.5	\$ 624.3	\$ 1,064.5	\$ (444.3)
Prior Year (PY) Normal Cost	92.7	19.9	18.6	51.8
Actual PY ER Contributions	(269.7)	(115.6)	(144.9)	(24.9)
Extra Contributions	-	-	-	-
Adjustment to Market Value	-	-	-	-
Interest	72.5	39.6	68.2	(27.4)
Expected UAAL	1,011.0	568.2	1,006.4	(444.8)
UAAL This Valuation	968.7	554.2	998.9	(488.1)
Total Gain/(Loss)	42.3	14.0	7.5	43.3
-- Asset Gain/(Loss)	57.7	5.9	5.1	9.4
-- Assum/Method Change Gain/(Loss)	-	-	-	-
-- Liability Gain/(Loss)	(15.5)	8.1	2.4	33.9



Summary: Pension Plan Contribution Rates

	FY 2025/2026	Informational	FY 2027/2028	Informational
	2023 Valuation	2024 Valuation	2025 Valuation	2026 Valuation
State	12.52%	11.77%	11.07%	10.42%
Teachers	14.21%	13.63%	12.20%	11.86%
SPORS	31.32%	31.39%	31.67%	31.83%
VaLORS	24.60%^	23.00%	22.60%	24.11%
JRS	30.67%^	28.36%	30.49%	29.60%
Pol. Sub (Weighted Avg)	12.25%	11.76%	10.59%	TBD

^ VaLORS and JRS contribution rates set at 2021 valuation level, increased from 22.81% and 30.66% respectively.

Summary: OPEB Contribution Rates

	FY 2025/2026	Informational	FY 2027/2028	Informational
	2023 Valuation	2024 Valuation	2025 Valuation	2026 Valuation
Group Life Insurance	1.18%	1.12%	1.06%	1.03%
Health Insurance Credit (HIC)				
-- State	1.12%*	0.76%	0.70%	0.65%
-- Teachers	1.21%*	0.95%	0.88%	0.83%
VSDP	0.50%	0.48%	0.42%	0.14%

* HIC-State and HIC-Teachers contribution rates held at 2021 valuation level; increased from 0.90% and 1.03% respectively.

2026 VSDP informational rate before funding policy changes = 0.40%

Pension Projections

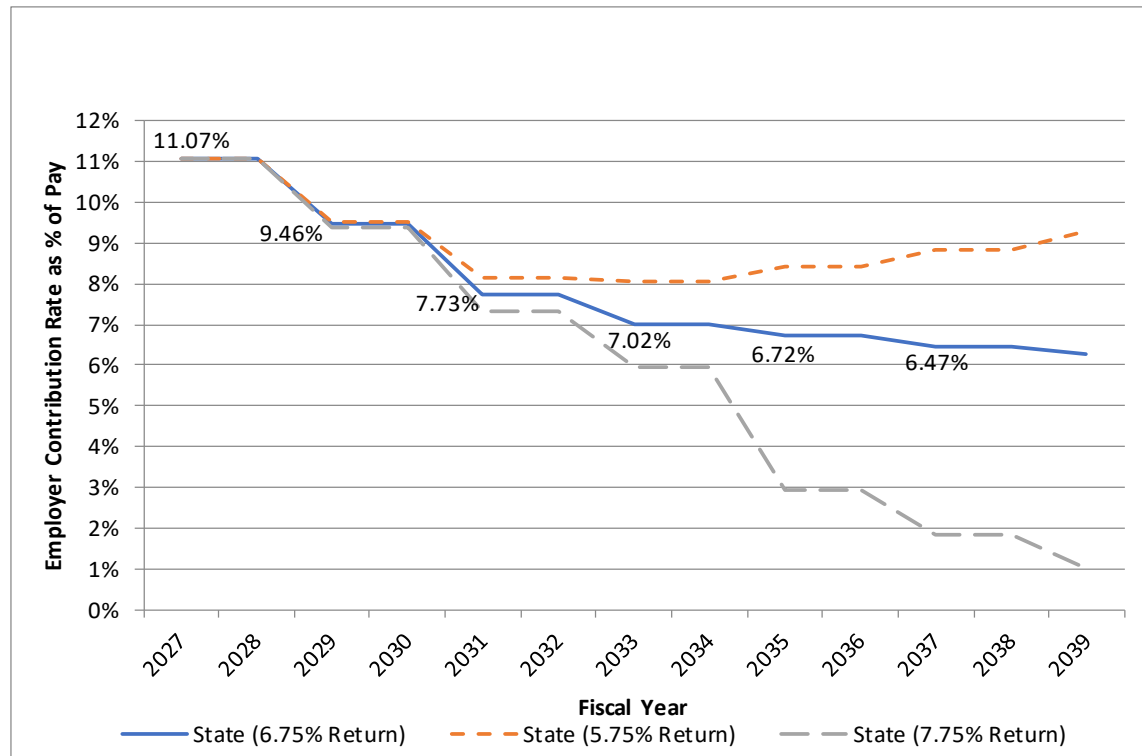
State Employees and Teachers

The following pages show projected pension contributions & funded status

- Liabilities are calculated at 6.75%
- Investment returns shown at assumed 6.75% rate and 5.75%/7.75% for sensitivity

Projected Employer Contribution Rates (Fiscal Year) - Defined Benefit Only

State Employees

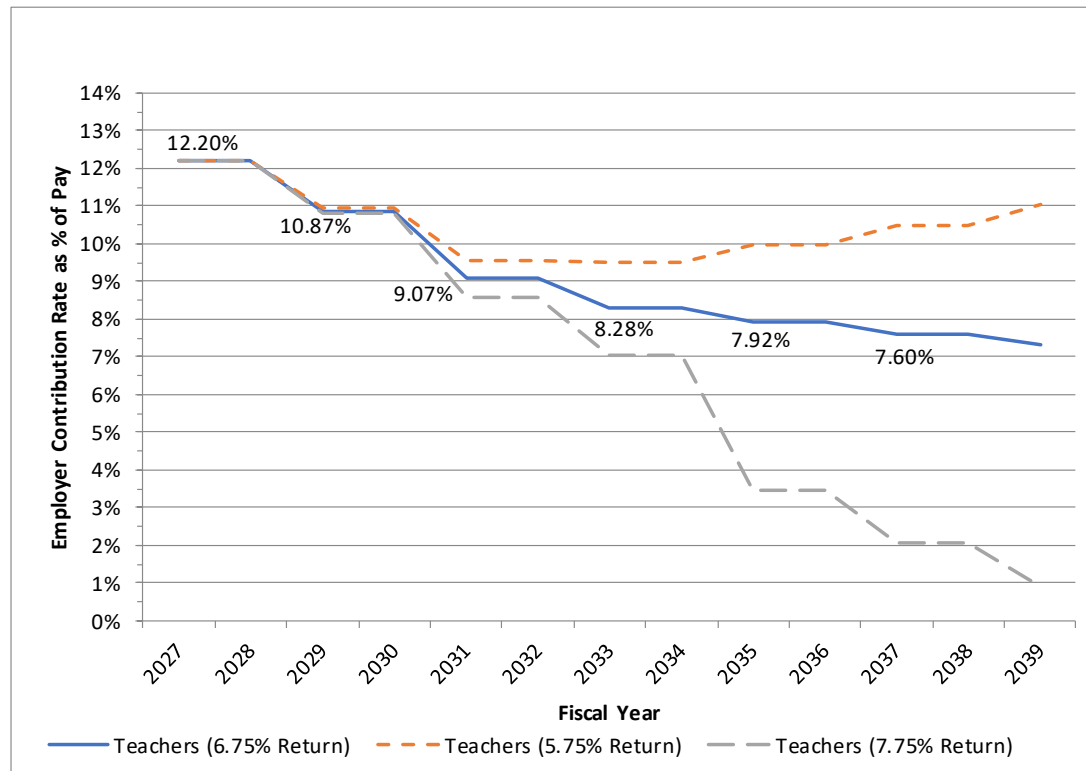


	2027	2029	2031	2033	2035	2037
5.75% Return	11.07%	9.52%	8.14%	8.06%	8.44%	8.85%
6.75% Return	11.07%	9.46%	7.73%	7.02%	6.72%	6.47%
7.75% Return	11.07%	9.40%	7.32%	5.96%	2.93%	1.85%



Projected Employer Contribution Rates (Fiscal Year) - Defined Benefit Only

Teachers



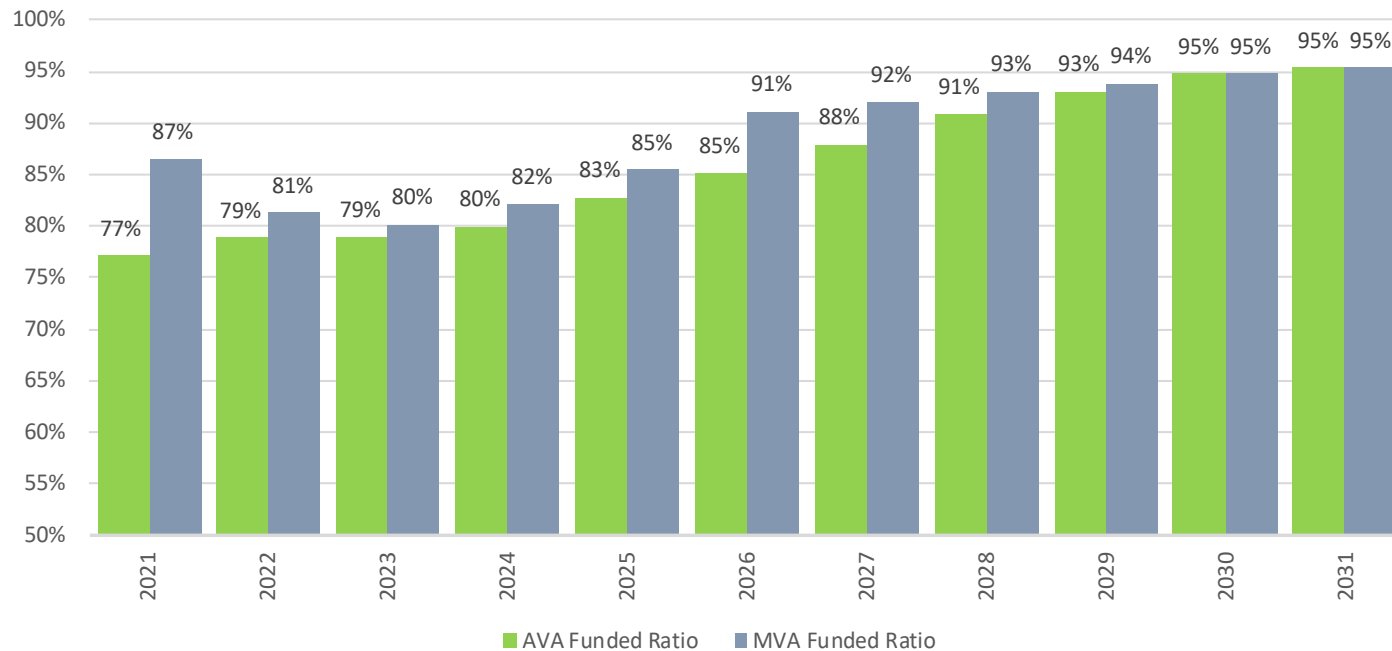
	2027	2029	2031	2033	2035	2037
5.75% Return	12.20%	10.94%	9.54%	9.49%	9.96%	10.50%
6.75% Return	12.20%	10.87%	9.07%	8.28%	7.92%	7.60%
7.75% Return	12.20%	10.81%	8.60%	7.05%	3.46%	2.06%



Projected Pension Funded Status

State Employees

Projected Funded Status



Actual 2021-2026

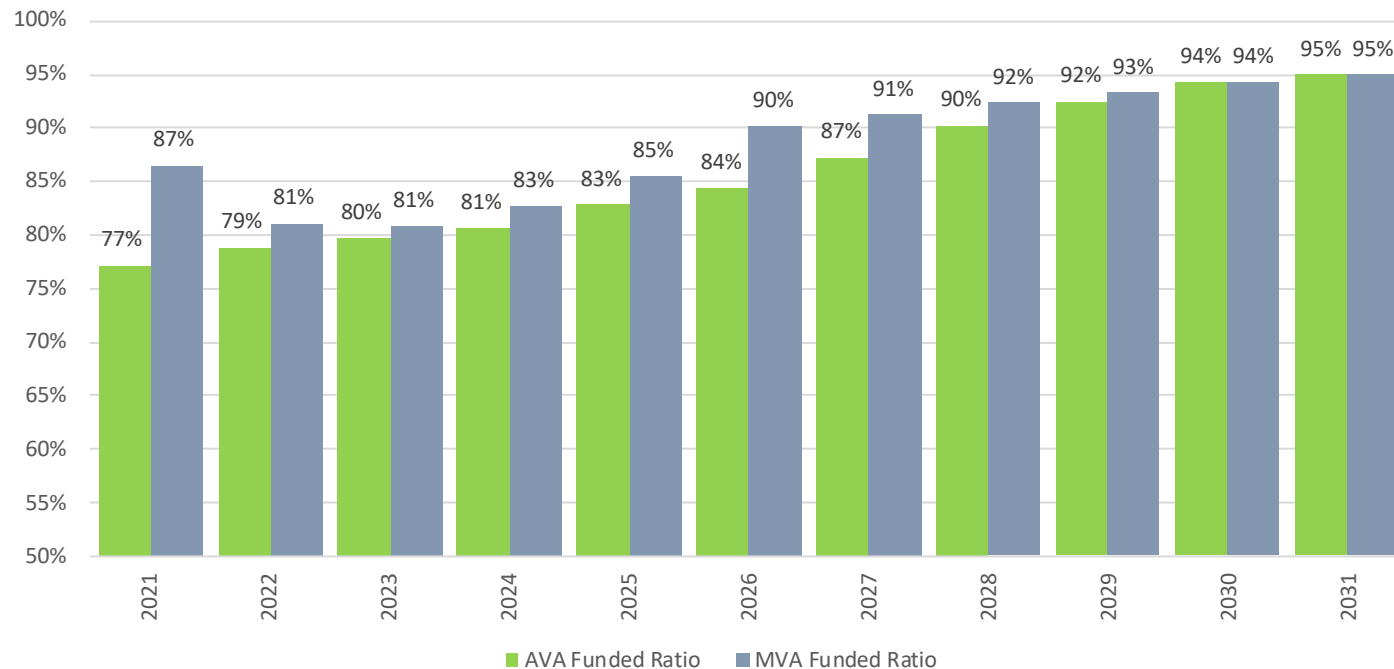
Projected 2027-2031



Projected Pension Funded Status

Teachers

Projected Funded Status



Actual 2021-2026

Projected 2027-2031



Conclusion



1. Increased Funded Status on Actuarial Asset Basis

- Higher than expected returns for 2026 valuations
- Salary gains (except Teachers), small COLA Losses
- Modeling refinements

2. Contributions

- Pension & OPEB rates are mostly consistent with last year's valuation
- Generally, slightly lower rates than those currently being paid except for VaLORS

A man in a dark suit and blue patterned tie is pointing his right index finger directly at the camera. He is holding a dark folder or book under his left arm. The background is blurred, showing an office environment.

THANK YOU

QUESTIONS



APPENDIX

Summary: Unfunded Pension Plan Liabilities (\$000)

Unfunded Liability

AVA

	2025	2026
State	\$ 5,356,033	\$ 4,712,528
Teachers	11,179,129	10,621,237
SPORS	434,411	418,261
VaLORS	717,570	762,140
JRS	103,531	85,314
Total	\$ 17,790,674	\$ 16,599,480

MVA

	2025	2026
State	\$ 4,535,147	\$ 2,814,108
Teachers	9,453,015	6,658,522
SPORS	396,218	330,106
VaLORS	649,166	604,009
JRS	80,225	31,267
Total	\$ 15,113,771	\$ 10,438,012



Summary: Unfunded OPEB Liabilities (\$000)

Unfunded Liability

AVA

	2025	2026
GLI	\$ 1,115,507	\$ 968,731
HIC - State	624,328	554,197
HIC - Teachers	1,064,506	998,899
VSDP	(444,293)	(488,071)
Total	\$ 2,360,048	\$ 2,033,756

MVA

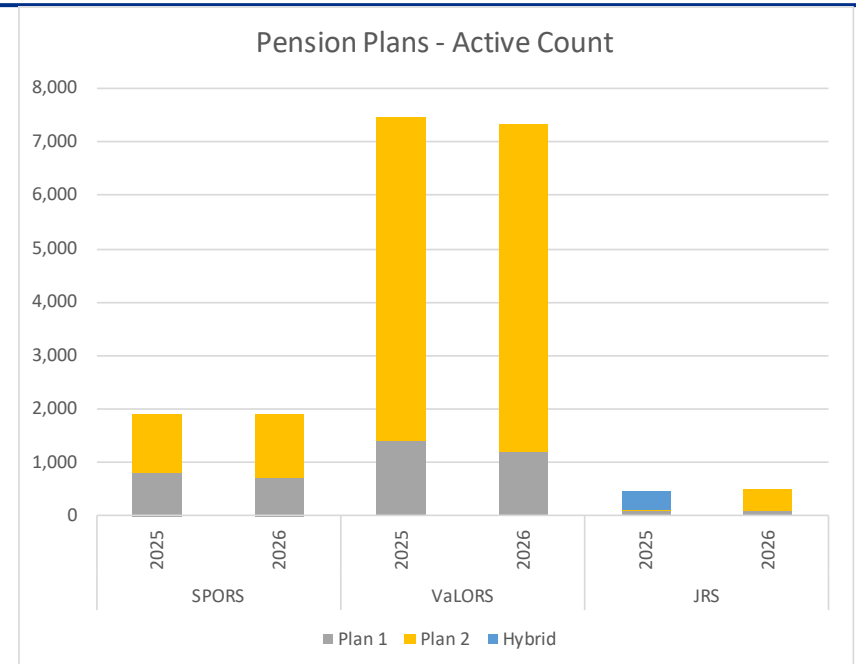
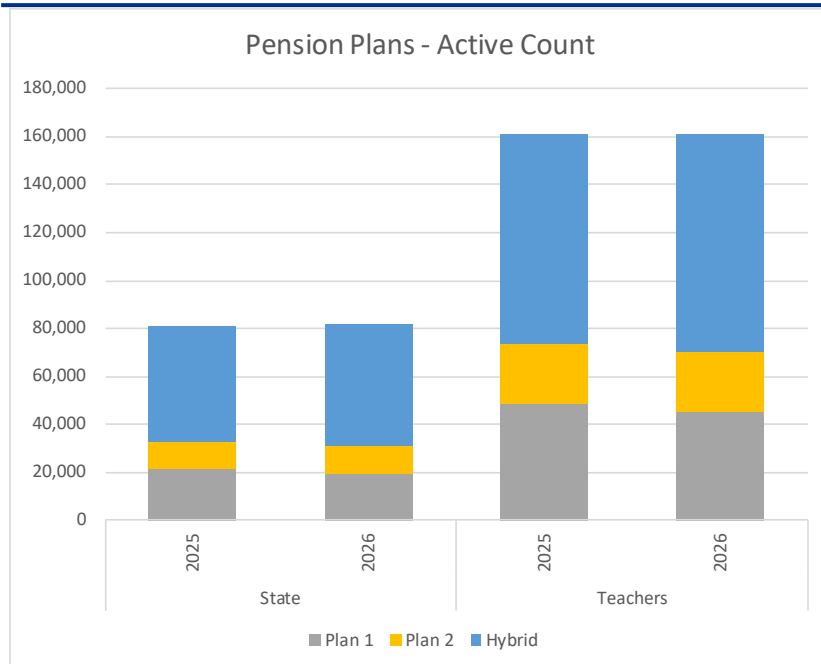
	2025	2026
GLI	\$ 980,861	\$ 688,988
HIC - State	613,069	525,492
HIC - Teachers	1,054,242	973,523
VSDP	(467,052)	(541,024)
Total	\$ 2,181,120	\$ 1,646,979

Pension Active Participants at June 30, 2026

System	Plan 1	Plan 2	Hybrid	Total 2026	Total 2025	Percent Change
State	19,360	11,406	50,934	81,700	81,274	0.5%
Teachers	45,185	24,694	90,979	160,858	160,949	-0.1%
SPORS	720	1,168	-	1,888	1,902	-0.7%
VaLORS	1,217	6,105	-	7,322	7,459	-1.8%
JRS	87	390	-	477	473	0.8%



Pension Active Participants at June 30, 2026



Counts		
System	State	Teachers
2025	81,274	160,949
2026	81,700	160,858
% Change	0.5%	-0.1%

Counts			
System	SPORS	VaLORS	JRS
2025	1,902	7,459	473
2026	1,888	7,322	477
% Change	-0.7%	-1.8%	0.8%

Average Salary		
System	State	Teachers
2025	\$77,218	\$69,331
2026	\$78,035	\$72,027
% Change	1.1%	3.9%

Average Salary			
System	SPORS	VaLORS	JRS
2025	\$96,071	\$58,011	\$208,551
2026	\$95,891	\$58,029	\$208,682
% Change	-0.2%	0.0%	0.1%



Pension Inactive Participants at June 30, 2026

System	Plan 1	Plan 2	Hybrid	Total 2026	Total 2025	Percent Change
State	13,637	22,537	37,155	73,329	69,699	5.2%
Teachers	19,960	31,528	54,937	106,425	100,366	6.0%
SPORS	263	635	-	898	835	7.5%
VaLORS	2,247	13,914	-	16,161	15,212	6.2%
JRS	7	-	4	11	15	-26.7%

Includes counts for each plan from which members are entitled to deferred pension benefits. Members with benefits from more than one employer are counted more than once.



Pension Retired Participants at June 30, 2026

System	Plan 1	Plan 2	Hybrid	Total 2026	Total 2025	Percent Change
State	70,413	3,326	1,181	74,920	74,038	1.2%
Teachers	111,126	4,048	1,220	116,394	114,580	1.6%
SPORS	1,879	51	-	1,930	1,882	2.6%
ValORS	7,210	451	-	7,661	7,465	2.6%
JRS	573	28	28	629	613	2.6%

*Includes counts for each plan from which members receive pension benefits.
Members with benefits from more than one employer are counted more than once.*

Disclaimers

- This presentation expresses the views of the authors and does not necessarily express the views of Gabriel, Roeder, Smith & Company.
- Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

Disclaimers

- This presentation is intended to be used in conjunction with the forthcoming actuarial valuation reports. This presentation should not be relied on for any purpose other than the purposes described in the valuation reports.
- This presentation shall not be construed to provide tax advice, legal advice, or investment advice.
- Jim Anderson and Becky Stouffer are independent of the plan sponsor, are Members of the American Academy of Actuaries (MAAA), and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

