



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.



October 9, 2026

MEMORANDUM

TO: VRS Board of Trustees

FROM: Patricia S. Bishop
Director

RE: Agenda Materials for October 15th Board Meeting

We are looking forward to the October 15th Board meeting beginning at 1:00 p.m. The meeting will be held in our leased space located in the James Center, 901 East Cary Street, 4th floor, Chesapeake, CR. Enclosed are the agenda and meeting materials. Boxed lunches will be available at the conclusion of the Administration, Finance and Talent Management Committee meeting.

As you are aware, parking for Board and Committee meetings is available in the James Center parking garage located on the corner of 10th Street and Canal Street. After parking, take the elevator to the 2nd floor, and walk across the pedestrian sky bridge to One James Center. Please bring your parking ticket to the meeting with you for validation. For your reference, listed below are the directions to the parking garage and a map showing you the location in proximity to the lease space.

From the North

- I-95 South through Richmond to Exit 74A onto I-195 (Downtown Expressway)
- Keep right and immediately exit onto Canal Street – directly behind the James Center
- Turn right onto 10th Street
- Take immediate right into parking garage

From the East

- I-64 West to Exit 190, merging onto I-95 South
- Take Exit 74A onto I-195 (Downtown Expressway)
- Keep right, and immediately exit onto Canal Street – directly behind the James Center
- Turn right onto 10th Street
- Take immediate right into parking garage

From the South

- I-95 North across the James River Bridge
- Take Exit 74A onto I-195 (Downtown Expressway)
- Keep right and immediately exit onto Canal Street – directly behind the James Center
- Turn right onto 10th Street
- Take immediate right into parking garage

From the West

- I-64 East to I-95 South, towards Powhite Parkway
- Follow signs to I-195 (Downtown Expressway)
- Go through toll plaza
- Take the 7th & 9th Street exit
- Cross 9th Street, and take a left onto 10th Street
- Parking is immediately past Canal Street on the right



In addition, parking for scheduled meetings will remain available in the VRS, 1200 E. Main St. parking deck in the sub-basement or lower sub-basement. The respective spaces are marked with a yellow sign that reads: “Reserved for Board Member Parking.”

Listed below is a recap of the meetings scheduled for next week:

Meeting	Date	Location
Benefits and Actuarial Committee	Wednesday, October 14 th , 1:00 p.m.	James Center, 901 E. Cary St., 4 th floor, Chesapeake Conference Room
Administration, Finance and Talent Management Committee	Thursday, October 15 th , 10:30 a.m.	James Center, 901 E. Cary St., 4 th floor, Chesapeake Conference Room
Board of Trustees	Thursday, October 15 th , 1:00 p.m.	James Center, 901 E. Cary St., 4 th floor, Chesapeake Conference Room

Again, we look forward to seeing you next week. If you have any questions, please feel free to contact me. Alternately, you may contact LaShaunda King at 804-641-6729 or Emily Trent at 804-307-3915.

Attachments



Board of Trustees Meeting

**901 East Cary Street
James Center, 4th floor
Richmond, VA 23219
Thursday, 10/15/2026
1:00 - 3:30 PM ET**

I. Approve Minutes

- **September 17, 2026**

9.17.26 Board Meeting Minutes - Page 5

II. Report of the Chief Investment Officer

CIO Report - October 2026 - Page 16

Performance Summary 8.31.26 - Page 28

Asset Allocation Report - August 2026 - Page 29

Daily Asset Allocation Report 10.6.2026 - Page 30

New Investments and Terminations 10.15.2026 - Page 31

DIME Quarterly Summary - QE September 2026 - Page 32

External Manager Referral Quarterly Summary - QE September 2026 - Page 37

III. Report of the Benefits and Actuarial Committee

Report of the Benefits and Actuarial Committee - Page 38

- **RBA – Amend VRS Funding Policy Statement Regarding the Surplus Funding Policy for all Pension and OPEB Plans.**

RBA - Amendments to Funding Policy Statement - Page 40

VRS Funding Policy 10.1.26 redlined - Page 42

VRS Funding Policy 10.1.26 clean - Page 59

- **RBA – Accept the Plan Actuary’s Valuations as of June 30, 2026, for the Five Statewide Retirement Plans, Group Life Insurance, Health Insurance Credit Plan for State and Teachers, and the Virginia Sickness and Disability Program (includes self-funded L**

RBA - Accept Plan Valuations - Page 74

October 15 2026 Statewide Board - Page 75

IV. Report of the Administration, Finance and Talent Management Committee

Report of the Administration, Finance and Talent Management Committee - Page 93

- **RBA – Approve Amendments to Investment Professionals’ Pay Plan**

RBA - Revised Investment Professionals' Pay Plan - Page 94

10.13.2026 - VRS - Direct Investment Compensation Study - Page 95

Investment Professionals Pay Plan Updated October 2026 Redline - Page 106

Investment Professionals Pay Plan Updated October 2026 Clean - Page 122

- **RBA - Approve Salary Adjustment for the Chief Investment Officer**

RBA - Approve Salary Adjustment for the Chief Investment Officer - Page 138

V. Report of the Director

FY 2027 Agency Roadmap Update - September - Page 139

Director's Report - Page 141

VI. Closed Session (Information Technology)

Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on September 17, 2026, in Richmond, Virginia with the following members participating:

Board members:

Susan T. Gooden, Ph.D., Chair

A. Scott Andrews, Vice Chair

Lawrence A. Bernert III

John M. Bennett (*attended remotely from Weems, VA under § 2.2-3708.3(B)(1)*)

Rokasha Edmondson, Ed.D.

J. Clifford Foster IV

Jessica L. Hood

Hon. Matthew James

William H. Leighty

Investment Advisory Committee:

Lawrence E. Kochard, Ph.D., Chair

VRS Staff:

Patricia Bishop, Jennifer Schreck, Andrew Junkin, Rory Badura, Parham Behrooz, Ty Bowers, Lee Buchanan, Caroline Cardwell, Ryan Carlson, Warren Chang, Bill Chen, Michael Cooper, Perry Corsello, David Cotter, Juanita Cribbs, Sara Denson, Valerie Disanto, Curtis Doughtie, Pam Elam, Kenji Epling, Laurie Fennell, Laura Fields, Antonio Fisher, Kenny Fleming, Katie Grawe, JT Grier, Krystal Groff, Mehtab Haleem, Rachel Hayes, Kelly Hiers, KC Howell, Taylor Irvin, Robert Irving, Ross Kasarda, Mengting Kim, Kristina Koutrakos, LaShaunda King, Matt Lacy, Vu Le, Robert Leopold, Chung Ma, Curt Mattson, Kidus Molla, Walker Noland, Greg Oliff, Angela Payne, Matt Priestas, Laura Pugliese, Shawn Rabalais, Paula Reid, Mark Rein, Andrew Ringle, Gregory Salvati, Ph.D., Jummai Sarki-Hurd, Michael Scott, Joseph Shaver, Trib Singh, , Richard Slate, Amethyst Sloane, Virginia Sowers, Nicole Taylor, Nathan Thomas, Viet Tran, Emily Trent and Dan Whitlock.

Guests:

Maya A., Apollo; Chris Doll, CEM Benchmarking; Joe Ebisa, WithIntelligence.com; Alexandra Jansson, Joint Legislative Audit and Review Commission; Rob Kozlowski, Pensions & Investments; Haley Messick, BlackRock; Elizabeth Myers, Office of the Attorney General; Gregory Richard, New Hampshire Retirement System; Jason Rose-Seiden, Osmosis.fm; Quratulain Tejani, EQ Derivatives; Sabrina Ticer-Wurr, MandateWire; Spencer Witherspoon, Shenkman; and Laura Sagona Wurtz, Financial Investment News.

The meeting convened at 1:01 p.m.

Opening Remarks

Dr. Gooden called the meeting to order and welcomed everyone to the September 17, 2026, meeting of the Virginia Retirement System Board of Trustees. Dr. Gooden next introduced Dr. Rokasha Edmondson,

who was appointed by the House of Delegates to the Board in August. Dr. Edmondson is a distinguished educator with Hampton City Schools and her appointment fills the vacancy of Lindsey Pantele who resigned from the board earlier in the year.

Approval of Minutes

Following a motion by Mr. Leighty, and a second by Mr. Andrews, the VRS Board of Trustees unanimously approved the minutes from its June 17, 2026, meeting.

Committee Assignments

Next, Dr. Gooden advised that, with the appointment of a new Board member, and in accordance with the Governance Policy, the Board is required to update its committee assignments.

Following a motion by Mr. Andrews, with a second by Mr. Leighty, the Board unanimously approved the proposed committee assignments.

Report of the Investment Advisory Committee

Lawrence Kochard, Chair of the Investment Advisory Committee (IAC), presenting remotely, began his report by noting the IAC met on August 12, 2026, and approved the minutes from its April 8, 2026, meeting. The Committee received the Chief Investment Officer's (CIO) report that included an overview of market conditions, asset allocation, tracking error and total fund performance as of June 30, 2026. The Committee received an overview of Risk Management at VRS, discussed leverage, an update on diversification and then received the Portfolio Solution Group program review. Lastly, Chung Ma, Deputy CIO, and Sara Denson, Staff Actuary, delivered a presentation on forward returns including summaries of state plans and external managers' forward returns, long term VRS forward returns, and scenario analysis. The IAC reviewed and discussed capital market assumptions and the scenario testing at length and believes the capital market assumptions are reasonable, and the fund is well positioned for a variety of economic and market environments.

Dr. Gooden thanked Mr. Kochard for his report.

Report of the Chief Investment Officer

Andrew Junkin, CIO, began his report with a market overview and discussed asset allocation, total fund performance and tracking error, concluding that risk measures are within Board-approved levels. Mr. Junkin announced a 12.1% return, net of fees, for the fiscal year that ended June 30, 2026. The strong return surpassed the actuarially assumed return of 6.75% and elevated the fund to \$135.2 billion in market value. Lastly, Mr. Junkin discussed the New Investments and Terminations Report, the DIME Quarterly Report and the External Manager Referral Quarterly Report.

Dr. Gooden thanked Mr. Junkin for his report.

Annual CEM Benchmarking Report on Administration

Chris Doll of CEM Benchmarking, Inc., provided the annual Pension Administration Benchmarking Report for FY 2026 to the Board. CEM measures costs, and service levels and provides an analysis of performance relative to peer agencies, as well as comparative data and insights from a broader group of CEM-participating plans. The presentation focused on VRS compared to a peer group of other U.S.-based retirement systems with similar membership size. Areas of service reviewed and measured included the call center, VRS website (including myVRS), one-on-one membership counseling and presentations, pension inception and member statements.

With a cost of \$96 per active member and annuitant, VRS' total pension administration cost per active member and annuitant is \$44 below the peer group average of \$140. Mr. Doll provided a summary of the trend in total pension administration costs from 2018 to 2025. He noted that VRS' total pension administration cost per active member and annuitant increased by 18.2% in the year 2025 and increased by 2.9% per annum over the last eight years. During the same period, the average cost of peers with eight consecutive years of data increased by 5.2% per annum.

Mr. Doll advised that VRS achieved a total service score of 83, which is equal to the peer median. VRS' service score has increased from 74 to 83 between 2018 and 2025.

Mr. Doll concluded by reiterating that VRS provides a relatively high level of service at a cost comparatively lower than its peers.

Dr. Gooden thanked Mr. Doll for his presentation and commended the VRS staff for achieving these exceptional results. Dr. Gooden noted that providing a high level of service at a lower cost when compared to U.S. peers is a testament to staff's commitment to superior service and continuous improvement. It was also noted that for well over a decade, VRS' results have placed it in the desirable quadrant of high service and low cost.

Report of the Defined Contribution Plans Advisory Committee

The VRS Board of Trustees received the report of the Defined Contribution Plans Advisory Committee following its meeting on September 10, 2026, and placed it on file.

WELCOME AND INTRODUCTION

Del. James welcomed Committee members, Board members, agency officials, representatives from stakeholder groups, and other members of the public joining in person and through electronic means to the DCPAC.

APPROVAL OF MINUTES

The Committee approved the minutes of its May 14, 2026, meeting.

INVESTMENTS

Annual Investment Review

Staff provided the Committee with a high-level market update and reported that total DC Plan assets under investment oversight reached approximately \$12.6 billion. Most of these assets remain in the unbundled investment structure.

Staff reported that the key initiatives included successful reductions in BlackRock index investment management fund fees, with reductions ranging from 20% to 50%. These reductions are expected to improve cost efficiency for participants. Investment oversight continues to follow a team-based due diligence approach that includes performance monitoring, manager reviews, and attribution analysis. The target date portfolios and passive strategies continue to perform as expected. Although stable value funds across the asset class were affected by the interest rate environment, they continue to maintain principal protection.

ADMINISTRATION

Administration Reports & Communication

Staff reported that total assets across the DC plans increased to approximately \$13.5 billion. Account growth has stabilized somewhat due to seasonal employment changes. Total participant accounts approached 750,000, representing about 403,000 unique individuals across the plans.

Web registration is currently approximately 15%. VRS continues to work on increasing digital engagement and email capture through targeted communication efforts. The communication strategy focuses on targeted nudges, automated messaging, and employer-supported outreach to increase participation and encourage savings behavior.

Several behavioral nudge campaigns, including campaigns encouraging participants to save more, restart contributions, or maximize contributions, produced open rates between 39% and 67% and measurable action rates of up to 7%. New-hire onboarding mail and email campaigns resulted in a 4.2% contribution activation rate. Most participants who responded selected higher contribution levels, such as 4%.

Hybrid plan engagement continues to grow significantly. Active participation reflects strong long-term compounded growth trends that exceed base membership growth. Auto-escalation remains a major driver of savings behavior, with more than 91% of members either maintaining or increasing their escalated contribution levels.

The coordination between VRS and Voya field staff resulted in more than 260 meetings and more than 4,000 participant interactions during the quarter. New initiatives in development include employer spotlights, success story videos, and communication toolkits designed to replicate and encourage high-performing employer engagement models. VRS is shifting its focus toward identifying employer best practices that can improve participation rates across participating employers.

VRS is working with Voya to integrate pension estimates into Voya’s retirement planning tools. This work is intended to improve participant retirement readiness projections, reduce participant confusion, and increase engagement by providing more accurate, pre-populated retirement income projections.

The Committee also discussed the use of artificial intelligence. VRS has developed an internal AI governance policy and has deployed Microsoft Copilot within secure environments that include data safeguards. Current AI use cases include summarizing legal and policy documents and improving operational efficiency, while maintaining human oversight and risk controls. Investment teams and administrators are also exploring AI tools that may improve efficiency in performance analysis and reporting, with ongoing human-centered validation processes.

OTHER BUSINESS

Discussion of New Ideas

The Committee discussed retirement income challenges and uncertainty in modeling participant financial behavior due to incomplete external financial data.

Members highlighted the importance of peer influence and trusted messengers (“champions”) in improving retirement savings participation.

2026 MEETINGS

Del. James confirmed the DCPAC meeting dates for 2026:

- December 3, 2026, at 1:00 pm
- ORPHE Annual Employer Update (not a meeting of DCPAC):
September 16, 2026, at 2:00 p.m.

Dr. Gooden thanked Delegate James for his report.

Report of the Audit and Compliance Committee

The VRS Board of Trustees received the report of the Audit and Compliance Committee following its meeting on September 16, 2026, and placed it on file.

APPROVAL OF MINUTES

The committee approved the minutes of its June 9, 2026, meeting.

ELECTION OF VICE CHAIR

The committee nominated and elected William H. Leighty to serve as the committee’s vice chair.

EXIT ON THE 2025 EMPLOYER ASSURANCES REVIEW AND UPDATE ON THE 2026 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The Auditor of Public Accounts (APA) reported the 2025 Employer Assurances Review, covering GASB Statements No. 68 and 75, has concluded. The APA has issued their related opinions for the pension and other post-employment benefit plans.

The APA also reported the 2026 VRS ACFR Audit is progressing as planned and is on schedule to be finished in advance of December 15, 2026.

INTERNAL AUDIT LIMITED ASSURANCE REVIEWS

The committee received the results for the following reviews completed by the Internal Audit department:

Agency Performance Outcomes and Operational Measures

The committee received the results of Internal Audit's review of management's representations regarding the agency performance outcomes and operational measures for the fiscal year ended June 30, 2026, noting nothing came to Internal Audit's attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

VRS' Investment Incentive Compensation

The committee received the results of Internal Audit's review of the Investment department's proposed incentive compensation amounts which determined they were accurately calculated in accordance with the authorized pay plan and related eligibility requirements were met.

INTERNAL AUDIT DEPARTMENT'S ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2026

The committee received the following updates:

Internal Audit Department's Annual Report

The Internal Audit Director provided the committee with a summary of Internal Audit's accomplishments over the past year. She recognized the contributions of the internal audit team, highlighting their internal and external service during the year. The Internal Audit Director explicitly confirmed the department and its staff are organizationally independent of the activities they examine.

Annual Report on the Audit Recommendation Follow-Up System (ARFUS)

The annual ARFUS report as of June 30, 2026, was presented. The Internal Audit Director noted ARFUS contained seven recommendations, three were represented as implemented, one of which was issued by the APA. The three recommendations were released, one with comment, leaving four outstanding as of June 30, 2026.

Annual Plan and Long-Range Plan Progress

The Internal Audit Director discussed the fiscal year 2026 annual plan results as of June 30, 2026, along with the status of the long-range plan for the three years ending June 30, 2027.

PROPOSED FY 2027 ANNUAL PLAN

The Internal Audit Director presented the proposed annual plan for fiscal year 2027, noting it was derived from the approved long-range plan with some adjustments to address activities carried from fiscal year 2026 to fiscal year 2027.

Following a motion by Mr. Foster, with a second by Mr. Andrews, the Board unanimously approved the proposed committee assignments.

Request for Board Action 2026-09-14: *The VRS Board of Trustees approves the proposed FY 2027 Annual Plan.*

MISCELLANEOUS UPDATES

The committee received the following miscellaneous updates:

Quarterly Report on Fraud, Waste and Abuse Hotline Cases

The Internal Audit Director shared there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit during the period of May 1, 2026, through July 31, 2026.

Management's Quarterly Travel Expense and Per Diem Report

The committee received Management's Quarterly Travel Expense and Per Diem report.

Committee Meeting Schedule for Calendar Year 2027

The committee received a schedule of Audit and Compliance Committee meeting dates for 2027.

Next Committee Meeting Date

The final 2026 committee meeting is scheduled for Tuesday, December 8, 2026, at 11 a.m.

AUDIT REPORT AND AUDIT DIRECTOR'S PERFORMANCE EVALUATION (CLOSED SESSION)

The committee went into closed session to receive the audit report on *myVRS Application Controls and Risk and Fraud Prevention* and to review the Internal Audit Director's performance for the fiscal year ended June 30, 2026.

Following a motion by Mr. Foster, with a second by Delegate James, the Board unanimously approved the proposed committee assignments.

Request for Board Action 2026-09-15: *The VRS Board of Trustees approves a 7% performance bonus for the audit director.*

Dr. Gooden thanked Mr. Foster for his report.

Report of the Administration, Finance and Talent Management Committee

The VRS Board of Trustees received the report of the Administration, Finance, and Talent Management Committee following its meeting on September 16, 2026, and placed it on file.

APPROVAL OF MINUTES

The Committee approved the minutes of its June 17, 2026, meeting.

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE MEMBERS

Andrew Junkin, Chief Investment Officer, advised the Committee that the Investment Advisory Committee terms for Theodore Economou, Palmer Garson, Larry Kochard and Thomas Gayner are set to expire in the coming months. All four members are interested in continuing to serve on the committee.

Upon a motion by Mr. Andrews, with a second by Mr. Bernert, the VRS Board of Trustees approved the following action:

Request for Board Action 2026-09-16: The VRS Board of Trustees approves the reappointment to the Investment Advisory Committee (IAC) for two-year terms the following members: (i) Theodore Economou for a term ending September 13, 2028, (ii) Palmer Garson for a term ending October 16, 2028, (iii) Larry Kochard for a term ending February 19, 2029, and (iv) Thomas Gayner for a term ending February 19, 2029.

REVIEW ATTAINMENT OF FY2026 AGENCY PERFORMANCE OUTCOMES (APOS) AND OPERATIONAL MEASURES

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2026 agency performance outcomes (APOS) and operational measures. Mr. Cooper noted that the agency had four APOs for the fiscal year, with a target of completing at least three. Staff met this goal by successfully completing all four APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met to meet the target for the year. Staff successfully met its target for fourteen of the sixteen operational measures.

Upon a motion by Mr. Andrews, with a second by Mr. Bernert, the VRS Board of Trustees approved the following action:

Request for Board Action 2026-09-17: The VRS Board of Trustees approves the attainment of FY 2026 APOs and Operational Measures and a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.

REVIEW PERFORMANCE BONUSES FOR ELIGIBLE ADMINISTRATIVE AND INVESTMENT OPERATIONS AND ADMINISTRATION EMPLOYEES

Paula Reid, Director of Human Resources, presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration

employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus.

Upon a motion by Mr. Andrews, with a second by Delegate James, the VRS Board of Trustees approved the following action:

Request for Board Action 2026-09-18: The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.

BUDGET UPDATE

Jon Farmer, Budget and Reporting Manager, presented the FY 2026 year-end budget results, explaining that VRS finished with an unexpended appropriation of \$8.2 million, which remained in the Fund. Mr. Farmer noted that most of the unexpended appropriation was the result of delays in completing several initiatives due to additional time needed to finalize agreements with third-parties, resource constraints and staff bandwidth surrounding concurrent priorities. Mr. Farmer also provided an overview of the agency’s FY 2027 budget, noting that this is the first year of the new biennium budget and the total operating budget for the year is \$166 million.

INFORMATIONAL ITEM (INTERNAL AUDIT DIRECTOR’S PERFORMANCE REVIEW)

Dr. Gooden informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director’s performance at its September 16, 2026, meeting. Each year, the A&C Committee reviews the Internal Audit Director’s performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the Committee for informational purposes.

FOIA ELECTRONIC MEETING ATTENDANCE POLICY

David Cotter, Director of Policy, Planning and Compliance, advised the Committee that in accordance with Va. Code § 2.2-3708.3(D), the Board must approve its remote meeting policy by recorded vote at a public meeting at least once annually. No changes are proposed this year. Therefore, the Board will affirm its current FOIA Electronic Meeting Attendance Policy.

Upon a motion by Mr. Andrews, with a second by Mr. Foster, the VRS Board of Trustees approved the following action:

Request for Board Action 2026-09-19: The Board affirms its “FOIA Electronic Meeting Attendance Policy.”

COMPENSATION AND BENEFITS (CLOSED SESSION)

The Committee went into closed session to discuss benefits and compensation related to specific VRS employees.

Upon a motion by Mr. Andrews, with a second by Delegate James, the VRS Board of Trustees approved the following action:

Request for Board Action 2026-09-20: *The VRS Board of Trustees approves payment of an incentive amount of approximately \$9,433,064.51 for FY 2026 to VRS investment professionals as authorized by the Investment Professionals' Pay Plan.*

Internal Audit reviewed the proposed investment incentive compensation for the fiscal year that ended June 30, 2026, and found that the aggregate amount was accurately computed in accordance with the Investment Professionals' Pay Plan.

Upon a motion by Mr. Andrews, with a second by Mr. Foster, the VRS Board of Trustees approved the following action:

Request for Board Action 2026-09-21: *The VRS Board of Trustees approves a performance bonus of 5% for the VRS Director payable on October 16, 2026, and a supplemental payment of \$120,000 made December 1, 2026, as authorized in the 2026 Appropriation Act.*

Dr. Gooden concluded her report by thanking Mr. Junkin and the Investments team for their dedication and continued success following the Fund's return of 12.1% at the close of the fiscal year. This exceeds the assumed rate of 6.75% and produced a record high of \$135.2 billion in market value.

Dr. Gooden also thanked Trish Bishop and the Administration team for their progress over various agency projects and accomplishing the operational measures and APOs. Dr. Gooden noted these efforts are reflected in the CEM report illustrating VRS' continued performance in the most coveted quadrant of the cost-effective chart and delivering high service at a low cost.

Lastly, Dr. Gooden thanked the Internal Audit team for their contributions and their work in implementing new internal audit standards and providing assurance and insights to VRS management and the Board to support the agency's ongoing improvement efforts.

Report of the Director

Ms. Bishop, Director, began her report with an update on the agency road map for FY 2027, noting all projects are progressing as planned, as well as a review of New Coverage Elections.

Ms. Bishop announced that the Government Finance Officers Association of the United States and Canada (GFOA) honored VRS with a Certificate of Achievement for Excellence in Financial Reporting for the *Annual Comprehensive Financial Report (ACFR)*.

Ms. Bishop shared with the Board that VRS worked with the Commonwealth of Virginia (CVC) team this year to coordinate donations of backpacks, school supplies and essential items to the YMCA of Greater Richmond's Bright Beginnings program to strengthen community engagement and local students' educational success.

Ms. Bishop advised the Board that a successful partnership between VRS and the Virginia Department of Health resulted in 400 new Walk With Ease registrations following the summer Retiree News article about the free six-week walking program.

Ms. Bishop requested the attention of the Board introducing Rory Badura, Senior Actuary for a presentation of the 2026 Actuarial Valuation Preparation Overview. The overview introduced factors that will influence the 2026 rate-setting valuations. Information related to favorable investment returns for fiscal year end, higher salaries and cost-of-living-increases during the fiscal year along with assumption changes related to the recent experience study were discussed.

Ms. Bishop provided a preview of upcoming meetings and events.

Dr. Gooden thanked Ms. Bishop for her report.

Other Business

Lastly, Dr. Gooden reviewed the following meeting schedule:

- Benefits and Actuarial Committee – October 14 at 1:00 p.m.
- Board of Trustees – October 15 at 1:00 p.m.
- Investment Advisory Committee – November 4 at 9:00 a.m.
- Benefits and Actuarial Committee – November 12 at 10:00 a.m.
- Board of Trustees – November 12 at 1:00 p.m.

Adjournment

There being no further business and following a motion by Mr. Leighty, with a second by Mr. Andrews, the VRS Board of Trustees agreed to adjourn the meeting at 2:56 p.m.

Chair

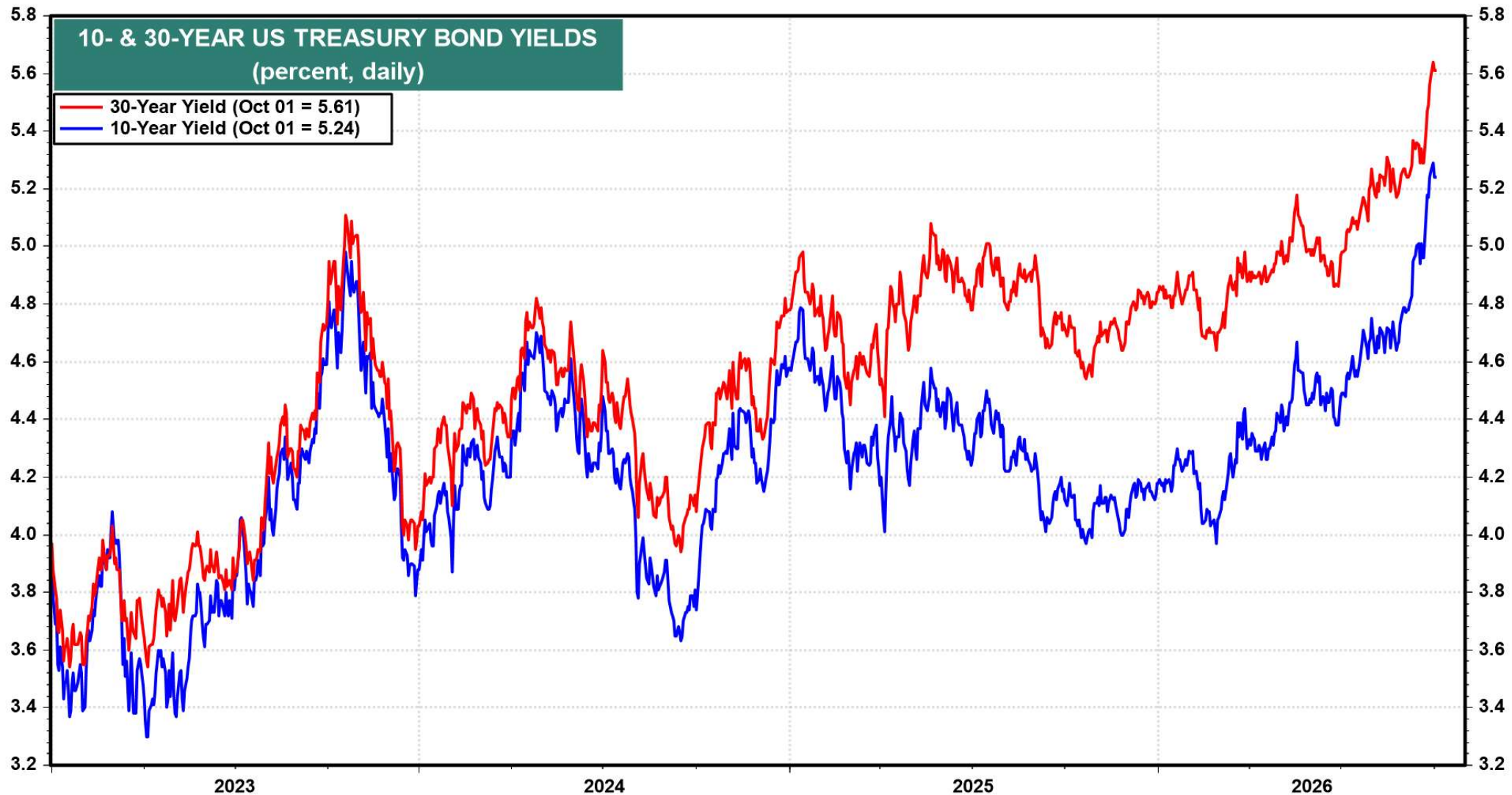
Secretary



Chief Investment Officer Report

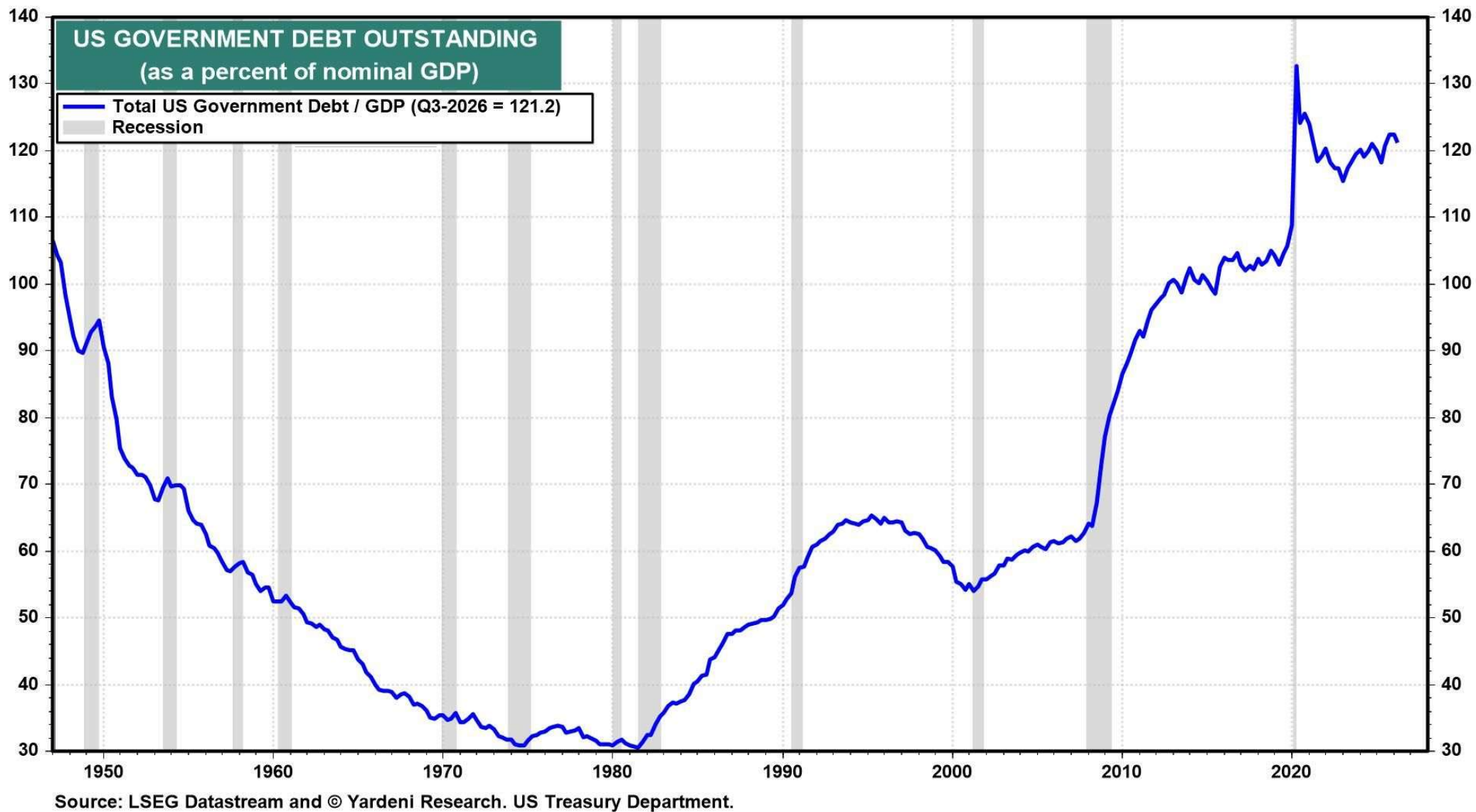
Market Review – October 2026
Andrew Junkin

Interest Rates Rising



Source: LSEG Datastream and © Yardeni Research. Federal Reserve Board.

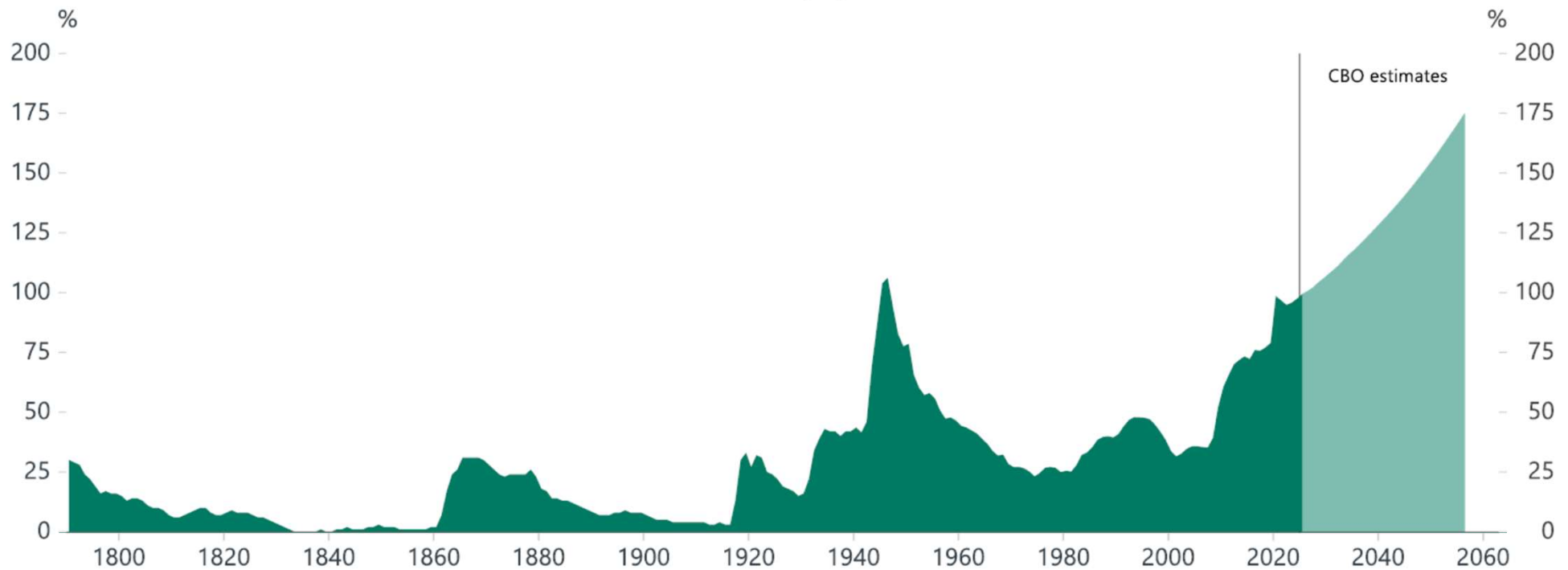
Debt Load versus GDP



Forecasted to Increase

APOLLO

Federal debt held by public (% GDP)



Source: U.S. Congressional Budget Office (CBO), Macrobond, Apollo Chief Economist

Effects on Housing Beginning to Show



Source: LSEG Datastream and © Yardeni Research.

* Time-weighted average of consensus estimates for current year and next year.

Inflation “Driver”

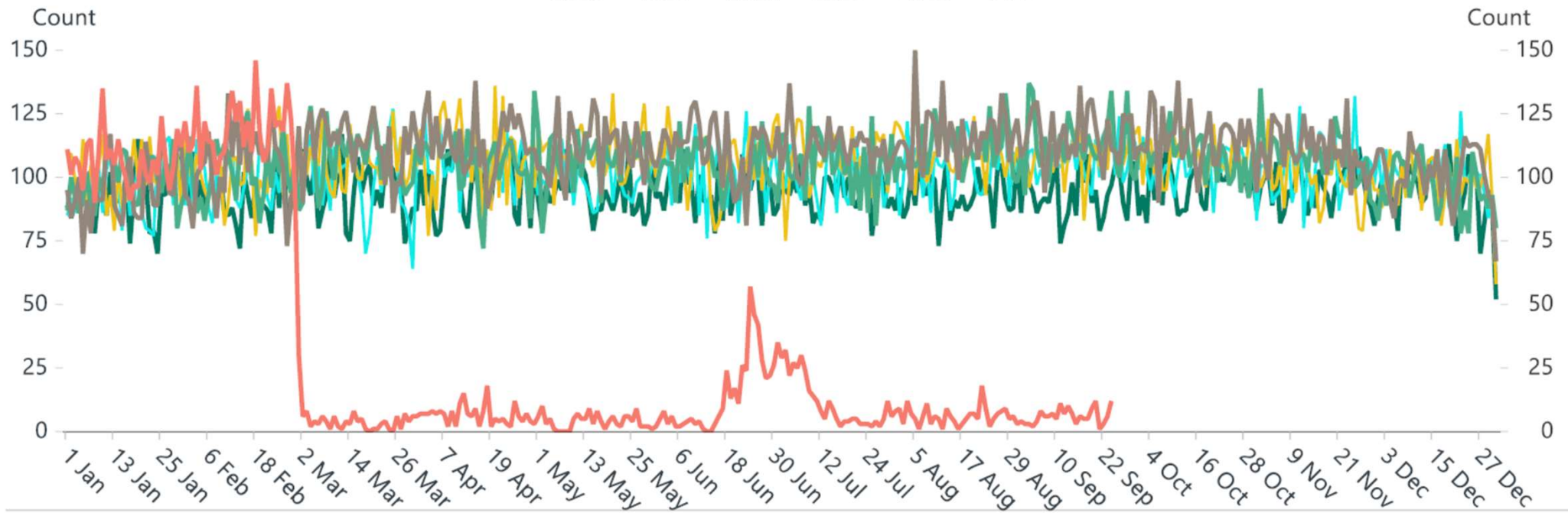


Oil is Flowing, Just Not Through Strait of Hormuz

APOLLO

Number of crossings through the Strait of Hormuz

— 2026 — 2025 — 2024 — 2023 — 2022 — 2021

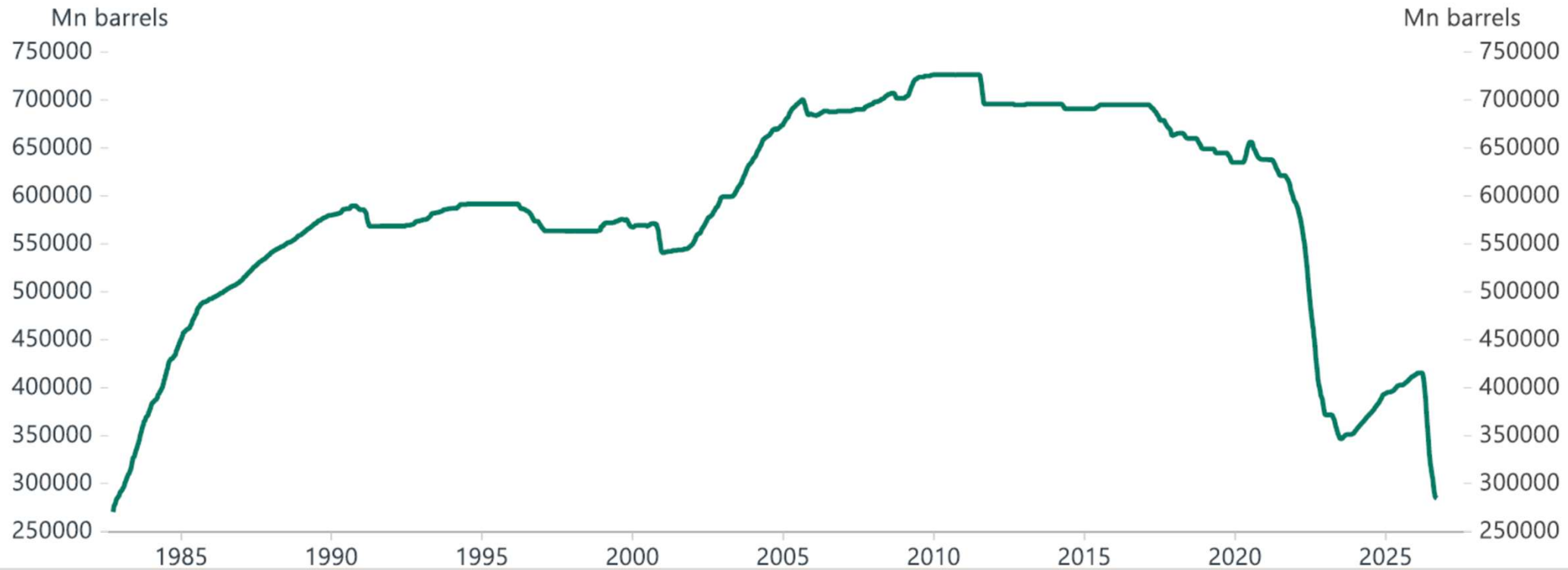


Source: Bloomberg, Macrobond, Apollo Chief Economist

Will Take Years to Restock

Strategic Petroleum Reserve (SPR) total inventory data

APOLLO



Source: Bloomberg, Macrobond, Apollo Chief Economist

AI Buildout

Number of data centers in the US

APOLLO

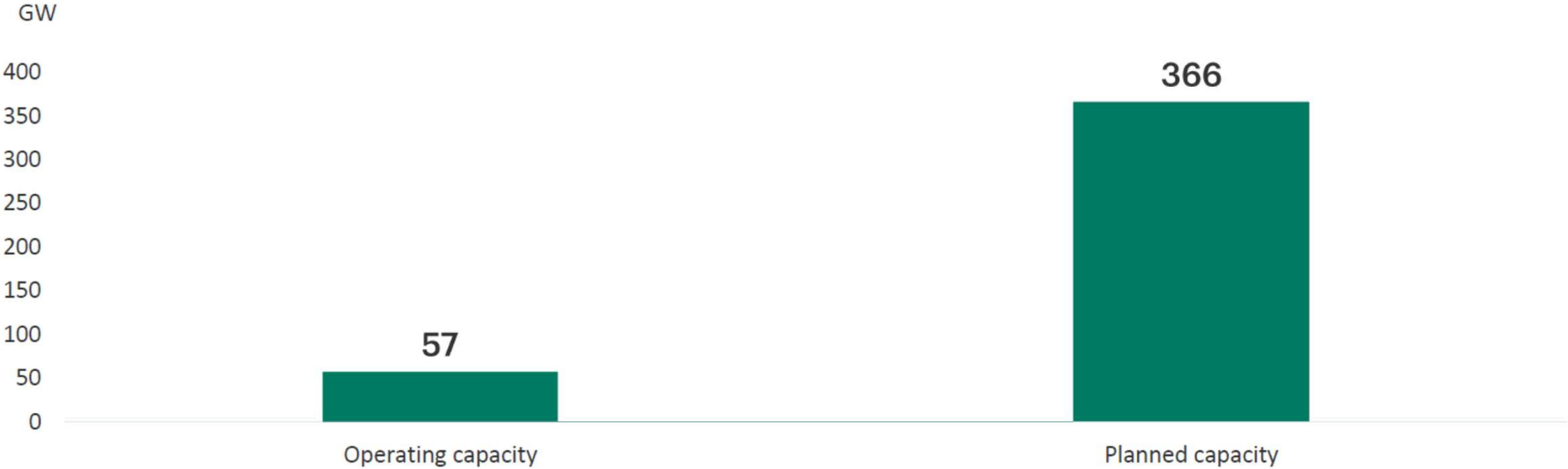


Source: Americas-AI-Surge-Powering-Growth-in-Every-State.pdf, Data Centers – Database, Apollo Chief Economist

Requires Power

Data centers in the US

APOLLO

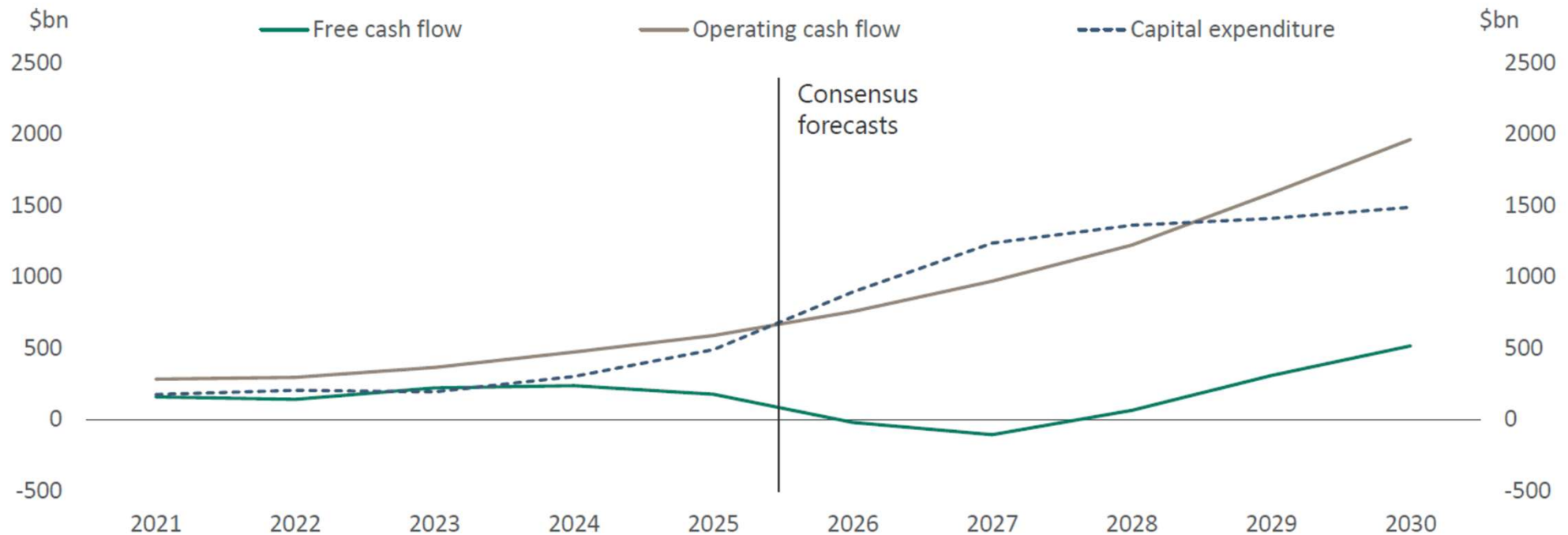


Source: US Data Center Map — Project List & Tracker, Cleanview, Apollo Chief Economist

Should Drive Cash Flow

Hyperscalers' cash flows and capex

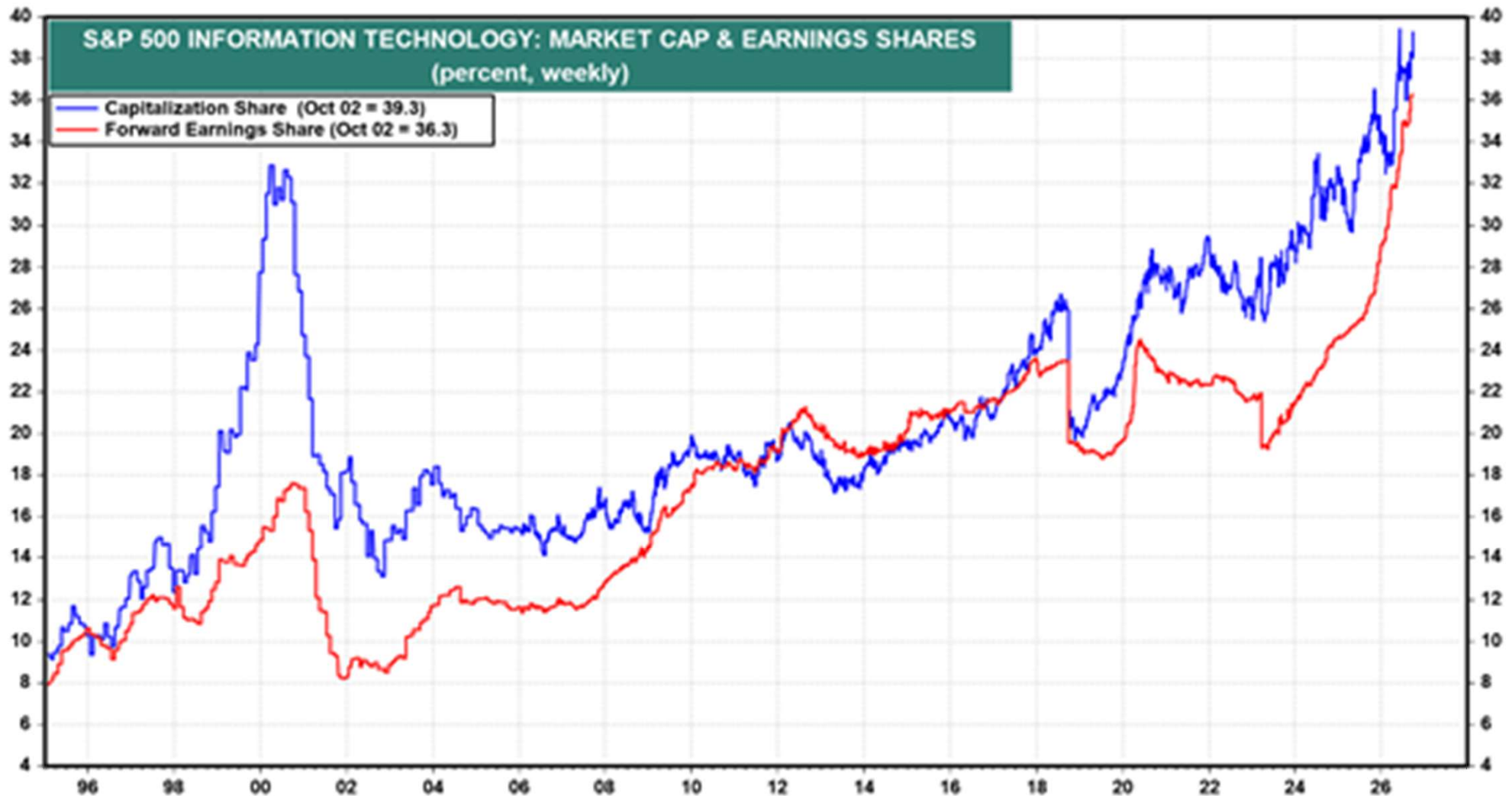
APOLLO



Note: Hyperscalers are: Google, Meta, Amazon, Microsoft, and Oracle. Source: Factset, Apollo Chief Economist

19

And Earnings?



Source: LSEG Datastream and © Yardeni Research. Standard & Poor's.

PERFORMANCE SUMMARY
Rolling Periods Ending
August 31, 2026



TOTAL FUND PERFORMANCE
(Net of Fees)

	10 Yr	5 Yr	3 Yr	1 Yr	Qtr	Month	Fiscal YTD	Cal YTD	Market Value (\$MM)
Total Public Equity	12.4	11.6	21.5	23.0	3.6	2.5	3.0	15.2	47,486
<i>Benchmark</i>	12.2	10.4	19.6	21.2	2.6	2.9	2.9	14.4	
Total Private Equity	13.9	8.3	5.6	5.3	-1.2	0.1	0.1	0.6	19,296
<i>Benchmark</i>	14.4	10.9	21.5	26.0	4.8	3.8	11.9	12.3	
Total Real Assets	6.8	5.7	2.4	6.5	1.6	0.0	0.0	4.2	17,985
<i>Benchmark</i>	4.8	3.2	1.1	5.0	1.9	0.6	1.3	3.6	
Total Credit Strategies	7.3	7.2	9.6	8.1	1.5	0.2	0.6	2.7	19,504
<i>Benchmark</i>	5.7	5.3	7.8	5.1	1.5	1.0	1.3	3.0	
Total Diversifying Strategies	n/a	4.9	7.4	9.2	1.8	0.8	2.8	4.8	7,686
<i>Benchmark</i>	n/a	4.1	7.7	6.5	1.8	0.9	1.3	4.4	
Total Private Investment Partnerships	9.1	9.0	8.9	9.7	2.3	0.0	0.0	4.7	1,859
<i>Benchmark</i>	8.4	6.8	9.7	11.6	2.8	1.8	4.7	6.2	
Total Fixed Income	2.4	0.6	5.2	3.1	-0.4	0.5	-0.9	0.3	20,423
<i>Benchmark</i>	1.6	0.0	4.5	2.3	-0.6	0.4	-0.8	0.0	
Total Fund	9.0	7.6	10.9	11.7	1.6	1.0	1.2	6.6	136,295
<i>VRS Custom Benchmark</i>	8.5	6.9	12.4	13.1	2.1	1.9	3.1	7.8	

Effective July 2013, the VRS Custom Benchmark is a blend of the Asset Class Benchmarks at policy weights.

Effective January 2024, the Total Fund includes leverage.

The VRS Cash Account, the Treasurer Short-Term Investment Account, the VRS Rebalancing Account, transition activity and accounts with market values of less than \$1 million are included in the Total Fund's market value. Differences in market value totals are due to rounding.

The Performance Report may differ from the VRS Annual Comprehensive Financial Report (ACFR) due to each report's requirements and objectives.

Leverage Cost Measurement Information

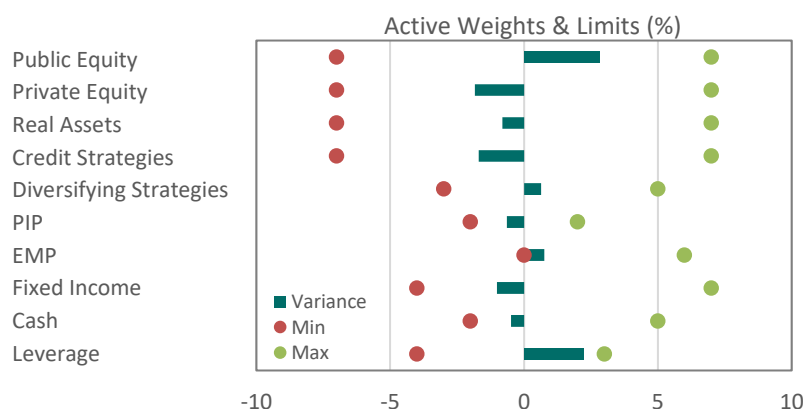
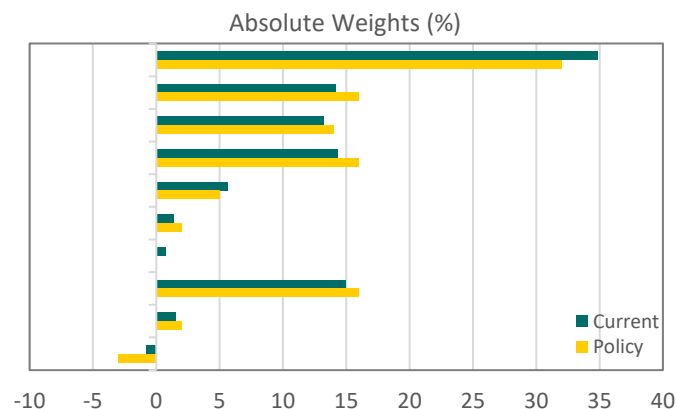
(Information provided for purposes of monitoring the cost effectiveness of leverage implementation.)

	10 Yr	5 Yr	3 Yr	1 Yr	Qtr	Month	Fiscal YTD	Cal YTD	Market Value (\$MM)
Leverage	n/a	n/a	n/a	4.3	1.1	0.4	0.7	2.8	(1,047)
<i>Benchmark</i>	n/a	n/a	n/a	4.4	1.1	0.4	0.7	2.8	

Effective January 2024, the Leverage Custom Benchmark is the Secured Overnight Financing Rate (SOFR) plus 50 basis points per annum.

Asset Allocation Report

August 31, 2026



Tracking Error (%)	
5Yr Fund	2.3
5Yr Public	1.5

Asset Class	Billions (\$)	Weights (%)					
		Current	Policy	Variance	Min	Max	Internal
Public Equity	47.5	34.8	32.0	2.8	25	39	52
Private Equity	19.3	14.2	16.0	-1.8	9	23	15
Real Assets	18.0	13.2	14.0	-0.8	7	21	19
Credit Strategies	19.5	14.3	16.0	-1.7	9	23	6
Diversifying Strategies	7.7	5.6	5.0	0.6	2	10	0
Private Investment Partnerships (PIP)	1.9	1.4	2.0	-0.6	0	4	0
Exposure Management Portfolio (EMP)	1.0	0.8	0.0	0.8	0	6	0
Fixed Income	20.4	15.0	16.0	-1.0	12	23	95
Cash	2.1	1.5	2.0	-0.5	0	7	0
Leverage	-1.0	-0.8	-3.0	2.2	-4	0	0
Total Fund (Net Market Value)	136.3	100.0	100.0	0.0	n.a.	n.a.	38
Total Fund (Gross Market Value)	137.3	100.8	103.0	-2.2	n.a.	n.a.	0

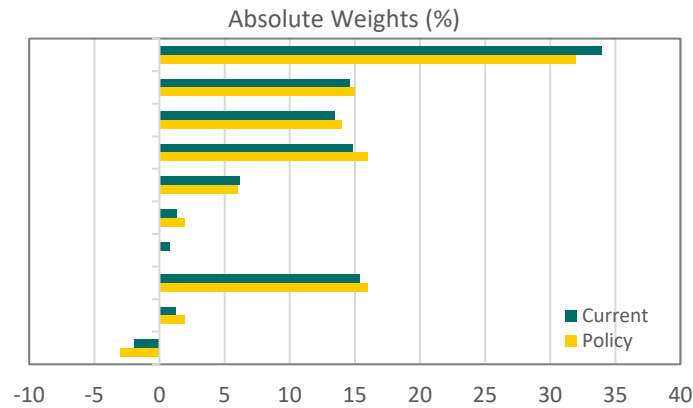
Exposures by Policy Groups

Public + Private Equity	66.8	49.0	48.0	1.0	38	58	n.a.
Fixed Income + Cash	22.5	16.5	18.0	-1.5	12	27	n.a.

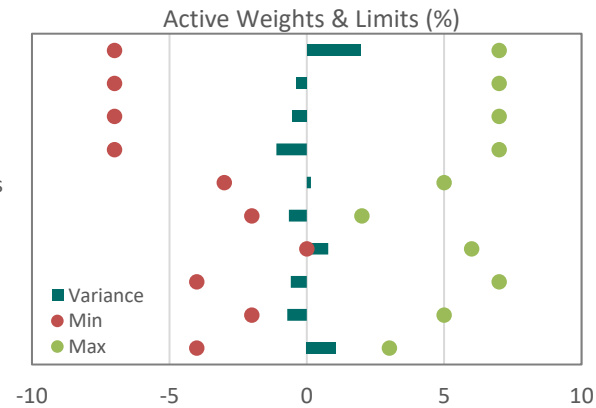
- Total Fund includes the following amount held by the Treasurer of VA: \$ 288 million
- The values shown for each asset class on this report may reflect adjustments related to derivative positions in the Rebalance Account, pending transactions and certain accruals, in order to provide a more descriptive representation of the true economic exposure to each asset class (0 adjustments applied)
- The VRS Defined Benefit Plan Investment Policy Statement established the total fund tracking error range as the allowable observed tracking error calculated quarterly using 5 years of history as of 06/30/2026.
- Differences in totals are due to rounding

Daily Asset Allocation Report

October 6, 2026



Public Equity
Private Equity
Real Assets
Credit Strategies
Diversifying Strategies
PIP
EMP
Fixed Income
Cash
Leverage



Tracking Error (%)	
5Yr Fund	2.3
5Yr Public	1.5

Asset Class	Billions (\$)	Weights (%)					
		Current	Policy	Variance	Min	Max	Internal
Public Equity	46.2	34.0	32.0	2.0	25	39	51
Private Equity	19.9	14.6	15.0	-0.4	8	22	16
Real Assets	18.4	13.5	14.0	-0.5	7	21	19
Credit Strategies	20.3	14.9	16.0	-1.1	9	23	6
Diversifying Strategies	8.4	6.2	6.0	0.2	3	11	0
Private Investment Partnerships (PIP)	1.8	1.3	2.0	-0.7	0	4	0
Exposure Management Portfolio (EMP)	1.1	0.8	0.0	0.8	0	6	0
Fixed Income	21.0	15.4	16.0	-0.6	12	23	96
Cash	1.8	1.3	2.0	-0.7	0	7	0
Leverage	-2.6	-1.9	-3.0	1.1	-7	0	0
Total Fund (Net Market Value)	136.1	100.0	100.0	0.0	n.a.	n.a.	36
Total Fund (Gross Market Value)	138.7	101.9	103.0	-1.1	n.a.	n.a.	0

Exposures by Policy Groups

Public + Private Equity	66.1	48.6	47	1.6	37	57	n.a.
Fixed Income + Cash	22.7	16.7	18	-1.3	12	27	n.a.

- Total Fund includes the following amount held by the Treasurer of VA: \$ 111 million
- The values shown for each asset class on this report may reflect adjustments related to derivative positions in the Rebalance Account, pending transactions and certain accruals, in order to provide a more descriptive representation of the true economic exposure to each asset class (0 adjustments applied)
- The VRS Defined Benefit Plan Investment Policy Statement established the total fund tracking error range as the allowable observed tracking error calculated quarterly using 5 years of history as of 6/30/2026
- Differences in totals are due to rounding

Program	Action	Effective Date	Commitment/ Current Value	Funding/ Defunding Period	Description
Private Equity	Hired	09/03/2026	\$200 Million	5 Years	Audax PE VIII – The Fund will make control investments in middle- and lower-middle-market companies across business and financial services, healthcare, industrial services and technologies, and software and technology.
Private Equity	Hired	09/14/2026	\$30 Million	6 Years	Monomoy Family Fund - A smaller fund concept where Monomoy will use their value orientation along with operational improvement capability to make control investments in family-owned and corporate carve-outs of lower middle market companies.
Private Equity	Hired	09/18/2026	\$145 Million	6 Years	Spectrum XI - The Fund will target growth stage companies that have proven, scalable business models and exhibit high growth with recurring revenue and profitability across software, AI, and data businesses.
Credit Strategies	Hired	09/29/2026	\$300 Million	3 Years	Castlelake Asset-Based Private Credit IV – A commingled fund focused on asset-based investments in specialty finance, real assets, and aviation.
Public Equity	Hired	10/01/2026	\$250 Million	Immediate	Atalan Capital - A concentrated, fundamentally driven global long-only strategy.
Exposure Management Portfolio	Hired	09/22/2026	\$400 Million	Immediate	JP Morgan Hybrid Growth - A strategy investing in public and private growth companies.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending September 30, 2026

Investment Program	Activity	Manager Name	Description	VRS Action
Public Equity	On-Going Monitoring of Current VRS Manager	Ariel Global (minority and women-owned firm) ¹	Current VRS global equity manager.	Staff performed on-going due diligence and monitoring during the quarter.
Public Equity	Manager Meeting	Impactive Capital (minority and women-owned firm) ¹	Manager focused on activist investment management.	Staff had an update meeting with this manager to discuss their firm and strategy.
Public Equity	Manager Meeting	Paradigm BioCapital (minority-owned firm) ¹	Manager focused on long/short investments in life sciences.	Staff had an update meeting with this manager to discuss their firm and strategy.
Public Equity	Manager Meeting	Sit Investment Associates (minority-owned firm) ¹	Manager focused on small-cap equity strategies.	Staff had an update call with this manager to discuss their firm and strategy.
Public Equity	Manager Meeting	Strategic Global Advisors (women-owned firm) ¹	Manager focused on international, global, and small-cap strategies.	Staff had an update meeting with this manager to discuss their firm and strategy.
Credit Strategies	Communication with Fund Manager	I Squared Capital (minority-owned firm) ¹	Manager focused on private credit infrastructure debt solutions.	Staff reviewed materials relating to the firm, platform, and new fundraise.
Credit Strategies	Communication with Fund Manager	Clear Haven (minority-owned firm) ¹	Manager focused on private credit re-insurance solutions.	Staff reviewed materials relating to the firm's strategy.
Credit Strategies	Communication with Fund Manager	Clearlake Capital (minority-owned firm) ¹	Manager focused on private credit specializing in pan-European private debt solutions.	Staff reviewed materials relating to the firm and market updates.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending September 30, 2026

Investment Program	Activity	Manager Name	Description	VRS Action
Credit Strategies and Diversifying Strategies	Periodic Communication with Fund-of-Funds Manager	N/A	Aksia is the consultant used by these two investment programs.	Staff had periodic communication to review DIME and other emerging managers along with other opportunities more broadly.
Real Assets	On-Going Monitoring of Current VRS Manager	Artemis Real Estate	Current VRS real estate manager and fund-of-funds manager.	Staff had periodic communication with the manager, including a manager meeting, to discuss potential DIME firms in their market.
Real Assets	On-Going Monitoring of Current VRS Manager	Capri EGM (minority-owned firm) ¹	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Grain Management (minority-owned firm) ¹	Current VRS infrastructure manager.	Staff performed on-going due diligence and monitoring, including a manager meeting, during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Hamilton Lane	Current VRS real estate fund-of-funds manager.	Staff had periodic communication with the manager to discuss potential DIME firms in their market.
Real Assets	On-Going Monitoring of Current VRS Manager	Pantheon Ventures	Current VRS infrastructure and natural resource fund-of-funds manager.	Staff had periodic communication with the manager to discuss potential DIME firms in their market.
Real Assets	On-Going Monitoring of Current VRS Manager	Pritzker Realty Group (women-owned firm) ¹	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring during the quarter.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending September 30, 2026

Investment Program	Activity	Manager Name	Description	VRS Action
Real Assets	On-Going Monitoring of Current VRS Manager	Sheridan Production Partners (women-owned firm) ¹	Current VRS natural resources manager.	Staff performed on-going due diligence and monitoring during the quarter.
Real Assets	Manager Meeting	Brasa Capital Management (minority-owned firm) ¹	Manager focused on western U.S. opportunistic real estate.	Staff had a meeting with this manager during the quarter.
Real Assets	Manager Meeting	Basis Investment Group (women and minority-owned firm) ¹	Manager focused on U.S. real estate debt.	Staff had a meeting with this manager during the quarter.
Real Assets	Manager Meeting	CFI Partners (minority-owned firm) ¹	Manager focused on alternative credit and fixed income strategies for institutional investors.	Staff had a meeting with this manager during the quarter.
Real Assets	Manager Meeting	EquiTrust (minority-owned firm) ¹	Manager focused on providing life insurance and annuity products.	Staff had a meeting with this manager during the quarter.
Real Assets	Virtual Manager Meeting	Ambrose Property Group (minority-owned firm) ¹	Current VRS industrial real estate manager.	Staff had a virtual meeting with this manager to discuss the existing investment, current fundraise, strategy, and market conditions.
Real Assets	Virtual Manager Meeting	Hawkeye Partners (women-owned firm) ²	Manager launching a senior housing-focused vertical.	Staff had an update call with this manager to discuss their strategy, current fundraise initiative, and market update.
Real Assets	Attendance at Conference	Various	Attended National Association of Investment Companies (NAIC) Amplifying Alts Conference focused on minority-owned alternative managers.	Staff attended the event during the quarter.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending September 30, 2026

Investment Program	Activity	Manager Name	Description	VRS Action
Real Assets	Email Correspondence	Area One Farms (women-owned firm) ¹	Manager focused on annual crop farmland investment opportunities in the U.S. and Canada.	Staff received an update on fundraising and growth of the firm's U.S. platform.
Private Equity	On-Going Monitoring of Current VRS Manager	Asia Alternatives (minority and women-owned firm) ¹	Current VRS fund-of-funds manager focused on alternative investments in Asia.	Staff had communication with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Clearlake Capital Partners (minority-owned firm) ¹	Current VRS large market buyout fund manager focused on companies across various industries.	Staff had communication with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Siris Capital (minority-owned firm) ¹	Current VRS middle market buyout manager focused on control investments in data/telecommunications, technology, and technology-enabled business service companies in North America.	Staff had communication with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Veritas Capital (minority-owned firm) ²	Current VRS large market buyout fund manager focused primarily on technology or technology-enabled solutions to government.	Staff had communication with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Vista Equity Partners (minority-owned firm) ¹	Current VRS large market buyout fund manager focused on enterprise software companies.	Staff had communication with this manager during the quarter.
Private Equity	Virtual Manager Meeting	Archetype Growth (minority-owned firm) ¹	Manager focused on minority investments across the health insurance and employee benefits sector.	Staff had communication with this manager during the quarter.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending September 30, 2026

Investment Program	Activity	Manager Name	Description	VRS Action
Private Equity	Virtual Manager Meeting	Citation Capital (women-owned firm) ¹	Manager focused on mid-cap control buyouts in North America.	Staff had communication with this manager during the quarter.
Fixed Income	On-Going Monitoring of Current VRS Manager	Payden & Rygel (women-owned firm) ¹	Current VRS emerging market debt manager.	Staff had various interactions with the manager during the quarter.
Exposure Management Portfolio	Virtual Manager Meeting	Vista Equity Partners (minority-owned firm) ¹	Large market buyout fund manager focused on enterprise software companies.	Staff had a call with this manager to discuss their strategy and new fundraise initiatives.

Index:

1 – The manager is considered Diverse Investment Management Engagement (DIME) under the Commonwealth of Virginia definition, which defines ownership threshold of 51% or more.

2 – The manager is considered DIME under the definition that considers industry best practices and defines an ownership threshold of greater than or equal to 33% and less than 51% of firm ownership or carry.

VRS Investment Department
Quarterly External Investment Manager Referral Report
Activity for Quarter Ending September 30, 2026

Investment Program	Type of Contact	Investment Manager Name	Official Making Referral	VRS Action
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No activity to report this quarter.

Report

The Virginia Retirement System Benefits and Actuarial Committee met on October 14, 2026, and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its June 17, 2026, meeting.

ELECTION OF COMMITTEE VICE CHAIR

The Committee unanimously approved the nomination of Jessica Hood to continue serving as Committee Vice Chair.

VRS FUNDING POLICY STATEMENT AMENDMENTS

Rory Badura, Senior Staff Actuary, presented the recommended amendments to the VRS Funding Policy Statement to the Committee. The changes involve establishing a strategy for amortizing surpluses in all pension and other post-employment benefit (OPEB) plans once a plan reaches 100% funded status in order to protect the plan's funded status. Mr. Badura reviewed the recommended amortization policy and demonstrated how open amortization of funding surplus under the proposed schedule would ease the impact on employers while also protecting plans from becoming excessively overfunded.

Staff recommends the change in order to prioritize protecting the plans' funded status while reducing future risks when plans reach or surpass the funding schedule.

The Committee recommended approval of the following action to the full Board of Trustees:

Request for Board 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 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 must be at least equal to the plan's administrative expense.

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

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)

Jim Anderson and Becky Stouffer from the VRS plan actuary, Gabriel, Roeder, Smith & Company (GRS), presented the June 30, 2026, actuarial valuations for the Five Statewide Retirement Plans, Group Life Insurance, the State and Teacher Health Insurance Credit and the Virginia Sickness and Disability Program (VSDP). The VRS actuary conducts annual valuations as of the close of the fiscal year (June 30). In odd-numbered years, the valuations are used to establish employer contribution rates. 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 changes to contribution rates.

The market value return for the total fund of 12.1% exceeded the long-term assumed rate of return of 6.75% for fiscal year 2026. For most statewide plans, the investment gain had the greatest impact on plan experience during the year which resulted in funded status increases for most plans and employer contribution rates trending lower. The other notable change was due to modeling updates to better align liabilities for members with multiple employments across different employers. While this change had only minor impacts on most statewide plans, the VaLORS plan experienced a noteworthy increase in liabilities due to the level of turnover experienced by members of this plan.

GRS will also deliver an abbreviated version of their presentation to the full Board of Trustees.

The Committee recommended approval of the following action to the full Board of Trustees:

Request for Board 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 for both State and Teachers, and the Virginia Sickness and Disability Program, including self-funded Long-Term Care.*

Submitted to the Board of Trustees on October 15, 2026.

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 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.~~

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~~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										

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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**



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



Executive Summary

June 30, 2026 valuations reflect:

- Investment return = 12.1%
- Generally lower than expected Salary experience
- Slightly higher COLA experience
- Updated coding – minimal impact other than VaLORS
- Funding policy update for plans once hit 100% funding

Resulting in:

- Improved funded status
- Decreased informational contribution rates
 - Except SPORS (Up 16 bp) and VaLORS (Up 151 bp)



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*



Statewide Pension Participants/% Change in '26

ACTIVES			INACTIVES			RETIREES		
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**

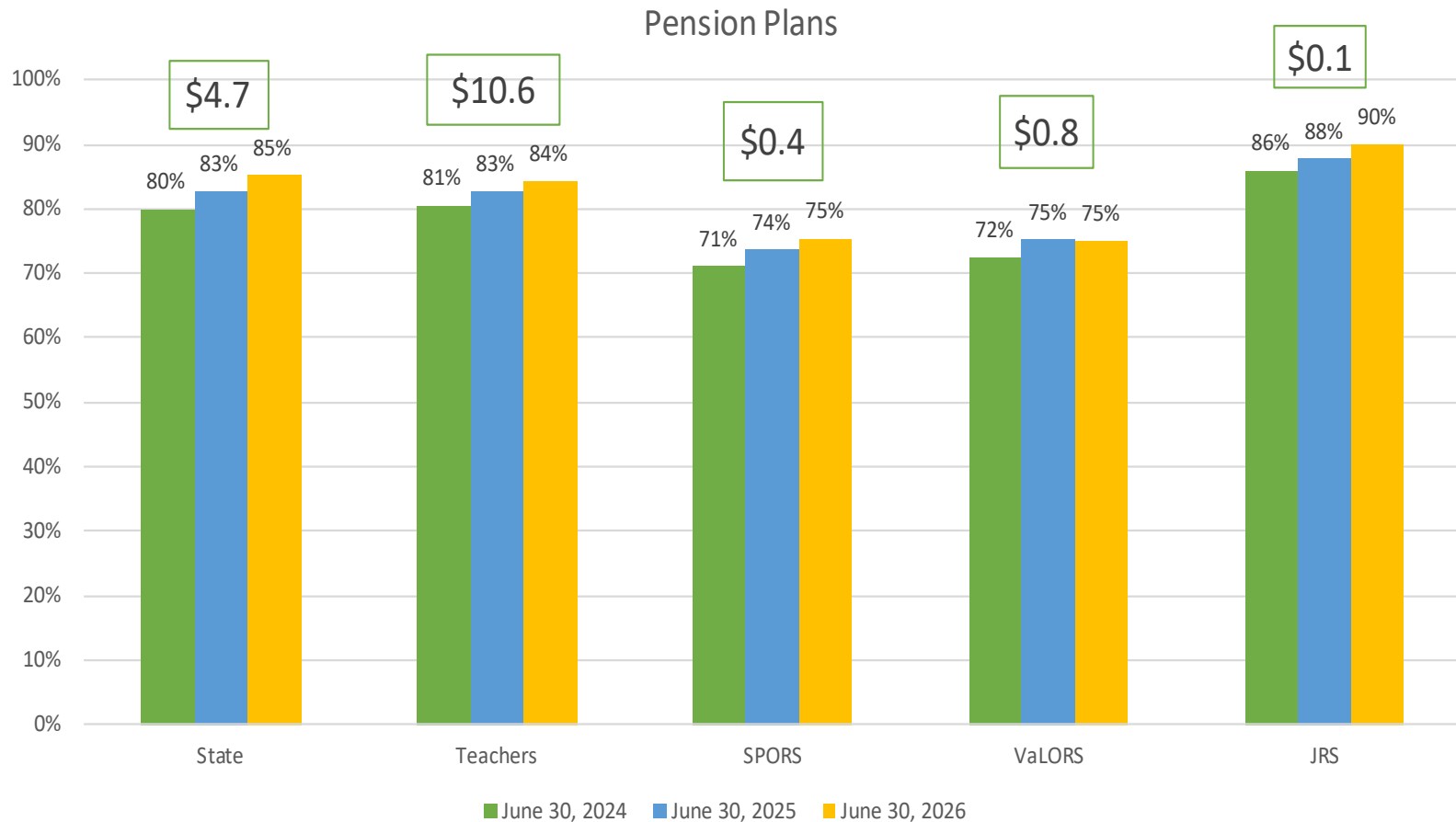
	2026	2027	2028	2029	2030
Actual Investment Return	3,114				
Assumed Investment Return	1,769				
Gain/(Loss) to be Phased-in	1,345				
Phased-in Recognition -Current year	269	?	?	?	?
-1 st prior year	187	269	?	?	?
-2 nd prior year	137	187	269	?	?
-3 rd prior year	(13)	137	187	269	?
-4 th prior year	(313)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



Funded Status and Unfunded Liabilities (AVA)

June 30, 2026 Unfunded Liabilities in \$Billions



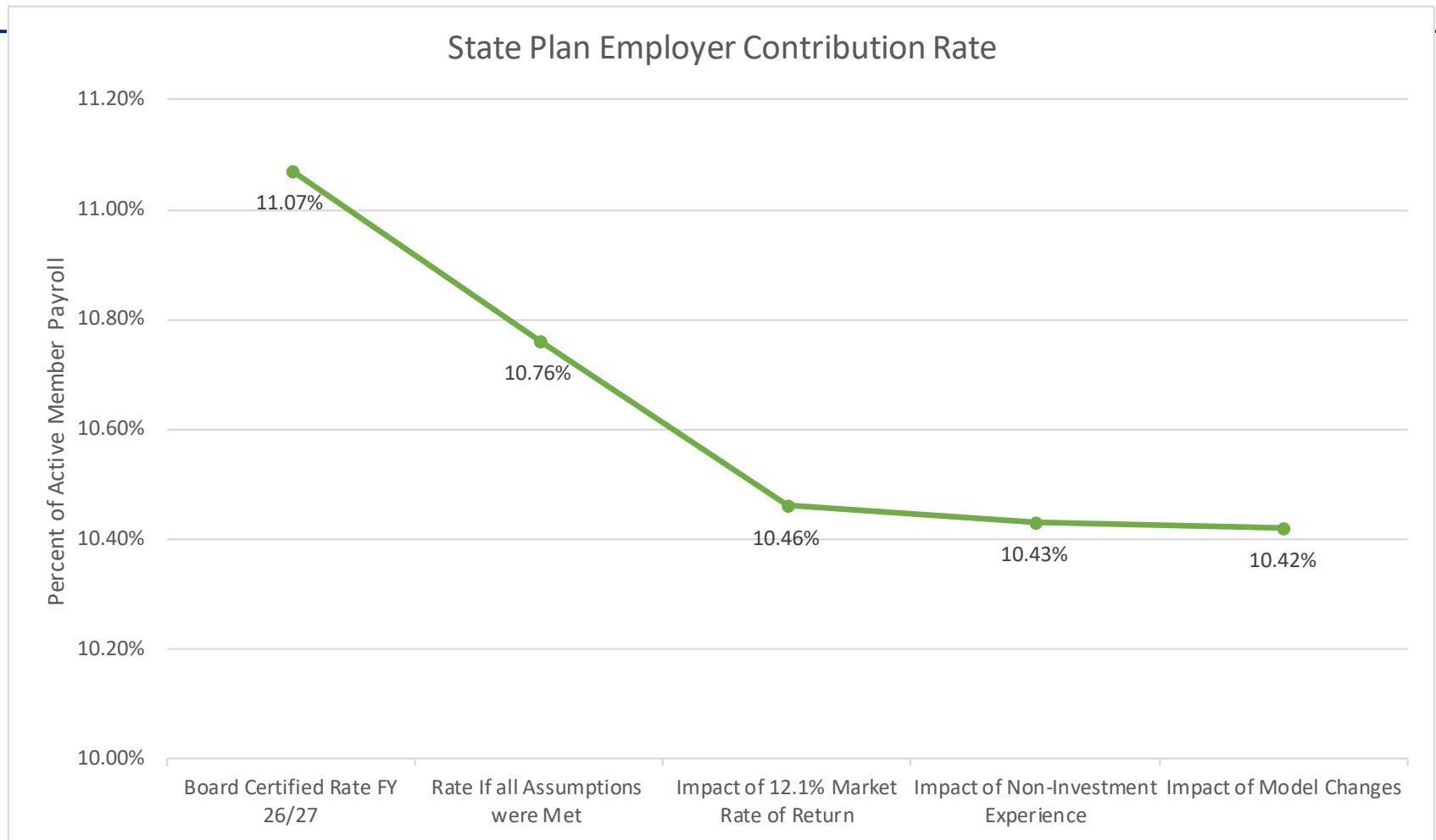
Actuarially Determined Employer Contribution Rates – Pension Plans



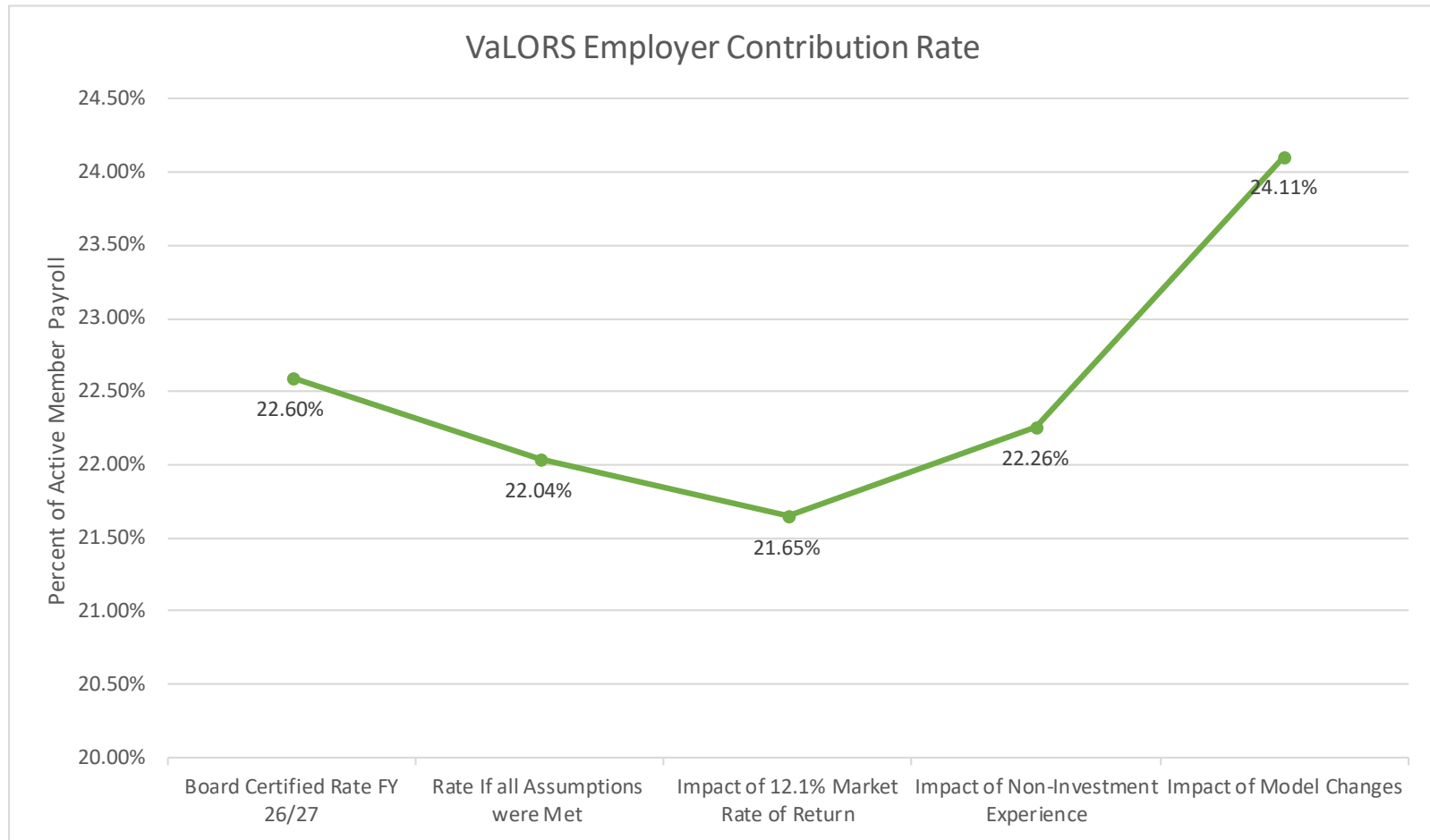
- Additional Contributions in 2024 to maintain rate for VaLORS and JRS
- State and Teacher Plans with Hybrid benefit tier have additional required Defined Contribution plan contributions of 1.0%-3.5% of Hybrid payroll



Pension Contribution Changes – State

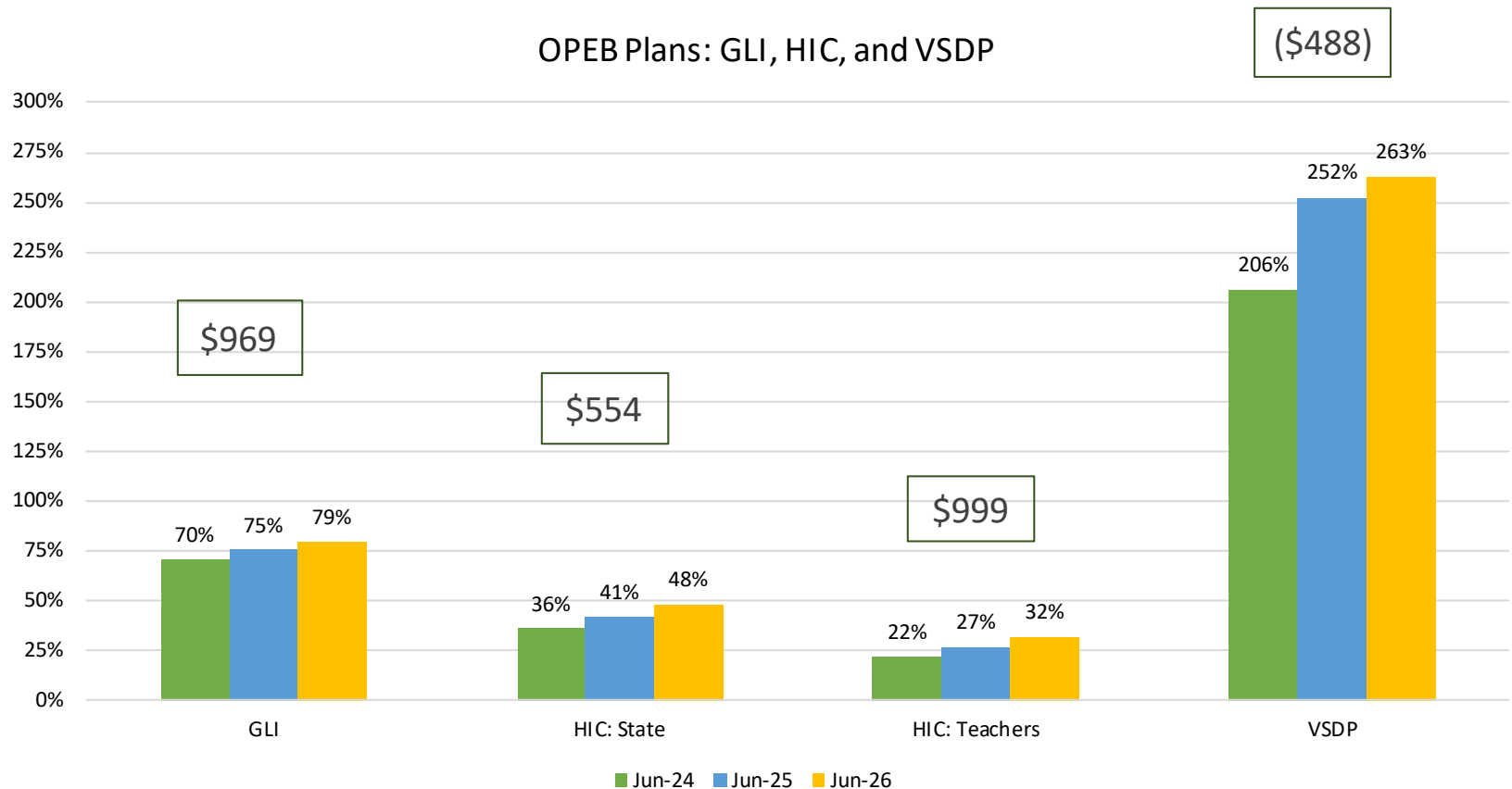


Pension Contribution Changes – VaLORS



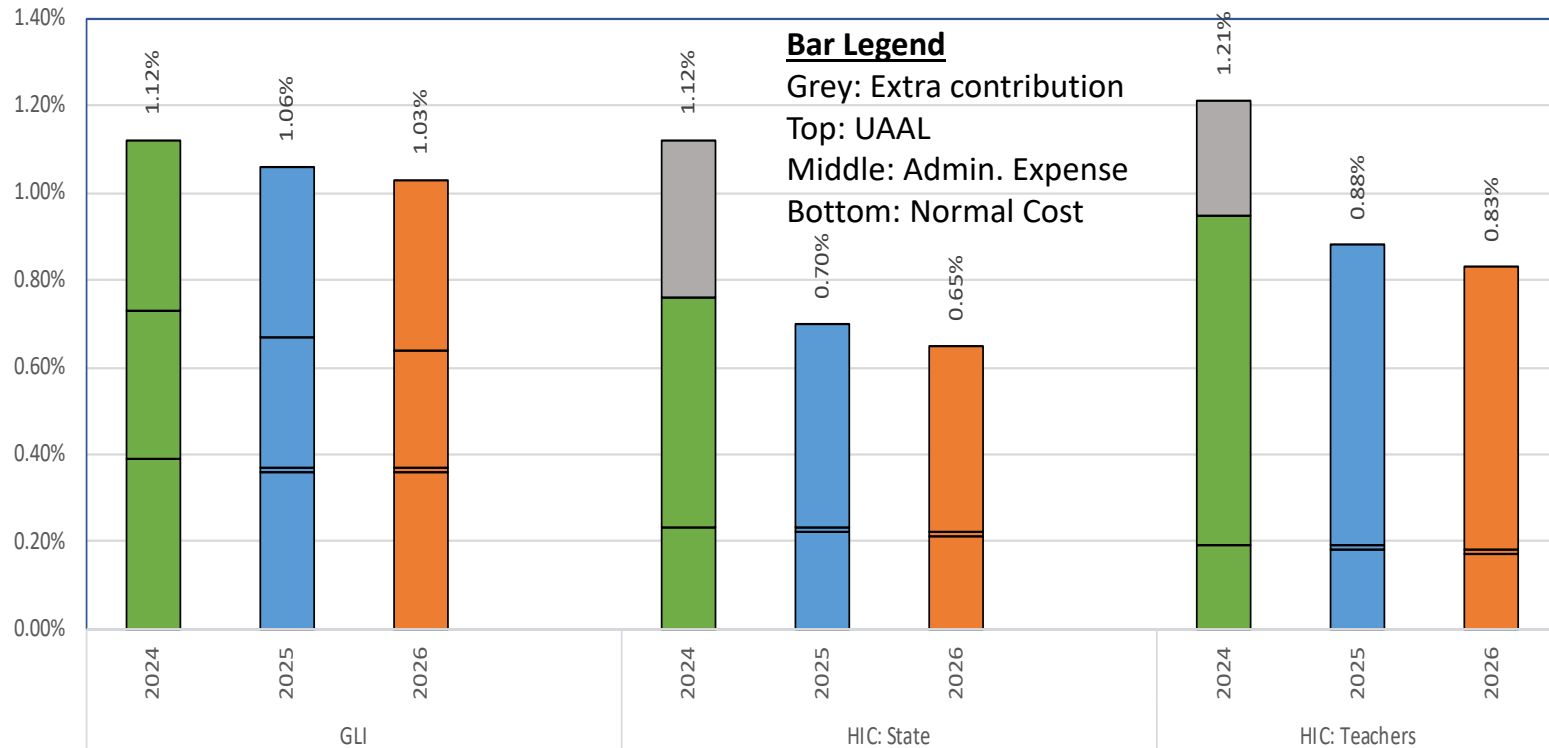
Funded Status (AVA) and Unfunded Liabilities – OPEB Plans

June 30, 2026 Unfunded Liabilities in \$Millions



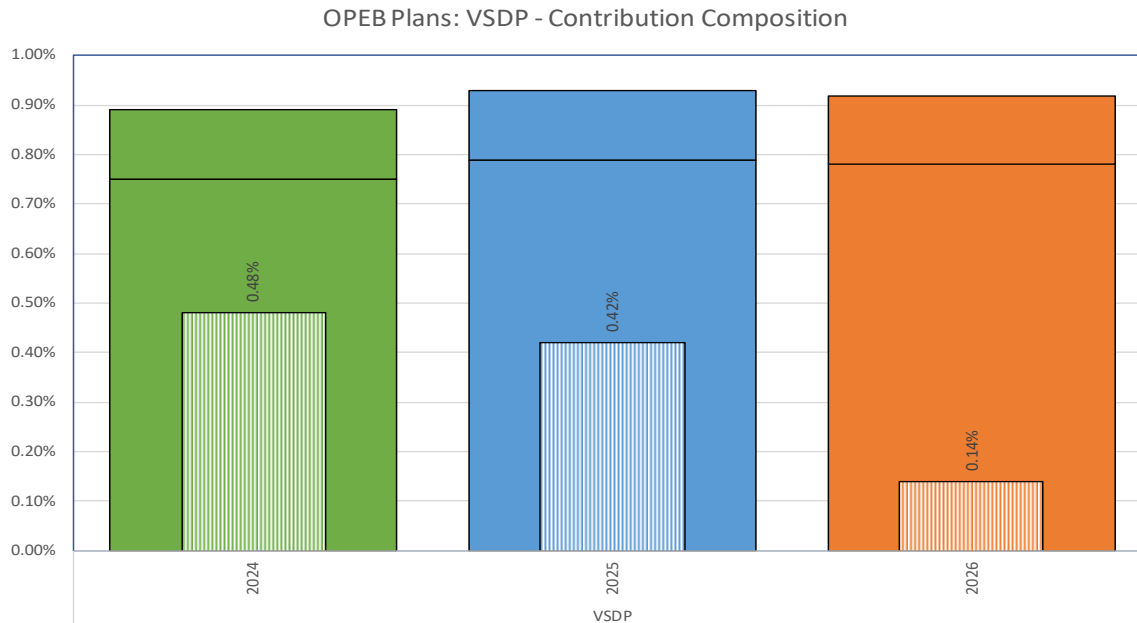
Actuarially Determined Employer Contribution Rates – OPEB Plans

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%

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

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.



Report

The Administration, Finance and Talent Management Committee met on October 15, 2026, and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its September 16, 2026, meeting.

MERCER PRESENTATION ON THE 2026 COMPENSATION STUDY – INVESTMENT PROFESSIONALS

Josh Wilson of Mercer presented the results of its 2026 compensation study related to investment professionals. The review included a full competitive assessment of base salaries and total cash compensation for positions within the Investment Professionals' Pay Plan. Results indicate that, on average, VRS' base salary is 7% below market 75th percentile and total cash is 19% below the market 50th percentile. Recommendations for changes to the pay plan were presented to the Committee.

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

Request for Board Action: The VRS Board of Trustees approves an amended Investment Professionals' Pay Plan (Pay Plan), effective October 25, 2026.

COMPENSATION AND BENEFITS (CLOSED SESSION)

The Committee went into closed session to discuss benefits and compensation related to specific VRS employees.

Upon returning to open meeting, the Committee recommended approval of the following actions to the full Board:

Request for Board Action: The VRS Board of Trustees approves a \$176,575.00 salary adjustment for the Chief Investment Officer (CIO).

Submitted to the Board of Trustees on October 15, 2026.

Susan T. Gooden, Ph.D., Chair
Administration, Finance and Talent Management Committee



**Approve Amendments to
Investment Professionals' Pay Plan**

Requested Action

The Virginia Retirement System Board of Trustees approves an amended Investment Professionals' Pay Plan (Pay Plan), effective October 25, 2026.

Description/Background

The VRS Board of Trustees approved the current Investment Professionals' Pay Plan on June 17, 2026, effective July 1, 2026.

As provided in the Pay Plan, VRS' philosophy is to position base salary for investment professionals at the 75th percentile for public pension funds. VRS recently engaged Mercer (A Marsh Business), a global professional services independent consulting firm serving sophisticated institutional investment clients, to conduct a compensation market study to review the market competitiveness of VRS for investment professionals and review the appropriateness of the Pay Plan. Mercer presented the results of their review to the Administration, Finance and Talent Management Committee at its October 15, 2026, meeting.

Based on the market data results reviewed for the study, Mercer recommended adjustments to the salary ranges of all positions covered by the Pay Plan in order to align the midpoints of the pay structures to the 75th percentile for public pension funds in accordance with the philosophy of the Pay Plan.

Clean and redlined versions of the revised Pay Plan and a copy of the Mercer study recommendations are attached.

Authority for Requested Action

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

The above action is approved.

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

Date

Direct Investment Professionals Benchmark Summary

Market Pricing Methodology and Competitive Comparisons

Josh Wilson, Partner

Susan Lemke, Senior Principal

David Paul, Associate



Agenda

1. Executive Summary
2. Market Pricing Methodology & Survey Participants
3. Market Pricing by Job
 - Base Salary
 - Total Cash Compensation (TC)
4. Recommendations – Salary Structures

Executive Summary

- Virginia Retirement System (“VRS”), engaged Mercer (“Mercer” or “we”) to review the market competitiveness of the organization’s Direct Investment jobs.
- Mercer’s compensation review includes a full competitive assessment of base salary and total cash compensation
- VRS’ compensation philosophy is to position base salary at the 75th percentile for public pension funds, and to position total cash compensation at the 50th percentile of a 75/25 blend of public pension and private market data
- On average, VRS **base salary is 7% below market 75th percentile** and **total cash is 19% below the market 50th percentile**.
 - For both salary and total cash, VRS is below its stated philosophy
- VRS core roles and their average closest percentile variances for base salary and total cash are outlined below:

	Base Salary 		Total Cash 	
Role (# of Incumbents)	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
Chief Investment Officer (1)		 		
Deputy Chief Investment Officer (1)				
Managing Director (2)				
Program Director (9)				
Director (4)				
Senior Portfolio Manager (8)				
Portfolio Manager (9)				
Senior Investment Officer (10)				
Investment Officer (6)		 		
Senior Investment Analyst (4)		 		
Investment Analyst (3)		 		

Market Pricing Methodology

Item	Approach
Effective Date	July 1, 2026
Data Elements	The following pay elements are included in the market pricing results, at the 25 th , 50 th , and 75 th percentiles (where available): • Base Salary • Total Cash Compensation (TC): Base + Target STI
Target Market Positioning	Base Salary: 75 th percentile for Public Funds Total Cash Compensation: 50 th percentile for 75/25 split of Public Funds and Private Sector
Industry / Specialty	• 2025 AON McLagan Public Fund Compensation Survey – Custom Peer Group • 2025 AON McLagan Private Sector Compensation Survey – All Parts
Survey Source Weighting	Data from both survey sources is provided for reference for each data element. The weighting is aligned to the VRS compensation philosophy for investment professionals. • Base Salary: 100% McLagan Public Fund • Total Cash: 75% McLagan Public Fund, 25% McLagan Private Sector
Geography	National data
Data Adjustments	Mercer will apply premiums and discounts to market data (e.g., +10%) when a specific survey job match needs to be adjusted to match the responsibilities of a VRS role.
Data Aging	Data is aged to the Effective Date using a 3.5% factor, based on Mercer’s Global Compensation Planning Report (June 2026)

Survey Participants

AON McLagan Public Fund Compensation Survey – Custom Peer Group

Aon McLagan Public Fund Compensation Survey Participants		
Organization	FYE '24 AUM (\$B)	Location of Investment Staff
CA Public Employees' Retirement System	\$527.7	Sacramento, CA
CA State Teachers' Retirement System	\$349.7	West Sacramento, CA
New York State & Local Retirement System	\$260.4	Albany, NY
Teachers Retirement System of Texas	\$224.0	Austin, TX
Florida State Board of Administration	\$218.9	Tallahassee, FL
Washington State Investment Board	\$211.4	Olympia, WA
State of Wisconsin Investment Board	\$147.2	Madison, WI
New York State Teachers' Retirement System	\$146.5	Albany, NY
Ohio Public Employees Retirement System	\$119.4	Columbus, OH
State of Michigan Retirement System	\$110.1	East Lansing, MI
Massachusetts PRIM	\$109.7	Boston, MA
State Teachers Retirement System of Ohio	\$96.3	Columbus, OH
Colorado Public Employees' Retirement Association	\$73.3	Denver, CO

Survey Participants

AON McLagan Private Sector Compensation Survey (Organization Make-up)

All Private Sector Firms				
	# of Firms	AUM		
		Low Q	Median	High Q
Banks	35	\$11.8	\$71.8	\$376.1
Insurance Companies	39	\$54.1	\$84.0	\$171.3
Investment Management/Advisory Firms	152	\$28.6	\$161.2	\$571.4
Corporate Pensions, Endowments, & Foundations	86	\$3.0	\$7.5	\$22.9
Total	312	\$24.4	\$81.1	\$285.4

Market Pricing by Job

Base Salary (000s) – McLagan Public Sector data only

 Closest Market Percentile

			Base Salary Market Data			Base Salary Variance		
Job Title	Average Base	McLagan Public Funds: Benchmark Match	25th %ile	50th %ile	75th %ile	25th %ile	50th %ile	75th %ile
Chief Investment Officer	\$533	CIO	\$525	\$563	\$728	2%	-5%	-27%
Deputy Chief Investment Officer	\$452	Deputy CIO	\$373	\$438	\$525	21%	3%	-14%
Managing Director	\$468	Deputy CIO / Asset Class CIO	\$348	\$400	\$448	34%	17%	4%
Program Director	\$375	Portfolio Management Managing Expert (F7)	\$305	\$325	\$390	23%	16%	-4%
Director	\$311	Portfolio Management Senior Expert (F6), consistent with Sr. Portfolio Manager	\$239	\$265	\$305	30%	17%	2%
Senior Portfolio Manager	\$295	Portfolio Management Senior Expert (F6), consistent with Director	\$239	\$265	\$305	23%	11%	-3%
Portfolio Manager	\$255	Portfolio Management Expert (F5)	\$205	\$224	\$246	25%	14%	4%
Senior Investment Officer	\$184	Portfolio Management Advanced (F4)	\$162	\$182	\$200	14%	1%	-8%
Investment Officer	\$141	Portfolio Management Experienced (F3)	\$131	\$143	\$158	8%	-1%	-11%
Senior Investment Analyst	\$108	Asset Management Research – Intermediate (F2)	\$106	\$113	\$120	2%	-4%	-9%
Investment Analyst	\$89	Asset Management Research – Entry (F1)	\$81	\$93	\$103	10%	-4%	-13%

Market Pricing by Job

Total Cash (000s) – 75/25 Blend of McLagan Public and Private Sector

 Closest Market Percentile

			Actual Total Cash Market Data			Total Cash Variance		
Job Title	Average TC	Survey Benchmarking Approach <i>Same for both surveys except where noted</i>	25th %ile	50th %ile	75th %ile	25th %ile	50th %ile	75th %ile
Chief Investment Officer	\$907	CIO	\$894	\$1,123	\$1,864	1%	-19%	-51%
Deputy Chief Investment Officer	\$746	Deputy CIO	\$619	\$993	\$1,446	21%	-25%	-48%
Managing Director	\$772	McLagan Public: Asset Class CIO. McLagan Private: PM Managing Expert (F7) with 20% discount	\$618	\$937	\$1,428	25%	-18%	-46%
Program Director	\$591	McLagan Public: Managing Expert (F7). McLagan Private: PM Senior Expert (F6) with 20% premium	\$545	\$796	\$1,082	9%	-26%	-45%
Director	\$467	Portfolio Management Senior Expert (F6), consistent with Senior PM	\$401	\$622	\$858	16%	-25%	-46%
Senior Portfolio Manager	\$443	Portfolio Management Senior Expert (F6), consistent with Director	\$401	\$622	\$858	10%	-29%	-48%
Portfolio Manager	\$357	Portfolio Management Expert (F5)	\$309	\$418	\$543	16%	-15%	-34%
Senior Investment Officer	\$239	Portfolio Management Advanced (F4)	\$234	\$288	\$350	2%	-17%	-32%
Investment Officer	\$184	Portfolio Management Experienced (F3)	\$169	\$200	\$246	9%	-8%	-25%
Senior Investment Analyst	\$130	Asset Management Research – Intermediate (F2)	\$129	\$151	\$171	1%	-14%	-24%
Investment Analyst	\$98	Asset Management Research – Entry (F1)	\$95	\$110	\$132	3%	-11%	-25%

Recommendation

- Based on the market data results, Mercer recommends the following adjustments to align the midpoints of pay structures to the 75th percentile for public pension funds data, in accordance with VRS' compensation philosophy
- Current grade midpoints are at or above the market 75th percentiles for each role, except for the CIO and Deputy CIO
- For most roles, recommended changes to midpoints are small. The CIO and Deputy CIO midpoints increase 28% and 11%, respectively.**
- Target incentive rates are consistent with current practice. Using base pay at the midpoint and target incentive rates, **the average grade is 5.5% below the market median for total cash** (75/25 blend of public pensions and private market data)
 - Incentive targets would need to increase 20-30 percentage points for mid- and senior-level roles to bring total cash targets in line with the market median

Role (57 Incumbents)	Current Grades (2026)			Proposed Grades			
	Grade Midpoint (vs. Market 75 th)	STI Target	Target Total Cash (vs. Market 50 th)	Midpoint (vs. Market 75 th)	Midpoint Increase (%)	STI Target	Target Total Cash (vs. Market 50 th)
Chief Investment Officer (1)	\$546 (-25%)	70%	\$929 (-17%)	\$700 (-4%)	\$154 (28%)	70%	\$1,190 (6%)
Deputy Chief Investment Officer (1)	\$495 (-6%)	65%	\$816 (-18%)	\$550 (5%)	\$55 (11%)	65%	\$908 (-9%)
Managing Director (2)	\$451 (1%)	65%	\$744 (-21%)	\$465 (4%)	\$14 (3%)	65%	\$767 (-18%)
Program Director (9)	\$389 (0%)	60%	\$622 (-22%)	\$400 (3%)	\$11 (3%)	60%	\$640 (-20%)
Director (4)	\$340 (11%)	50%	\$509 (-18%)	\$345 (13%)	\$5 (2%)	50%	\$518 (-17%)
Senior Portfolio Manager (8)	\$340 (11%)	50%	\$509 (-18%)	\$345 (13%)	\$5 (2%)	50%	\$518 (-17%)
Portfolio Manager (9)	\$265 (8%)	40%	\$372 (-11%)	\$270 (10%)	\$5 (2%)	40%	\$378 (-10%)
Senior Investment Officer (10)	\$222 (11%)	30%	\$289 (1%)	\$225 (13%)	\$3 (1%)	30%	\$293 (2%)
Investment Officer (6)	\$173 (9%)	30%	\$225 (12%)	\$175 (10%)	\$2 (1%)	30%	\$228 (14%)
Senior Investment Analyst (4)	\$130 (8%)	20%	\$156 (3%)	\$130 (9%)	\$0.3 (0%)	20%	\$156 (3%)
Investment Analyst (3)	\$105 (2%)	10%	\$115 (5%)	\$105 (2%)	\$0.0 (0%)	10%	\$116 (5%)

Current and Recommended Pay Structures

Role	Current Grades (2026)			Proposed Grades			
	Minimum	Midpoint	Maximum	Minimum	Midpoint	Maximum	Midpoint Increase (%)
Chief Investment Officer	\$410	\$546	\$683	\$525	\$700	\$875	\$154 (28%)
Deputy Chief Investment Officer	\$371	\$495	\$618	\$413	\$550	\$688	\$55 (11%)
Managing Director	\$340	\$451	\$562	\$349	\$465	\$581	\$14 (3%)
Program Director	\$290	\$389	\$488	\$300	\$400	\$500	\$11 (3%)
Director	\$253	\$340	\$426	\$259	\$345	\$431	\$5 (2%)
Senior Portfolio Manager	\$253	\$340	\$426	\$259	\$345	\$431	\$5 (2%)
Portfolio Manager	\$198	\$265	\$333	\$203	\$270	\$338	\$5 (2%)
Senior Investment Officer	\$167	\$222	\$278	\$169	\$225	\$281	\$3 (1%)
Investment Officer	\$130	\$173	\$216	\$131	\$175	\$219	\$2 (1%)
Senior Investment Analyst	\$99	\$130	\$161	\$98	\$130	\$163	\$0.3 (0%)
Investment Analyst	\$80	\$105	\$130	\$79	\$105	\$131	\$0.0 (0%)

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VIRGINIA RETIREMENT SYSTEM
INVESTMENT PROFESSIONALS'
PAY PLAN
Effective ~~July~~October 25, 2026

OVERVIEW & PAY PHILOSOPHY

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

This Plan includes three core elements:

- Base Salary (described in Section I)
- Incentive Pay (described in Section II)
- Deferred Compensation Plan for VRS Personnel (DCIP) (described in Section III)

Overall, this Plan is designed to:

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

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

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

I. Base Salary

SALARY RANGES

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

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

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Each position's salary range includes a defined:

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

Salary Range (\$ Thousands)				
Grade	Position	Min (\$)	Mid (\$)	Max (\$)
11	Chief Investment Officer	~~\$525,000~~ <u>409,566</u>	~~\$700,000~~ <u>546,271</u>	~~\$875,000~~ <u>682,976</u>
10	Deputy Chief Investment Officer	~~\$413,000~~ <u>371,134</u>	~~\$494,663~~ <u>550,000</u>	~~\$618,192~~ <u>688,000</u>
9	Managing Director	~~\$339,569~~ <u>349,000</u>	~~\$450,700~~ <u>465,000</u>	~~\$561,831~~ <u>581,000</u>
8	Program Director	~~\$290,177~~ <u>300,000</u>	~~\$388,961~~ <u>400,000</u>	~~\$477,744~~ <u>500,000</u>
7	Director	~~\$253,132~~ <u>259,000</u>	~~\$339,568~~ <u>345,000</u>	~~\$426,003~~ <u>431,000</u>
6	Senior Portfolio Manager	~~\$253,132~~ <u>259,000</u>	~~\$339,568~~ <u>345,000</u>	~~\$426,003~~ <u>431,000</u>
5	Portfolio Manager	~~\$197,567~~ <u>203,000</u>	~~\$265,481~~ <u>270,000</u>	~~\$333,394~~ <u>338,000</u>
4	Senior Investment Officer	~~\$166,697~~ <u>169,000</u>	~~\$222,410~~ <u>225,000</u>	~~\$278,123~~ <u>281,000</u>
3	Investment Officer	~~\$129,653~~ <u>131,000</u>	~~\$172,871~~ <u>175,000</u>	~~\$216,089~~ <u>219,000</u>
2	Senior Investment Analyst	~~\$98,784~~ <u>98,000</u>	~~\$129,654~~ <u>130,000</u>	~~\$160,523~~ <u>163,000</u>
1	Investment Analyst	~~\$80,262~~ <u>79,000</u>	~~\$104,958~~ <u>105,000</u>	~~\$129,653~~ <u>131,000</u>

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

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

Salary Adjustments

Oversight & Administration

VRS will implement pay actions, including any bonuses, consistent with the provisions of the Appropriation Act. The VRS Board, however, approves across-the-board performance-based salary increases, market-based salary increases and incentive pools, for VRS investment professionals, consistent with the Code of Virginia and the Appropriation Act. The CIO approves salary adjustments for individual investment professionals and, as described later in the Plan, sign-on bonuses, incentive payments, and relocation expenses subject to the limitations in the Code of Virginia and other applicable state or federal law and regulation.

Merit Increases

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

Starting Salaries

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

Reallocation

Reallocation occurs when a job classification is reviewed by Human Resources, and it is determined that the job duties and responsibilities have changed significantly enough to place the job in a different job title and job class. Unless the CIO authorizes an exception, this would not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

In-grade Adjustments

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

Promotions

Promotions occur when an individual moves into a position in a higher job class. Promotions can be competitive (selected through a recruitment and hiring process) or non-competitive (through a job reclassification or reallocation). Unless the CIO approves an exception, promotions will not exceed a 15%

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

Downward Assignment

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

II. Incentive Pay Plan

ADMINISTRATION

The VRS Board of Trustees, as Plan Administrator, administers incentive pay under the Plan through the Administration, Finance and Talent Management (AFT) Committee and retains full and complete discretion:

- To increase or decrease incentives for any and/or all Plan participants.
- To modify, amend or rescind any aspect of the Plan at any time for any and/or all Plan participants.
- While the Plan Administrator remains mindful of the value that staff adds to the organization and supports the Plan, the Plan Administrator also specifically reserves the right to cancel, reduce, or delay the amount of any incentives payable under this Plan when, in the sole discretion of the Plan Administrator, extreme budgetary pressures, economic, market or other conditions are such that the Plan Administrator deems such action necessary under the circumstances.

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- Consistent with the preceding paragraph, payment of incentives under this Plan is not guaranteed.

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

PLAN ELIGIBILITY

Incumbents in the positions listed below are eligible for incentive pay under the Plan, provided they:

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

Chief Investment Officer

Deputy Chief Investment Officer

Managing Director – Portfolio Solutions Group

Managing Director – Private Market Assets and Defined Contribution (DC) Plans

Managing Director – Public Market Assets

Program Director

Director

Senior Portfolio Manager

Portfolio Manager

Senior Investment Officer

Investment Officer

Senior Investment Analyst

Investment Analyst

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

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

Participation in this Plan in any one year does not confer the right to participate in this Plan in any other year or to receive Plan payouts for the current and/or any future year. Participation in this Plan does not confer the right to continued employment. Subject to the provisions of this Plan, only active VRS employees may receive payments under this Plan.

OVERALL INCENTIVE PLAN MECHANICS

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

- Eligible Plan participants will be assigned an incentive opportunity, expressed as a percentage of their actual earned base salary.

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- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.
- Incentives are weighted or allocated to separate Plan components, described below, with the specific components and weightings varying by position:
 1. Total Fund relative investment performance
 2. Asset Class relative investment performance
 3. Average of Asset Class Multipliers (for positions that support multiple asset classes)
 4. Qualitative – focuses on individual achievement of assigned objectives.
- After year-end, payouts under each Plan component would be determined based on performance.
- Each participant's preliminary award would equal the sum of all of their performance adjusted Plan components.
- Final awards would equal preliminary awards adjusted, up or down, based on the Total Fund's one- year absolute return. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return (e.g., if Total Fund one-year actual absolute return equals +9.75%, then the preliminary awards will be increased by 3%). There will be a negative one-for-one adjustment for a return less than 0% (e.g., if Total Fund one-year actual absolute return equals -15%, then the preliminary awards will be reduced by 15%). This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles on the health of the pension plan by providing a mechanism to reflect the impact of up and down markets on incentive compensation.

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

INCENTIVE OPPORTUNITIES

Incentive opportunities will vary by position based on multiple criteria:

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

Actual awards can vary based on performance.

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For the fiscal year ending June 30, 2023, and all subsequent years, unless as otherwise determined, the Plan's incentive opportunities are as follows:

Incentive Levels	
VRS Position	Incentive ¹ (% Salary)
Chief Investment Officer	70 ²
Deputy Chief Investment Officer	65 ²
Managing Director – Portfolio Solutions Group	65 ²
Managing Director – Private Market Assets and DC Plans	65 ²
Managing Director – Public Market Assets	65 ²
Program Director	60 ²
Director	50
Senior Portfolio Manager	50
Portfolio Manager	40
Senior Investment Officer	30
Investment Officer	30
Senior Investment Analyst	20
Investment Analyst	10

¹Performance-adjusted preliminary awards can vary from zero to two times the incentive.

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

INCENTIVE WEIGHTINGS

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

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

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

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Incentive Weightings by Plan Component					
VRS Position	Total Fund %	Asset Class Multipliers %	Asset Class %	Qualitative %	Total
		(% of total incentive weighted to each component)			
Chief Investment Officer	60	20 ¹		20	100
Deputy Chief Investment Officer	60	20 ¹		20	100
Managing Director – Portfolio Solutions Group	60	20 ¹		20	100
Managing Director – Private Market Assets and DC Plans	40	40 ²		20	100
Managing Director – Public Market Assets	40	40 ³		20	100
Program Director	30	50 ⁴	50 ⁴	20	100
Director	30	50 ⁴	50 ⁴	20	100
Senior Portfolio Manager	20	60 ⁴	60 ⁴	20	100
Portfolio Manager	20	60 ⁴	60 ⁴	20	100
Senior Investment Officer	20	60 ⁴	60 ⁴	20	100
Investment Officer	20	60 ⁴	60 ⁴	20	100
Senior Investment Analyst	20	30 ⁴	30 ⁴	50	100
Investment Analyst	20	30 ⁴	30 ⁴	50	100

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

²The MD Private Market Assets and DC Plans average multiplier is based on the multipliers of private market asset classes under the incumbent's purview.

³The MD Public Market Assets average multiplier is based on the multipliers of the public market asset classes under the incumbent's purview.

⁴These positions may support a specific asset class or multiple asset classes. If the position supports a specific asset class, then the multiplier is based on the asset class multiplier. If the position supports multiple asset classes, then the multiplier is based on the average of the multipliers of the asset classes supported.

QUANTITATIVE PLAN COMPONENTS

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

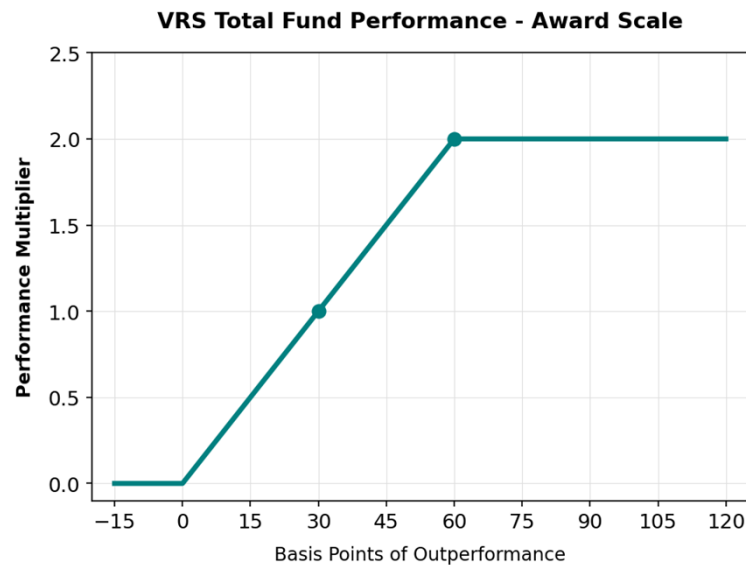
For purposes of this Plan:

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

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Note: The Board approved the Mercer recommended excess return objective (30 basis points) for the Total Fund at the June 17, 2026 meeting with an effective date of July 1, 2026. For implementation purposes, the Total Fund excess return objective will be a blend of the former excess return objective (45 basis points) to be used until June 30, 2026, and the new excess return objective (30 basis points) to be used from July 1, 2026 onward.



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

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

QUALITATIVE PLAN COMPONENT

The qualitative incentive multiplier can range from 0.00 to 2.00 at the CIO's discretion. The CIO obtains input from applicable senior staff regarding individual performance levels to help determine the qualitative rating. The qualitative rating is separate and distinct from the individual's annual performance evaluation rating requirement for plan eligibility. This Plan component links participants' incentive compensation to achievement of individual and/or position-specific performance objectives and VRS' overall performance objectives. Actual awards under this Plan component will reflect:

- Position and/or incumbent-specific performance criteria.
- Achievement of key VRS performance objectives, including:
 - Building an effective organization
 - Enhancing investment excellence
 - Developing staff

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

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DETERMINING PRELIMINARY AWARDS

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

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

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

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

Preliminary Award **\$91,200**

DETERMINING FINAL AWARDS

Final awards, if any, would be determined after each fiscal year-end by adjusting the sum of each participant's preliminary award, up or down, based on VRS' one-year absolute return for the most recently completed fiscal year. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return. There will be a negative one-for-one adjustment for returns less than 0%. Illustrated below is the process for determining final awards.

Scenario #1: The Total Fund's One-Year Absolute Return Is +5%

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

Preliminary Award **\$91,200**
X no adjustment **0%**

Final Award **\$91,200**

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Scenario #2: The Total Fund's One-Year Absolute Return Is 9.75%

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

Preliminary Award \$91,200

X 1+ Total Fund's One-Year Rate of Return
Less Assumed Rate of Return **103%**

Final Award \$93,936

Scenario #3: The Total Fund's One-Year Absolute Return Is -15%

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

Preliminary Award \$91,200

X 1+ Total Fund's One-Year Rate of Return **85%**

Final Award \$77,520

PAYING OUT FINAL AWARDS

Board Review

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

Final Award Payout

Final awards will be paid out as follows:

- For the CIO, Deputy CIO, Managing Directors, and Program Directors, 50% of the total award amounts up to the Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be contributed to the DCIP plan. For the CIO only, any portion of this amount that cannot be contributed to the DCIP due to the IRC plan limits will instead be contributed to the § 415(m) plan. All other amounts are paid in cash. See Section III.
- For all other Plan participants, awards are paid 100% in cash.

Timing of Cash Payouts

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

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INCENTIVE PLAN PROVISIONS

- ***New employees, promoted employees and other employees who transfer into another position covered in this pay plan:***
 - Employees who join the VRS Investment Department after the commencement of the fiscal year may be eligible to participate in the Plan. Incentives will be computed on the incentive percentage and their actual earned salary for the year.
 - Promoted employees and employees who transfer into another position covered in this Plan will have their incentives calculated based on their actual earned salary for the year and a proportional incentive percentage for each position held during the fiscal year.
- ***Minimum Individual Performance Standard:*** Employees with an individual performance rating of “Does Not Meet Expectations” are not eligible to receive any incentive payment under the Plan.
- ***Termination of Employment Due to Death, Disability, or Retirement:*** Terminated employees may be eligible to receive a time-weighted portion of their final award for the current performance year. Plan participants who terminate employment due to death or disability or who retire during a fiscal year will be eligible to receive a time-weighted portion of their Board approved award (1/12 for each complete month worked in their last year of service). Notwithstanding any other provision of this Plan, the incentive payments for the year in which death, disability or retirement occurs shall be paid 100% in cash to such employee or his representative between July 1 and December 31 following the end of the fiscal year in which such death, disability or retirement occurs.
- ***Termination for all Other Reasons:*** Except as specifically determined by the CIO for all positions other than the CIO, and by the AFT Committee for the CIO’s position, participants who terminate employment with VRS for all other reasons prior to the normally scheduled date of payout forfeit all rights under the Plan.
- ***Clawback:*** In the event of termination for malfeasance related to duties as an investment professional, VRS retains the right to seek repayment for any and/or all paid incentive awards.

III. Defined Contribution Incentive Plan for VRS Personnel (DCIP) PARTICIPATION

The DCIP covers, in relevant part, VRS investment professionals who meet the definition of eligible participant. “Eligible participants” in the DCIP are the CIO, Deputy CIO, Managing Directors, and Program Directors. The Board retains the discretion to amend, at any time, the positions that are eligible to participate in the DCIP.

AMOUNTS SUBJECT TO ANNUAL DEFERRAL

- Contributions to the DCIP only occur in years when VRS’ Board decides, at its full and complete discretion, to allow payment of incentive awards.
- In years when VRS’ Board decides to pay incentive awards, 50% of the final awards up to specified IRC § 415(c)(1)(A) limits will be contributed to the DCIP for each eligible participant. For the CIO only, any portion of the incentive award that cannot be contributed to the DCIP due to the IRC plan limits will instead be contributed to the § 415(m) plan. All other amounts are paid in cash.

INVESTMENT RETURN

Eligible participants’ accounts in the DCIP and, if applicable, the § 415(m) plan, will earn an “investment return” (positive or negative) equaling the current annual rate of return of the VRS Fund. However, upon attaining age 55, the DCIP permits eligible participants who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion (but not all) of their account to the Virginia Cash Match Plan. This transfer right allows eligible participants in the DCIP who are age 55 or older to direct their own investments among the investment options available under the Virginia Cash Match Plan. Notwithstanding the transfer right, eligible participants must leave at least a minimal balance amount in their DCIP account in order to keep the account open for future contributions. The VRS Defined Contribution Plan Administrator will assist eligible participants with these transfers.

The CIO cannot transfer funds from the § 415(m) plan to the Virginia Cash Match Plan because the §

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415(m) plan is a non-qualified "excess benefit plan" not permitted to be held in trust for the exclusive benefit of the plan participants.

DISTRIBUTIONS

The eligible participant's DCIP account will be distributed to the eligible participant as soon as administratively practicable following the last day of the quarter in which the eligible participant terminates employment with the Commonwealth of Virginia. The eligible participant may elect to receive the balance in the DCIP either in cash or as a "rollover" into another retirement plan or IRA. All distributions/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available by the date of the distribution/rollover.

The distribution of the CIO's account in the § 415(m) plan will be made in cash to the CIO within 180 days of the CIO's termination of employment, and is not eligible for rollover.

For any eligible participant who transferred a portion of their DCIP account to the Virginia Cash Match Plan, the terms of the Cash Match Plan will govern distributions.

All applicable laws and regulations will govern the creation, funding, and distributions of the DCIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer, which will control over any inconsistencies or discrepancies with this summary

TAXATION

Taxation of the contributions to the DCIP and § 415(m) plans is deferred until distribution from the respective plan.

IV. Other Compensation Plan Information

Competitive Pay Increases

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

Sign-on Bonuses

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

Relocation Expenses

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

Employment at Will

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

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

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409A Compliance

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

CLASS STRUCTURE

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

Chief Investment Officer

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

Deputy Chief Investment Officer

The Deputy CIO assists the CIO in managing and directing investment programs, determines appropriate program structure, implementation, and monitoring. The Deputy CIO manages investment professionals who are directly responsible for internal and external investment programs. The Deputy CIO is a member of the Executive and Management Committees, which are responsible for reviewing all investment recommendations. The Deputy CIO collaborates with the CIO and the VRS Board-appointed IAC.

Managing Director

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

Program Director

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

Director/Senior Portfolio Manager

The Director or Senior Portfolio Manager position is a senior investment leadership position responsible for the oversight of multiple portfolio strategies, an asset class, or an investment function and may provide direct supervision for one or more investment staff. Positions at this level carry dual accountability: driving investment excellence within their particular mandates while contributing directly to the broader Total Fund objectives.

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Portfolio Manager

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

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

Senior Investment Officer

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

Investment Officer

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

Senior Investment Analyst

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

Investment Analyst

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



VIRGINIA RETIREMENT SYSTEM
INVESTMENT PROFESSIONALS'
PAY PLAN
Effective October 25, 2026

OVERVIEW & PAY PHILOSOPHY

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

This Plan includes three core elements:

- Base Salary (described in Section I)
- Incentive Pay (described in Section II)
- Deferred Compensation Plan for VRS Personnel (DCIP) (described in Section III)

Overall, this Plan is designed to:

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

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

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

I. Base Salary

SALARY RANGES

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

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

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Each position's salary range includes a defined:

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

Grade	Position	Salary Range (\$ Thousands)		
		Min (\$)	Mid (\$)	Max (\$)
11	Chief Investment Officer	\$525,000	\$700,000	\$875,000
10	Deputy Chief Investment Officer	\$413,000	\$550,000	\$688,000
9	Managing Director	\$349,000	\$465,000	\$581,000
8	Program Director	\$300,000	\$400,000	\$500,000
7	Director	\$259,000	\$345,000	\$431,000
6	Senior Portfolio Manager	\$259,000	\$345,000	\$431,000
5	Portfolio Manager	\$203,000	\$270,000	\$338,000
4	Senior Investment Officer	\$169,000	\$225,000	\$281,000
3	Investment Officer	\$131,000	\$175,000	\$219,000
2	Senior Investment Analyst	\$98,000	\$130,000	\$163,000
1	Investment Analyst	\$79,000	\$105,000	\$131,000

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

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

Salary Adjustments

Oversight & Administration

VRS will implement pay actions, including any bonuses, consistent with the provisions of the Appropriation Act. The VRS Board, however, approves across-the-board performance-based salary increases, market-based salary increases and incentive pools, for VRS investment professionals, consistent with the Code of Virginia and the Appropriation Act. The CIO approves salary adjustments for individual investment professionals and, as described later in the Plan, sign-on bonuses, incentive payments, and relocation expenses subject to the limitations in the Code of Virginia and other applicable state or federal law and regulation.

Merit Increases

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

Starting Salaries

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

Reallocation

Reallocation occurs when a job classification is reviewed by Human Resources, and it is determined that the job duties and responsibilities have changed significantly enough to place the job in a different job title and job class. Unless the CIO authorizes an exception, this would not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

In-grade Adjustments

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

Promotions

Promotions occur when an individual moves into a position in a higher job class. Promotions can be competitive (selected through a recruitment and hiring process) or non-competitive (through a job reclassification or reallocation). Unless the CIO approves an exception, promotions will not exceed a 15%

Investment Professionals' Pay Plan

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

Downward Assignment

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

II. Incentive Pay Plan

ADMINISTRATION

The VRS Board of Trustees, as Plan Administrator, administers incentive pay under the Plan through the Administration, Finance and Talent Management (AFT) Committee and retains full and complete discretion:

- To increase or decrease incentives for any and/or all Plan participants.
- To modify, amend or rescind any aspect of the Plan at any time for any and/or all Plan participants.
- While the Plan Administrator remains mindful of the value that staff adds to the organization and supports the Plan, the Plan Administrator also specifically reserves the right to cancel, reduce, or delay the amount of any incentives payable under this Plan when, in the sole discretion of the Plan Administrator, extreme budgetary pressures, economic, market or other conditions are such that the Plan Administrator deems such action necessary under the circumstances.

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- Consistent with the preceding paragraph, payment of incentives under this Plan is not guaranteed.

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

PLAN ELIGIBILITY

Incumbents in the positions listed below are eligible for incentive pay under the Plan, provided they:

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

Chief Investment Officer

Deputy Chief Investment Officer

Managing Director – Portfolio Solutions Group

Managing Director – Private Market Assets and Defined Contribution (DC) Plans

Managing Director – Public Market Assets

Program Director

Director

Senior Portfolio Manager

Portfolio Manager

Senior Investment Officer

Investment Officer

Senior Investment Analyst

Investment Analyst

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

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

Participation in this Plan in any one year does not confer the right to participate in this Plan in any other year or to receive Plan payouts for the current and/or any future year. Participation in this Plan does not confer the right to continued employment. Subject to the provisions of this Plan, only active VRS employees may receive payments under this Plan.

OVERALL INCENTIVE PLAN MECHANICS

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

- Eligible Plan participants will be assigned an incentive opportunity, expressed as a percentage of their actual earned base salary.

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- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.
- Incentives are weighted or allocated to separate Plan components, described below, with the specific components and weightings varying by position:
 1. Total Fund relative investment performance
 2. Asset Class relative investment performance
 3. Average of Asset Class Multipliers (for positions that support multiple asset classes)
 4. Qualitative – focuses on individual achievement of assigned objectives.
- After year-end, payouts under each Plan component would be determined based on performance.
- Each participant's preliminary award would equal the sum of all of their performance adjusted Plan components.
- Final awards would equal preliminary awards adjusted, up or down, based on the Total Fund's one- year absolute return. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return (e.g., if Total Fund one-year actual absolute return equals +9.75%, then the preliminary awards will be increased by 3%). There will be a negative one-for-one adjustment for a return less than 0% (e.g., if Total Fund one-year actual absolute return equals -15%, then the preliminary awards will be reduced by 15%). This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles on the health of the pension plan by providing a mechanism to reflect the impact of up and down markets on incentive compensation.

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

INCENTIVE OPPORTUNITIES

Incentive opportunities will vary by position based on multiple criteria:

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

Actual awards can vary based on performance.

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For the fiscal year ending June 30, 2023, and all subsequent years, unless as otherwise determined, the Plan's incentive opportunities are as follows:

Incentive Levels	
VRS Position	Incentive ¹ (% Salary)
Chief Investment Officer	70 ²
Deputy Chief Investment Officer	65 ²
Managing Director – Portfolio Solutions Group	65 ²
Managing Director – Private Market Assets and DC Plans	65 ²
Managing Director – Public Market Assets	65 ²
Program Director	60 ²
Director	50
Senior Portfolio Manager	50
Portfolio Manager	40
Senior Investment Officer	30
Investment Officer	30
Senior Investment Analyst	20
Investment Analyst	10

¹Performance-adjusted preliminary awards can vary from zero to two times the incentive.

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

INCENTIVE WEIGHTINGS

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

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

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

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Incentive Weightings by Plan Component					
VRS Position	Total Fund %	Asset Class Multipliers %	Asset Class %	Qualitative %	Total
		(% of total incentive weighted to each component)			
Chief Investment Officer	60	20 ¹		20	100
Deputy Chief Investment Officer	60	20 ¹		20	100
Managing Director – Portfolio Solutions Group	60	20 ¹		20	100
Managing Director – Private Market Assets and DC Plans	40	40 ²		20	100
Managing Director – Public Market Assets	40	40 ³		20	100
Program Director	30	50 ⁴	50 ⁴	20	100
Director	30	50 ⁴	50 ⁴	20	100
Senior Portfolio Manager	20	60 ⁴	60 ⁴	20	100
Portfolio Manager	20	60 ⁴	60 ⁴	20	100
Senior Investment Officer	20	60 ⁴	60 ⁴	20	100
Investment Officer	20	60 ⁴	60 ⁴	20	100
Senior Investment Analyst	20	30 ⁴	30 ⁴	50	100
Investment Analyst	20	30 ⁴	30 ⁴	50	100

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

²The MD Private Market Assets and DC Plans average multiplier is based on the multipliers of private market asset classes under the incumbent's purview.

³The MD Public Market Assets average multiplier is based on the multipliers of the public market asset classes under the incumbent's purview.

⁴These positions may support a specific asset class or multiple asset classes. If the position supports a specific asset class, then the multiplier is based on the asset class multiplier. If the position supports multiple asset classes, then the multiplier is based on the average of the multipliers of the asset classes supported.

QUANTITATIVE PLAN COMPONENTS

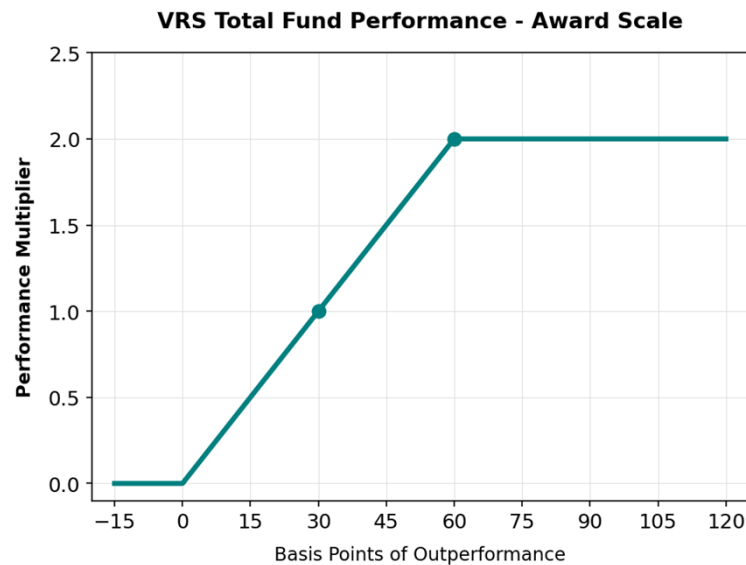
These Plan components link participants' incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted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

For purposes of this Plan:

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

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Note: The Board approved the Mercer recommended excess return objective (30 basis points) for the Total Fund at the June 17, 2026 meeting with an effective date of July 1, 2026. For implementation purposes, the Total Fund excess return objective will be a blend of the former excess return objective (45 basis points) to be used until June 30, 2026, and the new excess return objective (30 basis points) to be used from July 1, 2026 onward.



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

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

QUALITATIVE PLAN COMPONENT

The qualitative incentive multiplier can range from 0.00 to 2.00 at the CIO's discretion. The CIO obtains input from applicable senior staff regarding individual performance levels to help determine the qualitative rating. The qualitative rating is separate and distinct from the individual's annual performance evaluation rating requirement for plan eligibility. This Plan component links participants' incentive compensation to achievement of individual and/or position-specific performance objectives and VRS' overall performance objectives. Actual awards under this Plan component will reflect:

- Position and/or incumbent-specific performance criteria.
- Achievement of key VRS performance objectives, including:
 - Building an effective organization
 - Enhancing investment excellence
 - Developing staff

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

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DETERMINING PRELIMINARY AWARDS

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

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

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

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

Preliminary Award **\$91,200**

DETERMINING FINAL AWARDS

Final awards, if any, would be determined after each fiscal year-end by adjusting the sum of each participant's preliminary award, up or down, based on VRS' one-year absolute return for the most recently completed fiscal year. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return. There will be a negative one-for-one adjustment for returns less than 0%. Illustrated below is the process for determining final awards.

Scenario #1: The Total Fund's One-Year Absolute Return Is +5%

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

Preliminary Award **\$91,200**
X no adjustment **0%**

Final Award **\$91,200**

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Scenario #2: The Total Fund's One-Year Absolute Return Is 9.75%

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

Preliminary Award \$91,200

X 1+ Total Fund's One-Year Rate of Return

Less Assumed Rate of Return **103%**

Final Award \$93,936

Scenario #3: The Total Fund's One-Year Absolute Return Is -15%

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

Preliminary Award \$91,200

X 1+ Total Fund's One-Year Rate of Return **85%**

Final Award \$77,520

PAYING OUT FINAL AWARDS

Board Review

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

Final Award Payout

Final awards will be paid out as follows:

- For the CIO, Deputy CIO, Managing Directors, and Program Directors, 50% of the total award amounts up to the Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be contributed to the DCIP plan. For the CIO only, any portion of this amount that cannot be contributed to the DCIP due to the IRC plan limits will instead be contributed to the § 415(m) plan. All other amounts are paid in cash. See Section III.
- For all other Plan participants, awards are paid 100% in cash.

Timing of Cash Payouts

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

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INCENTIVE PLAN PROVISIONS

- ***New employees, promoted employees and other employees who transfer into another position covered in this pay plan:***
 - Employees who join the VRS Investment Department after the commencement of the fiscal year may be eligible to participate in the Plan. Incentives will be computed on the incentive percentage and their actual earned salary for the year.
 - Promoted employees and employees who transfer into another position covered in this Plan will have their incentives calculated based on their actual earned salary for the year and a proportional incentive percentage for each position held during the fiscal year.
- ***Minimum Individual Performance Standard:*** Employees with an individual performance rating of “Does Not Meet Expectations” are not eligible to receive any incentive payment under the Plan.
- ***Termination of Employment Due to Death, Disability, or Retirement:*** Terminated employees may be eligible to receive a time-weighted portion of their final award for the current performance year. Plan participants who terminate employment due to death or disability or who retire during a fiscal year will be eligible to receive a time-weighted portion of their Board approved award (1/12 for each complete month worked in their last year of service). Notwithstanding any other provision of this Plan, the incentive payments for the year in which death, disability or retirement occurs shall be paid 100% in cash to such employee or his representative between July 1 and December 31 following the end of the fiscal year in which such death, disability or retirement occurs.
- ***Termination for all Other Reasons:*** Except as specifically determined by the CIO for all positions other than the CIO, and by the AFT Committee for the CIO’s position, participants who terminate employment with VRS for all other reasons prior to the normally scheduled date of payout forfeit all rights under the Plan.
- ***Clawback:*** In the event of termination for malfeasance related to duties as an investment professional, VRS retains the right to seek repayment for any and/or all paid incentive awards.

III. Defined Contribution Incentive Plan for VRS Personnel (DCIP) PARTICIPATION

The DCIP covers, in relevant part, VRS investment professionals who meet the definition of eligible participant. “Eligible participants” in the DCIP are the CIO, Deputy CIO, Managing Directors, and Program Directors. The Board retains the discretion to amend, at any time, the positions that are eligible to participate in the DCIP.

AMOUNTS SUBJECT TO ANNUAL DEFERRAL

- Contributions to the DCIP only occur in years when VRS’ Board decides, at its full and complete discretion, to allow payment of incentive awards.
- In years when VRS’ Board decides to pay incentive awards, 50% of the final awards up to specified IRC § 415(c)(1)(A) limits will be contributed to the DCIP for each eligible participant. For the CIO only, any portion of the incentive award that cannot be contributed to the DCIP due to the IRC plan limits will instead be contributed to the § 415(m) plan. All other amounts are paid in cash.

INVESTMENT RETURN

Eligible participants’ accounts in the DCIP and, if applicable, the § 415(m) plan, will earn an “investment return” (positive or negative) equaling the current annual rate of return of the VRS Fund. However, upon attaining age 55, the DCIP permits eligible participants who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion (but not all) of their account to the Virginia Cash Match Plan. This transfer right allows eligible participants in the DCIP who are age 55 or older to direct their own investments among the investment options available under the Virginia Cash Match Plan. Notwithstanding the transfer right, eligible participants must leave at least a minimal balance amount in their DCIP account in order to keep the account open for future contributions. The VRS Defined Contribution Plan Administrator will assist eligible participants with these transfers.

The CIO cannot transfer funds from the § 415(m) plan to the Virginia Cash Match Plan because the §

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415(m) plan is a non-qualified "excess benefit plan" not permitted to be held in trust for the exclusive benefit of the plan participants.

DISTRIBUTIONS

The eligible participant's DCIP account will be distributed to the eligible participant as soon as administratively practicable following the last day of the quarter in which the eligible participant terminates employment with the Commonwealth of Virginia. The eligible participant may elect to receive the balance in the DCIP either in cash or as a "rollover" into another retirement plan or IRA. All distributions/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available by the date of the distribution/rollover.

The distribution of the CIO's account in the § 415(m) plan will be made in cash to the CIO within 180 days of the CIO's termination of employment, and is not eligible for rollover.

For any eligible participant who transferred a portion of their DCIP account to the Virginia Cash Match Plan, the terms of the Cash Match Plan will govern distributions.

All applicable laws and regulations will govern the creation, funding, and distributions of the DCIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer, which will control over any inconsistencies or discrepancies with this summary

TAXATION

Taxation of the contributions to the DCIP and § 415(m) plans is deferred until distribution from the respective plan.

IV. Other Compensation Plan Information

Competitive Pay Increases

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

Sign-on Bonuses

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

Relocation Expenses

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

Employment at Will

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

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

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409A Compliance

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

CLASS STRUCTURE

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

Chief Investment Officer

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

Deputy Chief Investment Officer

The Deputy CIO assists the CIO in managing and directing investment programs, determines appropriate program structure, implementation, and monitoring. The Deputy CIO manages investment professionals who are directly responsible for internal and external investment programs. The Deputy CIO is a member of the Executive and Management Committees, which are responsible for reviewing all investment recommendations. The Deputy CIO collaborates with the CIO and the VRS Board-appointed IAC.

Managing Director

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

Program Director

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

Director/Senior Portfolio Manager

The Director or Senior Portfolio Manager position is a senior investment leadership position responsible for the oversight of multiple portfolio strategies, an asset class, or an investment function and may provide direct supervision for one or more investment staff. Positions at this level carry dual accountability: driving investment excellence within their particular mandates while contributing directly to the broader Total Fund objectives.

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Portfolio Manager

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

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

Senior Investment Officer

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

Investment Officer

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

Senior Investment Analyst

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

Investment Analyst

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

**Approve salary adjustment for the
Chief Investment Officer.**

Requested Action

The VRS Board of Trustees approves a \$176,575.00 salary adjustment for the Chief Investment Officer (CIO).

Description/Background

Va. Code § 51.1-124.24 provides that the Board of Trustees shall employ a CIO to direct, manage, and administer the investment department. The CIO is employed under a special contract with the Board which sets out the CIO's compensation. The Executive Pay Plan provides that the CIO's base salary shall be set forth in such contract with the Board. Section 3.01 of the CIO's contract sets out the CIO's base salary and provides further that the Board may approve changes to the base salary. VRS engaged Mercer, a global professional services consulting firm, to conduct a compensation market study for investment positions to review how VRS can remain competitive in the employment market. The Administration, Finance and Talent Management Committee recently reviewed and evaluated market study data contained in the Mercer study for the CIO.

Rationale for Requested Action

The Administration, Finance and Talent Management Committee recommends that the Board approve a \$176,575.00 salary adjustment for the CIO effective November 10, 2026, based on the Committee's review of market comparison data contained in the Mercer study for similar positions. Paragraph 8 of the Duties and Responsibilities section of the Administration, Finance and Talent Management Committee Charter authorizes the Committee to "[r]eview and make recommendations to the Board regarding the performance of" the CIO. Section IV.H.8 of the Board Governance Policy provides that the Board may review, monitor, and oversee the performance of the CIO.

Authority for Requested Action

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

The above action is approved.

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

Date

 VRS Project Portfolio FISCAL YEAR 2027 September 2026 Status Report			Status Indicator ● Proceeding as planned ▲ Off plan, mitigation in place ◆ Off plan, mitigation needed ■ Completed □ Project timeline N/S Not started											
Agency Performance Objectives (APOs)	Strategic Alignment	Status	2026						2027					
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Data Quality Enhancements - Phase 3	Digital Transformation and Secure Service Delivery	●												
Demographic Data Collection and Maintenance - Phase 2	Digital Transformation and Secure Service Delivery	●												
VNAV Enhancements - Phase 3	Digital Transformation and Secure Service Delivery	●												
Enhance Employee Engagement Initiative	Organizational Strength, Culture and Engagement	●												
Agency Initiatives	Strategic Alignment	Status	2026						2027					
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Purchase of Refunded Service Process - Phase 2	Digital Transformation and Secure Service Delivery	●												
IRS Filing Requirement Compliance for 1099s	Digital Transformation and Secure Service Delivery	●												
myVRS IAM - Analysis and Enhancements	Digital Transformation and Secure Service Delivery	●												
Benefit Payment Policy Implementation	Superior Governance and Long-Term Financial Health	●												
Centralized virtual desktop delivery solution for Investments	Digital Transformation and Secure Service Delivery	●												
Implement AI Governance and use cases	Digital Transformation and Secure Service Delivery	●												
ECM Solution Implementation	Digital Transformation and Secure Service Delivery	●												
Vital Records Exchange	Superior Governance and Long-Term Financial Health	●												
Legislation https://www.varetire.org/about/legislation/		Status	2026						2027					
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
	Legislation													
Operational/Ongoing Activities		Status	2026						2027					
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
COLA 2026	Operations	C												
FYE 2026	Operations	C												
EDGE	Operations	●												
Retirement Wave 2026	Operations	C												
Teacher Contracts	Operations	C												
MBPs	Operations	C												
Annual Code of Ethics Training	Operations	N/S												
Annual Security Awareness Training	Operations	N/S												
FOIA Training	Operations	N/S												
ACFR	Operations	●												
PAFR	Operations	●												
LODA Annual Report	Operations	●												
GASB 67	Operations	●												
GASB 68	Operations	N/S												
GASB 74	Operations	●												
GASB 75	Operations	N/S												
Actuarial Valuations	Operations	●												
myVRS Annual Updates	Operations	N/S												
Update Contribution Rates in VNAV	Operations	N/S												
1099/W2	Operations	N/S												

Operational/Ongoing Activities		Status	2026						2027					
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Annual Roadmap Review	Operations	N/S												
FYE 2027	Operations	N/S												
Retirement Wave 2027	Operations	N/S												
ORPHE Surcharge Billing for FY 2026	Operations	N/S												
Data Fixes	Operations													
ADO Backlog Prioritization	Operations													
Employer VNAV Security Review	Operations	N/S												
VRS Fund Sensitivity and Stress Testing Report for GA	Operations	N/S												
Legislation FY 2027	Operations	N/S												

Yellow Status Items

Item	Due Date	Comments

Red Status Items

Item	Due Date	Comments
N/A		

Realignments/Adjustments

Item	Due Date	Comments
N/A		



Director's Report

October 15, 2026

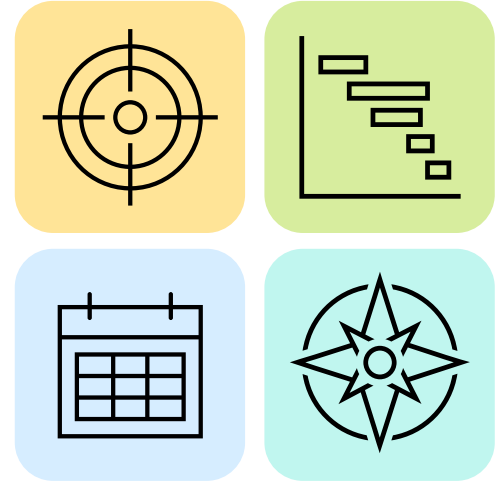
Trish Bishop, VRS Director

New Employer Coverage

Coverage Elected	Details
New VRS Employer with Enhanced Hazardous Duty Benefits for Law Enforcement Officers	Town of Clintwood (Dickenson County), effective October 1, 2026

VRS Strategic Plan

- Current four-year plan expires December 2026
- Executive team developing new plan with facilitator
- Aligning new plan with fiscal year versus calendar year
- Setting long-range goals with annual review to establish fiscal year objectives
- Plan will drive Agency Performance Outcomes
- Allows VRS to operate with increased agility



VRS Financial Reporting in the Spotlight

On Sept. 28, Courtney Shearer, David Porter and Caroline Cardwell represented VRS as panelists during GFOA's virtual Best Practices Forum.

Their presentation showcased how ongoing collaboration between finance and communications teams transforms complex financial data into compelling popular annual financial reports.

*Approximately **360** attendees participated in the session.*

The screenshot shows a virtual session interface. On the left, a presentation slide titled 'PAFR Content Examples' is displayed, featuring sections for 'Administration' and 'Finance'. The 'Finance' section includes a 'SUMMARY OF FIDUCIARY NET POSITION' table and a 'Where VRS Retirees Live: Benefits and Beyond' map showing 84% of VRS retirees reside in Virginia. On the right, a video grid shows four participants: Courtney Shearer, David Porter, Caroline Cardwell, and Tiffanie Cheng. Below the video grid are icons for 'NA' (Natalie Antenor) and 'AF' (Anne Fritz). The VRS logo is in the bottom right corner.

	2021	2020	2019
Assets			
Cost: Resources in Social Assets	\$ 6,762.2	\$ 1088.7	\$ 100.3
Investments	102,794.1	108,887.2	9,467.7
Net Assets in Social Assets	109,556.3	109,975.9	10,468.0
Liabilities			
Reserve Funds and Other Reserves	8,814.1	8,814.1	7,814.1
Investment Reserve Funds	10,307.2	4,008.4	4,268.0
Other Reserve Funds	1,191.2	1,191.2	1,191.2
Net Liabilities	20,312.5	14,013.7	13,273.3
Fiduciary Net Position	89,243.8	95,962.2	97,194.7

Show off Your Numbers: Popular Annual Financial Reports for Local Governments

Annual comprehensive financial reports are essential for accountability, transparency, and compliance with generally accepted accounting principles. However, their length, technical language, and level of detail can make them difficult for residents, elected officials, community partners, and other non-financial readers to use.



Natalie Antenor, Zachary Beyer, Caroline Cardwell, Tiffanie Cheng, Anne Fritz, CPFO, David Porter, Courtney Shearer, CPA

✓ 2 CPE credits ⚙ Basic





Board Preview of Fall Meetings

Preview: Fall 2026



November

- ✦ 4 – Investment Advisory Committee
- ✦ 12 – Benefits and Actuarial Committee
- ✦ 12 – Board of Trustees
 - Review GRS' 2026 Actuarial Valuations for Political Subdivision Retirement Plans, Virginia Local Disability Program, Local Health Insurance Credit Plans and Line of Duty Act

Preview: Fall 2026



December

- ✦ 3 – Defined Contributions Plans Advisory Committee
- ✦ 8 – Audit and Compliance Committee
- ✦ 9 – Board of Trustees
- ✦ 14 – JLARC Oversight Meeting
- Agency Annual Meeting (TBA)