
Minutes

A regular meeting of the Benefits and Actuarial Committee was held on October 18, 2023, in Richmond, Virginia with the following members participating:

John M. Bennett, Chair
Jessica L. Hood (*attended remotely under § 2.2-3708.3(B)(3)*)
Lindsey K. Pantele

Board members present:
Hon. J. Brandon Bell, II (*attended remotely under § 2.2-3708.3(B)(3)*)

VRS Staff:

Patricia Bishop, Jennifer Schreck, ZaeAnne Allen, Rory Badura, Ty Bowers, Jessica Budd, Michael Cooper, Jeanne Chenault, David Cotter, Sara Denson, Valerie DiSanto, Andrew Feagans, Antonio Fisher, Krystal Groff, Andrew Junkin, Katie Ray, Virginia Sowers, Emily Trent, Scott Weaver, Leslie Weldon, Cindy Wilkinson

Guests:

Jim Anderson, Becky Stouffer and Kurt Dosson; Gabriel, Roeder, Smith & Company; Jamie Bitz, Joint Legislative Audit and Review Commission; Emily Grimes, Department of Planning & Budget; Michael Jay, House Appropriations Committee; Amy Stokes, Auditor of Public Accounts.

The meeting convened at 1:04 p.m.

Opening Remarks

Mr. Bennett called the meeting to order and welcomed everyone to the October 18, 2023, meeting of the Benefits and Actuarial Committee.

Approval of Minutes

Following a motion by Ms. Pantele, with a second by Mr. Bennett, the Committee approved the minutes of its June 14, 2023, meeting upon a unanimous voice vote.

Gabriel, Roeder, Smith & Company (GRS) 2023 Actuarial Valuation Results for Five Statewide Retirement Plans, Group Life Insurance, State and Teacher Retiree Health Insurance Credit, and the Virginia Sickness and Disability Program (including self-funded Long-Term Care)

Next, Jim Anderson, Becky Stouffer and Kurt Dosson from the VRS plan actuary, Gabriel, Roeder, Smith & Company (GRS), presented the June 30, 2023, actuarial valuations for the Five Statewide Retirement Plans, Group Life Insurance, State and Teacher Health Insurance Credit, and the Virginia Sickness and Disability Program. The VRS plan 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 contribution rates.

The market value return for the total fund of 6.10% fell short of the long-term assumed rate of return of 6.75%. In addition, fiscal year 2023 also included higher than expected cost-of-living increases which hit

the maximum of 5% for Plan 1 members and 3% for Plan 2 and Hybrid members. The hazardous duty supplement also increased well above the assumed rate, increasing by over 15%. Pay increases were also higher than expected for most employer groups. Despite lower-than-expected returns for fiscal year 2023 and higher than expected salary increases and COLAs, continued recognition of asset gains from fiscal year 2021 along with additional cash infusions provided in fiscal years 2022 and 2023 through lump-sum deposits and maintaining prior rates helped most plans to show modest improvement in the funded status on an actuarial value of assets basis. While the State, Teachers, and VaLORS plans were able to post modest gains in funded status, SPORS and JRS plans posted slight decreases in funded status.

The Other Post-Employment Benefits (OPEB) plans also benefited from the receipt of over \$93 million from the 2022 and 2023 Appropriation Acts, as well as maintaining of prior rates for many of the OPEB plans. Each OPEB plan saw an overall increase in funded status with modest decreases in contribution rates.

GRS also provided a summary of the findings from the Actuarial Standards of Practice 4 (ASOP 4), which requires plans to disclose plan liabilities using a low-default-risk obligation measure (LDROM) beginning with the 2023 valuations.

Mr. Bennett thanked Mr. Anderson, Ms. Stouffer and Mr. Dosson for their presentation.

Funding Policy Amendments

Next, Rory Badura, VRS Senior Staff Actuary, presented proposed amendments to the VRS Funding Policy. The Funding Policy memorializes the methods by which the Board has elected to govern required funding for pension and OPEB plans with the goal of ensuring that future contributions, along with current asset plans, are sufficient to provide for all benefits expected to be paid when due.

Staff recommends a change to the VRS Funding Policy Statement in order to reset the total unfunded accrued liability to be amortized over 20 years, effective June 30, 2023. This change will spread experience since June 30, 2013, which has been mostly gains, out over a longer period of time. The legacy unfunded liability was already scheduled to be amortized over 20 years as of June 30, 2023. This change will slightly increase contribution requirements, get money into the plan quicker, level out the amortization payments in later years, and is expected to provide savings of over \$1 billion in contributions over the 20-year period.

The additional change to the funded requirement for employers electing to either enhance HIC benefits or expand coverage will ensure that the funded status of the HIC plans for such employers does not fall below certain thresholds. This expands the current funded status requirement for employers making the initial election to offer the HIC benefit. The Funding Policy Statement will now require employers wishing to enhance the HIC benefit or expand coverage to non-covered members to potentially pay an initial contribution in order to elect the new coverage. The rules related to the new requirements are as follows:

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.

Lastly, staff recommends that the Sensitivity and Stress Test Analyses required by Va. Code § 51.1-124.30:1 shall be performed regularly, as opposed to annually, consistent with the statutory requirement.

Mr. Bennett thanked Mr. Badura for his presentation.

RBA: Amendments to the VRS Funding Policy Statement

Request for Board Action: *The VRS Board of Trustees approves the amendments to the VRS Funding Policy Statement to Allow for Resetting of Total Unfunded Accrued Liability as of June 30, 2023, Over 20 Years; Establish Employer Funded Status When Modifying the HIC Programs, and Confirm that Stress Testing Report is to be issued Regularly Instead of Annually.*

Following a motion by Ms. Pantele, with a second by Mr. Bennett, the Committee unanimously voted to recommend approval of the action.

RBA: Accept the Plan Actuary's Valuations as of June 30, 2023, for the Five Statewide Retirement Plans, Group Life Insurance, Health Insurance Credit Plans for State and Teachers, and the Virginia Sickness and Disability Program.

Request for Board Action: *After considering the recommendations of its actuary, the Board certifies the rates as presented for: the five statewide Retirement Plans (State Employees, Teachers, JRS, SPORS, and VaLORS) and the associated OPEBs; Group Life Insurance (GLI); Health Insurance Credit (HIC); and the Virginia Sickness and Disability Program (VSDP), including self-funded Long-Term Care, all effective July 1, 2024.*

Following a motion by Ms. Pantele, with a second by Ms. Hood, the Committee unanimously voted to recommend approval of the action.

Information Items

Committee Meeting Schedule

Mr. Bennett advised that the full Board of Trustees will meet October 19 at 1:00 p.m., and the Committee will meet next on November 16 at 10:00 a.m. to receive the valuation results for the Political Subdivision Retirement Plans, the Line of Duty Act (LODA) Fund, the Virginia Local Disability Program

(VLDP) and the Local Health Insurance Credit (HIC). In addition, the 2024 meeting schedule will be finalized in the coming weeks.

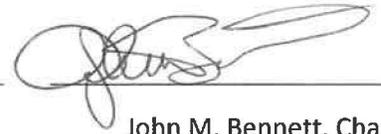
Adjournment

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

There being no further business, the meeting concluded at 2:26 p.m.

11/16/2023

Date



John M. Bennett, Chair
Benefits and Actuarial Committee