



Administration, Finance and Talent Management Committee Meeting
VRS, 1111 E. Main St., 3rd Floor Board Room
Wednesday, 9/20/2023
1:00 - 3:00 PM ET

I. Approve Minutes

• **June 13, 2023**

AFT Minutes 6.13.23 - Page 2

II. RBA – Review Attainment of FY2023 Agency Performance Outcomes (APOs) and Operational Measures

RBA - Attainment of FY23 APOs and OMs (Corresponding Bonus) - Page 5

FY23 APO Status Report - Page 7

FY23 Operational Measures - Page 14

Customer Survey Slides - Page 32

FY23 APO and OM Memorandum - Page 35

III. RBA – Review Performance Bonuses for Eligible Administrative and Investment Operations and Administration Employees

RBA - Performance Bonuses (Eligible Administrative and Investment Operations and Administration Employees) - Page 36

IV. Budget Update (Year End Results and Biennium Budget Proposal)

• **RBA – Review and Authorize Budget Request to the Department of Planning and Budget**

RBA - Authorize Budget Request to DPB Fall 2023 - Page 37

AFT Committee Budget Presentation - Page 38

New Initiative Summaries for the Board_25-26 - Page 59

FY23 YE Budget Report - Page 61

FY24 YTD Budget Report - Page 63

V. RBA – Reappointment of Investment Advisory Committee (IAC) Members

RBA - Reappoint IAC Members - Page 65

Bio for Hance West - Page 66

Bio for Nan Leake - Page 67

VI. RBA – Approve Revised Pay Plans

RBA - Approve Revised Pay Plans - Page 68

Administrative Pay Plan - Page 69

Administrative Pay Plan - Redline - Page 80

Investment Professionals Pay Plan - Page 91

Investment Professionals Pay Plan - Redline - Page 107

Investment Operations and Administrative Pay Plan - Page 123

Investment Operations and Administrative Pay Plan - Redline - Page 134

VII. Informational Item

• **RBA – FY2023 Internal Audit Director’s Performance Review**

RBA - Audit Directors Performance Review - Page 145

VIII. RBA – FY2023 Incentive Pay for Investment Professionals (Closed session)

• **RBA – FY2023 Incentive Pay for Investment Professionals**

IX. RBA – Director’s Performance Review (Closed session)

• **RBA – FY2023 Director’s Performance Review**

Minutes

A regular meeting of the Virginia Retirement System Administration, Finance and Talent Management Committee was held on June 13, 2023, with the following members participating:

A. Scott Andrews, Chair (participated remotely under § 2.2-3708.3(B)(3))
Joseph W. Montgomery, Vice Chair
Michael P. Disharoon
W. Brett Hayes

Board Members Present:
John M. Bennett

VRS Staff:

Patricia Bishop, Andrew Junkin, Jennifer Schreck, Jeanne Chenault, Michael Cooper, Juanita Cribbs, Valerie Disanto, Jonathan Farmer, Antonio Fisher, Robert Irving, LaShaunda King, Curt Mattson, Matt Priestas, Paula Reid, Mark Rein, Leslie Weldon and Cynthia Wilkinson.

Guests:

Kimberly Sarte, Joint Legislative Audit and Review Commission.

The meeting convened at 10:40 a.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the June 13, 2023, meeting of the Administration, Finance and Talent Management Committee. After noting that the meeting was being held in accordance with § 2.2-3708.3(B)(3) of the *Code of Virginia* and the VRS Remote Meeting Policy, Mr. Andrews took a roll call for attendance:

Mr. Bennett: Present
Mr. Disharoon: Present
Mr. Hayes: Present
Mr. Montgomery: Present
Mr. Andrews: Present

Approval of Minutes

Following a motion by Mr. Montgomery, with a second by Mr. Bennett, the Committee unanimously approved the minutes of its April 20, 2023 meeting, with the following roll call vote:

Mr. Bennett: Aye
Mr. Disharoon: Aye
Mr. Hayes: Aye
Mr. Montgomery: Aye
Mr. Andrews: Aye

Discussion and Consideration of FY 2024 Agency Performance Outcomes (APOs) and Operational Measures

Michael Cooper, Chief Operating Officer, reviewed the proposed Agency Performance Outcomes (APOs) and operational measures for FY 2024. Mr. Cooper noted that APOs are considered stretch goals for the organization, requiring input across all business units, and operational measures reflect the agency's day-to-day business operations.

Staff is proposing five APOs for FY 2024, each with multiple subcomponents. Sixteen operational measures are also proposed for the fiscal year. To satisfy the requirements for the gainsharing bonus, staff must accomplish four of the five APOs and 13 of the 16 operational measures.

RBA: Approve FY 2024 APOs and Operational Measures

Request for Board Action: *The Board approves the FY 2024 Agency Performance Outcomes (APOs) and Operational Measures.*

Upon a motion by Mr. Disharoon, with a second by Mr. Bennett, the Committee recommended approval of the action to the full Board of Trustees with the following roll call vote:

Mr. Bennett: Aye
Mr. Disharoon: Aye
Mr. Hayes: Aye
Mr. Montgomery: Aye
Mr. Andrews: Aye

Customer Experience Initiative Update

Next, Mr. Cooper, presented an update on the agency's Customer Experience Initiative. The agency worked with its consultants, KPMG and ICMI, to evaluate its current customer experience program and identify opportunities for enhancement. Staff has developed a roadmap to implement the new enhancements over the next several years, including two APOs for FY 2024.

Mr. Andrews thanked Mr. Cooper for his presentation.

Budget Update

Next, Jon Farmer, Budget and Performance Reporting Manager, provided an update on the FY 2023 budget. Mr. Farmer advised the Committee that VRS began the fiscal year with approximately \$119 million and through April 2023 has expended approximately \$83 million. Mr. Farmer noted that the agency is on track to conclude the fiscal year with an estimated \$11.3 million in unexpended appropriation.

Mr. Andrews thanked Mr. Farmer for his report.

Other Business

Lastly, Mr. Andrews noted that the Audit and Compliance Committee will meet at 1:00 p.m. following the conclusion of the AFT meeting, the Benefits and Actuarial Committee will meet on June 14 at 1:00 p.m. and the Board of Trustees will meet at 1:00 p.m. on June 15.

Adjournment

Upon a motion by Mr. Bennett, with a second by Mr. Hayes, the Committee recommended approval of the action to the full Board of Trustees with the following roll call vote:

Mr. Bennett: Aye
Mr. Disharoon: Aye
Mr. Hayes: Aye
Mr. Montgomery: *
Mr. Andrews: Aye

There being no further business, the meeting concluded at 11:30 a.m.

Chair

Date

**Mr. Montgomery had to exit the meeting prior to its conclusion and was not present for this vote.*



Attainment of FY 2023 APOs and Operational Measures (and corresponding lump-sum bonus).

Requested Action

The VRS Board of Trustees approves the attainment of FY 2023 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.

Description/Background

VRS' Agency Performance Outcomes (APOs): The Board approves APOs for each fiscal year. Successful attainment of the APOs is one half of the gainsharing portion of the performance management program, and it is to be paid as a lump-sum bonus equal to 2.5% of salary for FY 2023, as set forth in the Administrative Pay Plan. The expectation is that all employees will work collaboratively and contribute to attaining the annual APOs. The goal is to complete five (5) of the six (6) APOs for FY2023.

VRS' Annual Operational Measures: VRS also identifies key operational measures each year. The operational measures are the other part of the gainsharing portion of the performance management program. The goal is to meet the target for at least thirteen (13) of the sixteen (16) measures set for the year. Again, the expectation is that all employees will work collaboratively and contribute to accomplishing key functions of the agency.

The agency achieved fifteen (15) of the sixteen (16) operational measures for FY 2022. Additionally, VRS successfully completed all six (6) of the FY 2023 APOs.

Investment Department Gainsharing: The Investment Department's operations and administration staff employees are eligible to receive a lump-sum bonus equal to 2.5% of salary if their performance at least meets expectations, as rated in their annual performance assessment, and the employee consistently works, as a team member, to accomplish the goals of the Investment Department.

Cost: The approximate total cost for the 2.5% bonus payments to eligible employees is \$674,550.20, to be paid from the FY 2024 budget.

Rationale for Requested Action

Both the Administrative Pay Plan and the Investment Operations and Administration Staff Pay Plan contain gainsharing language, as outlined previously, to reward teamwork, collaboration and organizational results.

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.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2023

Summary

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S** Not started

Overall Measure: 5 of 6 completed

APO #	APO Description	Strategic Goal	July	August	September	October	November	December	January	February	March	April	May	June
1	Cardinal HCM Implementation – Cardinal Release 3 State Agencies and VRS Retirees with State Health Insurance * <i>(Measure: 5 of 6 completed)</i>	Digital Transformation and Secure Service Delivery	●	●	●	●	●	●	★	★	★	★	★	★
2	Records Management Program – Phase 2 Implementation <i>(Measure: 3 of 4 completed)</i>	Digital Transformation and Secure Service Delivery	N/S	●	●	●	●	●	●	●	●	●	●	★
3	Hyper Converged Infrastructure (HCI) Data Center Migration <i>(Measure: 4 of 5 completed)</i>	Technology Infrastructure	●	●	●	●	●	▲	▲	▲	▲	●	●	★
4	Hybrid Plan – Contribution Separation Legislation Implementation Phase 1 <i>(Measure: 4 of 4 completed)</i>	Superior Governance and Long-Term Financial Health	N/S	●	●	●	●	●	●	●	●	●	●	★
5	Customer Experience Review <i>(Measure: 3 of 4 completed)</i>	Member, Retiree and Employer Education, Outreach and Partnership	N/S	●	●	●	●	●	●	●	●	●	●	★
6	Comprehensive Agency Training Program – EDGE (Empower, Develop, Grow and Engage) <i>(Measure: 4 of 6 completed)</i>	Organizational Strength, Culture and Engagement	●	●	●	●	●	●	●	●	●	●	●	★

*Note: Ongoing meetings, data exchanges, testing, and reconciliations continue between VRS, DOA and other stakeholder groups. Further progress of the Cardinal HCM project needs to be completed before VRS can initiate the tasks outlined in APO #1.



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2023

APO 1

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

APO 1 Measure: 5 of 6 completed

Cardinal HCM Implementation – Cardinal Release 3 State Agencies and VRS Retirees with State Health Insurance *	Strategic Goal: Digital Transformation and Secure Service Delivery
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#	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
1.1	Consistent with the Cardinal HCM deliverable and implementation schedule, complete all testing activities for the Retiree component of the Cardinal HCM Project.	●	●	●	●	●	●	★	★	★	★	★	★
1.2	Consistent with the Cardinal HCM deliverable and implementation schedule, complete data conversion (as applicable) and implement the analogous changes in production.	●	●	●	●	●	●	★	★	★	★	★	★
1.3	Consistent with the Cardinal HCM deliverable and implementation schedule, complete necessary training and education of VRS staff and other applicable operational readiness activities, such as communications with retirees and Release 3 employers.	●	●	●	●	●	●	★	★	★	★	★	★
1.4	Following Cardinal HCM Go Live implementation schedule, transition the project to steady state operations and complete post-production quality monitoring activities.	●	●	●	●	●	●	★	★	★	★	★	★
1.5	Health insurance related component to be added here.	●	●	●	●	●	●	★	★	★	★	★	★
1.6	Consistent with the Cardinal HCM deliverable and implementation schedule, coordinate with DHRM on the transition of responsibilities for managing the retiree and VSDP long-term disability populations in the Cardinal HCM system	●	●	●	●	●	●	★	★	★	★	★	★

**Note: Ongoing meetings, data exchanges, testing, and reconciliations continue between VRS, DOA and other stakeholder groups. Further progress of the Cardinal HCM project needs to be completed before VRS can initiate the tasks outlined in APO #1.*



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2023

APO 2

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

APO 2 Measure: 3 of 4 completed

Records Management Program – Phase 2 Implementation	Strategic Goal: Digital Transformation and Secure Service Delivery
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#	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
2.1	Develop essential responsibilities and position description for new Records Management Officer position and initiate the recruitment process.	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	●	●	★
2.2	Evaluate records management application software options and develop report outlining findings.	N/S	N/S	●	●	●	●	●	●	●	●	●	★
2.3	Initiate development of training and education plan for staff.	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S
2.4	Using the records management program strategy developed in Phase 1, evaluate the use of a consultant or vendor to assist VRS with the implementation of records management enhancements and commence applicable procurement actions and processes.	N/S	●	●	●	●	●	●	●	●	●	●	★



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2023

APO 3

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

APO 3 Measure: 4 of 5 completed

Hyper Converged Infrastructure (HCI) Data Center Migration										Strategic Goal:			
										Technology Infrastructure			
#	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
3.1	Install and configure new server, data storage, and virtualization (HCI) platforms in the two new data centers	●	●	●	●	●	●	●	●	●	●	●	★
3.2	Integrate data networking hardware to support the two new data centers.	N/S	N/S	N/S	●	●	●	●	●	●	●	●	★
3.3	Develop security model and related documentation for the server environment within the new data centers.	N/S	N/S	N/S	●	●	●	●	●	●	●	●	★
3.4	Migrate applicable workloads from the current data centers to the new data centers.	N/S	N/S	N/S	N/S	N/S	▲	▲	▲	▲	●	●	●
3.5	Develop a plan to decommission legacy data centers and securely and cost effectively surplus or dispose of (as applicable) end-of-lifecycle equipment.	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	N/S	●	★



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2023

APO 4

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

APO 4 Measure: 4 of 4 completed

Hybrid Plan – Contribution Separation Legislation Implementation Phase 1

Strategic Goal:

Superior Governance and Long-Term Financial Health

#	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
4.1	Establish project team for coordination of implementation.	N/S	●	●	●	●	●	●	●	★	★	★	★
4.2	Develop project plan for implementation.	N/S	●	●	●	●	●	●	●	★	★	★	★
4.3	Initiate communications and training team to support implementation for external partners.	N/S	N/S	N/S	N/S	N/S	N/S	●	●	●	●	●	★
4.4	Identify internal communications and training needs.	N/S	N/S	N/S	N/S	N/S	N/S	●	●	●	●	●	★



AGENCY PERFORMANCE OUTCOMES STATUS REPORT FISCAL YEAR 2023 APO 5

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

APO 5 Measure: 3 of 4 completed

Customer Experience Review										Strategic Goal: Member, Retiree and Employer Education, Outreach and Partnership			
#	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
5.1	Identify and inventory existing customer feedback channels.	N/S	N/S	N/S	●	●	●	●	●	●	●	●	★
5.2	Develop a statement of work that encompasses agency goals in obtaining customer feedback.	N/S	N/S	N/S	N/S	N/S	●	●	●	●	●	●	★
5.3	Develop a project plan, incorporating the statement of work for the customer experience review initiative and other criteria used to obtain customer feedback.	N/S	●	●	●	●	●	●	●	●	●	●	★
5.4	Research and document customer feedback channels and performance guarantees with third-party administrators.	N/S	N/S	N/S	N/S	N/S	●	●	●	●	●	●	★



AGENCY PERFORMANCE OUTCOMES STATUS REPORT

FISCAL YEAR 2023

APO 6

APO Status Indicator

- Proceeding as planned
- ▲ Off plan, mitigation in place
- ◆ Off plan, mitigation needed
- ★ Completed
- N/S Not started

APO 6 Measure: 4 of 6 completed

Comprehensive Agency Training Program – EDGE (Empower, Develop, Grow and Engage)

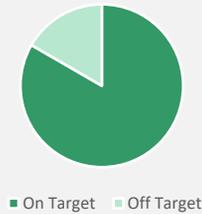
Strategic Goal:

Organizational Strength, Culture and Engagement

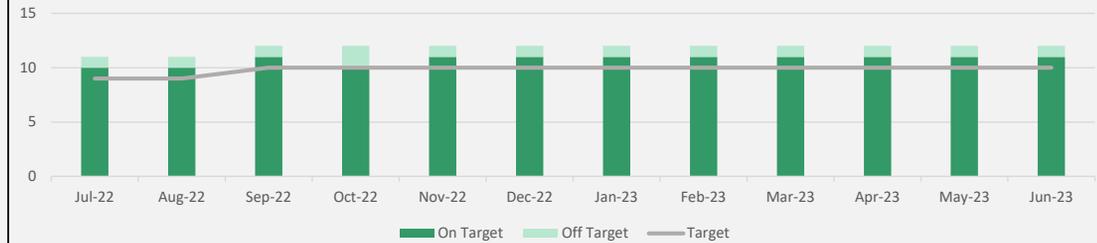
#	APO Description	July	August	September	October	November	December	January	February	March	April	May	June
6.1	Develop program goals, objectives, criteria and metrics for measuring progress and outcomes for the EDGE initiative.	★	★	★	★	★	★	★	★	★	★	★	★
6.2	Survey staff for input in determining initial course offerings.	★	★	★	★	★	★	★	★	★	★	★	★
6.3	Develop curriculum for initial course offerings.	★	★	★	★	★	★	★	★	★	★	★	★
6.4	Develop a comprehensive communications plan to support the EDGE initiative.	★	★	★	★	★	★	★	★	★	★	★	★
6.5	Initiate foundational training courses for agency staff.	★	★	★	★	★	★	★	★	★	★	★	★
6.6	Capture staff feedback regarding the initial EDGE courses and incorporate that feedback to enhance future program offerings.	N/S	N/S	●	●	●	●	●	●	●	●	●	★

June-23

Current Status - All Operational Measures



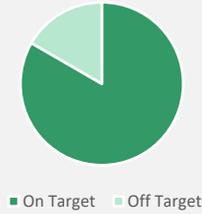
YTD Status - All Operational Measures



OM #	Operational Measure (OM)	Description	Strategic Goal	Target (Goal)	Current Status	YTD Status	Reporting Frequency	Comments
1	Timeliness of Monthly Financial Account Reconciliations	Percentage of monthly financial control reconciliations completed by last business day of the following month	Superior Governance and Long-Term Financial Health	> 95.00%	100.00%	100.00%	Monthly	
2	Average Abandoned Call Rate	Percentage of calls to the Customer Counseling Center (CCC) that result in hang-ups while in the queue	Member, Retiree and Employer Education, Outreach and Partnership	< 7.00%	20.93%	15.24%	Monthly	
3	Timeliness of Response to Messages Received by the Customer Counseling Center (CCC)	Average response time to emails received by the CCC	Member, Retiree and Employer Education, Outreach and Partnership	.75 business days	0.41	0.39	Monthly	
4	Timeliness of Monthly Retirement Disbursements	Percentage of monthly retirement disbursements processed no later than the first business day of the month	Superior Governance and Long-Term Financial Health	100.00%	100.00%	100.00%	Monthly	
5	Timeliness of Service Retirements Processed	Percentage of service retirements processed so that retiring members are set up to receive retirement benefits on the first retirement payment date for which they are eligible	Superior Governance and Long-Term Financial Health	95.00%	100.00%	99.85%	Monthly	
6	Accuracy of Service Retirements Processed	Percentage of service retirements processed for which the corresponding benefit payment correctly reflects the member's service record	Superior Governance and Long-Term Financial Health	99.00%	100.00%	99.97%	Monthly	
7	Timeliness of Disability Retirements Processed	Percentage of disability retirements processed within 30 days of VRS receiving notification of approval by the Medical Review Board	Superior Governance and Long-Term Financial Health	98.00%	96.67%	98.38%	Monthly	
8	Accuracy of Disability Retirements Processed	Percentage of disability retirements processed for which the corresponding benefit paid correctly reflects the member's service record	Superior Governance and Long-Term Financial Health	99.00%	100.00%	100.00%	Monthly	
9	Timeliness of Workflow Documentation Imaging	Percentage of workflow documents imaged within one business day of receipt	Digital Transformation and Secure Service Delivery	99.50%	100.00%	100.00%	Monthly	
10	Planned IT System Availability	Percentage of time critical systems are available during periods of planned availability	Technology Infrastructure	99.50%	100.00%	99.98%	Monthly	
11	Timeliness of Employer Contribution Confirmations	Percentage of Employer Contribution Confirmation (CC) snapshots completed in VNAV by the end of the month in which they are due	Superior Governance and Long-Term Financial Health	97.00%	100.00%	100.00%	Monthly	
12	Implementation of Corrective Action to Audit Recommendations	Percentage of audit recommendations for which VRS management represents that corrective action has been implemented by the approved target date	Superior Governance and Long-Term Financial Health	> 95.00%	100.00%	100.00%	Quarterly	
13	Preventable Employee Turnover	Percentage of employees voluntarily separating VRS employment due to preventable experiences	Organizational Strength, Culture and Engagement	< 10.00%	5.45%	5.45%	Annual	

June-23

Current Status - All Operational Measures



YTD Status - All Operational Measures



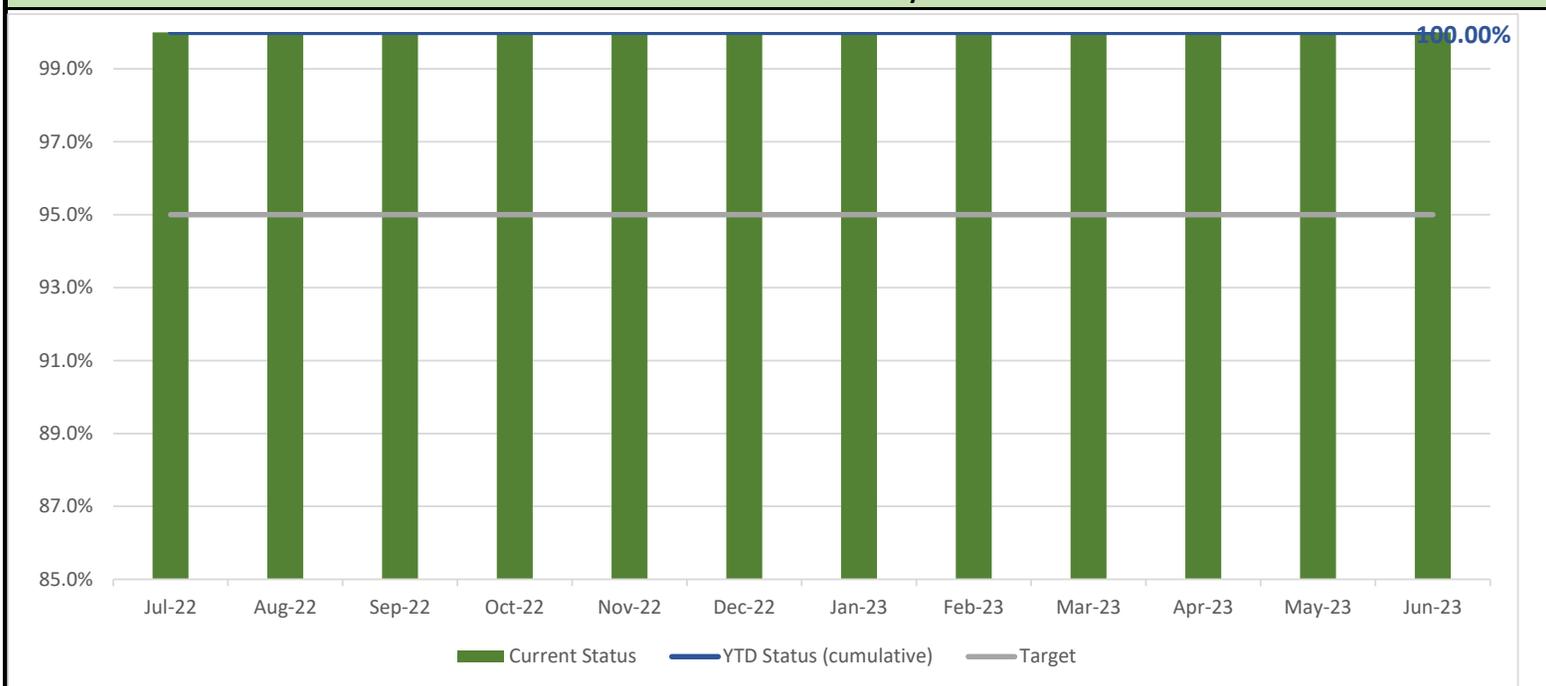
OM #	Operational Measure (OM)	Description	Strategic Goal	Target (Goal)	Current Status	YTD Status	Reporting Frequency	Comments
14	Cost to Administer Defined Benefit Plans	Annual pension administration cost for defined benefit plans, as compared to peer group median reported by CEM Benchmarking, Inc.	Superior Governance and Long-Term Financial Health	FY 2022 CEM Peer Cost Average	\$ 74.00	\$ 74.00	Annual	Will not know FY 2022 CEM peer cost until spring 2023
15	Systems Security Awareness	Percentage of eligible staff who have completed security training in compliance with the agency's and Commonwealth's security policies	Digital Transformation and Secure Service Delivery	100.00%	100.00%	100.00%	Annual	Measure reported on an annual basis
16	Employee Professional Development	Percentage of full-time VRS administration employees receiving at least 8 hours of professional development	Organizational Strength, Culture and Engagement	85.00%	97.00%	97.00%	Annual	Measure reported on an annual basis

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Timeliness of Monthly Financial Account Reconciliations		
Strategic Goal	Superior Governance and Long-Term Financial Health		
Description	Percentage of monthly financial control reconciliations completed by last business day of the following month		
Calculation Methodology	The number of financial account reconciliations completed by the last business day of the month, divided by the total accounts requiring reconciliation each month.		
Data Source	Finance Control Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	> 95.00%	Baseline (Performance History)	99%
<i>Target Rationale: Accounts for potential impacts due to the transition to a return to the office and ongoing system changes</i>		<i>Baseline Rationale: 5 year average = 99%</i>	
Current Reporting Month Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	100.00%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Transition to the hybrid work environment impacts processes and agency resources	Identify alternative processes to work around disruptions, and cross-train staff for backup as needed	
2	Transition to Cardinal HCM impacts processes and agency resources, including technology, that limit system availability	Enact business continuity plan for technology outages	
3	Unanticipated external/internal requests for new programs that expand the overall number of reconciliations	Streamline process for approving and implementing new programs to expedite roll-out and ensure accurate reconciliation reporting	

YTD Performance History



VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.

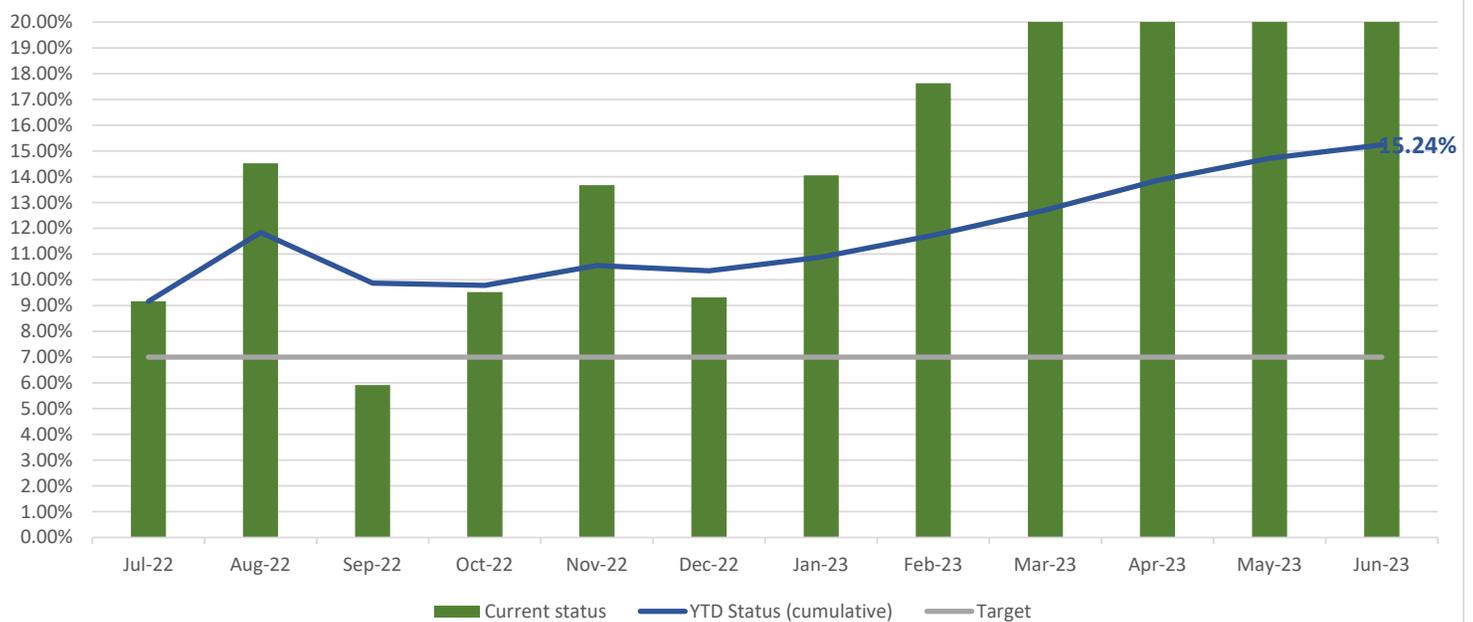
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Average Abandoned Call Rate		
Strategic Goal	Member, Retiree and Employer Education, Outreach and Partnership		
Description	Percentage of calls to the Customer Counseling Center (CCC) that result in hang-ups while in the queue		
Calculation Methodology	The number of abandoned calls (defined as a caller hanging up prior to reaching a knowledgeable person), divided by the total number of calls received by the CCC support teams. Average rate is calculated on a cumulative basis.		
Data Source	Customer Counseling Center Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	< 7.00%	Baseline (Performance History)	6.20%
Target Rationale: To account for anticipated high call volume due to system changes and the transition to a return to the office	Baseline Rationale: 5 year average = 6.2%		
Current Reporting Month Status	20.93%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	15.24%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Regulatory or legislative changes that impact customer benefits and result in increased call volumes (i.e. federal tax code change)	Prepare and implement a staffing augmentation plan for times when additional resources are needed on short notice to react to call influxes due to external causes	
2	The ongoing transition to the hybrid work environment impacts processes and agency resources, including system unavailability, which may cause an increase in call volume	Prepare a staffing augmentation plan for times when additional resources are needed on short notice to react to call influxes	
3	Need for increased security requirements for accessing members' records in accordance with industry best practices which cause longer call times	Identify opportunities to expedite the requisite validation process while still ensuring compliance with VRS security protocols to protect member data	

YTD Performance History

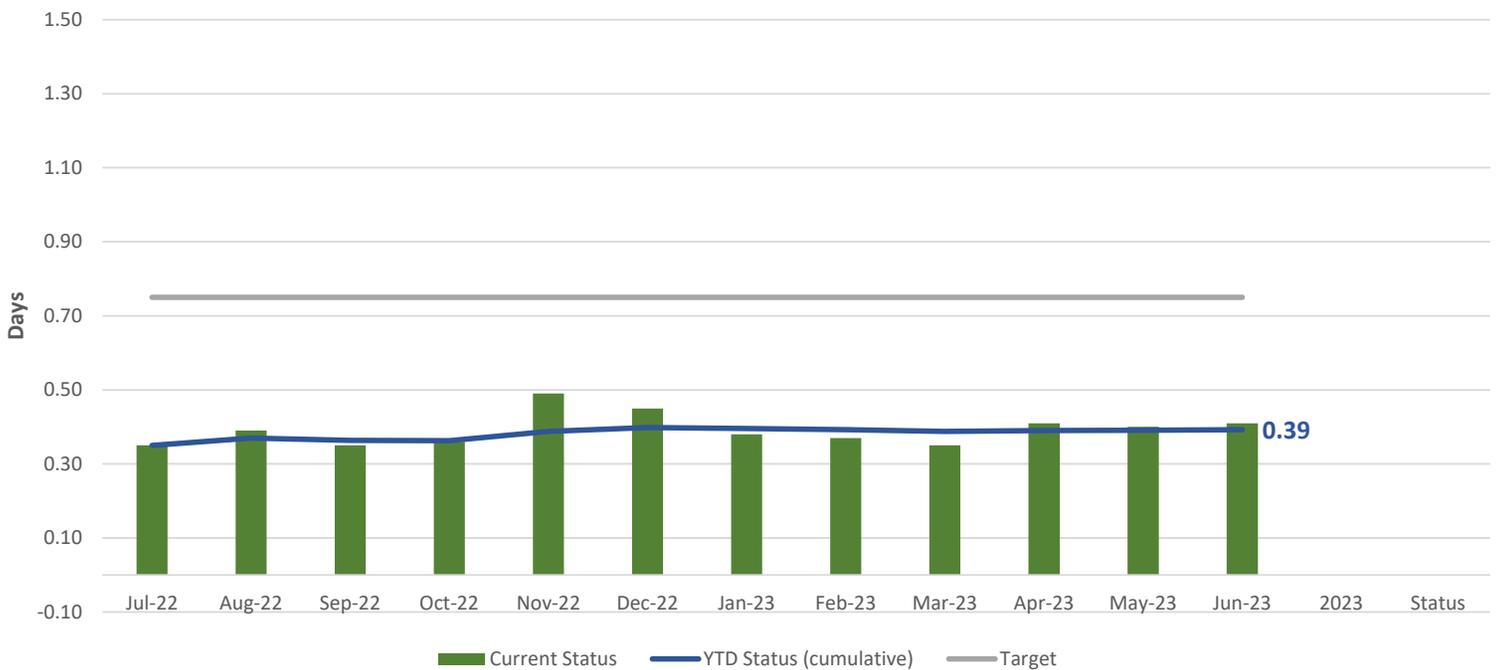


VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.

VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.

Operational Measure	Timeliness of Response to Messages Received by the Customer Counseling Center (CCC)		
Strategic Goal	Member, Retiree and Employer Education, Outreach and Partnership		
Description	Average response time to emails received by the CCC		
Calculation Methodology	The number of messages responded to within two business days, divided by the total number of messages responded to by the CCC. Note: In FY 2022, the CCC may transition its electronic communications from the current traditional email platform to secure messaging conducted through myVRS.		
Data Source	Customer Counseling Center Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	.75 business days	Baseline (Performance History)	1.30 business days
<i>Target Rationale: Maintain recent performance</i>		<i>Baseline Rationale: 5 year average = 1.3 days</i>	
Current Reporting Month Status	0.41	YTD Status (Cumulative; used at year-end to determine whether target has been met)	0.39
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Transition may occur in FY 2023 from traditional emails to secure messaging through the MyVRS portal	Proactively train CCC staff on the process changes that will occur when secure messaging is implemented	
2	Ongoing transition to hybrid work environment impacts processes and agency resources, including email/secure messaging capabilities	Prepare a staff augmentation plan for times when additional resources are needed to address email backlogs resulting from system outages	
3	Historically high rate of turnover of CCC staff	Continue recruitment and retention measures to attract and retain CCC staff	

YTD Performance History



VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.

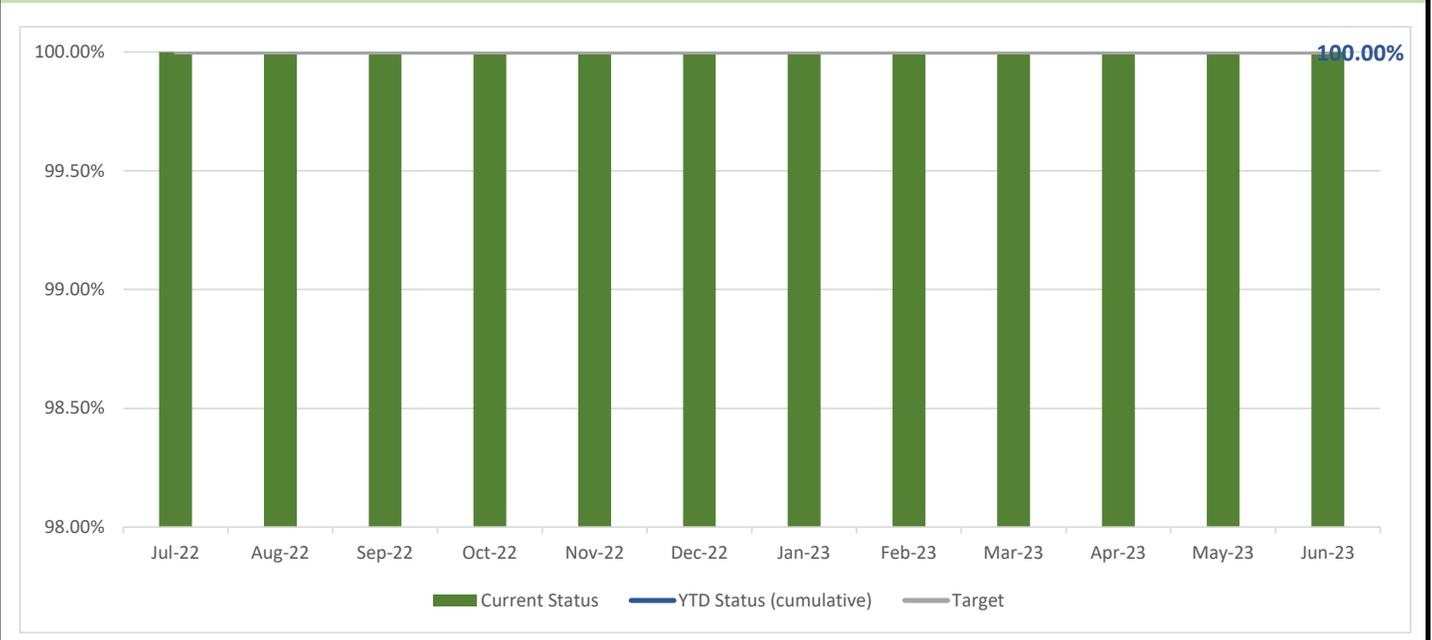
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Timeliness of Monthly Retirement Disbursements		
Strategic Goal	Superior Governance and Long-Term Financial Health		
Description	Percentage of monthly retirement disbursements processed no later than the first business day of the month		
Calculation Methodology	The number of monthly retirement disbursements processed so that the payment date is no later than the first business day of the month, divided by the total number of monthly retirement disbursements that require processing each month. "Processed" is defined as funds having been disbursed to retirees; "disbursed" is defined as the funds having been paid out of the VRS account. This process requires VRS to submit documentation to external partners (Virginia Department of Treasury, banking partner) in sufficient time to meet the first business day of the month requirement.		
Data Source	Benefit Disbursements Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	100.00%	Baseline (Performance History)	100.00%
<i>Target Rationale: Maintain recent performance</i>		<i>Baseline Rationale: 5 year average = 100%</i>	
Current Reporting Month Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	100.00%
Potential Constraints to Meeting Target		100	
1	Dependence upon external parties who are integral to the process (i.e., Virginia Department of Treasury and banking partner)	Develop contingency plan in concert with external parties to ensure open lines of communication and alternate processes in the event of a potential delay	
2	Ongoing transition to hybrid work environment impacts processes and agency resources, including technology outages that limit ability to process and/or transmit fund documentation to external stakeholders	Enact business continuity plan for technology outages	
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability	Cross-train existing staff and ensure redundancy of staff authorized to approve retirements	

YTD Performance History



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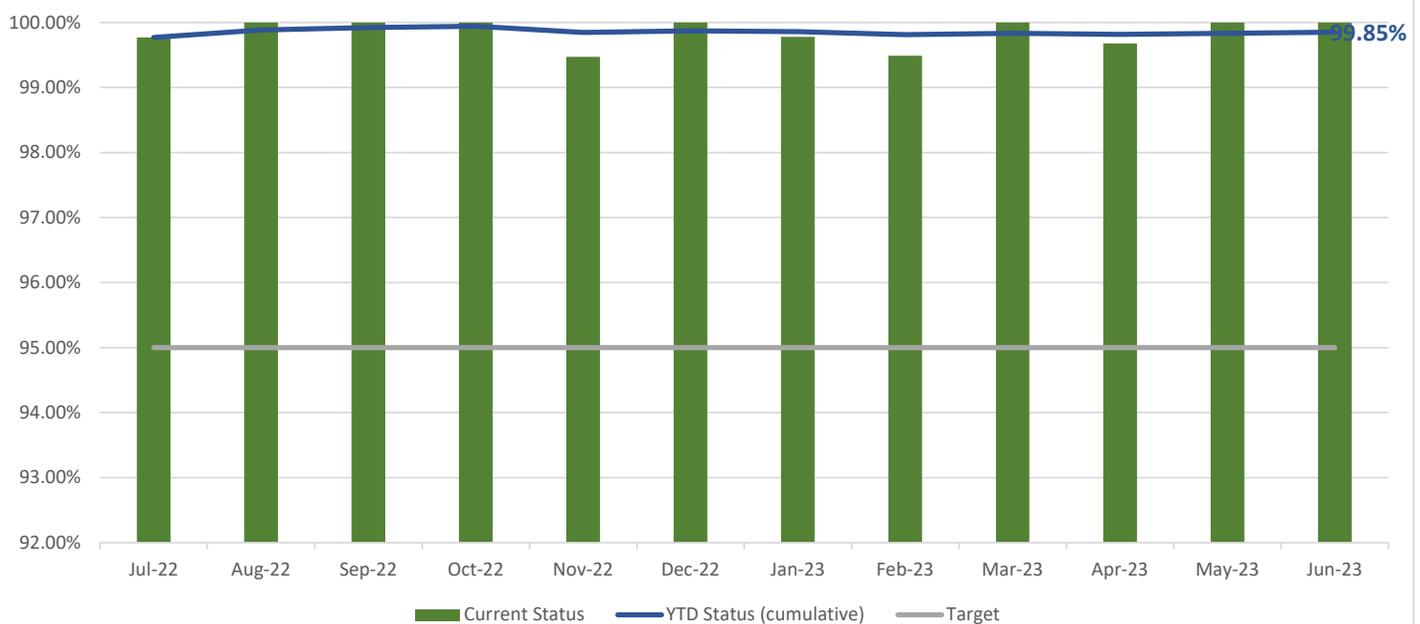
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Timeliness of Service Retirements Processed		
Strategic Goal	Superior Governance and Long-Term Financial Health		
Description	Percentage of service retirements processed so that retiring members are set up to receive retirement benefits on the first retirement payment date for which they are eligible		
Calculation Methodology	The number of service retirement payments processed by the first payment date on which the member is eligible to receive retirement benefits, divided by the total number of initial payments made for the same time period. The "first payment date on which the member is eligible to receive retirement benefits" is based on the date by which VRS receives a member's retirement application that is determined by VRS to be complete, accurate, and ready for payment processing. "Processed" is defined as funds having been paid to retirees; "disbursed" is defined as the funds having been paid out of the VRS account.		
Data Source	Service Retirement Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	95.00%	Baseline (Performance History)	97.90%
<i>Target Rationale: Accounts for system conversion and ongoing pandemic</i>		<i>Baseline Rationale: 5 year average = 97.90%</i>	
Current Reporting Month Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	99.85%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Ongoing implementation of myVRS enhancements, which will significantly change current processes	Provide ample opportunity for advanced training; augment staffing as needed to ensure adequate resources during transition	
2	Ongoing transition to hybrid work environment impacts processes and agency resources, including technology outages that limit ability to process retirements	Enact business continuity plan for technology outages	
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability	Cross-train existing staff and ensure redundancy-of staff authorized to approve retirements	

YTD Performance History



VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.

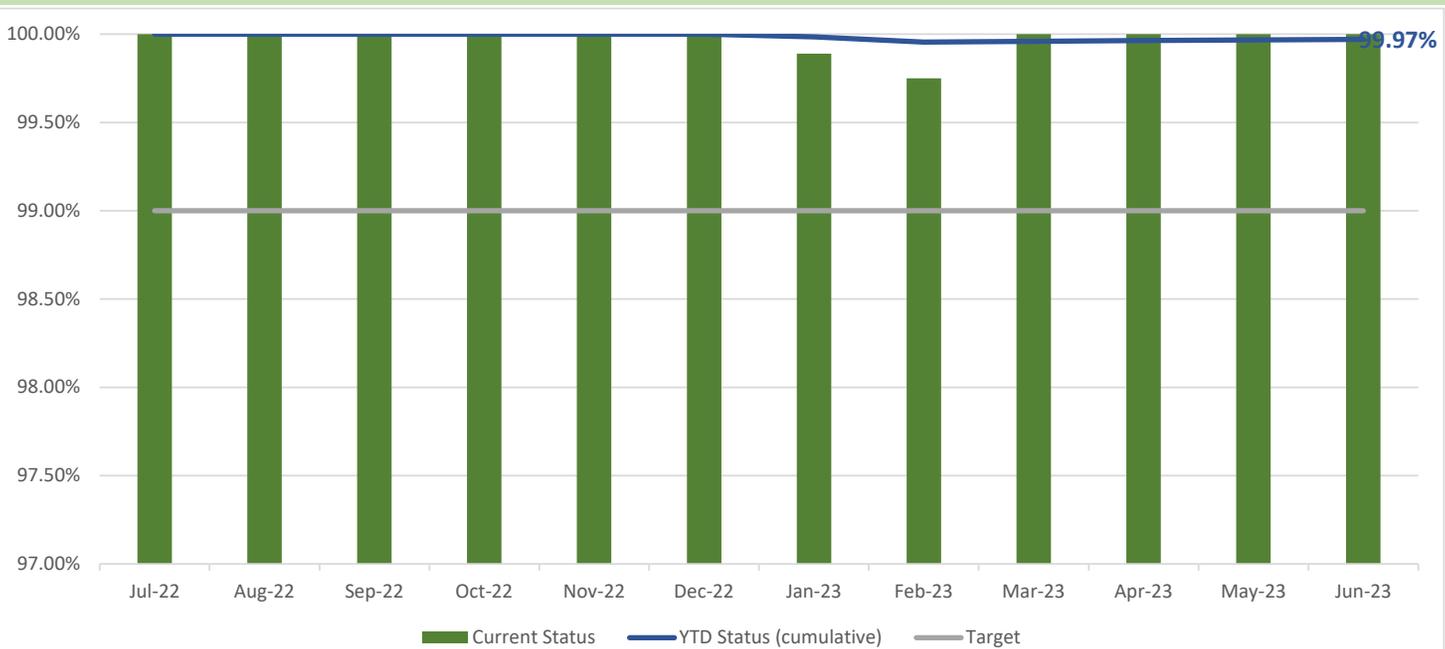
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Accuracy of Service Retirements Processed		
Strategic Goal	Superior Governance and Long-Term Financial Health		
Description	Percentage of service retirements processed for which the corresponding benefit payment correctly reflects the member's service record		
Calculation Methodology	The number of service retirement applications processed and corresponding benefit paid accurately, divided by the total number of initial service retirement benefits processed and paid. An accurate benefit payment is defined as the benefit amount correctly reflecting the member's service record. "Processed" is defined as funds having been paid to retirees; "paid" is defined as the funds having been paid out of the VRS account.		
Data Source	Service Retirement Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	99.00%	Baseline (Performance History)	99.00%
<i>Target Rationale: Maintain recent performance</i>		<i>Baseline Rationale: 5 year average = 99%</i>	
Current Reporting Month Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	99.97%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Ongoing implementation of myVRS enhancements, which will significantly change current processes	Provide ample opportunity for advanced training; augment staffing as needed to ensure adequate resources during transition	
2	Ongoing transition to hybrid work environment impacts processes and agency resources, including technology outages that limit ability to process retirements	Enact business continuity plan for technology outages	
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability	Cross-train existing staff and ensure redundancy of staff authorized to approve retirements	

YTD Performance History



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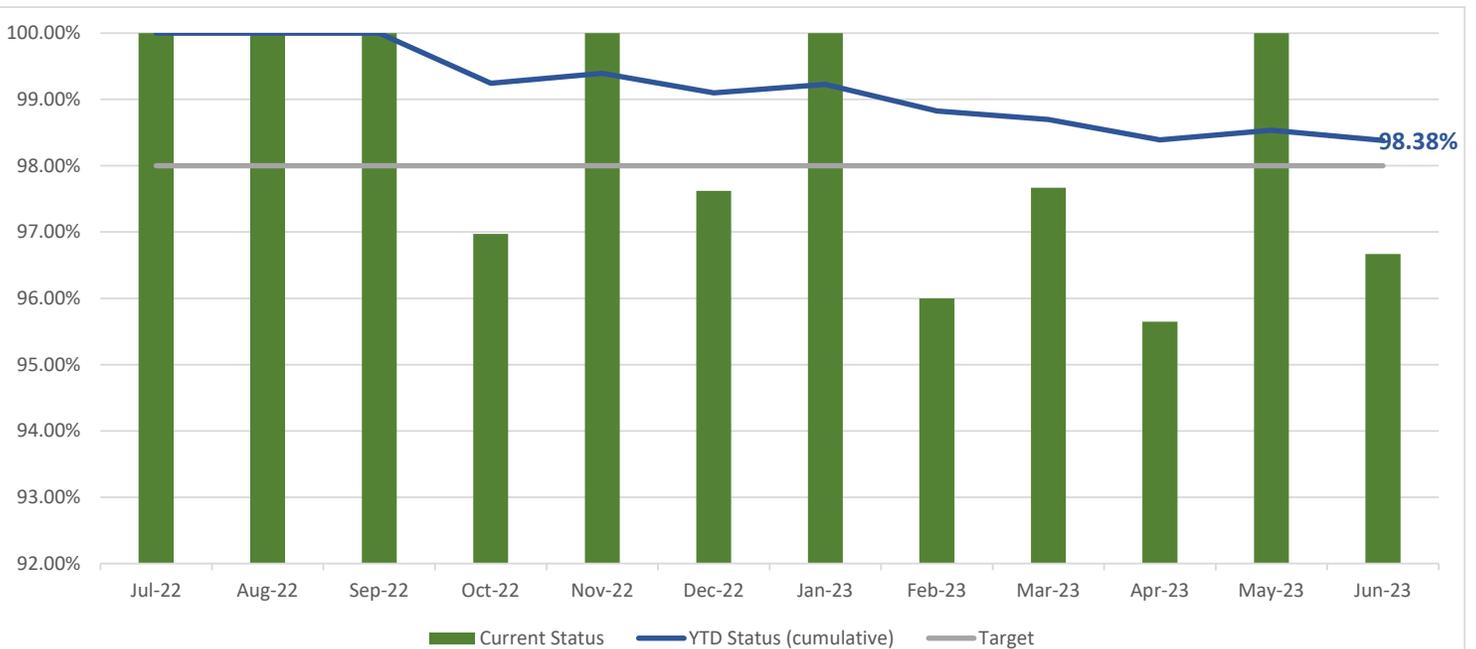
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Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Timeliness of Disability Retirements Processed		
Strategic Goal	Superior Governance and Long-Term Financial Health		
Description	Percentage of disability retirements processed within 30 days of VRS receiving notification of approval by the Medical Review Board		
Calculation Methodology	The number of disability retirements processed within 30 days after VRS receives notice of approval of the application by the Medical Review Board. "Processed" is defined as funds having been paid to retirees; "paid" is defined as the funds having been paid out of the VRS account.		
Data Source	Disability Retirement Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	98.00%	Baseline (Performance History)	98.80%
Target Rationale: To account for potential processing delays due to system conversion in FY 2021 and ongoing pandemic impacts		Baseline Rationale: 5 year average = 98.80%	
Current Reporting Month Status	96.67%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	98.38%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Ongoing implementation of myVRS enhancements, which will significantly change current processes	Provide ample opportunity for advanced training; augment staffing as needed to ensure adequate resources during transition	
2	Ongoing transition to hybrid work environment impacts processes and agency resources, including technology outages that limit ability to process retirements	Enact business continuity plan for technology outages	
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability	Cross-train existing staff and ensure redundancy of staff authorized to approve retirements	

YTD Performance History



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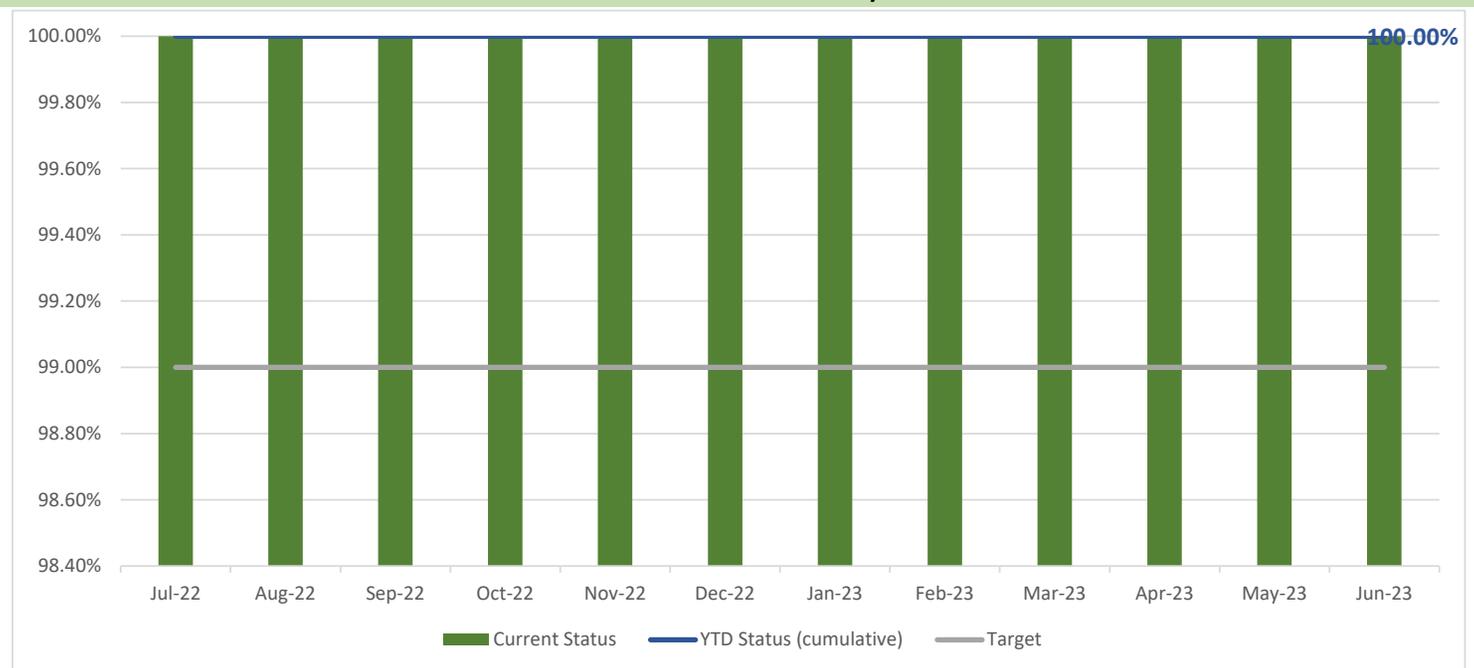
VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Accuracy of Disability Retirements Processed		
Strategic Goal	Superior Governance and Long-Term Financial Health		
Description	Percentage of disability retirements processed for which the corresponding benefit paid correctly reflects the member's service record		
Calculation Methodology	The number of disability retirement applications processed and corresponding benefit paid accurately, divided by the total number of initial disability retirement benefits processed and paid. An accurate benefit payment is defined as the benefit amount correctly reflecting the member's service record. "Processed" is defined as funds having been paid to retirees; "paid" is defined as the funds having been paid out of the VRS account.		
Data Source	Disability Retirement Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	99.00%	Baseline (Performance History)	99.00%
<i>Target Rationale: Maintain recent performance</i>		<i>Baseline Rationale: 5 year average = 99%</i>	
Current Reporting Month Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	100.00%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Ongoing implementation of myVRS enhancements, which will significantly change current processes	Provide ample opportunity for advanced training; augment staffing as needed to ensure adequate resources during transition	
2	Ongoing transition to hybrid work environment impacts processes and agency resources, including technology outages that limit ability to process retirements	Enact business continuity plan for technology outages	
3	Sensitivity of data that requires strong controls and several levels of approvals; risk of staff absences or unavailability	Cross-train existing staff and ensure redundancy of staff authorized to approve retirements	

YTD Performance History



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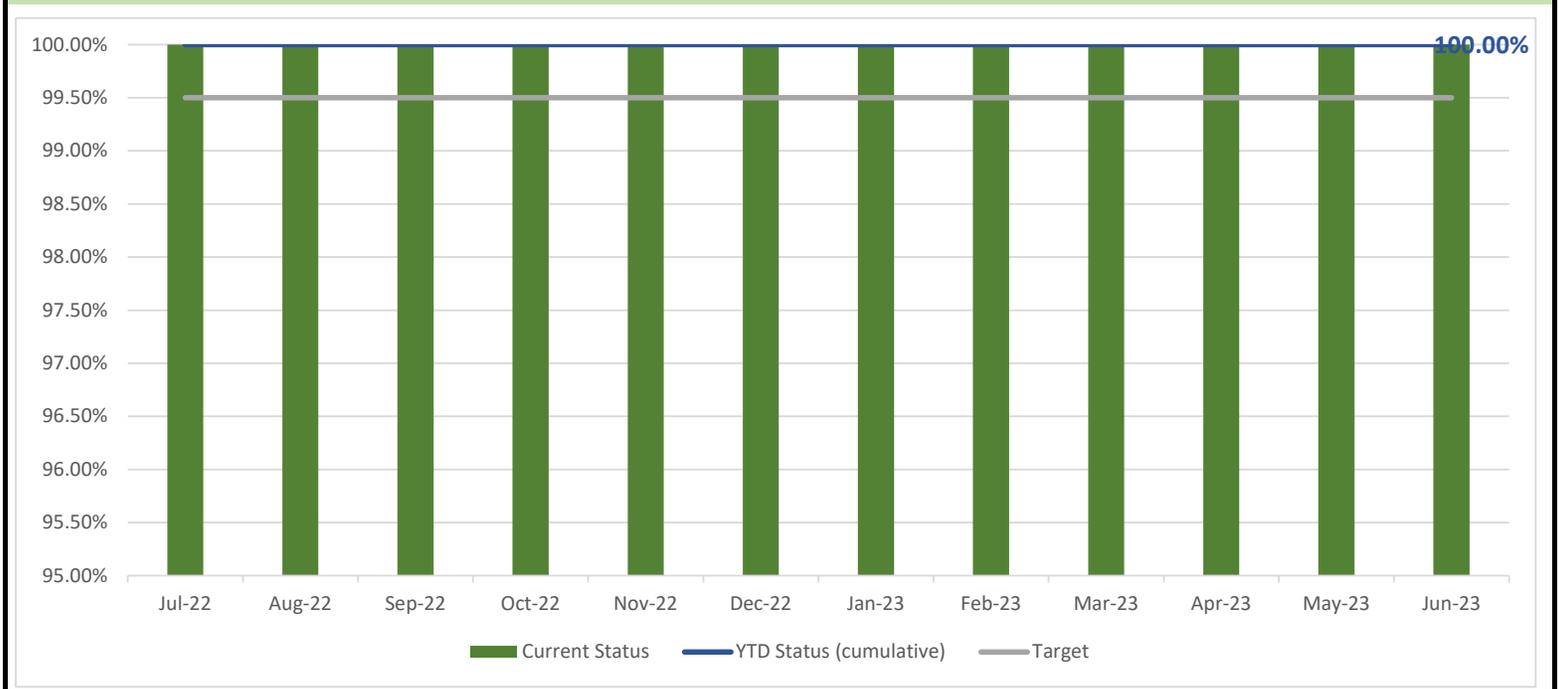
Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Timeliness of Workflow Documentation Imaging		
Strategic Goal	Digital Transformation and Secure Service Delivery		
Description	Percentage of workflow documents imaged within one business day of receipt		
Calculation Methodology	The number of documents imaged within one business day of receipt by the Imaging business unit, divided by the number of documents received by the Imaging unit within the same timeframe. Currently, an average of 20,000 documents are imaged per month.		
Data Source	Technology Services SLEs Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	99.50%	Baseline (Performance History)	99.90%
<i>Target Rationale: Maintain recent performance</i>		<i>Baseline Rationale: 5 year average = 99.9%</i>	
Current Reporting Month Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	100.00%

Potential Constraints to Meeting Target		Mitigation Strategies
1	Dependence upon current Imaging unit staffing level to ensure expedient and accurate processing within the prescribed turnaround time	Prescribe duties that merit the continuance of the current Imaging unit staffing level (with respect to the ongoing transition to online retirements that should reduce paper form intake levels)
2	Ongoing transition to hybrid work environment impacts processes and agency resources, including technology outages that limit system availability	Enact business continuity plan for technology outages
3	Staffing constraints; specific skill set required limits feasibility for untrained staff to produce results with same efficiency and effectiveness	Establish a routine cross-training program to ensure well-trained staff are available at all times

YTD Performance History

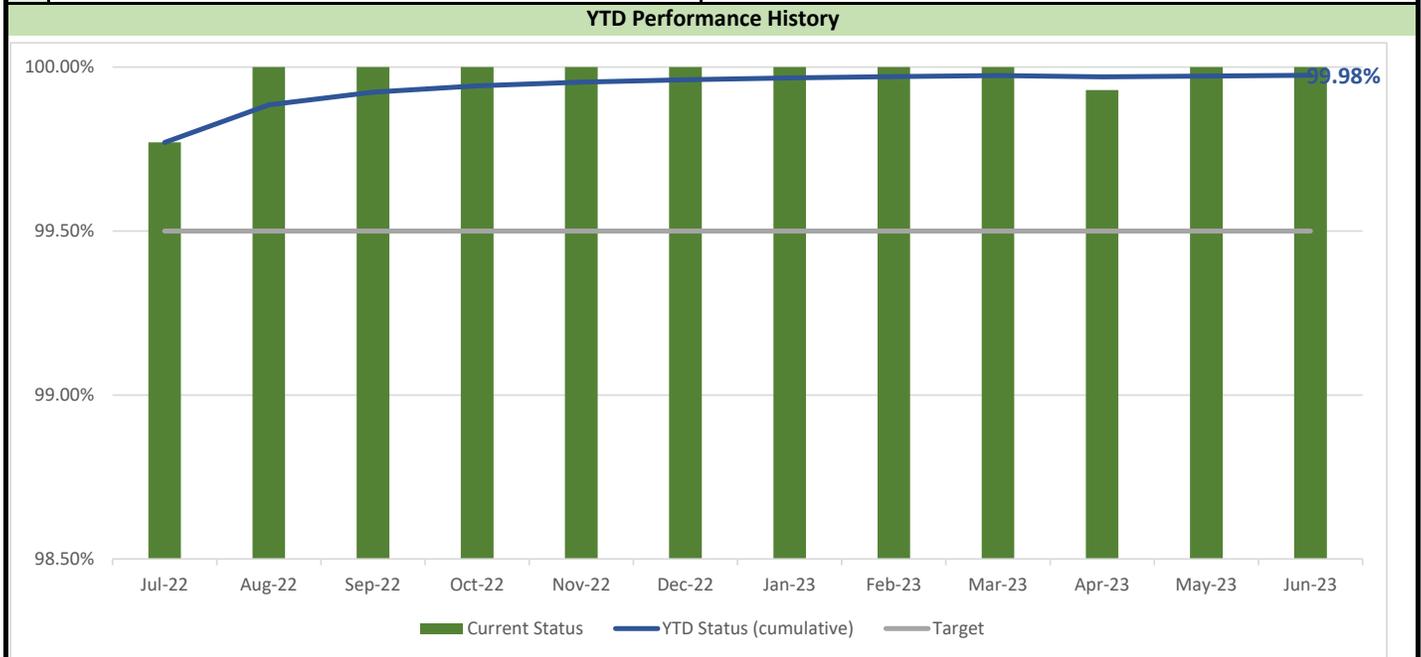


VRS Mission: VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.

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Operational Measure	Planned IT System Availability		
Strategic Goal	Technology Infrastructure		
Description	Percentage of time critical systems are available during periods of planned availability		
Calculation Methodology	Percentage of time during which critical business systems are available for use by VRS staff and customers, divided by the total time for which it was planned that said systems would be available. Critical business systems include: VNAV, telephone, email, internet, myVRS, Imaging, Investments, D365, Customer Counseling Center Cisco phone system, and remote access. Note: business systems deemed "critical" may change periodically depending on business needs or system changes (ex: RIMS was decommissioned in spring 2019 and is no longer considered a critical business system as of that time). Periods of availability are pre-determined based on business needs and requirements regarding routine system testing, maintenance and upgrades. "Availability" is defined as being able to be used by the majority of persons for whom it is intended and for the majority of purposes for the system's intended use.		
Data Source	Technology Services SLEs Performance Report	Reporting Frequency	Monthly
Target (Performance Goal)	99.50%	Baseline (Performance History)	99.90%
<i>Target Rationale: Maintain recent performance</i>		<i>Baseline Rationale: 5 year average = 99.9%</i>	
Current Reporting Month Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	99.98%

Potential Constraints to Meeting Target		Mitigation Strategies
1	Failure on the part of third party business partners to provide dependent services	Implement back-up plans (ex: different phone line)
2	Ongoing transition to hybrid work environment impacts processes and agency resources, including technology outages that limit system availability	Enact business continuity plan for technology outages
3	Timing of a potential system failure that limits staff resources available to respond immediately	Strategically plan staffing availability to address potential system failures in the most effective manner



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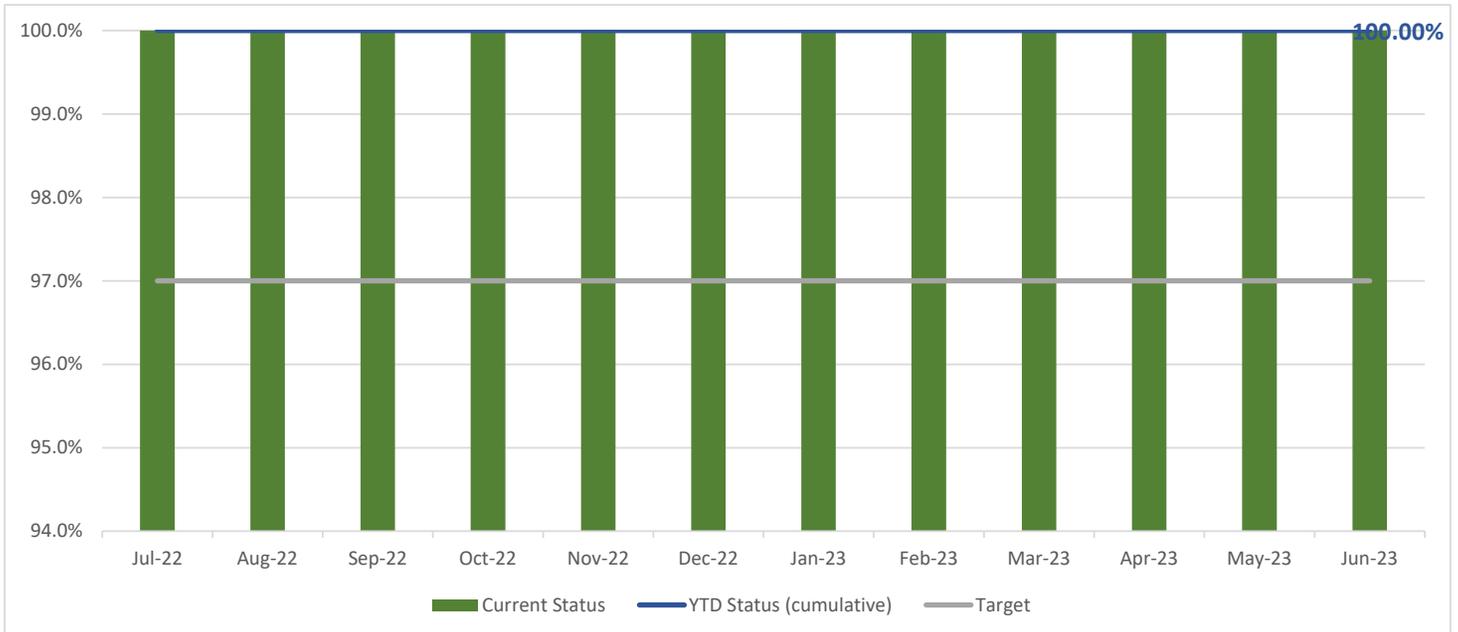
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Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Timeliness of Employer Contribution Confirmations		
Strategic Goal	Superior Governance and Long-Term Financial Health		
Description	Percentage of Employer Contribution Confirmation (CC) snapshots completed in VNAV by the end of the month in which they are due		
Calculation Methodology	The number of employer CC snapshots received by the end of the month in which they are due, divided by the total number of employer CC snapshots required for the same time period. VRS works with employers to ensure that monthly CC snapshots are posted in a timely fashion. There are over 1,000 employers reporting to VRS for which CC snapshots are required on a monthly basis.		
Data Source	Employer Reporting Contribution Confirmation and Payment Status Report	Reporting Frequency	Monthly
Target (Performance Goal)	97.00%	Baseline (Performance History)	97.60%
<i>Target Rationale: Maintain recent performance</i>		<i>Baseline Rationale: 5 year average = 97.60%</i>	
Current Reporting Month Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	100.00%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Dependence on over 1,000 employers to submit their confirmations on time every month	Proactively communicate with employers with a focus on those with a history of delinquent submissions to mediate potential causes for delay	
2	Impact of ongoing transition to hybrid work environment on resources at the employer level that prevent their timely submission of CC snapshots	Proactively communicate with employers to identify potential impacts and assist as appropriate with the submission process	
3	Cardinal implementation for state employers may delay timely submission due to additional responsibilities during Cardinal transition	Provide notice to state employers of potential for delay due to Cardinal implementation and advise that they prepare to ensure timely report submission	

YTD Performance History



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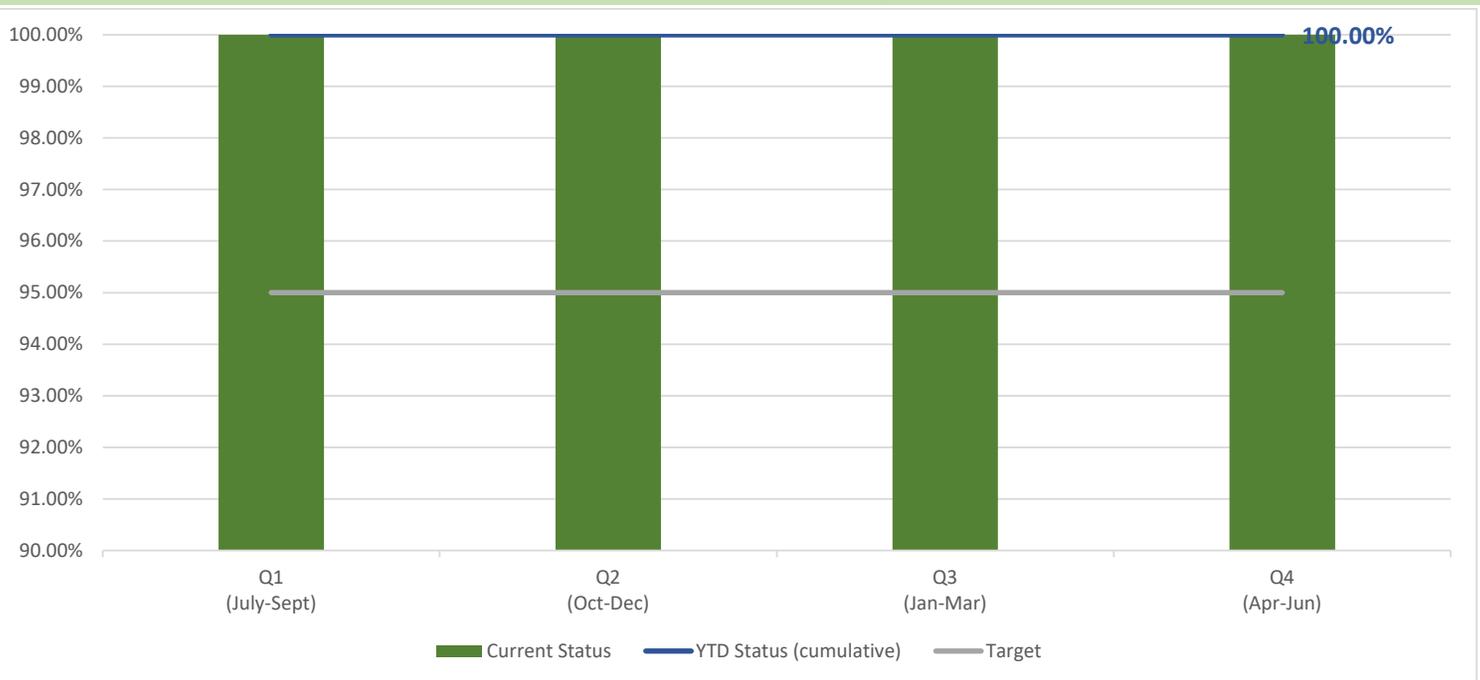
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Operational Measure	Implementation of Corrective Action to Audit Recommendations		
Strategic Goal	Superior Governance and Long-Term Financial Health		
Description	Percentage of audit recommendations for which VRS management represents that corrective action has been implemented by the approved target date		
Calculation Methodology	The number of audit recommendations for which VRS management has represented that corrective action has been implemented, divided by the total number of audit recommendations for which corrective action is needed as of the date the measure is calculated. VRS management establishes target dates and provides periodic updates to Audit regarding whether actions have been taken. Audit tracks responses in the Audit Recommendation Follow-Up System (ARFUS).		
Data Source	ARFUS	Reporting Frequency	Quarterly
Target (Performance Goal)	> 95.00%	Baseline (Performance History)	94.00%
<i>Target Rationale: Maintain recent performance</i>		<i>Baseline Rationale: 5 year average = 94.00%</i>	
Current Reporting Month Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	100.00%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	High cost to implement necessary corrective action	Work within existing agency allocations and, if necessary, also with state budgetary processes to obtain resources needed to effectuate corrective action	
2	Limited staff resources to effectively implement necessary corrective action	Adjust allocation of staffing resources to enable corrective action implementation	
3	External factors that delay ability to take necessary corrective action (ex: legislative mandates that redirect agency resources, ongoing pandemic)	Communicate with DEC and Audit regarding possible adjustment of target date to accommodate timeline of when resources will be available	

YTD Performance History



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Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Preventable Employee Turnover		
Strategic Goal	Organizational Strength, Culture and Engagement		
Description	Percentage of employees voluntarily separating VRS employment due to preventable experiences		
Calculation Methodology	The number of Administration employees who voluntarily separate from VRS employment due to preventable reasons, divided by the total number of Administration employees who voluntarily separate VRS employment, when total employee turnover exceeds 5% within the same period of time. Preventable turnover is determined from exit interview results, and includes substantiated reports of unsuccessful supervision or management, unsatisfactory work environment, insufficient resources to complete one's job effectively, and unavailability of training opportunities.		
Data Source	Human Resources Department Exit Interview Survey Results	Reporting Frequency	Annual
Target (Performance Goal)	< 10.00%	Baseline (Performance History)	5.88%
<i>Target Rationale: Maintain recent performance</i>		<i>Baseline Rationale: FY 2019 results</i>	
Current Reporting Month Status	5.45%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	5.45%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Unrealistic employee expectations regarding VRS work environment and responsibilities	Provide clear position descriptions and responsibilities upon hire; outline organization culture and expectations on a regular basis; ensure open communication between employees, managers and supervisors	
2	Reorganization due to myVRS enhancements may alter current work responsibilities for some employees	Provide clear and open communication throughout the implementation process; Offer sufficient training opportunities for employees tasked with new responsibilities	
3	Ongoing transition to hybrid work environment impacts employee morale	Continue direct outreach to employees, provide EAP resources and implement employee engagement activities	
YTD Performance History			
<p>[Reported as an annual measure]</p>			
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VRS Vision: <i>To be the trusted leader in the delivery of benefits and services to those we serve.</i>			

Fiscal Year 2023 Operational Measures

Reporting Period: June-23

Operational Measure		Cost to Administer Defined Benefit Plans	
Strategic Goal		Superior Governance and Long-Term Financial Health	
Description		Annual pension administration cost for defined benefit plans, as compared to peer group median reported by CEM Benchmarking, Inc.	
Calculation Methodology		VRS pension administration cost per active member and annuitant for defined benefit plans as compared to that of its peer group, as calculated by CEM Benchmarking, Inc. The average peer cost calculated by CEM is available on delay and will not be known until spring 2023. At that time the FY 2023 annual agency cost will be compared to the to the FY 2022 CEM peer cost to determine whether VRS's cost is lower than the peer average.	
Data Source		CEM Benchmarking, Inc.	Reporting Frequency
			Annual
Target (Performance Goal)		Lower than the FY 2022 CEM Peer Cost Average	Baseline (Performance History)
			N/A
Target Rationale: <i>Measuring VRS annual administrative cost for FY 2022 against the most current peer data as provided by CEM Benchmarking, Inc.</i>		Baseline Rationale: N/A	
Current Reporting Month Status		\$74	YTD Status <small>(Used at year-end to determine whether target has been met)</small>
			\$74
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Significant unanticipated costs to administer pension plans due to external influences, including the ongoing pandemic and transition to a return to the office	Work within existing agency allocations and prioritize spending plans to ensure administrative expenditures remain reasonable	
2	Dependent upon expenditure patterns for the CEM Peer group for administrative cost average	Maintain communications with CEM peers to stay informed on any spending abnormalities that may skew CEM-calculated peer costing	
3	FY 2022 CEM cost not known until late into FY 2023 (limiting agency ability to react if missing target)	Proactively calculate and monitor agency administrative cost in anticipation of receiving the FY 2022 CEM cost; adjust agency spending if out of line with recent CEM peer cost averages	
YTD Performance History			
<p>[Average Pension Administration Cost for VRS' Peer Group, as provided by CEM Benchmarking, will be known in spring 2023]</p>			
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Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Systems Security Awareness		
Strategic Goal	Digital Transformation and Secure Service Delivery		
Description	Percentage of eligible staff who have completed security training in compliance with the agency's and Commonwealth's security policies		
Calculation Methodology	Percentage of eligible staff who have completed the agency's annual security training, VRS User IT Security Policy Training ("security training"), divided by the total eligible agency staff. Employees who join the agency during FY 2022 are required to complete security training within 30 days after their start date. All staff are required to complete the training during the annual training window. The training provides information on such critical security practices as protecting sensitive data, utilizing effective passphrases, reviewing acceptable technology use policies, being on alert for phishing and other malpractices, and more. The percentage is calculated on a cumulative basis and reported annually (with the total requirement recalculated monthly as new staff are hired and required to obtain security training).		
Data Source	Technology Services SLEs Performance Report	Reporting Frequency	Annual
Target (Performance Goal)	100.00%	Baseline (Performance History)	100.00%
<i>Target Rationale: Maintain high security awareness</i>		<i>Baseline Rationale: All VRS staff completed security training in FY 2020</i>	
Current Status	100.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	100%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Unavailability of the Virginia Learning Center (VLC, a non-VRS application) for training	Provide sufficient time for staff to obtain training within prescribed timeline to allow for possible VLC system unavailability	
2	Ongoing transition to hybrid work environment impacts processes and agency resources, including technology outages that limit system availability	Enact business continuity plan for technology outages	
3	New training requirements as set-forth by the Commonwealth Security Policy that require changes to the prepared security training	Proactively coordinate with different units within VRS to ensure sufficient time and resources to make necessary changes to the prepared training	
YTD Performance History			
[Reported as an annual measure]			
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VRS Vision: To be the trusted leader in the delivery of benefits and services to those we serve.			

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Operational Measure	Employee Professional Development		
Strategic Goal	Organizational Strength, Culture and Engagement		
Description	Percentage of full-time VRS administration employees receiving at least 8 hours of professional development		
Calculation Methodology	The number of eligible full-time VRS administration employees who have completed at least 8 hours of professional development, divided by the total number of eligible full-time administration employees. Eligible employees are full-time administration staff hired after July 1, 2021 who are not on short- or long-term disability or FMLA during FY 2022. Qualifying professional development includes courses designated in the Virginia Learning Center (VLC), as well as conferences, webinars, college or trade school classes, and any other professional development as approved by the Human Resources Director. Number of hours received is tracked on a cumulative basis and reported quarterly.		
Data Source	Human Resources Performance Report	Reporting Frequency	Annual
Target (Performance Goal)	85.00%	Baseline (Performance History)	91.30%
<i>Target Rationale: Maintain recent performance and increased total # of hours</i>		<i>Baseline Rationale: 5 year average = 91.32%</i>	
Current Status	97.00%	YTD Status (Cumulative; used at year-end to determine whether target has been met)	97.00%
Potential Constraints to Meeting Target		Mitigation Strategies	
1	Limited staff flexibility to obtain professional development due to significant staff time dedicated to HCI data center and other system enhancements.	Encourage staff to plan for professional development opportunities before and/or after periods of time dedicated to HCI data center and other system enhancements.	
2	Dependence on IT system availability/accessibility for trainings and/or time tracking	Advise staff to plan to be proactive about obtaining professional development and reporting their hours earned as they go	
3	Limited progressive course availability on relevant subject matter area	Ongoing communication between managers and staff to expand and identify new learning opportunities	

YTD Performance History

[Reported as an annual measure]

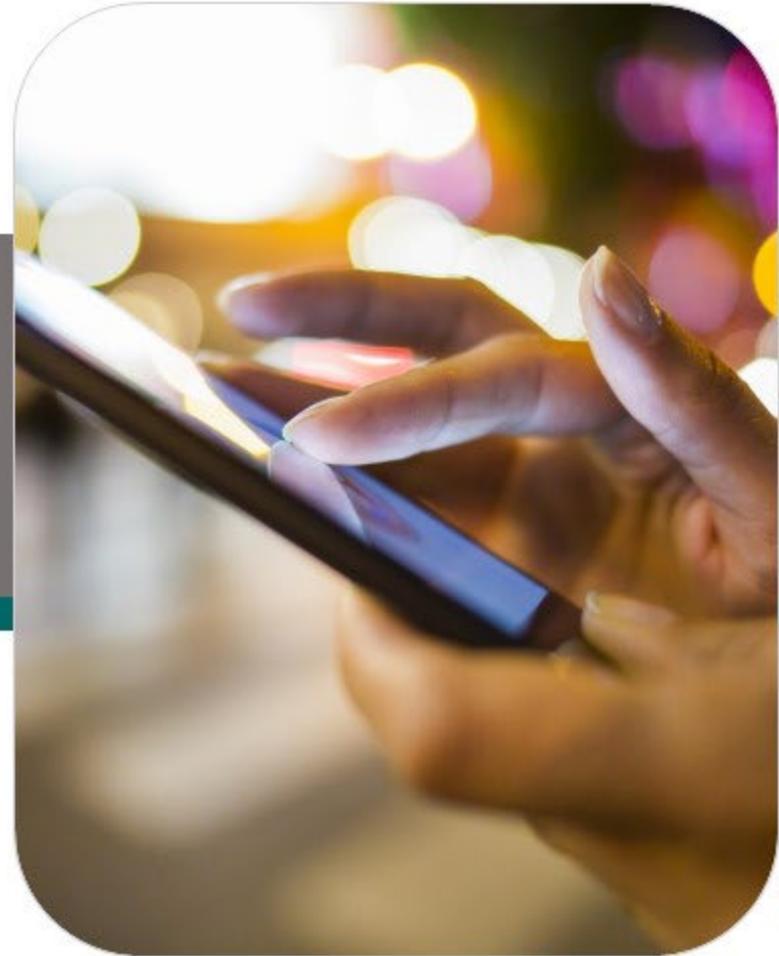
VRS Mission: *VRS delivers retirement and other benefits to Virginia public employees through sound financial stewardship and superior customer service.*

VRS Vision: *To be the trusted leader in the delivery of benefits and services to those we serve.*

Overall Measure: 13 of 16 meet or exceed target

Changes to operational measure targets and/or calculation methodologies require approval by both the Director's Executive Committee (DEC) and the Board of Trustees.

Alida Conversational Survey



- Contracted with Alida to provide customer experience surveys for members, retirees and employers
- Alida's Conversational Survey serves as an interim solution until we replace the current CISCO telephony solution
- Customer Contact Center began capturing customer feedback in May 2023
- Feedback through September indicates a 99% favorable experience and 73% satisfaction with wait time to reach an agent
- Survey was conducted during the peak call volume period for July retirements, COLA and Health Insurance enrollment

Customer Satisfaction Experience Totals

Combined Average for All Audiences
May 2023 – Sep 2023





Date: September 12, 2023
To: Trish Bishop, Director
From: Jennifer Schreck, Internal Audit Director
Joshua Fox, Principal Auditor
Subject: Review of FY2023 Agency Performance Outcomes and Operational Measures

A handwritten signature in black ink, appearing to be 'J. Schreck', is written over the 'From:' field.

As part of our annual process, Internal Audit has reviewed the status of the 2023 Agency Performance Outcomes (APOs) and Operational Measures (OMs), as set forth by management for the fiscal year ended June 30, 2023. The purpose of our review was to obtain reasonable, but not absolute assurance that the status of such outcomes and measures were fairly represented in management's status reports.

Based upon our review of available documentation, attendance at VRS Board and Committee meetings and discussions with various VRS personnel, nothing came to our attention to cause us to question the representations set forth by management with respect to either the APOs or the OMs. Accordingly, we have no reason to believe that the APOs and OMs were not appropriately represented as satisfied for the fiscal year ended June 30, 2023.

I would like to commend the management team and staff for their accomplishments this past year. Please feel free to share this information with the Administration, Finance and Talent Management Committee as well as the full Board of Trustees, as you deem appropriate.



Performance bonuses for eligible administrative employees and Investment Department operations and administration employees.

Requested Action

The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.

Description/Background

The Board approved the current Administrative Pay Plan and the current Investment Operations and Administration Staff Pay Plan on June 10, 2023. Each of the plans state:

Subject to the approval of the VRS Board of Trustees, employees who receive an overall rating of “exceptional” will receive a 4% bonus and employees who receive an overall rating of “exceeds” will receive a 2% bonus, based on their salary as of June 30.

Cost: The approximate total cost for the FY 2023 performance bonus payments to eligible employees is \$581,290.00, to be paid from the FY 2024 budget.

Rationale for Requested Action

Bonus payments recognize and reward the positive contributions of individual performance that enable VRS to achieve and exceed its goals and objectives.

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.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



Authorize staff to request spending authority from the Department of Planning and Budget.

Requested Action

The VRS Board of Trustees authorizes staff to request spending authority from the Department of Planning and Budget and legislature, as applicable, to execute planned initiatives for the next two fiscal years.

Description/Background

VRS staff notified the Administration, Finance and Talent Management Committee on September 20, 2023, that additional appropriation authority will be needed in FY 2025 and FY 2026 to accommodate planned spending. The Committee concurred with the planned spending line items and recommended that this RBA be presented to the entire Board for approval.

Rationale for Requested Action

This RBA seeks Board authority for staff to seek nineteen additional full-time positions and the necessary non-general fund appropriation for the following expenses:

Table with 4 columns: Initiative, FY 2025 cost (in millions), FY 2026 cost (in millions). Rows include: Initiate Critical Facility Repairs & Upgrades (\$3.42, \$0.23), Strengthen Workforce Development (\$2.38, \$2.55), Ensure Long-Term Financial Health (\$2.59, \$3.16), Optimize the Customer Experience (\$1.81, \$1.96), Reinforce Fraud Prevention & Security Measures (\$2.78, \$2.42), Enhance Business & Service Delivery Models (\$1.81, \$1.89), Total (\$14.80, \$12.21).

Authority for Requested Action

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.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



Virginia
Retirement
System

Building for the Next Biennium

Presentation to the Administration, Finance &
Talent Management Committee

September 20, 2023



FY 2023 Year-End



FY 2023 Final Position



	FY 2023 Budget	Total FY 2023 Expenses	Final FY 2023 Variance
Administration			
Personnel	41,436,000	36,477,000	4,959,000
Operating	<u>32,840,000</u>	<u>31,568,000</u>	<u>1,272,000</u>
Administration Total	\$74,276,000	\$68,045,000	\$6,231,000
Investments			
Personnel	27,677,000	26,791,000	886,000
Operating	<u>16,886,000</u>	<u>14,068,000</u>	<u>2,818,000</u>
Investments Total	\$44,563,000	\$40,859,000	\$3,704,000
VRS TOTAL	\$118,839,000	\$108,904,000	\$9,935,000



Virginia
Retirement
System

FY2024 Budget Update



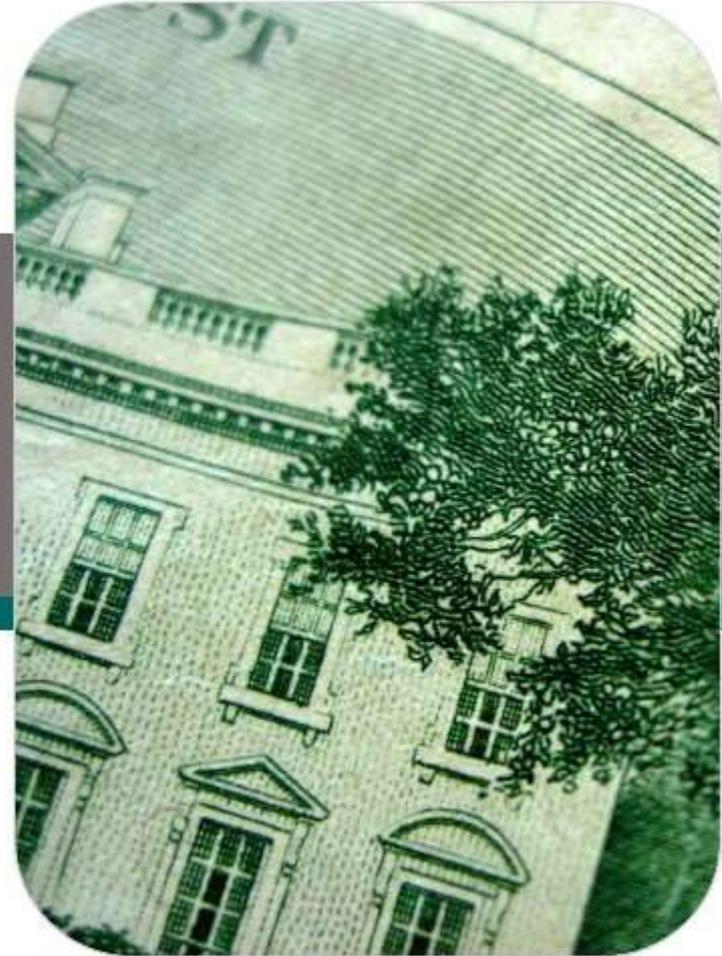
FY 2024 Budget Update through 7/31/23



	Beginning Budget A	YTD Expenses through 7/31/21 B	Projected Remaining Expenses ¹ C	Total Projected Expenses B + C	Projected Variance Favorable/ (Unfavorable) A - (B + C)
ADMINISTRATION					
Personnel	42,028,000	3,290,000	37,778,000	37,154,000	1,498,000
Operating	<u>34,813,000</u>	<u>1,614,000</u>	<u>30,777,000</u>	<u>25,935,000</u>	<u>1,004,000</u>
Administration Total	76,841,000	4,904,000	68,555,000	63,089,000	2,502,000
INVESTMENTS					
Personnel	27,700,000	1,664,000	25,874,000	24,700,000	759,000
Operating	<u>16,773,000</u>	<u>1,017,000</u>	<u>13,215,000</u>	<u>12,450,000</u>	<u>816,000</u>
Investments Total	44,473,000	2,681,000	39,089,000	38,937,000	1,575,000
VRS TOTAL	\$121,314,000	\$7,585,000	\$107,664,000	\$115,229,000	\$6,085,000

1. *Projected remaining expenses are best estimates as of a point in time and are subject to change*

FY 2025-2026 Proposed Budgets



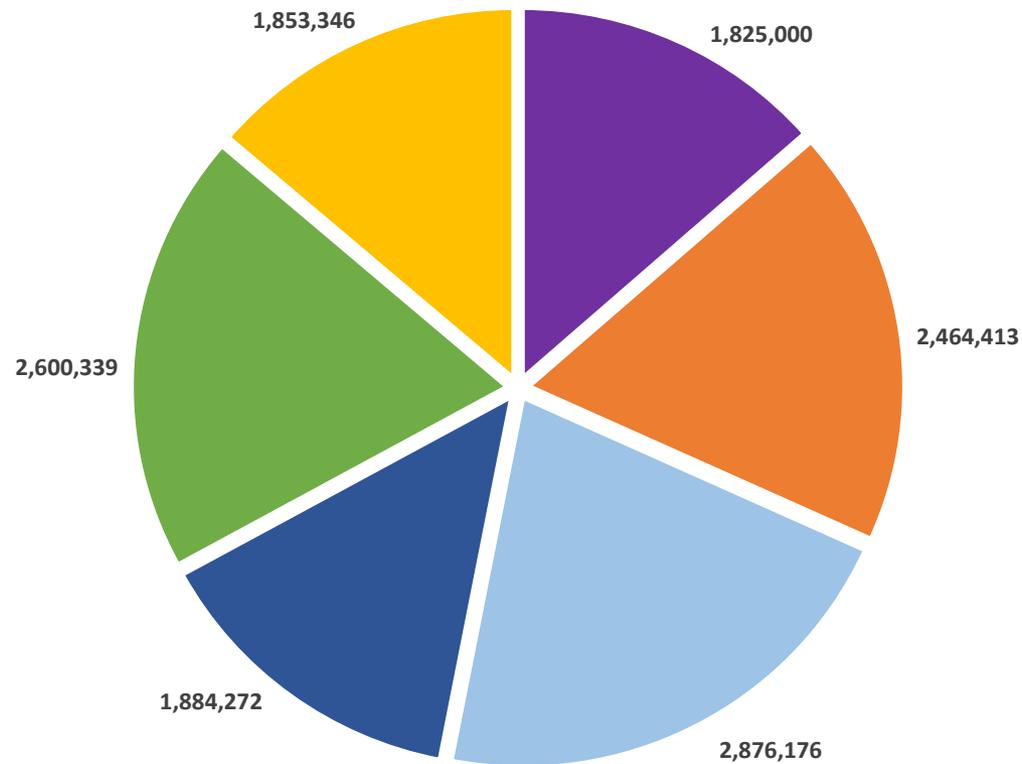
Proposed Decision Packages



	FY 2025	FY 2026	Positions
Initiate Critical Facility Repairs & Upgrades	3,425,000	225,000	0
Strengthen Workforce Development	2,376,275	2,552,550	0
Ensure Long-Term Financial Health	2,590,542	3,161,810	9
Optimize the Customer Experience	1,810,018	1,958,526	16
Reinforce Fraud Prevention & Security Measures	2,778,669	2,422,008	1
Enhance Business & Service Delivery Models	1,814,965	1,891,727	5
TOTAL VRS	\$14,795,469	\$12,211,621	31

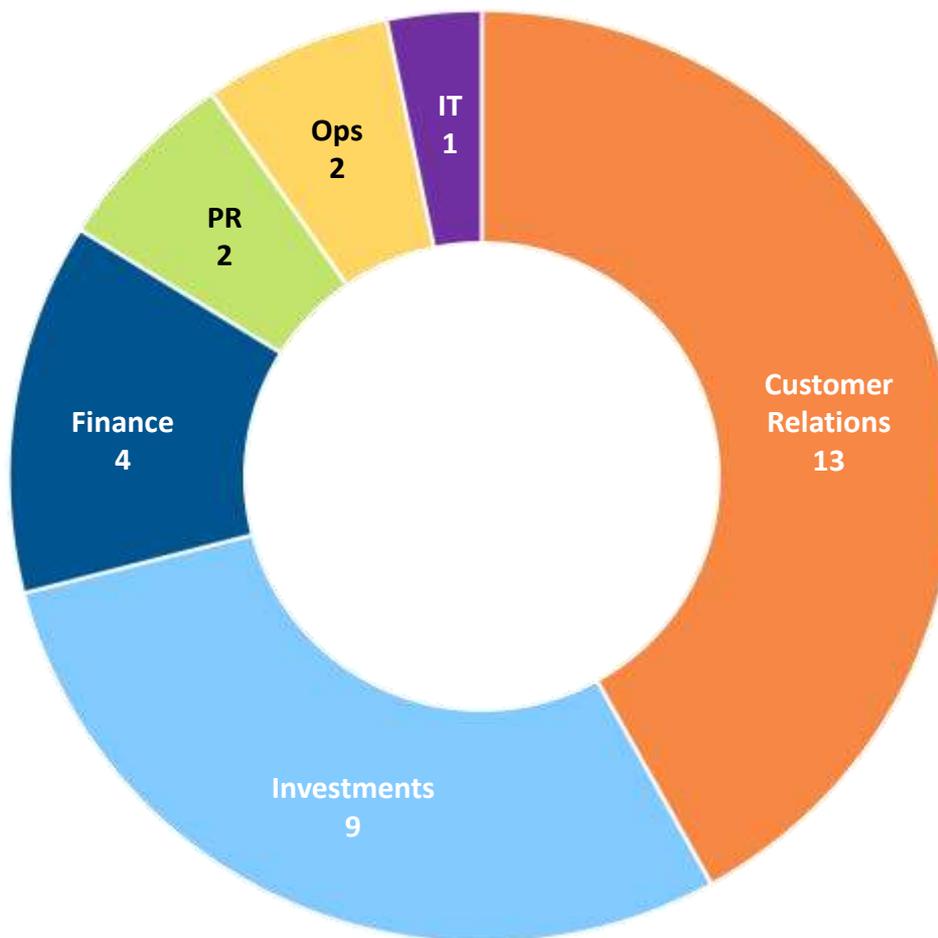
Decision Package Biennial Cost

Average two-year cost = \$13,503,545



- Initiate Critical Facility Repairs & Upgrades
- Strengthen Workforce Development
- Ensure Long-Term Financial Health
- Optimize the Customer Experience
- Reinforce Fraud Prevention & Security Measures
- Enhance Business & Service Delivery Models

FTE Requests by Business Unit



Total = 31

Decision Package 1

Initiate Critical Facility Repairs & Upgrades			
Initiative	FY25 Cost	FY26 Cost	FTEs
Hybrid Workspace Redesign	1,000,000	0	0
Building & Infrastructure Repair & Maintenance	1,225,000	225,000	0
Electrical Panel Upgrades	1,200,000	0	0
Total	\$3,425,000	\$225,000	0

- Supports organizational strength, culture, and engagement (Strategic Plan Goal 1)
- Fosters a positive working environment and culture of engagement
- Improves collaboration and efficiency in the new hybrid work model
- Protects structural integrity of VRS headquarters building
- Maintains employee safety through electrical panel upgrades

Decision Package 2

Strengthen Workforce Development			
Initiative	FY25 Cost	FY26 Cost	FTEs
Market Analysis Compensation Adjustments	2,200,000	2,200,000	0
VRS Internship Program	176,275	352,550	0
Total	\$2,376,275	\$2,552,550	0

- Supports organizational strength, culture, and engagement (Strategic Plan Goal 1)
- Adjusts VRS salaries to align with market benchmarks
- Emphasizes recruitment and retention efforts
- Expands recruitment to more varied outlets
- Provides mentorship opportunities and develops future talent within the agency

Decision Package 3

Ensure Long-Term Financial Health			
Initiative	FY25 Cost	FY26 Cost	FTEs
Asset Allocation Strategy - Leverage	1,175,684	1,410,259	4
Senior Compliance Analyst	176,050	191,594	1
Regulatory & Legal Analyst III	0	161,173	1
Senior Investment Analyst - Fixed Income	193,879	207,795	1
Senior Investment Analyst - Research & IDS	193,879	207,795	1
Decision Systems Analyst II	176,050	191,594	1
Investments Data Support	455,000	471,600	0
Portfolio Management & Research App Upgrade	220,000	320,000	0
Total	\$2,590,542	\$3,161,810	9

- Supports superior governance and long-term financial health (Strategic Plan Goal 2)
- Aligns with Fund strategic asset allocation approved by the Board in 2023
- Provides resources to further support internal investment management
- Ensures in-house asset management remains well-governed and financially sound
- Enhances business process documentation and advances greater knowledge transfer

Decision Package 4

Optimize the Customer Experience			
Initiative	FY25 Cost	FY26 Cost	FTEs
Contact Center Experience Enhancement	1,383,015	1,383,015	11*
Hybrid Retirement Plan Counseling Supervisor	64,037	117,014	1
Retirement Outreach Counselor	90,530	117,014	1
Web Developer & Production Specialist	98,852	127,927	1
Video Production Specialist	86,081	100,504	1
Senior Member Account Analyst	87,503	113,052	1
Total	\$1,810,018	\$1,958,526	5

*11 wage employees converted to FTEs in FY24; this request is for ongoing appropriation

- Supports member, retiree and employer education, outreach and partnership (Strategic Plan Goal 3)
- Improves recruitment and retention efforts to support the customer contact center
- Adds expertise to support customer experience enhancements
- Fosters and enhances communication outlets to engage employers, retirees and members through the use of various tools and technology

Reinforce Fraud Prevention & Security Measures			
Initiative	FY25 Cost	FY26 Cost	FTEs
Risk & Fraud Prevention Analyst	128,669	167,008	1
Risk & Fraud Prevention Program/Software	385,000	235,000	0
IAM Solution Phases III & IV	775,000	785,000	0
CRM Integration for CCC	1,490,000	1,235,000	0
Total	\$2,778,669	\$2,422,008	1

- Supports digital transformation and secure service delivery (Strategic Plan Goal 4)
- Aids VRS efforts in addressing and protecting against fraud and cyber security threats
- Updates the Identity Access Management (IAM) process, including role-based security
- Continues integration of Customer Relationship Management (CRM) tool with contact center telephony system
 - Strengthens fraud detection and analysis capabilities to assist in protecting member information through advanced technology, including a voice recognition platform
 - Enhances call routing capabilities, resulting in improved customer experience and outcomes

Decision Package 6

Enhance Business & Service Delivery Models			
Initiative	FY25 Cost	FY26 Cost	FTEs
VRS Project Management Office (PMO)	106,975	217,200	1
D365 Operations Consulting	365,000	380,000	0
Sr. Technical Developer (D365 Support)	200,454	217,200	1
Upgrades to Software Applications & Programs	285,684	77,468	0
Human Resource Information System (HRIS) Phase 2	535,000	545,000	0
Finance Manager	118,873	243,562	1
Procurement Specialist	100,755	100,755	1
Accounts Payable Analyst	102,224	110,542	1
Total	\$1,814,965	\$1,891,727	5

- Supports digital transformation and secure service delivery (Strategic Plan Goal 4) and technology infrastructure (Strategic Plan Goal 5)
- Maximizes operational efficiencies by employing an agency-wide PMO to coordinate all initiatives
- D365 support creates 24/7 monitoring capabilities by combining in-house development with external services
- All application and program upgrades promote efforts regarding the use of metrics to achieve operational efficiency and effectiveness
- A wholistic HRIS transforms paper-based processes into digital experiences while eliminating multiple licenses
- Ensures that customers and employees have access to real-time, accurate information

Previous Biennial Requests



Biennium	DPs	Year 1		Year 2		Total		
		Dollars	Positions	Dollars	Positions	Dollars	Positions	Budget Growth*
FY2019-20	9	15,976,202	27	10,419,791	4	13,197,997	31	16.8%
FY2021-22	9	9,898,130	15	10,827,651	3	10,362,891	18	11.8%
FY2023-24	8	10,536,967	18	13,247,982	1	11,892,475	19	11.2%
FY2025-26	6	14,795,469	29	12,211,621	2	13,503,545	31	11.1%

* Two-Year Average

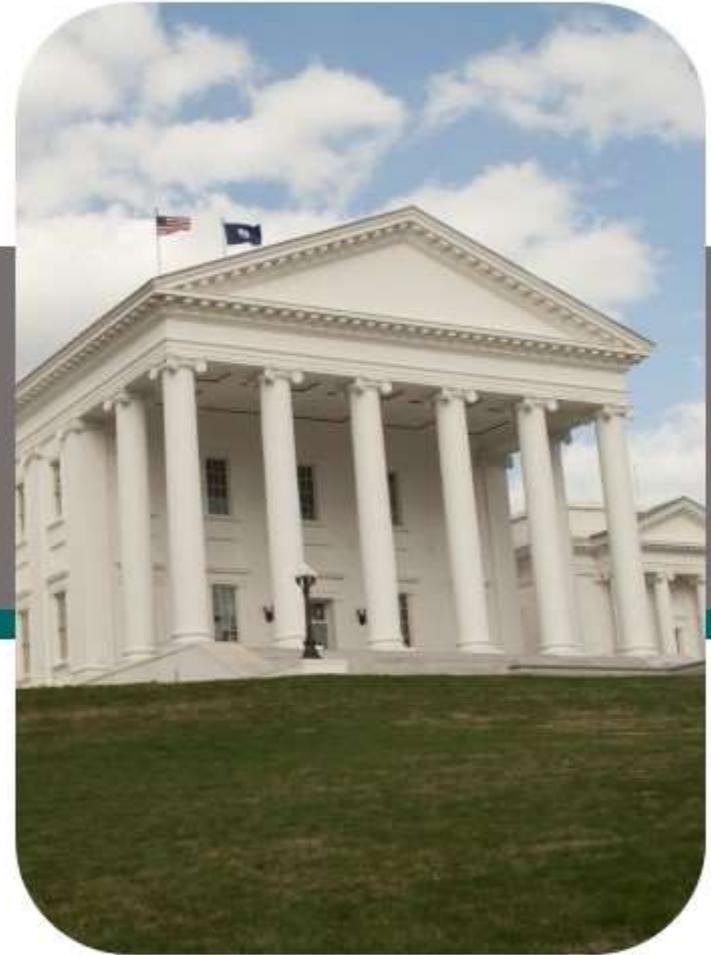
Net Impact

	FY25	FY26
Base Budget	\$125,818,342	\$125,818,342
Adjustments from DPB	211,417	0
One-Time Initiatives from Previous Year's Budget	(4,524,250)*	(3,829,250)*
New Budget Requests	14,795,469	12,211,621
Beginning Budget	\$136,300,978[^]	\$134,200,713[^]

*Represents funding from previous year's initiatives that is not carried forward to future budgets

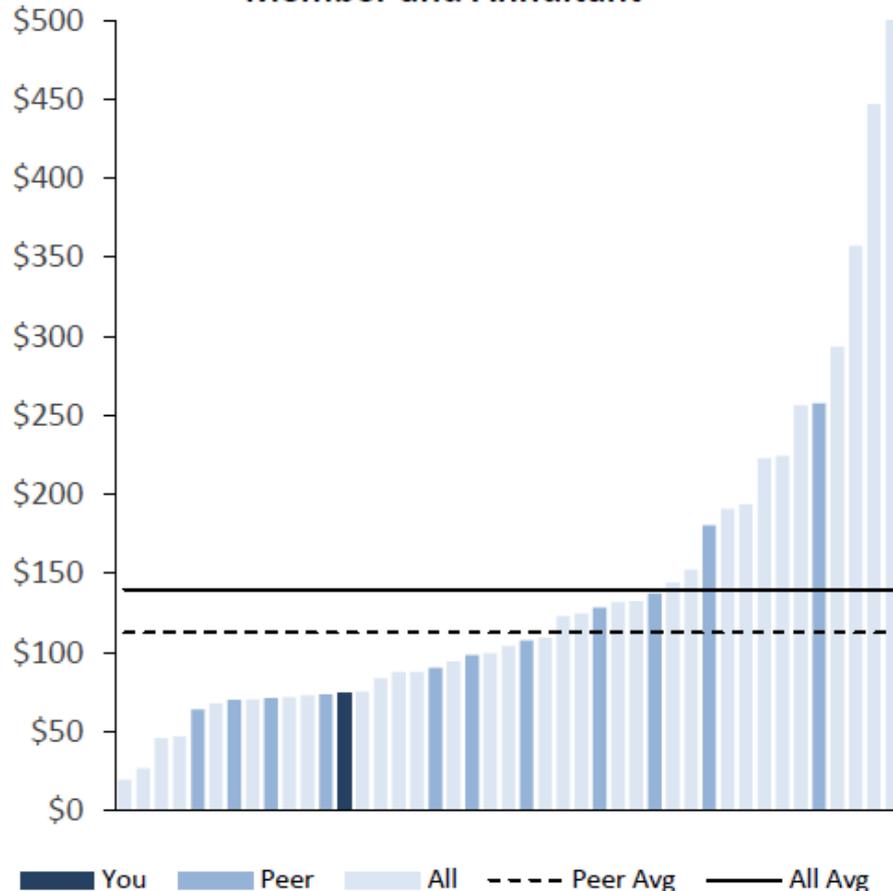
[^]Subject to change by future amendments from the Commonwealth

Benchmarking



VRS Cost: External Benchmarking

Pension Administration Cost Per Active Member and Annuitant

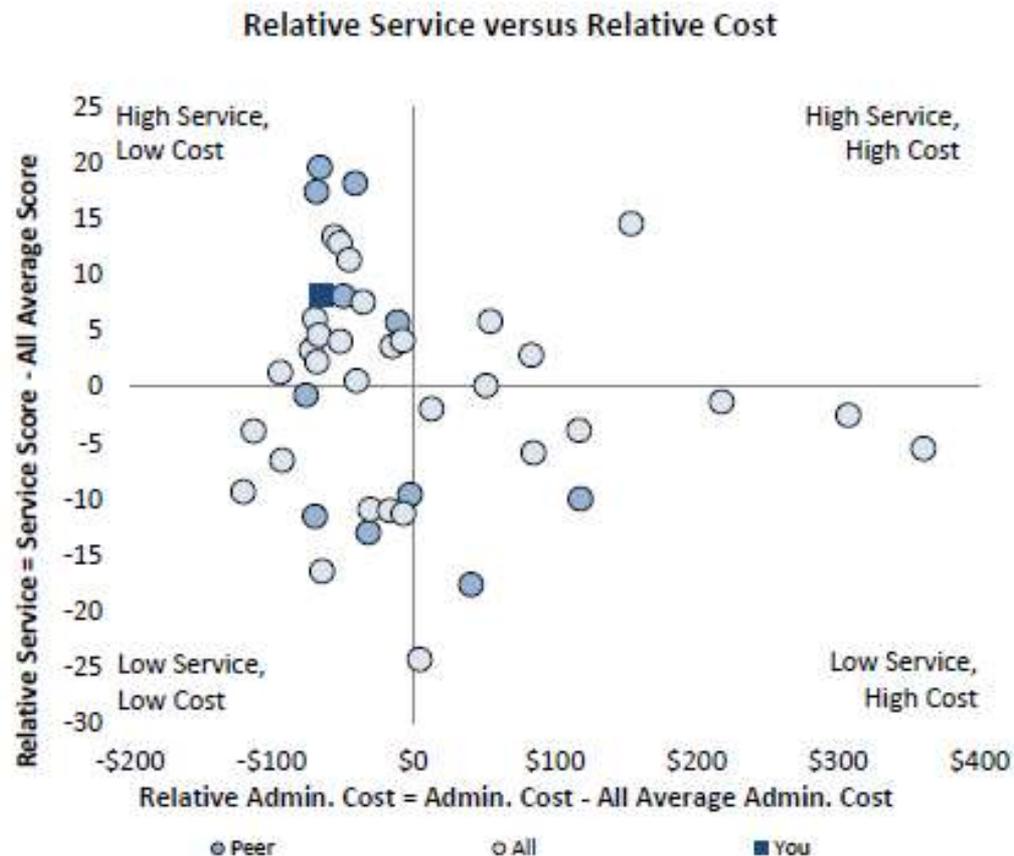


VRS' FY 2022 total pension administration cost (most recent CEM survey) of **\$74 per active member and annuitant** was **\$39 below the peer average of \$113**

Peer Max = \$258
Peer Min = \$64

Source: 2022 CEM Benchmarking Inc. Analysis for the Virginia Retirement System, Executive Summary p. 6

VRS Cost and Service: External Benchmarking



Questions?

VIRGINIA RETIREMENT SYSTEM

FY2025-2026 Budget Requests

FY2025

FY2026

\$

\$

Total
Positions

1 INITIATE CRITICAL FACILITY REPAIRS & UPGRADES

Funding for this proposal will allow VRS to undergo necessary building improvements as well as reorganize workspace in the VRS building (1200/1204) and leased space. Included in this package is funding to address repairs to the 1200/1204 brownstone. Additionally, the building's electrical panels are in need of replacing. The replacement will begin in FY24 with current appropriation; however, additional funds are being requested to complete the project in FY25. The final piece of this request is for funding to improve VRS' office design to better fit a hybrid work environment and improve collaboration.

\$ 3,425,000	\$ 225,000	-
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2 STRENGTHEN WORKFORCE DEVELOPMENT

This request aligns with VRS' strategic goal to invest in a high-quality, professional workforce. In FY24, VRS will complete market analysis compensation studies for both Administration and Investments; this proposal will allow the agency to implement the recommendations of both studies. In addition, VRS will use additional appropriation to begin an internship program across the Administration department. With both efforts, the agency will position itself to address its current and future needs, including filling current openings and developing the next generation of talent.

\$ 2,376,275	\$ 2,552,550	-
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3 ENSURE LONG-TERM FINANCIAL HEALTH

The VRS Trust Fund (Fund) continues to grow, with total assets now over \$105 billion. With this growth, the agency must continue to explore and implement new strategies, increase its monitoring capabilities, and ensure compliance with an increasingly complex regulatory environment. While this could be achieved using only external partners, VRS has demonstrated significant cost savings for the Fund through internal management. Three new FTEs will provide additional operations and controls to support increased portfolio asset growth and complexity. Also, upgrades to technology applications and additional data feeds will be required. Two analysts will aid the Investments Data Solutions Team and the Research Team, which will assist the Investments department in making well-informed strategic investment decisions. The final component to this package will allow the Investments department to explore and implement a new strategic asset allocation strategy that was approved by the Board in 2023. To achieve a successful implementation, four positions and an external consultant will be required to help identify, evaluate, hire and monitor partnerships with external managers.

\$ 2,590,542	\$ 3,161,810	9
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4 OPTIMIZE THE CUSTOMER EXPERIENCE

This proposal includes new positions to cultivate mutually supportive partnerships that enhance an exceptional customer experience. After performing an extensive customer experience analysis, VRS is ready to proceed with improvements. A recurring concern for the agency is turnover in the Customer Contact Center (CCC). In FY23 and FY24, eleven part-time employees were converted to FTEs. Funding for this was absorbed within the current appropriation due to the hiring freeze and vacancies that resulted from Covid. As the agency has emerged from the pandemic and the extremely tight labor market has begun to relax, VRS has been able to fill positions and can no longer rely on previous vacancies. Further, VRS invests significant resources in training agents, so providing full-time positions instead of wage should reduce turnover and associated costs as well as improve efficiency and agent expertise. Five more positions across Retirement Counseling, Member Support, and Public Relations will address other areas noted in the customer experience analysis, including additional web content and targeted messaging and outreach.

\$ 1,810,018 \$ 1,958,526 16

5 REINFORCE FRAUD PREVENTION & SECURITY MEASURES

This proposal continues from previous years' planning and will serve to enhance our overall risk mitigation framework. Specifically, this request will protect the agency against existing and emerging threats from attackers attempting to access sensitive data or impersonate members by using compromised information. An Analyst and tools to support the new Risk & Fraud Prevention Department is included. Also included is funding to continue the Identity Access Management replacement project and a Customer Relationship Management program to be implemented within the CCC's telephony system.

\$ 2,778,669 \$ 2,422,008 1

6 ENHANCE BUSINESS & SERVICE DELIVERY MODELS

Funding for this proposal will provide tools and five positions to assist the agency in transforming its business and service delivery models to meet the needs of its customers. These measures will ensure that VRS leverages state-of-the-art technology to improve system functionality. Replacing the multiple current HR information system platforms with a single, holistic platform will create savings and efficiencies for the department, as well as the agency. Additionally, this proposal includes funding for staff augmentation for VRS' financial system, Dynamics 365, for more in-house development and analysis. A Finance Manager, a Procurement Specialist, and an Accounts Payable Analyst in the Finance Department will address strategic plan goals to secure knowledge capture and transfers, and expand access to critical documents and procedures to best serve all customers. The final component to this request is establishing a Project Management Office for the agency to ensure VRS can successfully coordinate the various initiatives required of the organization while allowing other staff members to maintain focus on their core responsibilities.

\$ 1,814,965 \$ 1,891,727 5

TOTAL AGENCY REQUESTS \$ 14,795,469 \$ 12,211,621 31



Virginia Retirement System (VRS) FY 2023 Year-End Budget to Actual Report

	FY23 Budget <i>A</i>	Expenses through 6/30/2023 <i>B</i>	Projected Variance Favorable/ (Unfavorable) <i>E = A - D</i>	Projected % Remaining <i>F = E / A</i>
Administration				
Personnel				
Salaries & Wages	18,195,000	16,635,000	1,560,000	8.6%
Fringe Benefits	8,187,000	7,093,000	1,094,000	13.4%
Incentive Compensation	1,043,000	1,032,000	11,000	1.1%
Contractual Services				
Management & Administration ¹	1,283,000	941,000	342,000	26.7%
Professional Services ²	4,520,000	4,186,000	334,000	7.4%
Technical Services ³	221,000	13,000	208,000	94.1%
Travel & Training	374,000	257,000	117,000	31.3%
Network Infrastructure	117,000	47,000	70,000	59.8%
Equipment & Supplies	139,000	85,000	54,000	38.8%
Facility	2,089,000	2,071,000	18,000	0.9%
Administration Total	36,168,000	32,360,000	3,808,000	10.5%
Information Technology				
Personnel				
Salaries & Wages	9,730,000	8,101,000	1,629,000	16.7%
Fringe Benefits	3,799,000	3,133,000	666,000	17.5%
Incentive Compensation	484,000	484,000	-	0.0%
Contractual Services				
Management & Administration ¹	1,518,000	1,509,000	9,000	0.6%
Professional Services ²	92,000	92,000	-	0.0%
Technical Services ³	12,138,000	12,134,000	4,000	0.0%
Travel & Training	37,000	37,000	-	0.0%
Network Infrastructure	9,574,000	9,467,000	107,000	1.1%
Equipment & Supplies	54,000	47,000	7,000	13.0%
Facility	682,000	681,000	1,000	0.1%
Information Technology Total⁴	38,108,000	35,685,000	2,423,000	6.4%



Virginia Retirement System (VRS) FY 2023 Year-End Budget to Actual Report

	Current Budget ¹ <i>A</i>	Expenses through 6/30/2023 <i>B</i>	Projected Variance Favorable/ (Unfavorable) <i>E = A - D</i>	Projected % Remaining <i>E / A</i>
Investment Management				
Personnel				
Salaries & Wages	14,737,000	14,148,000	589,000	4.0%
Fringe Benefits	5,136,000	4,839,000	297,000	5.8%
Incentive Compensation	7,803,000	7,803,000	-	0.0%
Contractual Services				
Management & Administration ¹	636,000	284,000	352,000	55.3%
Professional Services ²	2,026,000	1,489,000	537,000	26.5%
Technical Services ³	11,700,000	10,768,000	932,000	8.0%
Travel & Training	751,000	406,000	345,000	45.9%
Network Infrastructure	1,066,000	423,000	643,000	60.3%
Equipment & Supplies	51,000	45,000	6,000	11.8%
Facility	657,000	654,000	3,000	0.5%
Investment Management Total	44,563,000	40,859,000	3,704,000	8.3%
VRS Subtotal	118,839,000	108,904,000	9,935,000	8.4%

¹ Management & Administration includes postage, printing, communications, memberships, subscriptions, insurance, claims and bonds

² Professional Services includes fiscal services, management services, legal services, media services, medical services, and auditing services

³ Technical Services includes computer operating services, contractors and data feeds

⁴ Does not include funds obligated through POs, but not yet paid



Virginia Retirement System (VRS) FY 2024 Budget to Actual Projections

	Beginning Budget ¹	Expenses through 7/31/2023	Projected Remaining Expenses	Projected Total Expenses ²	Projected Variance Favorable/ (Unfavorable)	Projected % Remaining
	A	B	C	D = B + C	E = A - D	F = E / A
Administration						
Personnel						
Salaries & Wages	20,258,000	1,674,000	17,970,000	19,644,000	614,000	3.0%
Fringe Benefits	8,149,000	620,000	7,326,000	7,946,000	203,000	2.5%
Incentive Compensation	1,125,000	4,000	1,121,000	1,125,000	-	0.0%
Contractual Services						
Management & Administration ³	2,329,000	86,000	1,943,000	2,029,000	300,000	12.9%
Professional Services ⁴	4,089,000	67,000	3,683,000	3,750,000	339,000	8.3%
Technical Services ⁵	1,024,000	-	1,005,000	1,005,000	19,000	1.9%
Travel & Training	394,000	16,000	365,000	381,000	13,000	3.3%
Network Infrastructure	165,000	-	139,000	139,000	26,000	15.8%
Equipment & Supplies	105,000	8,000	92,000	100,000	5,000	4.8%
Facility	1,833,000	151,000	1,669,000	1,820,000	13,000	0.7%
Administration Total	39,471,000	2,626,000	35,313,000	37,939,000	1,532,000	3.9%
Information Technology						
Personnel						
Salaries & Wages	8,780,000	721,000	7,992,000	8,713,000	67,000	0.8%
Fringe Benefits	3,245,000	270,000	2,899,000	3,169,000	76,000	2.3%
Incentive Compensation	471,000	1,000	470,000	471,000	-	0.0%
Contractual Services						
Management & Administration ³	1,557,000	120,000	1,370,000	1,490,000	67,000	4.3%
Professional Services ⁴	103,000	-	98,000	98,000	5,000	4.9%
Technical Services ⁵	14,424,000	826,000	12,472,000	13,298,000	1,126,000	7.8%
Travel & Training	103,000	4,000	87,000	91,000	12,000	11.7%
Network Infrastructure	8,186,000	262,000	7,449,000	7,711,000	475,000	5.8%
Equipment & Supplies	77,000	-	65,000	65,000	12,000	15.6%
Facility	424,000	74,000	340,000	414,000	10,000	2.4%
Information Technology Total⁶	37,370,000	2,278,000	33,242,000	35,520,000	1,850,000	5.0%



Virginia Retirement System (VRS) FY 2024 Budget to Actual Projections

	Current Budget ¹ <i>A</i>	Expenses through 7/31/2023 <i>B</i>	Projected Remaining Expenses <i>C</i>	Projected Total Expenses <i>D = B + C</i>	Projected Variance Favorable/ (Unfavorable) <i>E = A - D</i>	Projected % Remaining <i>E / A</i>
Investment Management						
Personnel						
Salaries & Wages	14,875,000	1,241,000	13,564,000	14,805,000	70,000	0.5%
Fringe Benefits	5,122,000	423,000	4,607,000	5,030,000	92,000	1.8%
Incentive Compensation	7,703,000	-	7,703,000	7,703,000	-	0.0%
Contractual Services						
Management & Administration ³	1,873,000	9,000	1,591,000	1,600,000	273,000	14.6%
Professional Services ⁴	1,797,000	60,000	1,642,000	1,702,000	95,000	5.3%
Technical Services ⁵	10,890,000	850,000	8,043,000	8,893,000	1,997,000	18.3%
Travel & Training	666,000	23,000	597,000	620,000	46,000	6.9%
Network Infrastructure	873,000	5,000	745,000	750,000	123,000	14.1%
Equipment & Supplies	17,000	-	16,000	16,000	1,000	5.9%
Facility	657,000	70,000	581,000	651,000	6,000	0.9%
Investment Management Total	44,473,000	2,681,000	39,089,000	41,770,000	2,703,000	6.1%
VRS Subtotal	121,314,000	7,585,000	107,644,000	115,229,000	6,085,000	5.0%

¹ Original budget plus/minus transfers

² Projected Total Expenses are best estimates as of the creation of this report and are subject to change

³ Management & Administration includes postage, printing, communications, memberships, subscriptions, insurance, claims and bonds

⁴ Professional Services includes fiscal services, management services, legal services, media services, medical services, and auditing services

⁵ Technical Services includes computer operating services, contractors and data feeds

⁶ Does not include funds obligated through POs, but not yet paid



Reappointment of IAC Members.

Requested Action

The Board reappoints William “Hance” West and Nancy G. Leake to the Investment Advisory Committee, each for a two-year term ending December 31, 2025.

Rationale for Requested Action

Mr. West and Ms. Leake currently serve on the Investment Advisory Committee (IAC) and are willing to be reappointed for another two-year term. Mr. West is the Chief Investment Officer and Managing Director of Investure, and Ms. Leake was previously an Advisory Partner with Partners Group (USA) Inc. and currently serves on several investment advisory boards.

Authority for Requested Action

Code of Virginia § 51.1-124.26 requires the Board to appoint an Investment Advisory Committee to provide the Board with sophisticated, objective, and prudent investment advice, which will further assist the Board in fulfilling its fiduciary duty as trustee of the funds of the Retirement System.

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date

Hance West Biography

Hance West has served as both Investure's Chief Investment Officer and Co-Chief Investment Officer for more than a decade. Along with responsibility for the Investment Team and the investment process, he directly manages clients' fixed income portfolios and passive investments. Prior to joining Investure in 2004, Hance was a Director for the University of Virginia Investment Management Company (UVIMCO) from 2000 to 2003. While at UVIMCO, Hance managed the fixed income portion of the University's endowment fund and various operating accounts as well as had joint responsibility for the University's hedge fund portfolio. He previously served as Executive Vice President of Portfolio Management at Dynex Capital, where he led portfolio management and securitization activity. Prior to working at Dynex Capital, he served as Co-Head of Fixed Income for Mentor Investment Group, where he was responsible for all institutional accounts.

Hance earned his BS in accounting from Virginia Tech and his MBA from the Simon School of Business at the University of Rochester. He holds the Chartered Financial Analyst designation and is a member of the CFA Institute. Hance currently serves on the Investment Advisory Committee of the Virginia Retirement System, is the former chair of both the Board of Directors of the Virginia Tech Foundation and of the Foundation's Investment Committee. He currently serves as a member of the Virginia Tech Foundation's Real Estate Committee and Virginia Tech's Capital Campaign Steering Committee. He is also a Trustee of the Virginia Chapter of The Nature Conservancy and serves as Treasurer and Chair of the Finance Committee.

Nan Leake currently serves on the Investment Advisory Committee of the Virginia Retirement System and the Board of VCU Investment Management Company. She also serves on the Advisory Board of Hodes Weill & Associates, a capital advisory firm focused on the real estate investment and funds management industry, and on the Funds & Co-investments Investment Committee of Blue Earth Capital, an impact investing firm based in Switzerland. Previously, she served on both the Board and Investment Advisory Committee of the Richmond Retirement System.

Ms. Leake was previously a Partner in the Private Real Estate business unit at Partners Group, a global private markets investment manager with \$135 billion in assets under management. During her decade-long tenure at Partners Group, Ms. Leake was responsible for advancing the firm's real estate investment strategies, managing investor relationships and sourcing investment opportunities. Throughout her 35 year career, Ms. Leake has been involved in all aspects of real estate investing, having worked exclusively with institutional investors to design, structure and implement their global real estate investment strategies. Prior to joining Partners Group, Ms. Leake was a senior consultant at Pension Consulting Alliance, Inc. ("PCA"), whose discretionary real estate asset management business was integrated into Partners Group in 2007. Before joining PCA, she worked at Property Investment Advisors, Inc., the Virginia Retirement System and NBS Realty Advisors.

Ms. Leake is also involved with Shalom Farms, a leading grower and provider of local produce and food access programing in low-income communities in Richmond, Virginia. She has served on the boards of both Shalom Farms and The Maxwellton-Lachlan Foundation, which provides summer camp scholarships to needy youth. Ms. Leake also serves on the UVA Real Estate Committee, a volunteer group of alumni with expertise across the real estate industry, championing an effort to raise significant private philanthropy to launch a formal University of Virginia Real Estate Center.

Ms. Leake is active in property and timber investing, regenerative agriculture and land management in Central Virginia. She resides on her farm in Goochland County with her husband and beloved dog Kate.



**Approve amended Administrative Pay Plan,
Investment Operations and Administration Staff Pay Plan,
and Investment Professionals' Pay Plan**

Requested Action

The VRS Board of Trustees approves an amended Administrative Pay Plan, Investment Operations and Administration Staff Pay Plan and Investment Professionals' Pay Plan, effective December 10, 2023.

Description/Background

The VRS Board of Trustees approved the current Administrative Pay Plan, the current Investment Operations and Administration Staff Pay Plan and the current Investment Professionals' Pay Plan on June 10, 2023. Item 483 of the 2023 Appropriation Act requires the Department of Human Resource Management to increase by 2% the minimum and maximum of each of the salary bands in the Commonwealth's Classified Compensation Plan. Generally, the VRS Board of Trustees also adjusts the salary scales in its pay plans in accordance with the requirements of the Appropriation Act. An increase of 2% to the minimum and maximum of each grade of the salary scales of the Administrative Pay Plan, the Investment Operations and Administration Staff Pay Plan and the Investment Professionals' Pay Plan, effective December 10, 2023, is consistent with changes to be made to the Commonwealth's Classified Compensation Plan.

Rationale for Requested Action

The amendments to the Administrative Pay Plan, Investment Operations and Administration Staff Pay Plan and Investment Professionals' Pay Plan are pursuant to the provisions of the 2023 Appropriation Act and in keeping with the salary band adjustments made to the Commonwealth's Classified Compensation Plan.

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.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



VIRGINIA RETIREMENT SYSTEM
HUMAN RESOURCES POLICIES AND PROCEDURES

Title: ADMINISTRATIVE PAY PLAN

Policy Number: 3.10

Supersedes: 06/10/2023

Effective Date: 12/10/2023

I. Authority

The Director is authorized under the Appropriation Act to use agency funds or funds appropriated, if any, to implement the provisions of new or existing performance-based pay plans.

II. Purpose

The purpose of the Administrative Pay Plan (Plan) is to attract, motivate and retain skilled employees within a compensation framework that is competitive with the external market, internally equitable and performance based. VRS is committed to providing a total rewards package tied to the attainment of individual and team results and the achievement of organizational goals.

III. Policy

The Plan applies to all full and part-time (non-wage) employees who work under the administrative and audit authorities of VRS. Wage employees' pay complies with the provisions of the state classification and pay plan. The Plan ensures that agency salaries are competitive with the market average of a mix of public and private sector organizations. Comparative market salary data is typically reviewed every two (2) years to ensure competitiveness of the salary structure.

The Plan includes 16 salary grades for general classifications and 14 salary grades for technology classifications as identified in Appendix 1.

There is a broad span between the minimum and maximum salary of each salary grade to allow, in most cases, for salary growth or other possible adjustments over an employee's span of employment.

IV. Procedure

A. Job Placement

Placement of jobs in each grade is determined by measuring the degree of expertise and accountability required for each position in four areas:

1. **Knowledge and Expertise** measures the amount and depth of knowledge, experience and skills necessary for functioning effectively in a specified role. This expertise may be in technical disciplines, procedures specific to the organization, ability to use certain equipment, and/or management responsibility for planning, organizing and integrating the work of others.

2. **Complexity and Conceptual Thinking** measures the amount of analytical and problem-solving skills required in the position to evaluate and diagnose differing situations and devise new approaches relating to the organization as a whole and/or its business strategies.
3. **Contribution and Impact** measures the breadth of the position's contribution to the advancement of VRS' vision, "To be the trusted leader in the delivery of benefits and services to those we serve." This ranges from improving work processes in the work unit to influencing agency-wide results.
4. **Effective Communication** measures the position's requirements for interacting with and/or influencing coworkers, team members, contacts in other units/departments, members, retirees or contacts outside the organization.

Each job is evaluated in objective terms, not only to ascertain its demands on the individual, but also to determine its worth in comparison to other jobs in the agency and its importance to VRS' success.

Salary ranges are established for all grades by recognizing the level of education, knowledge, skill, and experience needed to perform each job. The salary range demonstrates the interrelationships of the jobs used by the agency in addition to comparing salaries paid for similar classifications in private and public sectors. The salary range for a job includes a minimum, midpoint and maximum salary.

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** is the median salary for the grade.
- **Maximum** is the highest salary paid for a position within the salary grade.

Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer, or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

B. Starting Salary

The respective member of the Director's Executive Committee (DEC) approves the hiring salary range when the recruitment is formally requested. Hiring supervisors and second line supervisors recommend the starting salary for new employees and the respective member of the DEC approves the starting salary, in coordination with the human resources director.

The salaries paid to employees in the department; the candidate's education, skills, work experience; and salary history are typically considered when determining the appropriate salary to offer a candidate. Starting salaries typically do not exceed the salary grade midpoint. Additional justification is required to support offering salaries above the midpoint.

C. Salary Adjustments

1. Introductory Increases

The introductory period for new employees is 12 months from the date of hire. The introductory period serves as an adjustment period for employees to establish a working relationship with their supervisors, to acclimate to their new job duties and to learn about VRS. When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations.

The Performance Management Policy outlines details.

2. Promotions

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. Any exception requires additional justification, an internal equity review and approval of the appropriate DEC member and the director of human resources.

For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

3. Lateral

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the appropriate DEC member and the director of human resources.

4. Downward Assignments (Voluntary or Involuntary)

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

- **Voluntary** – An employee- initiated request to transition to a position within a lower salary grade.
- **Involuntary** – A management- initiated request to transition an employee to a position within a lower salary grade, typically due to performance, corrective action or restructuring. A downward assignment would typically result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range.

Any exception to this guideline will require additional justification, an internal equity review and approval of the appropriate DEC member and the director of human resources.

In unique situations, such as job abolishment or agency reorganization, an employee's salary may exceed the maximum of the lower grade and the salary remain unchanged. Salaries remain frozen until market adjustments allow additional increases (red-circle). These employees remain eligible to receive applicable performance or gainsharing bonus awards if performance criteria are met.

5. Job Reclassifications

Job reclassifications occur when the employee's duties and responsibilities change substantially, which may result in a different pay grade. Reclassification is based on job content and not the performance of the incumbent. Job studies are performed by human resources, with input by management.

- **Reclassification Upward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a higher salary grade.
- Employees typically receive salary increases between 2% and 15%. Reclassification increases are approved by the appropriate DEC member, in coordination with the human resources director. Salaries must be at or above the minimum of the new pay grade.
- **Reclassification Laterally:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within the same salary grade. No salary increase is awarded. Any exception to this guideline will require additional justification, an internal equity review, and approval of the appropriate DEC member, in coordination with the human resources director.
- **Reclassification Downward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a lower salary grade.

6. Regrade

Regrades occur when the classification is determined to warrant a different pay grade. This is typically determined by a market analysis or internal classification review, performed by HR in coordination with the DEC member.

Employees typically receive salary increases between 2% and 15%. Regrade increases are approved by the appropriate DEC member, in coordination with human resources. Salaries must be at or above the minimum of the new pay grade.

7. Acting Pay

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

- **Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received while performing the “acting” job responsibilities.
- **Beyond Two Years Duration:** When employees are deemed to be “acting” by performing the full duties of a position for more than two years, the supervisor may choose to promote the individual without going through a competitive process. If the employee is promoted, the employee is eligible for a promotional increase. Otherwise, the position will be open for recruitment. The permanent filling of the position may involve no change in current salary or could include a pay increase, depending upon the circumstances and available budget.

If an employee is acting in a position that is the same salary grade, acting pay would not be provided unless there is sufficient justification to support that the duties of the acting position are substantially different.

8. In-grade

In-grade salary adjustments occur when employees receive an increase in base pay to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, or responsibilities outside of the position classification process. These adjustments should only be provided once per fiscal year. Listed below are the categories and descriptions of in-grade salary adjustments.

- **Market adjustment:** Warranted in cases where external market forces exist due to high demand for a particular skill or position which may result in significantly higher turnover. Market adjustments may also occur if it is determined that an individual’s salary is significantly lower than market study findings. Salary adjustments can apply to an individual or classification of employees to ensure competitiveness and retention of staff. An in-grade adjustment of 1% to 10% of salary is typically provided.
- **Internal alignment adjustment:** Warranted when employees’ salaries are unusually low or out of comparability with other employees in the work unit. Factors considered include experience, education, knowledge, skills and abilities. An in-grade adjustment of 1% to 10% of salary is typically provided.
- **Individual accomplishment adjustment:** May be awarded to recognize the attainment of a higher level of expertise through professional certification requiring continuing education credits (CEUs). In- grade adjustments are awarded at the time of the original certification. If the certification does not require CEUs, an in-grade adjustment will not be provided; however, a bonus may be considered. Additionally, an in-grade adjustment for completion of a degree that relates to a current or career path position may be provided. Other similar situations may be considered as justification for an individual accomplishment adjustment. An in-grade adjustment of 1% to 10% of salary is typically provided.

- **Skill acquisition and application adjustment:** May be awarded to recognize the acquisition and application of relevant, pre-defined, job-based skills, resulting in increased value to the organization. Typically, an Individual Development Plan identifies the needed skills and the skill acquisition plan. Formal assessments, through testing or demonstration of the skills acquired and applied to the job, may result in an in-grade adjustment. An in-grade adjustment of 1% to 4% of salary is typically provided.
- **Change in job duties adjustment:** May be awarded to an employee who assumes new higher-level duties and responsibilities that are critical to the operations of the agency. An in-grade adjustment of 1% to 10% of salary is typically provided.
- **Retention adjustment:** May be granted to prevent employees from seeking employment outside the agency including:
 - Employees in occupations that have high value in the labor market when salaries have not been competitive with the marketplace. In such cases, the adjustment is normally granted to all employees in a particular occupation or functional area to avoid turnover.
 - Individual employees who are assigned to key functions.

An in-grade adjustment of 1% to 10% of salary is typically provided.

The employee's supervisor must request the in-grade adjustment in writing and include documentation supporting the need for a pay adjustment. The respective DEC member approves in-grade adjustments, in coordination with the human resources director.

When an employee's salary is at or above the salary maximum for his/her job grade, a bonus payment may be awarded. The respective member of the DEC approves the bonus, in coordination with the human resources director.

9. Competitive

A competitive pay increase is an option available to supervisors to retain top performers, who have received an external job offer, when the loss is determined to be detrimental to the organization. Employees must furnish a copy of the respective job offer.

The supervisor requests, in writing, a competitive pay increase and includes documentation supporting the need for an adjustment and justification for the increase. The respective member of the DEC approves the increase, in coordination with the human resources director.

Competitive pay increases apply to base salary and may not exceed the salary maximum for the salary range. In extraordinary circumstances, when an employee's base salary is at maximum, a bonus is an option. In these situations, the respective member of the DEC, in coordination with the human resources director, submits the request for agency director approval.

10. Increases Governed by the Appropriations Act

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

D. Bonuses

1. Sign-on

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

The amount of the sign-on bonus will vary depending on the position and the supply of candidates. The amount of the bonus typically ranges from 1% to 20% of the midpoint of the salary range.

Fifty percent of the sign-on bonus will be paid in the first paycheck with the remainder of the bonus being paid following the successful completion of the one-year introductory period.

Refer to the **Employee Sign-on Bonus Program Policy**.

2. Referral

Referral bonuses may be provided to full and part-time employees who refer a candidate hired into a full-time position.

The amount of the referral bonus is \$1,000. Fifty percent is paid in the paycheck following the referred employee's first full pay cycle with the remainder of the bonus being paid following the successful completion of the referred employee's introductory period.

Refer to the **Employee Referral Program Policy**.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

3. Performance

Performance bonuses are provided agency wide following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of "exceptional" will receive a 4% bonus and employees who receive an overall rating of "exceeds" will receive a 2% bonus, based on their salary as of June 30. Employees who receive an overall "meets," "does not meet" or "needs improvement" rating will not receive a performance bonus. The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

4. Gainsharing

Gainsharing bonuses are provided when it is determined the agency has successfully attained the Agency Performance Outcomes (APO) and Operational Measures (OM).

Subject to the approval of the VRS Board of Trustees, attainment of the APOs and OMs may result in eligible employees receiving a lump-sum bonus of 2.5%, or other amount determined by the Board, based on their salary as of June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances. Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.

5. Employee Recognition Bonus

Employee recognition bonuses may be provided to full and part-time employees for individual or team accomplishments typically associated with special projects, process improvements, innovation or other outstanding accomplishments.

Bonuses range from \$50 to \$5,000 depending upon the value of individual or team accomplishments.

Bonuses up to and including \$1,000 require approval by the appropriate DEC member. Special Recognition Bonuses, above \$1,000 through \$5,000, require approval by the DEC member and Agency Director, Chief Investment Officer, or Internal Audit Director.

The fiscal year bonus cap is \$5,000 per employee.

The **Recognition and Awards Program Policy** outlines details.

V. Additional Information

A. VRS Pay Plans

In addition to the Administrative Pay Plan, VRS maintains several other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Investment Operations and Administration Staff Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure.
- **Executive Pay Plan** – This pay plan provides the annual salary and bonus amounts provided to the Agency Director, Chief Investment Officer and Audit Director by the VRS Board of Trustees.

B. Key Terms

FLSA - The Fair Labor Standards Act

Exempt – Employees who are not covered by or are exempted from the minimum wage and overtime provisions of the Fair Labor Standards Act

Non-exempt – Employees who are subject to the minimum wage and overtime provisions of the Fair Labor Standards Act

Salary grade – A series of specific pay rates assigned to a classification as the compensation for that classification

Pay rate – A specific dollar amount, expressed as either an annual or hourly rate

Red-circle – A designation for salaries that exceed the maximum of a specified salary range. Employees are not eligible for further base pay increases until the range maximum surpasses the employee's salary.

APPENDIX 1 – PAY RANGES

Administrative SALARY RANGES			
Grade	Min	Mid	Max
1	\$41,236	\$49,482	\$57,730
2	\$45,358	\$54,430	\$63,502
3	\$49,894	\$59,874	\$69,853
4	\$54,884	\$65,861	\$76,838
5	\$60,373	\$72,448	\$84,522
6	\$66,410	\$79,693	\$92,974
7	\$71,560	\$87,662	\$103,763
8	\$78,716	\$96,428	\$114,139
9	\$86,588	\$106,071	\$125,553
10	\$93,342	\$116,678	\$140,013
11	\$102,676	\$128,346	\$154,015
12	\$115,511	\$144,388	\$173,266
13	\$129,950	\$162,437	\$194,925
14	\$146,512	\$186,803	\$227,094
15	\$168,489	\$214,823	\$261,158
16	\$193,762	\$247,047	\$300,332

Technology SALARY GRADES			
Grade	Min	Mid	Max
T1	\$56,213	\$67,456	\$78,699
T2	\$61,834	\$74,202	\$86,568
T3	\$68,019	\$81,622	\$95,226
T4	\$74,820	\$89,784	\$104,749
T5	\$82,302	\$98,763	\$115,223
T6	\$90,532	\$108,639	\$126,745
T7	\$97,554	\$119,503	\$141,453
T8	\$107,309	\$131,454	\$155,598
T9	\$118,040	\$144,599	\$171,158
T10	\$127,247	\$159,059	\$190,871
T11	\$139,972	\$174,965	\$209,958
T12	\$153,969	\$192,461	\$230,954
T13	\$169,366	\$211,707	\$254,049
T14	\$182,649	\$232,878	\$283,107



VIRGINIA RETIREMENT SYSTEM
HUMAN RESOURCES POLICIES AND PROCEDURES

Title: ADMINISTRATIVE PAY PLAN

Policy Number: 3.10

Supersedes: ~~05/10/2023~~06/10/2023

Effective Date:

~~06/10/2023~~12/10/2023

I. Authority

The Director is authorized under the Appropriation Act to use agency funds or funds appropriated, if any, to implement the provisions of new or existing performance-based pay plans.

II. Purpose

The purpose of the Administrative Pay Plan (Plan) is to attract, motivate and retain skilled employees within a compensation framework that is competitive with the external market, internally equitable and performance based. VRS is committed to providing a total rewards package tied to the attainment of individual and team results and the achievement of organizational goals.

III. Policy

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The Plan includes 16 salary grades for general classifications and 14 salary grades for technology classifications as identified in Appendix 1.

There is a broad span between the minimum and maximum salary of each salary grade to allow, in most cases, for salary growth or other possible adjustments over an employee's span of employment.

IV. Procedure

A. Job Placement

Placement of jobs in each grade is determined by measuring the degree of expertise and accountability required for each position in four areas:

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Each job is evaluated in objective terms, not only to ascertain its demands on the individual, but also to determine its worth in comparison to other jobs in the agency and its importance to VRS' success.

Salary ranges are established for all grades by recognizing the level of education, knowledge, skill, and experience needed to perform each job. The salary range demonstrates the interrelationships of the jobs used by the agency in addition to comparing salaries paid for similar classifications in private and public sectors. The salary range for a job includes a minimum, midpoint and maximum salary.

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** is the median salary for the grade.
- **Maximum** is the highest salary paid for a position within the salary grade.

Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer, or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

B. Starting Salary

The respective member of the Director's Executive Committee (DEC) approves the hiring salary range when the recruitment is formally requested. Hiring supervisors and second line supervisors recommend the starting salary for new employees and the respective member of the DEC approves the starting salary, in coordination with the human resources director.

The salaries paid to employees in the department; the candidate's education, skills, work experience; and salary history are typically considered when determining the appropriate salary to offer a candidate. Starting salaries typically do not exceed the salary grade midpoint. Additional justification is required to support offering salaries above the midpoint.

C. Salary Adjustments

1. Introductory Increases

The introductory period for new employees is 12 months from the date of hire. The introductory period serves as an adjustment period for employees to establish a working relationship with their supervisors, to acclimate to their new job duties and to learn about VRS. When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations.

The Performance Management Policy outlines details.

2. Promotions

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. Any exception requires additional justification, an internal equity review and approval of the appropriate DEC member and the director of human resources.

For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

3. Lateral

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the appropriate DEC member and the director of human resources.

4. Downward Assignments (Voluntary or Involuntary)

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

- **Voluntary** – An employee- initiated request to transition to a position within a lower salary grade.
- **Involuntary** – A management- initiated request to transition an employee to a position within a lower salary grade, typically due to performance, corrective action or restructuring. A downward assignment would typically result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range.

Any exception to this guideline will require additional justification, an internal equity review and approval of the appropriate DEC member and the director of human resources.

In unique situations, such as job abolishment or agency reorganization, an employee's salary may exceed the maximum of the lower grade and the salary remain unchanged. Salaries remain frozen until market adjustments allow additional increases (red-circle). These employees remain eligible to receive applicable performance or gainsharing bonus awards if performance criteria are met.

5. Job Reclassifications

Job reclassifications occur when the employee's duties and responsibilities change substantially, which may result in a different pay grade. Reclassification is based on job content and not the performance of the incumbent. Job studies are performed by human resources, with input by management.

- **Reclassification Upward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a higher salary grade.
- Employees typically receive salary increases between 2% and 15%. Reclassification increases are approved by the appropriate DEC member, in coordination with the human resources director. Salaries must be at or above the minimum of the new pay grade.
- **Reclassification Laterally:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within the same salary grade. No salary increase is awarded. Any exception to this guideline will require additional justification, an internal equity review, and approval of the appropriate DEC member, in coordination with the human resources director.
- **Reclassification Downward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a lower salary grade.

6. Regrade

Regrades occur when the classification is determined to warrant a different pay grade. This is typically determined by a market analysis or internal classification review, performed by HR in coordination with the DEC member.

Employees typically receive salary increases between 2% and 15%. Regrade increases are approved by the appropriate DEC member, in coordination with human resources. Salaries must be at or above the minimum of the new pay grade.

7. Acting Pay

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

- **Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received while performing the “acting” job responsibilities.
- **Beyond Two Years Duration:** When employees are deemed to be “acting” by performing the full duties of a position for more than two years, the supervisor may choose to promote the individual without going through a competitive process. If the employee is promoted, the employee is eligible for a promotional increase. Otherwise, the position will be open for recruitment. The permanent filling of the position may involve no change in current salary or could include a pay increase, depending upon the circumstances and available budget.

If an employee is acting in a position that is the same salary grade, acting pay would not be provided unless there is sufficient justification to support that the duties of the acting position are substantially different.

8. In-grade

In-grade salary adjustments occur when employees receive an increase in base pay to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, or responsibilities outside of the position classification process. These adjustments should only be provided once per fiscal year. Listed below are the categories and descriptions of in-grade salary adjustments.

- **Market adjustment:** Warranted in cases where external market forces exist due to high demand for a particular skill or position which may result in significantly higher turnover. Market adjustments may also occur if it is determined that an individual’s salary is significantly lower than market study findings. Salary adjustments can apply to an individual or classification of employees to ensure competitiveness and retention of staff. An in-grade adjustment of 1% to 10% of salary is typically provided.
- **Internal alignment adjustment:** Warranted when employees’ salaries are unusually low or out of comparability with other employees in the work unit. Factors considered include experience, education, knowledge, skills and abilities. An in-grade adjustment of 1% to 10% of salary is typically provided.
- **Individual accomplishment adjustment:** May be awarded to recognize the attainment of a higher level of expertise through professional certification requiring continuing education credits (CEUs). In- grade adjustments are awarded at the time of the original certification. If the certification does not require CEUs, an in-grade adjustment will not be provided; however, a bonus may be considered. Additionally, an in-grade adjustment for completion of a degree that relates to a current or career path position may be provided. Other similar situations may be considered as justification for an individual accomplishment adjustment. An in-grade adjustment of 1% to 10% of salary is typically provided.

- **Skill acquisition and application adjustment:** May be awarded to recognize the acquisition and application of relevant, pre-defined, job-based skills, resulting in increased value to the organization. Typically, an Individual Development Plan identifies the needed skills and the skill acquisition plan. Formal assessments, through testing or demonstration of the skills acquired and applied to the job, may result in an in-grade adjustment. An in-grade adjustment of 1% to 4% of salary is typically provided.
- **Change in job duties adjustment:** May be awarded to an employee who assumes new higher-level duties and responsibilities that are critical to the operations of the agency. An in-grade adjustment of 1% to 10% of salary is typically provided.
- **Retention adjustment:** May be granted to prevent employees from seeking employment outside the agency including:
 - Employees in occupations that have high value in the labor market when salaries have not been competitive with the marketplace. In such cases, the adjustment is normally granted to all employees in a particular occupation or functional area to avoid turnover.
 - Individual employees who are assigned to key functions.

An in-grade adjustment of 1% to 10% of salary is typically provided.

The employee's supervisor must request the in-grade adjustment in writing and include documentation supporting the need for a pay adjustment. The respective DEC member approves in-grade adjustments, in coordination with the human resources director.

When an employee's salary is at or above the salary maximum for his/her job grade, a bonus payment may be awarded. The respective member of the DEC approves the bonus, in coordination with the human resources director.

9. Competitive

A competitive pay increase is an option available to supervisors to retain top performers, who have received an external job offer, when the loss is determined to be detrimental to the organization. Employees must furnish a copy of the respective job offer.

The supervisor requests, in writing, a competitive pay increase and includes documentation supporting the need for an adjustment and justification for the increase. The respective member of the DEC approves the increase, in coordination with the human resources director.

Competitive pay increases apply to base salary and may not exceed the salary maximum for the salary range. In extraordinary circumstances, when an employee's base salary is at maximum, a bonus is an option. In these situations, the respective member of the DEC, in coordination with the human resources director, submits the request for agency director approval.

10. Increases Governed by the Appropriations Act

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

D. Bonuses

1. Sign-on

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

The amount of the sign-on bonus will vary depending on the position and the supply of candidates. The amount of the bonus typically ranges from 1% to 20% of the midpoint of the salary range.

Fifty percent of the sign-on bonus will be paid in the first paycheck with the remainder of the bonus being paid following the successful completion of the one-year introductory period.

Refer to the **Employee Sign-on Bonus Program Policy**.

2. Referral

Referral bonuses may be provided to full and part-time employees who refer a candidate hired into a full-time position.

The amount of the referral bonus is \$1,000. Fifty percent is paid in the paycheck following the referred employee's first full pay cycle with the remainder of the bonus being paid following the successful completion of the referred employee's introductory period.

Refer to the **Employee Referral Program Policy**.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

3. Performance

Performance bonuses are provided agency wide following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of "exceptional" will receive a 4% bonus and employees who receive an overall rating of "exceeds" will receive a 2% bonus, based on their salary as of June 30. Employees who receive an overall "meets," "does not meet" or "needs improvement" rating will not receive a performance bonus. The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

4. Gainsharing

Gainsharing bonuses are provided when it is determined the agency has successfully attained the Agency Performance Outcomes (APO) and Operational Measures (OM).

Subject to the approval of the VRS Board of Trustees, attainment of the APOs and OMs may result in eligible employees receiving a lump-sum bonus of 2.5%, or other amount determined by the Board, based on their salary as of June 30.

The **Performance Management Policy** outlines details.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances. Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.

5. Employee Recognition Bonus

Employee recognition bonuses may be provided to full and part-time employees for individual or team accomplishments typically associated with special projects, process improvements, innovation or other outstanding accomplishments.

Bonuses range from \$50 to \$5,000 depending upon the value of individual or team accomplishments.

Bonuses up to and including \$1,000 require approval by the appropriate DEC member. Special Recognition Bonuses, above \$1,000 through \$5,000, require approval by the DEC member and Agency Director, Chief Investment Officer, or Internal Audit Director.

The fiscal year bonus cap is \$5,000 per employee.

The **Recognition and Awards Program Policy** outlines details.

V. Additional Information

A. VRS Pay Plans

In addition to the Administrative Pay Plan, VRS maintains several other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Investment Operations and Administration Staff Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure.
- **Executive Pay Plan** – This pay plan provides the annual salary and bonus amounts provided to the Agency Director, Chief Investment Officer and Audit Director by the VRS Board of Trustees.

B. Key Terms

FLSA - The Fair Labor Standards Act

Exempt – Employees who are not covered by or are exempted from the minimum wage and overtime provisions of the Fair Labor Standards Act

Non-exempt – Employees who are subject to the minimum wage and overtime provisions of the Fair Labor Standards Act

Salary grade – A series of specific pay rates assigned to a classification as the compensation for that classification

Pay rate – A specific dollar amount, expressed as either an annual or hourly rate

Red-circle – A designation for salaries that exceed the maximum of a specified salary range. Employees are not eligible for further base pay increases until the range maximum surpasses the employee's salary.

APPENDIX 1 – PAY RANGES

Administrative SALARY RANGES			
Grade	Min	Mid	Max
1	\$41,236 \$40,427	\$49,482 — \$48,512	\$57,730 \$- 56,598-
2	\$45,358 \$ 44,469-	\$54,430 —\$ 53,363	\$63,502 \$- 62,257-
3	\$49,894 \$ 48,916-	\$59,874 —\$ 58,700	\$69,853 \$- 68,483-
4	\$54,884 \$ 53,808-	\$65,861 —\$ 64,570	\$76,838 \$- 75,331-
5	\$60,373 \$ 59,189-	\$72,448 —\$ 71,027	\$84,522 \$- 82,865-
6	\$66,410 \$ 65,108-	\$79,693 —\$ 78,130	\$92,974 \$- 91,151-
7	\$71,560 \$ 70,157-	\$87,662 —\$ 85,943	\$103,763 \$- 101,728-
8	\$78,716 \$ 77,173-	\$96,428 —\$ 94,537	\$114,139 \$- 111,901-
9	\$86,588 \$ 84,890-	\$106,071 —\$ 103,991	\$125,553 \$- 123,091-
10	\$93,342 \$ 91,512-	\$116,678 — \$ 114,390	\$140,013 \$- 137,268-
11	\$102,676 \$ 100,663	\$128,346 — \$ 125,829	\$154,015 \$- 150,995-
12	\$115,511 \$ 113,246	\$144,388 —\$ 141,557	\$173,266 \$- 169,869-
13	\$129,950 \$ 127,402	\$162,437 —\$ 159,252	\$194,925 \$- 191,103-
14	\$146,512 \$143,639	\$186,803 —\$ 183,140	\$227,094 \$- 222,641-
15	\$168,489 \$165,185	\$214,823 —\$ 210,611	\$261,158 \$- 256,037-
16	\$193,762 \$189,963	\$247,047 —\$ 242,203	\$300,332 \$- 294,443-

Technology SALARY GRADES			
Grade	Min	Mid	Max
T1	<u>\$56,213</u> \$ 55,111	<u>\$67,456</u> \$ 66,133	<u>\$78,699</u> \$ 77,156
T2	<u>\$61,834</u> \$ 60,622	<u>\$74,202</u> \$ 72,747	<u>\$86,568</u> \$ 84,871
T3	<u>\$68,019</u> \$ 66,685	<u>\$81,622</u> \$ 80,022	<u>\$95,226</u> \$ 93,359
T4	<u>\$74,820</u> \$ 73,353	<u>\$89,784</u> \$ 88,024	<u>\$104,749</u> \$ 102,695
T5	<u>\$82,302</u> \$ 80,688	<u>\$98,763</u> \$ 96,826	<u>\$115,223</u> \$ 112,964
T6	<u>\$90,532</u> \$ 88,757	<u>\$108,639</u> \$ 106,509	<u>\$126,745</u> \$ 124,260
T7	<u>\$97,554</u> \$ 95,641	<u>\$119,503</u> \$ 117,160	<u>\$141,453</u> \$ 138,679
T8	<u>\$107,309</u> \$ 105,205	<u>\$131,454</u> \$ 128,876	<u>\$155,598</u> \$ 152,547
T9	<u>\$118,040</u> \$ 115,725	<u>\$144,599</u> \$ 141,764	<u>\$171,158</u> \$ 167,802
T10	<u>\$127,247</u> \$ 124,752	<u>\$159,059</u> \$ 155,940	<u>\$190,871</u> \$ 187,128
T11	<u>\$139,972</u> \$ 137,227	<u>\$174,965</u> \$ 171,534	<u>\$209,958</u> \$ 205,841
T12	<u>\$153,969</u> \$ 150,950	<u>\$192,461</u> \$ 188,687	<u>\$230,954</u> \$ 226,425
T13	<u>\$169,366</u> \$ 166,045	<u>\$211,707</u> \$ 207,556	<u>\$254,049</u> \$ 249,068
T14	<u>\$182,649</u> \$ 179,068	<u>\$232,878</u> \$ 228,312	<u>\$283,107</u> \$ 277,556



VIRGINIA RETIREMENT SYSTEM
INVESTMENT PROFESSIONALS'
PAY PLAN
Effective December 10, 2023

OVERVIEW & PAY PHILOSOPHY

The Virginia Retirement System's (VRS) Board of Trustees has designed this investment professionals' pay 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 pay plan.

This pay plan includes three core elements:

- Base Salary (described in Section I of this document)
- Incentive Pay Plan (described in Section II)
- Deferred Compensation Plan for VRS Investment Management Personnel (DCPIP) (described in Section III)

Overall, this pay 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 pay 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 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 pay 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 (\$)
10	Chief Investment Officer	\$365,479	\$483,557	\$607,257
9	Managing Director	\$309,252	\$410,461	\$511,671
8	Program Director	\$264,270	\$354,234	\$444,198
7	Director – Strategy, Research, Risk and/or Investment Decision Support	\$230,533	\$309,252	\$387,970
6	Senior Portfolio Manager	\$230,533	\$309,252	\$387,970
5	Portfolio Manager	\$179,928	\$241,779	\$303,629
4	Senior Investment Officer	\$151,815	\$202,419	\$253,292
3	Investment Officer	\$118,078	\$157,437	\$196,797
2	Senior Investment Analyst	\$89,964	\$118,078	\$146,192
1	Investment Analyst	\$73,096	\$95,587	\$118,078

In considering the above salary range, it 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 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 Chief Investment Officer (CIO) approves salary adjustments for individual investment professionals and, as described later in this document, 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

Investment Professionals' Pay Plan

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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 of Trustees and in accordance with the terms in the CIO's Employment Agreement, with approved effective dates established by the VRS Board of Trustees.

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

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

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% 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

PLAN ADMINISTRATION

The VRS Board of Trustees, the Plan Administrator, through the Administration, Finance and Talent Management (AFT) Committee, administers the Incentive Plan (Plan) 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 supportive of the pay 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 to participate in this incentive 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.

Positions Eligible to Participate in the Investment Professional's Pay Plan

Chief Investment Officer Managing Director – Portfolio
Solutions Group Managing Director – Private Market
Assets and DC Plans Managing Director – Public Market
Assets
Program Director
Director – Strategy, Research, Risk and/or Investment Decision Support
Senior Portfolio Manager
Portfolio Manager
Senior Investment Officer
Investment Officer
Senior Investment Analyst
Investment Analyst

The CIO will determine the design of the incentive plan structure for the positions supporting the Defined Contribution 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.
- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.

Investment Professionals' Pay Plan Effective December 10, 2023

- 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.
 - 50% of eligible senior staff-members' awards (up to IRS limits) will be deferred into tax-qualified accounts. See section III, Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP). While deferred, awards are subject to the Total Fund's annual absolute return.
 - All other awards paid in cash.

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 Chief Investment Officer's position, by VRS' Board.

Actual awards can vary based on performance.

Investment Professionals’ Pay Plan
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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	Incentive¹ (% Salary)
Chief Investment Officer	70 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 – Strategy, Research, Risk and/or Investment Decision Support	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
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	20	100
Director – Strategy, Research, Risk and/or Investment Decision Support	30	50 ¹		20	100
Senior Portfolio Manager	20		60	20	100
Portfolio Manager	20		60	20	100
Senior Investment Officer	20	60 ⁴	60	20	100
Investment Officer	20	60 ⁴	60	20	100
Senior Investment Analyst	20	30 ⁴	30	50	100
Investment Analyst	20	30 ⁴	30	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

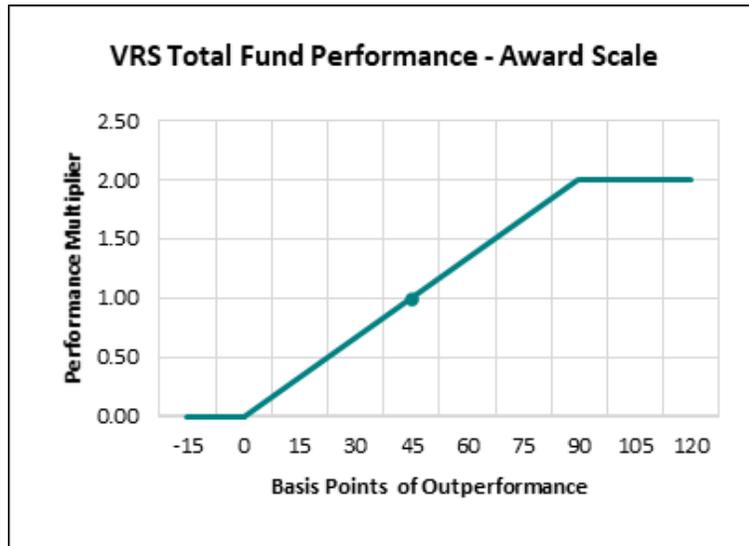
These Plan components link participants' incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted 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 45 bps, then the VRS Performance Multiplier will equal 1.00 and there will be a 100% payout of this Plan component.
 - Equals 90 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 90 bps, then the VRS Performance Multiplier is determined on an interpolated, straight-line basis.

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Note: The Board approved the Verus recommended excess return objective (45 basis points) for the Total Fund at the June 15, 2020 meeting with an effective date of July 1, 2020. For implementation purposes, the Total Fund excess return objective will be a blend of the former excess return objective (30 basis points) to be used until June 30, 2020, and the new excess return objective (45 basis points) to be used from July 1, 2020 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 VRS' most senior staff (i.e., incumbents in positions at or above the level of Program Director) when awards are paid, 50% of total award amounts up to the specified Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be deferred into the DCPIP plan. All other amounts paid in cash. Section III of this document describes the terms of the § 415(c)(1)(A) plan.
- For all other Plan participants, awards 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 pay 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). 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 Investment Management Personnel (DCPIP)

PARTICIPATION

This plan covers VRS investment professionals at or above the level of Program Director. Such positions currently include CIO, Managing Director, and Program Director. The Board retains the discretion to modify, at any time, the positions that are eligible to participate in this plan.

AMOUNTS SUBJECT TO ANNUAL DEFERRAL

- Deferrals into this plan only occur in years when VRS’ Board decides, at its full and complete discretion, to allow payment of incentive awards.
- Commencing with (and including fiscal 2013), in years when VRS’ Board decides to pay incentive awards, 50% of participants’ final awards up to specified IRC § 415(c)(1)(A) limits will be deferred into this plan. All other amounts paid in cash.

INVESTMENT RETURN

Participants’ deferred accounts in the DCPIP and 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 DCPIP permits members of the Investment Management Committee who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion into the Virginia Cash Match Plan. This transfer right allows DCPIP participants at age 55 or at any time after attaining age 55, to select any combination of the investment options then offered by the Cash Match Plan. Notwithstanding the transfer right, members of the Investment Management Committee at age 55 or older must leave at least a minimal balance amount in their DCPIP account, to avoid having to re-open the account. The VRS Defined Contribution Plan Administrator will assist participants with these transfers.

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FUND TRANSFERS AND DISTRIBUTIONS

Participants of the DCPIP cannot transfer funds from the § 415(m) plan into the Cash Match Plan because the § 415(m) plan is a non-qualified "excess plan" not permitted to be held in trust for the exclusive benefit of the plan participants. The § 415(m) plan closed as of June 30, 2013, except for the CIO. The distribution of the balance in the § 415(m) plan will be made in cash to the Participant.

The accumulated DCPIP trust balances will be distributed to the Participant upon termination of employment with the Commonwealth of Virginia. The participant may elect to receive the balance in the DCPIP either in cash or as a "roll-over" into another retirement or related benefit vehicle/trust, or a combination of both. All payouts/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available, by the date of the payment.

All applicable laws and regulations will govern the creation, funding, and distributions of the DCPIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer.

TAXATION

Taxation of the amount contributed to the DCPIP 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 policy 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 policy 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 pay 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/Chief Managing Director 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/Chief Managing Director collaborates with the VRS Board-appointed Investment Advisory Committee (IAC) and delivers frequent reports and updates to the VRS Board.

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 - Strategy, Research, Risk and/or Investment Decision Support

Strategy – The position within Strategy identifies and evaluates relative value-based tilt opportunities that have the potential to 1) improve the fund's return without materially increasing the risk, 2) reduce the fund's risk without materially reducing the return, or 3) some combination of these objectives. In addition, staff within Strategy 1) review and evaluate the implications of macro-economic conditions, 2) analyze current conditions and opportunities within major asset classes and key asset class subsectors, 3) monitor and evaluate the tactical and strategic tilts of key VRS investment partners, and 4) identify strategy ideas including risk and return expectations for base case and alternative scenarios.

Research – The position within Research has responsibility to support both basic and applied research efforts for all VRS investment staff. This effort includes monitoring, coordinating, facilitating, and implementing current best practices and methods to ensure optimal investment performance and risk management at both the program and plan level.

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Risk – The position within Risk has responsibility in the design, implementation, and management of the risk management program including project management (solicitation and queueing of projects from clients), guidance and coordination within the group, mathematical and statistical analysis of empirical problems, risk management, and high-level programming. Additionally, staff within Risk assist with the design and implementation of a diverse collection of strategies designed to have low or negative correlation to other VRS asset classes.

Investment Decision Support – The position within Investment Decision Support has responsibility for the design and delivery of investment program, risk management, strategy, and research analytic systems. As a component of this, staff is responsible for all investments data as well as the design, development, and implementation of the quantitative infrastructure for the VRS investment programs. This includes a data warehouse, various data retrieval tools, quantitative analysis tools, program level reporting tools and support applications that retrieve, consolidate and report information.

Senior Portfolio Manager

The Senior Portfolio Manager positions have responsibility for multiple portfolio strategies and/or may supervise one or more Senior Investment Officers or Portfolio Managers. The Senior Portfolio Manager positions provide a potential career progression ladder for Portfolio Managers over time, considering the contributions, experience, and sustained performance for the incumbents.

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 Defined Contribution 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 defined contribution plans (DC). 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 defined contribution 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 defined contribution program 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.

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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 ~~June~~ December 10, 2023

OVERVIEW & PAY PHILOSOPHY

The Virginia Retirement System's (VRS) Board of Trustees has designed this investment professionals' pay 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 pay plan.

This pay plan includes three core elements:

- Base Salary (described in Section I of this document)
- Incentive Pay Plan (described in Section II)
- Deferred Compensation Plan for VRS Investment Management Personnel (DCPIP) (described in Section III)

Overall, this pay 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 pay 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 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 pay 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 (\$)
10	Chief Investment Officer	\$365,479	\$483,557	\$607,257
		358,313	474,075	595,350
9	Managing Director	\$309,252	\$410,461	\$511,671
		303,188	402,413	501,638
8	Program Director	\$264,270	\$354,234	\$444,198
		259,088	347,288	435,488
7	Director – Strategy, Research, Risk and/or Investment Decision Support	\$230,533	\$309,252	\$387,970
		226,013	303,188	380,363
6	Senior Portfolio Manager	\$230,533	\$309,252	\$387,970
		226,013	303,188	380,363
5	Portfolio Manager	\$179,928	\$241,779	\$303,629
		176,400	237,038	297,675
4	Senior Investment Officer	\$151,815	\$202,419	\$253,292
		148,838	198,450	248,325
3	Investment Officer	\$118,078	\$157,437	\$196,797
		115,763	154,350	192,938
2	Senior Investment Analyst	\$89,964	\$118,078	\$146,192
		88,200	115,763	143,325
1	Investment Analyst	\$73,096	\$95,587	\$118,078
		71,663	93,713	115,763

In considering the above salary range, it 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 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 Chief Investment Officer (CIO) approves salary adjustments for individual investment professionals and, as described later in this document, 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

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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 of Trustees and in accordance with the terms in the CIO's Employment Agreement, with approved effective dates established by the VRS Board of Trustees.

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

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

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% 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

PLAN ADMINISTRATION

The VRS Board of Trustees, the Plan Administrator, through the Administration, Finance and Talent Management (AFT) Committee, administers the Incentive Plan (Plan) 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 supportive of the pay 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 to participate in this incentive 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.

Positions Eligible to Participate in the Investment Professional's Pay Plan
Chief Investment Officer Managing Director – Portfolio Solutions Group
Managing Director – Private Market Assets and DC Plans
Managing Director – Public Market Assets
Program Director
Director – Strategy, Research, Risk and/or Investment Decision Support
Senior Portfolio Manager
Portfolio Manager
Senior Investment Officer
Investment Officer
Senior Investment Analyst
Investment Analyst

The CIO will determine the design of the incentive plan structure for the positions supporting the Defined Contribution 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.
- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.

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- 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.
 - 50% of eligible senior staff-members' awards (up to IRS limits) will be deferred into tax-qualified accounts. See section III, Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP). While deferred, awards are subject to the Total Fund's annual absolute return.
 - All other awards paid in cash.

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 Chief Investment Officer'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	Incentive¹ (% Salary)
Chief Investment Officer	70 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 – Strategy, Research, Risk and/or Investment Decision Support	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
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	20	100
Director – Strategy, Research, Risk and/or Investment Decision Support	30	50 ¹		20	100
Senior Portfolio Manager	20		60	20	100
Portfolio Manager	20		60	20	100
Senior Investment Officer	20	60 ⁴	60	20	100
Investment Officer	20	60 ⁴	60	20	100
Senior Investment Analyst	20	30 ⁴	30	50	100
Investment Analyst	20	30 ⁴	30	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

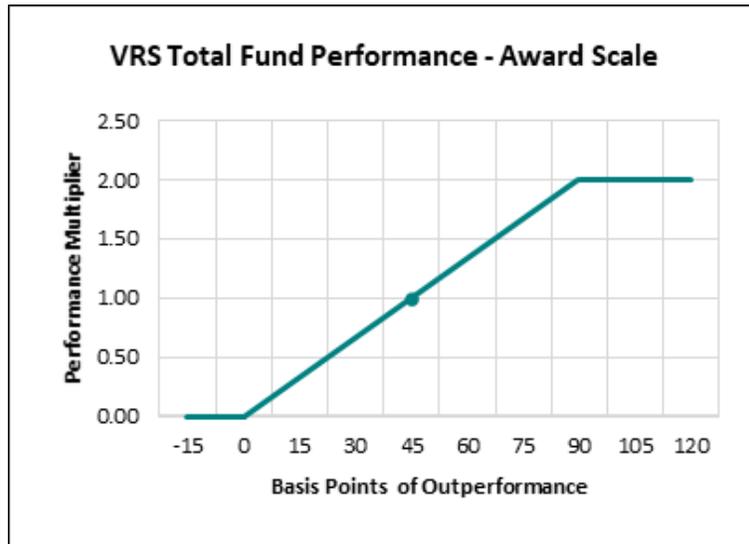
These Plan components link participants' incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted 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 45 bps, then the VRS Performance Multiplier will equal 1.00 and there will be a 100% payout of this Plan component.
 - Equals 90 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 90 bps, then the VRS Performance Multiplier is determined on an interpolated, straight-line basis.

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Note: The Board approved the Verus recommended excess return objective (45 basis points) for the Total Fund at the June 15, 2020 meeting with an effective date of July 1, 2020. For implementation purposes, the Total Fund excess return objective will be a blend of the former excess return objective (30 basis points) to be used until June 30, 2020, and the new excess return objective (45 basis points) to be used from July 1, 2020 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 VRS' most senior staff (i.e., incumbents in positions at or above the level of Program Director) when awards are paid, 50% of total award amounts up to the specified Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be deferred into the DCPIP plan. All other amounts paid in cash. Section III of this document describes the terms of the § 415(c)(1)(A) plan.
- For all other Plan participants, awards 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 pay 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). 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 Investment Management Personnel (DCPIP)

PARTICIPATION

This plan covers VRS investment professionals at or above the level of Program Director. Such positions currently include CIO, Managing Director, and Program Director. The Board retains the discretion to modify, at any time, the positions that are eligible to participate in this plan.

AMOUNTS SUBJECT TO ANNUAL DEFERRAL

- Deferrals into this plan only occur in years when VRS’ Board decides, at its full and complete discretion, to allow payment of incentive awards.
- Commencing with (and including fiscal 2013), in years when VRS’ Board decides to pay incentive awards, 50% of participants’ final awards up to specified IRC § 415(c)(1)(A) limits will be deferred into this plan. All other amounts paid in cash.

INVESTMENT RETURN

Participants’ deferred accounts in the DCPIP and 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 DCPIP permits members of the Investment Management Committee who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion into the Virginia Cash Match Plan. This transfer right allows DCPIP participants at age 55 or at any time after attaining age 55, to select any combination of the investment options then offered by the Cash Match Plan. Notwithstanding the transfer right, members of the Investment Management Committee at age 55 or older must leave at least a minimal balance amount in their DCPIP account, to avoid having to re-open the account. The VRS Defined Contribution Plan Administrator will assist participants with these transfers.

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FUND TRANSFERS AND DISTRIBUTIONS

Participants of the DCPIP cannot transfer funds from the § 415(m) plan into the Cash Match Plan because the § 415(m) plan is a non-qualified "excess plan" not permitted to be held in trust for the exclusive benefit of the plan participants. The § 415(m) plan closed as of June 30, 2013, except for the CIO. The distribution of the balance in the § 415(m) plan will be made in cash to the Participant.

The accumulated DCPIP trust balances will be distributed to the Participant upon termination of employment with the Commonwealth of Virginia. The participant may elect to receive the balance in the DCPIP either in cash or as a "roll-over" into another retirement or related benefit vehicle/trust, or a combination of both. All payouts/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available, by the date of the payment.

All applicable laws and regulations will govern the creation, funding, and distributions of the DCPIP and § 415(m) plan. Detailed plan documents are on file with the Human Resources Director and the Chief Financial Officer.

TAXATION

Taxation of the amount contributed to the DCPIP 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 policy 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 policy 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 pay 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/Chief Managing Director 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/Chief Managing Director collaborates with the VRS Board-appointed Investment Advisory Committee (IAC) and delivers frequent reports and updates to the VRS Board.

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 - Strategy, Research, Risk and/or Investment Decision Support

Strategy – The position within Strategy identifies and evaluates relative value-based tilt opportunities that have the potential to 1) improve the fund's return without materially increasing the risk, 2) reduce the fund's risk without materially reducing the return, or 3) some combination of these objectives. In addition, staff within Strategy 1) review and evaluate the implications of macro-economic conditions, 2) analyze current conditions and opportunities within major asset classes and key asset class subsectors, 3) monitor and evaluate the tactical and strategic tilts of key VRS investment partners, and 4) identify strategy ideas including risk and return expectations for base case and alternative scenarios.

Research – The position within Research has responsibility to support both basic and applied research efforts for all VRS investment staff. This effort includes monitoring, coordinating, facilitating, and implementing current best practices and methods to ensure optimal investment performance and risk management at both the program and plan level.

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Risk – The position within Risk has responsibility in the design, implementation, and management of the risk management program including project management (solicitation and queueing of projects from clients), guidance and coordination within the group, mathematical and statistical analysis of empirical problems, risk management, and high-level programming. Additionally, staff within Risk assist with the design and implementation of a diverse collection of strategies designed to have low or negative correlation to other VRS asset classes.

Investment Decision Support – The position within Investment Decision Support has responsibility for the design and delivery of investment program, risk management, strategy, and research analytic systems. As a component of this, staff is responsible for all investments data as well as the design, development, and implementation of the quantitative infrastructure for the VRS investment programs. This includes a data warehouse, various data retrieval tools, quantitative analysis tools, program level reporting tools and support applications that retrieve, consolidate and report information.

Senior Portfolio Manager

The Senior Portfolio Manager positions have responsibility for multiple portfolio strategies and/or may supervise one or more Senior Investment Officers or Portfolio Managers. The Senior Portfolio Manager positions provide a potential career progression ladder for Portfolio Managers over time, considering the contributions, experience, and sustained performance for the incumbents.

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 Defined Contribution 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 defined contribution plans (DC). 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 defined contribution 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 defined contribution program 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.

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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.

Supersedes: 06/10/2022

Effective Date: 12/10/2023

I. Purpose

The pay plan (the “Plan”) applies to all full and part-time (non-wage) Investment Department operations and administration staff and associated positions. This includes all Investment Department employees who are not included in the Investment Professionals’ Pay Plan. Wage employees’ pay complies with the provisions of the state classification and pay plan. The Plan recognizes that Investment Department supervisors and managers are in the best position to assess, appraise and reward the performance of individuals under their supervision. The objective of the Plan is to compensate employees reasonably and equitably, to encourage constructive individual and team effort, and to recognize that these positions require specialized experience and expertise.

The Plan ensures that Investment Department operations and administration salaries are competitive with the market average of a mix of public and private sector organizations. Human Resources (HR) contracts for comparative market salary data about every two years, to ensure competitiveness of the salary structure.

II. Policy

The salary for each position has a minimum, midpoint and maximum:

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** represents the target market salary paid to employees who are fully qualified and meet all competencies required to fulfill each of the position’s responsibilities.
- **Maximum** is the highest salary paid for a position within the salary grade.

The midpoint of each grade is set equal to the market average. Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

See Salary Ranges and Position Titles and Salary Grades tables in the Appendix.

Performance Assessment

Investment Department operations and administration staff will receive a formal performance assessment annually, using the following five-point rating scale: “Does Not Meet Expectations,” “Needs Improvement,” “Meets Expectations,” “Exceeds Expectations,” and “Exceptional,” based on the criteria described in employees’ position descriptions.

However, the VRS expects supervisors and managers to give informal performance feedback at least quarterly and more frequently to co-workers who are inexperienced in their position or who are not meeting the performance expectations of their supervisor or manager. In the latter case, the feedback must be in writing to employees.

The Rating Scale definitions are as follows.

- **Does Not Meet Expectations** - Performance must improve substantially within a reasonable period if the individual is to remain in this position. The employee is not meeting the job requirements. The person consistently fails to meet the objective(s) described in the goal area.
- **Needs Improvement** - Performance is noticeably less than expected. The employee generally meets most job requirements, but struggles to meet them all. The need for further development and improvement is clearly recognized.
- **Meets Expectations** - Performance clearly and fully meets all the requirements of the position in terms of quality, timeliness, and quantity of work. The assessment is a good, solid performance. While minor deviations may occur, the overall level of performance meets all position requirements. The person consistently meets and may occasionally exceed the objective(s) described in the goal area. Employees that attain and maintain this rating are performing their jobs as expected, meeting deadlines, and delivering good quality results.
- **Exceeds Expectations** - Performance frequently exceeds job requirements. Accomplishments are regularly above expected levels. Performance is sustained and uniformly high with thorough and on-time results. Tasks assigned are consistently completed with good quality and on time or ahead of schedule, and the tasks are sometimes completed even if they are not directly assigned. The person will often perform tasks that fall outside their job description.
- **Exceptional** - Performance levels and accomplishments far exceed normal expectations. This category is for the employee who truly stands out and clearly and consistently demonstrates exceptional accomplishments in terms of quality and quantity of work that is easily recognized, as truly exceptional by others. This rating is very difficult to achieve in the regular execution of one’s job. An opportunity has to present itself and the person needs to identify it and take full advantage of it. It is difficult to define the precise criteria on a performance plan that will allow a person to achieve an exceptional rating, but “you will know it when you see it.”

Starting Salary

The VRS Chief Investment Officer (CIO) approves a position's grade and salary range when signing the VRS Position Approval form. Hiring supervisors and second-line supervisors recommend the starting salary for new employees, with the final approval by the CIO, in coordination with HR. When making salary offers, consider salaries presently paid to employees in the department and the candidate's education, skills and work experience. Starting salaries typically do not exceed the salary grade midpoint of the job. Additional justification is required to support offering salaries above the midpoint.

Salary Adjustments

A. Introductory Period

The introductory period for new employees is normally six months from the date of hire but can be up to a year for selected positions. This is the adjustment period for employees to establish a working relationship with their supervisors and to acclimate to their new job duties.

When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations. The VRS may discharge employees with or without cause at any time during the introductory period.

In situations that warrant additional time to evaluate employees' performance, skill level or suitability for the job, VRS may extend the introductory period up to an additional six months. Supervisors will communicate the extension of the introductory period in writing to the employee and HR prior to the conclusion of the employee's initial introductory period. Communications should include reasons for the extension and improvements needed by the employee to meet performance expectations successfully during the extended introductory period. VRS expects these employees to improve their performance to "Meets" or they face termination, demotion, or transfer to a suitable job, if such an opportunity exists.

B. Promotions

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

C. Lateral

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the CIO in coordination with HR.

D. Downward Assignments (Voluntary or Performance Related)

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

- **Voluntary** – An employee-initiated request to transition to a position within a lower salary grade.
- **Involuntary** – A management-initiated request to transition an employee to a position within a lower salary grade, typically due to performance, corrective action or restructuring.

A downward assignment would typically result in the salary being placed at any pay rate within the lower classification, not to exceed the maximum or fall below the minimum of the new salary range. Any exception to this guideline will require additional justification, an internal equity review and approval of the CIO in coordination with HR.

In unique situations, such as job abolishment or agency reorganization, an employee's salary may exceed the maximum of the lower grade and the salary remain unchanged. Salaries remain frozen until market adjustments allow additional increases. These employees remain eligible to receive applicable performance or gainsharing bonus awards if performance criteria are met.

E. Job Reclassifications

Job reclassifications occur when the employee's duties and responsibilities change substantially, which may result in a different pay grade. Reclassification is based on job content and not the performance of the incumbent. Job studies are performed by HR, with input by management.

- **Reclassification Upward:** Occurs when it is determined that an individual's job duties and responsibilities have changed significantly enough to transition the position into a different classification within a higher salary grade. Employees typically receive salary increases between 2% and 15%. Reclassification increases are approved by the CIO, in coordination with HR. Salaries must be at or above the minimum of the new pay grade.

- **Reclassification Laterally:** Occurs when it is determined that an individual’s job duties and responsibilities have changed significantly enough to transition the position into a different classification within the same salary grade. No salary increase is awarded. Any exception to this guideline will require additional justification, an internal equity review, and approval of the CIO, in coordination with HR.
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F. Regrade

Regrades occur when the classification is determined to warrant a different pay grade. This is typically determined by a market analysis or internal classification review, performed by HR in coordination with the CIO. Employees typically receive salary increases between 2% and 15%. Regrade increases are approved by the CIO, in coordination with HR. Salaries must be at or above the minimum of the new pay grade.

G. Acting Pay

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

- **Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received while performing the “acting” job responsibilities.
- **Beyond Two Years Duration:** When employees are deemed to be “acting” by performing the full duties of a position for more than two years, the supervisor may choose to promote the individual without going through a competitive process. If the employee is promoted, the employee is eligible for a promotional increase. Otherwise, the position will be open for recruitment. The permanent filling of the position may involve no change in current salary or could include a pay increase, depending upon the circumstances and available budget. If an employee is acting in a position that is the same salary grade, acting pay would not be provided unless there is sufficient justification to support that the duties of the acting position are substantially different.

H. In-grade Adjustments

In-grade salary adjustments occur when employees receive an increase in base pay to ensure competitiveness, retention, and to recognize increased skills, abilities, knowledge, or responsibilities outside of the position classification process. These adjustments should only be provided once per fiscal year. Listed below are the categories and descriptions of in-grade salary adjustments.

- **Market adjustment:** Warranted in cases where external market forces exist due to high demand for a particular skill or position which may result in significantly higher turnover. Market adjustments may also occur if it is determined that an individual's salary is significantly lower than market study findings. Salary adjustments can apply to an individual or classification of employees to ensure competitiveness and retention of staff. An in-grade adjustment of 1% to 10% of salary is typically provided.
- **Internal alignment adjustment:** Warranted when employees' salaries are unusually low or out of comparability with other employees in the work unit. Factors considered include experience, education, knowledge, skills and abilities. An in-grade adjustment of 1% to 10% of salary is typically provided.
- **Individual accomplishment adjustment:** May be awarded to recognize the attainment of a higher level of expertise through professional certification requiring continuing education credits (CEUs). In-grade adjustments are awarded at the time of the original certification. If the certification does not require CEUs, an in-grade adjustment will not be provided; however, a bonus may be considered. Additionally, an in-grade adjustment for completion of a degree that relates to a current or career path position may be provided. Other similar situations may be considered as justification for an individual accomplishment adjustment. An in-grade adjustment of 1% to 10% of salary is typically provided.
- **Skill acquisition and application adjustment:** May be awarded to recognize the acquisition and application of relevant, pre-defined, job-based skills, resulting in increased value to the organization. Typically, an Individual Development Plan identifies the needed skills and the skill acquisition plan. Formal assessments, through testing or demonstration of the skills acquired and applied to the job, may result in an in-grade adjustment. An in-grade adjustment of 1% to 4% of salary is typically provided.

The employee's supervisor must request the in-grade adjustment in writing and include documentation supporting the need for a pay adjustment. The CIO approves in-grade adjustments, in coordination with HR.

When an employee's salary is at or above the salary maximum for his/her job grade, a bonus payment may be awarded. The CIO approves the bonus, in coordination with HR.

I. Competitive Pay Increases

A competitive pay increase is an option available to supervisors to retain top performers, who have received an external job offer, when the loss is determined to be detrimental to the organization. Employees must furnish a copy of the respective job offer.

The supervisor requests, in writing, a competitive pay increase and includes documentation supporting the need for an adjustment and justification for the increase. The CIO approves the increase, in coordination with HR.

Competitive pay increases apply to base salary and may not exceed the salary maximum for the salary range. In extraordinary circumstances, when an employee's base salary is at maximum, a bonus is an option. In these situations, the CIO approves the action, in coordination with HR.

J. Increases Governed by the Appropriation Act

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

Bonuses

A. Sign-on

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

The amount of the sign-on bonus will vary depending on the position and the supply of candidates. The amount of the bonus typically ranges from 1% to 20% of the midpoint of the salary range.

Fifty percent of the sign-on bonus will be paid in the first paycheck with the remainder of the bonus being paid following the successful completion of the introductory period.

Refer to the Employee Sign-on Bonus Program Policy.

B. Referral

Referral bonuses may be provided to full and part-time employees who refer a candidate hired into a full-time position. The amount of the referral bonus is \$1,000. Fifty percent is paid in the paycheck following the referred employee's first full pay cycle with the remainder of the bonus being paid following the successful completion of the referred employee's introductory period.

Refer to the Employee Referral Program Policy.

C. Performance

Performance bonuses, where applicable, are provided to the Investment operations and administration staff following the annual review process.

Subject to the approval of the VRS Board of Trustees, eligible employees who receive an overall rating of “exceptional” will receive a 4% bonus and employees who receive an overall rating of “exceeds” will receive a 2% bonus, based on their salary as of June 30.

Employees who receive an overall “meets,” “does not meet” or “needs improvement” rating will not receive a performance bonus.

The performance cycle and thus, bonus payments, align with the fiscal year, July 1 through June 30. While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with preceding paragraph, payment of performance bonuses under this plan is not guaranteed.

D. Gainsharing

The Investment Department’s operations and administration staff employees may receive a lump-sum bonus equal to 2.5% of salary if their performance “meets expectations”, “exceeds expectations” or is “exceptional”, as rated in their annual performance assessment and the employee consistently works, as a team member, to accomplish the goals of the Investment Department.

Additionally, Investment Department’s operations and administration staff employees are eligible to be recognized and rewarded under the provisions of the VRS Recognition and Awards Program.

While the VRS Board of Trustees remains mindful of the value that staff adds to the organization and supportive of the pay plan, the VRS Board of Trustees also specifically reserves the right to cancel, reduce, or delay the amount of any bonuses payable under this plan when, in the sole discretion of the VRS Board of Trustees, extreme budgetary pressures, economic, market or other conditions are such that the VRS Board of Trustees deems such action necessary under the circumstances.

Consistent with the preceding paragraph, payment of gainsharing bonuses under this plan is not guaranteed.

Other VRS Pay Plans

In addition to the Investment Operations and Administration Staff Pay Plan, VRS maintains several other pay plans to meet specific employment and compensation needs. These plans are as follows:

- **Administrative Pay Plan** - This pay plan is separate from the investment operations and administration staff pay plan and includes its own salary and classification structure.
- **Investment Professionals' Pay Plan** - This pay plan is separate from the administrative plan and includes its own salary and classification structure as well as incentive pay guidelines.
- **Executive Pay Plan** – This pay plan provides the annual salary and bonus amounts provided to the Agency Director, Chief Investment Officer and Audit Director by the VRS Board of Trustees.

Salary Ranges

Grade	Minimum	Midpoint	Maximum
1	\$45,992	\$57,489	\$68,987
2	\$51,742	\$64,676	\$77,610
3	\$58,207	\$72,760	\$87,312
4	\$65,601	\$82,000	\$98,400
5	\$73,930	\$92,412	\$110,895
6	\$83,302	\$104,127	\$124,952
7	\$93,714	\$117,142	\$140,572
8	\$105,169	\$131,461	\$157,752
9	\$118,706	\$148,380	\$178,057
10	\$133,281	\$166,605	\$199,925
11	\$149,944	\$187,429	\$224,914
12	\$168,686	\$210,856	\$253,029
Minimum is 80% of midpoint. Maximum is 120% of midpoint.			
Bandwidth is 50%.			
Difference between grades is 10-15%.			

Position Titles and Salary Grades

Group	Title	Grade
Executive	Chief Administrative Officer	12
Executive	Deputy Chief Administrative Officer	11
Regulatory and Legal	Regulatory and Legal Officer	10
Regulatory and Legal	Regulatory and Legal Lead Senior Analyst	9
Regulatory and Legal	Regulatory and Legal Analyst III	8
Regulatory and Legal	Regulatory and Legal Analyst II	6
Regulatory and Legal	Regulatory and Legal Analyst I	4
Regulatory and Legal	Office Administrator	6
Compliance	Compliance Officer	10
Compliance	Compliance Lead Senior Analyst	9
Compliance	Compliance Analyst III	8
Compliance	Compliance Analyst II	6
Compliance	Compliance Analyst I	5
Operations	Operations Manager	10
Operations	Operations Lead Senior Analyst	9
Operations	Operations Analyst III	8
Operations	Operations Analyst II	6
Operations	Operations Analyst I	4
Systems	Decision Systems Manager	10
Systems	Decision Systems Principal	10
Systems	Decision Systems Analyst III	9
Systems	Decision Systems Analyst II	8
Systems	Decision Systems Analyst I	7
Systems	Decision Data Analyst II	6
Systems	Decision Data Analyst I	4
Admin	Portfolio Assistant	3
Admin	Executive Assistant	3
Admin	Administrative Assistant	1

Supersedes: ~~0706~~/10/2022

Effective Date: ~~0612~~/10/2023

I. Purpose

The pay plan (the “Plan”) applies to all full and part-time (non-wage) Investment Department operations and administration staff and associated positions. This includes all Investment Department employees who are not included in the Investment Professionals’ Pay Plan. Wage employees’ pay complies with the provisions of the state classification and pay plan. The Plan recognizes that Investment Department supervisors and managers are in the best position to assess, appraise and reward the performance of individuals under their supervision. The objective of the Plan is to compensate employees reasonably and equitably, to encourage constructive individual and team effort, and to recognize that these positions require specialized experience and expertise.

The Plan ensures that Investment Department operations and administration salaries are competitive with the market average of a mix of public and private sector organizations. Human Resources (HR) contracts for comparative market salary data about every two years, to ensure competitiveness of the salary structure.

II. Policy

The salary for each position has a minimum, midpoint and maximum:

- **Minimum** is the lowest salary paid for a position within the salary grade.
- **Midpoint** represents the target market salary paid to employees who are fully qualified and meet all competencies required to fulfill each of the position’s responsibilities.
- **Maximum** is the highest salary paid for a position within the salary grade.

The midpoint of each grade is set equal to the market average. Individual performance, time in the position, previous related work experience, and other factors can influence earnings that are higher or lower than the midpoint.

The expectation is that employees with salaries closer to the maximum for their position are more tenured, have been a consistently exceptional performer or have more work experience.

During the job placement process, Fair Labor Standards Act (FLSA) exemption statuses (exempt or non-exempt) are determined based on the FLSA job duties test.

See Salary Ranges and Position Titles and Salary Grades tables in the Appendix.

Performance Assessment

Investment Department operations and administration staff will receive a formal performance assessment annually, using the following five-point rating scale: “Does Not Meet Expectations,” “Needs Improvement,” “Meets Expectations,” “Exceeds Expectations,” and “Exceptional,” based on the criteria described in employees’ position descriptions.

However, the VRS expects supervisors and managers to give informal performance feedback at least quarterly and more frequently to co-workers who are inexperienced in their position or who are not meeting the performance expectations of their supervisor or manager. In the latter case, the feedback must be in writing to employees.

The Rating Scale definitions are as follows.

- **Does Not Meet Expectations** - Performance must improve substantially within a reasonable period if the individual is to remain in this position. The employee is not meeting the job requirements. The person consistently fails to meet the objective(s) described in the goal area.
- **Needs Improvement** - Performance is noticeably less than expected. The employee generally meets most job requirements, but struggles to meet them all. The need for further development and improvement is clearly recognized.
- **Meets Expectations** - Performance clearly and fully meets all the requirements of the position in terms of quality, timeliness, and quantity of work. The assessment is a good, solid performance. While minor deviations may occur, the overall level of performance meets all position requirements. The person consistently meets and may occasionally exceed the objective(s) described in the goal area. Employees that attain and maintain this rating are performing their jobs as expected, meeting deadlines, and delivering good quality results.
- **Exceeds Expectations** - Performance frequently exceeds job requirements. Accomplishments are regularly above expected levels. Performance is sustained and uniformly high with thorough and on-time results. Tasks assigned are consistently completed with good quality and on time or ahead of schedule, and the tasks are sometimes completed even if they are not directly assigned. The person will often perform tasks that fall outside their job description.
- **Exceptional** - Performance levels and accomplishments far exceed normal expectations. This category is for the employee who truly stands out and clearly and consistently demonstrates exceptional accomplishments in terms of quality and quantity of work that is easily recognized, as truly exceptional by others. This rating is very difficult to achieve in the regular execution of one’s job. An opportunity has to present itself and the person needs to identify it and take full advantage of it. It is difficult to define the precise criteria on a performance plan that will allow a person to achieve an exceptional rating, but “you will know it when you see it.”

Starting Salary

The VRS Chief Investment Officer (CIO) approves a position's grade and salary range when signing the VRS Position Approval form. Hiring supervisors and second-line supervisors recommend the starting salary for new employees, with the final approval by the CIO, in coordination with HR. When making salary offers, consider salaries presently paid to employees in the department and the candidate's education, skills and work experience. Starting salaries typically do not exceed the salary grade midpoint of the job. Additional justification is required to support offering salaries above the midpoint.

Salary Adjustments

A. Introductory Period

The introductory period for new employees is normally six months from the date of hire but can be up to a year for selected positions. This is the adjustment period for employees to establish a working relationship with their supervisors and to acclimate to their new job duties.

When employees successfully complete the introductory period, they typically receive a pay increase of 2% if they are at least meeting expectations. The VRS may discharge employees with or without cause at any time during the introductory period.

In situations that warrant additional time to evaluate employees' performance, skill level or suitability for the job, VRS may extend the introductory period up to an additional six months. Supervisors will communicate the extension of the introductory period in writing to the employee and HR prior to the conclusion of the employee's initial introductory period. Communications should include reasons for the extension and improvements needed by the employee to meet performance expectations successfully during the extended introductory period. VRS expects these employees to improve their performance to "Meets" or they face termination, demotion, or transfer to a suitable job, if such an opportunity exists.

B. Promotions

A promotion occurs when an employee transitions to a different position assigned to a higher salary grade. A promotion can be competitive (selected through a recruitment and hiring process) or non-competitive (i.e., through the career development process).

When employees compete and are hired into a job in a higher grade, they are typically eligible for a salary increase between 5% and 15%. For non-competitive promotions, the salary will be subject to review to ensure internal equity. Promotional salaries must be at or above the minimum of the new salary grade. Promotional pay cannot place an employees' salary above the maximum of the salary grade.

C. Lateral

A lateral occurs when an employee moves into a position with a different job title and classification which is in the same salary grade. This movement constitutes a lateral move or a transfer.

For a competitive (posted and selected) lateral move/transfer, a salary increase may be considered only if duties of the new position are substantially different. If an increase is approved the increase amount shall not exceed 5%, provided the increase does not exceed the maximum salary range. Any exception to this guideline requires additional justification, an internal equity review and approval of the CIO in coordination with HR.

D. Downward Assignments (Voluntary or Performance Related)

Downward assignments occur when an employee transitions to a position within a salary grade lower than the current grade.

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F. Regrade

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G. Acting Pay

Acting pay is provided when an employee is temporarily assigned to assume the responsibilities of a position in a higher salary grade.

- **Less Than Two Years Duration:** The employee will receive at least a 5% salary adjustment while serving in an acting position. If the 5% increase does not place the employee at the minimum salary of the acting position, the salary must be increased to the minimum of the acting range. The acting amount shall not exceed the maximum of the acting range. When the employee returns to the former position, his or her salary will be reduced by the dollar amount received while performing the “acting” job responsibilities.
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J. Increases Governed by the Appropriation Act

VRS will implement pay actions consistent with the provisions of the Appropriation Act.

Bonuses

A. Sign-on

Sign-on bonuses may be provided to qualified external candidates when the position is determined to be hard-to-fill, or when there is a demonstrated need to provide supplemental pay to compete with the market.

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Salary Ranges

Grade	Minimum	Midpoint	Maximum
1	\$45,992 - \$45,090	\$57,489 - \$56,362	\$68,987 - \$67,634
2	\$51,742 - \$50,727	\$64,676 - \$63,408	\$77,610 - \$76,088
3	\$58,207 - \$57,066	\$72,760 - \$71,333	\$87,312 - \$85,600
4	\$65,601 - \$64,315	\$82,000 - \$80,392	\$98,400 - \$96,471
5	\$73,930 - \$72,480	\$92,412 - \$90,600	\$110,895 - \$108,721
6	\$83,302 - \$81,669	\$104,127 - \$102,085	\$124,952 - \$122,502
7	\$93,714 - \$91,876	\$117,142 - \$114,845	\$140,572 - \$137,816
8	\$105,169 - \$103,107	\$131,461 - \$128,883	\$157,752 - \$154,659
9	\$118,706 - \$116,378	\$148,380 - \$145,471	\$178,057 - \$174,566
10	\$133,281 - \$130,668	\$166,605 - \$163,338	\$199,925 - \$196,005
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Minimum is 80% of midpoint. Maximum is 120% of midpoint.			
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Systems	Decision Systems Principal	10
Systems	Decision Systems Analyst III	9
Systems	Decision Systems Analyst II	8
Systems	Decision Systems Analyst I	7
Systems	Decision Data Analyst II	6
Systems	Decision Data Analyst I	4
Admin	Portfolio Assistant	3
Admin	Executive Assistant	3
Admin	Administrative Assistant	1

Audit Director's Performance Review.

Requested Action

The VRS Board of Trustees approves a 7% performance bonus for the Audit Director.

Description/Background

The Audit and Compliance Committee reviewed and evaluated the performance of the Audit Director. Based on this review and evaluation, the Committee recommends that the Board approve a 7% performance bonus for the Audit Director payable October 16, 2023.

Rationale for Requested Action

The Audit and Compliance Committee recommends that the Board approve a 7% performance bonus for the Audit Director, payable October 16, 2023, based on the Committee's review and evaluation of the Audit Director's performance during FY 2023. The Audit and Compliance Committee Charter in paragraph 14 of the duties and responsibilities section states "Review and make recommendations to the Board regarding the performance of the Audit Director." Section IV. H.(8) of the Board Governance Policy provides that the Board may review, monitor and oversee the performance of the Audit Director. Also, the Executive Pay Plan contemplates granting a performance bonus to the Audit Director.

Authority for Requested Action

Code of Virginia § 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.

A. Scott Andrews, Chair
VRS Board of Trustees

Date