

# Popular Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

2019

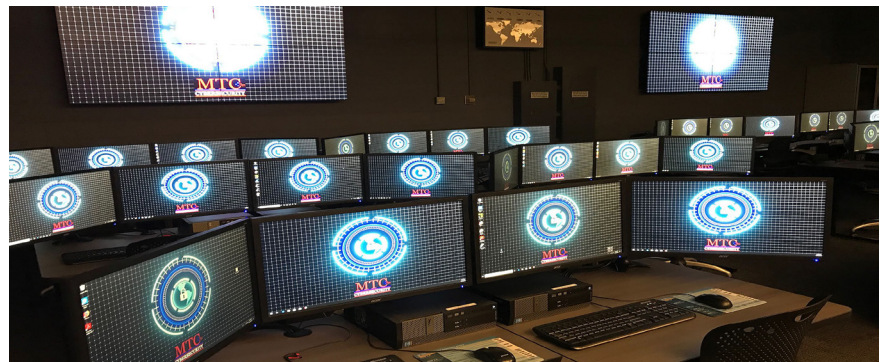
## TRANSFORMING FOR TOMORROW



\$82.8 BILLION COMBINED FIDUCIARY NET POSITION OF VRS TRUST FUND • 6.7% ONE-YEAR RETURN



19th LARGEST PENSION SYSTEM IN U.S.\* • 41st LARGEST PENSION SYSTEM IN THE WORLD\*



346,273 ACTIVE MEMBERS • 162,193 INACTIVE/DEFERRED MEMBERS • 214,545 RETIREES & BENEFICIARIES

\* As ranked by *Pensions & Investments* in 2019.

This *Popular Annual Financial Report* (PAFR) is a summary of VRS' audited financial statements and other information contained in VRS' *Comprehensive Annual Financial Report* (CAFR). The complete audited financial statements and pertinent notes to the financial statements can be found in VRS' 2019 CAFR. The PAFR provides summary financial information and does not conform to Generally Accepted Accounting Principles (GAAP); the CAFR conforms to GAAP and provides a comprehensive overview of the System's financial and operating results. VRS' CAFR is available at [varetire.org](http://varetire.org) in the Publications section or at the VRS office.

# 2019 Administration

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## BOARD OF TRUSTEES

### **Mitchell L. Nason**

*Chairman*  
Prince William County  
Department of Fire and Rescue

### **Diana F. Cantor**

*Vice Chairman*  
Alternative Investment Management

### **The Hon. J. Brandon Bell II, CRPC**

Brandon Bell Financial Partners

### **Wallace G. "Bo" Harris, Ph.D.**

Department of Social Services  
(Retired)

### **W. Brett Hayes**

Wells Fargo Advisors  
Financial Network

### **William H. Leighty**

Virginia Commonwealth University

### **O'Kelly E. McWilliams III**

Mintz Levin

### **Joseph W. Montgomery**

The Optimal Service Group,  
Wells Fargo Advisors

### **Troilen Gainey Seward, Ed.S.**

Dinwiddie County Public Schools  
(Retired)

### **Cover images (L-R, top to bottom):**

Courtesy of Virginia Department of Mines, Minerals and Energy; Mark Blanks/Virginia Tech; Floyd County/Crenshaw Lighting; Rita Crockett/Virginia Institute of Marine Science; D. Allen Covey/Virginia Department of Transportation; David Stover/©Virginia Museum of Fine Arts; Massanutten Technical Center eSOC, Daniel Lin/Daily News-Record.

## From the VRS Director

**PATRICIA S. BISHOP, DIRECTOR**

All around the Commonwealth of Virginia, you can see transformation. Virginians are moving forward and taking advantage of modern technologies that offer benefits now and in the future. Our VRS members and employers are leveraging these resources to help them develop innovative, more efficient and more secure ways to do business and provide services in their communities.

At VRS, we're also making advancements in technology, security, communications and educational outreach so that we can provide the highest level of service to our members, retirees and employers. In 2019, VRS moved to a web-based environment for member-record management. Our work continues as we prepare to accept retirement applications and beneficiary changes online.

We've made great strides to empower members with the information and tools they need to plan holistically for their financial futures. VRS entered its second year with the myVRS Financial Wellness Program, which provides personalized content recommendations based on career stage. We saw an increase in members who logged in to take advantage of the assessments, courses and budgeting tools.



We also added new engagement tools for Hybrid Retirement Plan members to encourage them to make or increase their voluntary contributions to the plan. Hybrid plan members who log into their defined contribution accounts are presented with a splash screen that offers a choice to be proactive and save more for retirement.

Of the participants who saw the splash screen, 96% increased their voluntary contributions. In addition, a voluntary contributions preset feature allows newly hired hybrid plan members to set their retirement contributions during orientation.

As you browse through the PAFR, you'll see financial results, investment highlights and other statistics from fiscal year 2019. VRS investment professionals have the unique responsibility for the strategic long-term investment of the VRS trust fund, which reached a historic high of \$82.8 billion at fiscal year-end. Managing one-third of our assets internally saves about \$52 million in external management fees annually. The decisions our investment professionals make each year help support public employees for the next 40 years and beyond.

With the future in mind, VRS is committed to transforming today for tomorrow.



As you read the PAFR, you may encounter unfamiliar financial terms. Watch for the green FYI boxes, which offer brief definitions of key terms for your information. See more definitions at [varetire.org](http://varetire.org).



# A Year of Accomplishments 2019

VRS and its staff were honored to be recognized for a commitment to excellence with the following national and local awards:

- **Eddy Award** (first place in the public pension plans category) for the myVRS Financial Wellness program, presented by *Pensions & Investments* magazine to recognize communication campaigns nationally that motivate and educate plan participants.
- **Finalist, 2019 Plan Sponsor of the Year** in the public defined contribution category, presented by *PLANSponsor* magazine to recognize retirement plan sponsors that show a commitment to their participants' financial health and retirement success.
- **Communicator Award of Distinction** for initiatives to promote voluntary contributions to the Hybrid Retirement Plan, presented by the Academy of Interactive & Visual Arts (AIVA), which spotlights creative excellence in marketing and communication.



**Award listings continued on page 11**

- Two **Leadership Recognition Awards** presented by the National Association of Government Defined Contribution Administrators (NAGDCA):
  - ♦ **Technology & Social Media**, for initiatives to promote Hybrid Retirement Plan voluntary contributions, including GoHybrid, Enhanced Active Choice Splash Screen, SmartStep and the Paycheck Calculator.
  - ♦ **Plan Design and Administration**, for the Optional Retirement Plan (ORP) online plan election feature added to the myVRS member portal.
- Two **Virginia Public Relations Awards**, presented by the Public Relations Society of America-Richmond Chapter:
  - ♦ **Commonwealth Award of Excellence** for the myVRS Financial Wellness program communications strategy to promote the program and drive engagement.
  - ♦ **Capital Award of Merit** for the VRS employer website redesign, for the overall design features and demonstrated usage analytics.



**VRS is an independent state agency.** As provided under the *Constitution of Virginia*, VRS funds are separate from other state funds and can be used only to administer and pay benefits for members, retirees and beneficiaries. Pursuant to Title 51.1 of the *Code of Virginia*, the Board of Trustees administers and is trustee of the following funds:

- Virginia Retirement System Trust, including Plan 1, Plan 2, the defined benefit component of the Hybrid Retirement Plan, and Plan 1 and Plan 2 hazardous duty benefits for political subdivision employees
- State Police Officers' Retirement System (SPORS) Trust, including Plan 1 and Plan 2
- Virginia Law Officers' Retirement System (VaLORS) Trust, including Plan 1 and Plan 2
- Judicial Retirement System (JRS) Trust, including Plan 1 and Plan 2, and the defined benefit component of the Hybrid Retirement Plan for judges
- Virginia Sickness and Disability Program (VSDP) Trust for state employees, including VSDP long-term care
- Virginia Local Disability Program (VLDP) Trust for eligible school division and political subdivision employees, including VLDP long-term care

- A disability retirement option for certain members not covered under VSDP or VLDP
- Hybrid 457 Deferred Compensation Plan
- Hybrid 401(a) Cash Match Plan
- Optional Retirement Plan for Political Appointees, Optional Retirement Plan for School Superintendents and Optional Retirement Plan for Higher Education
- Commonwealth of Virginia 457 Deferred Compensation Plan
- Virginia Cash Match Plan
- Virginia Supplemental Retirement Plan
- Group Life Insurance Program
- Retiree Health Insurance Credit Program
- Line of Duty Death and Health Benefits Trust Fund

In addition, the Board administers or has substantial oversight responsibilities for the Benefit Restoration Plan, the Commonwealth of Virginia Voluntary Group Long-Term Care Insurance Program, and the Volunteer Firefighters' and Rescue Squad Workers' Service Award Fund Program, as well as benefit eligibility determinations under the Line of Duty Act in Title 9.1 of the *Code of Virginia*.

# 2019 Membership

## VRS TOTAL POPULATION

**723,011**

AT JUNE 30, 2019

**Active  
Members  
346,273**

**Retirees &  
Beneficiaries  
214,545**

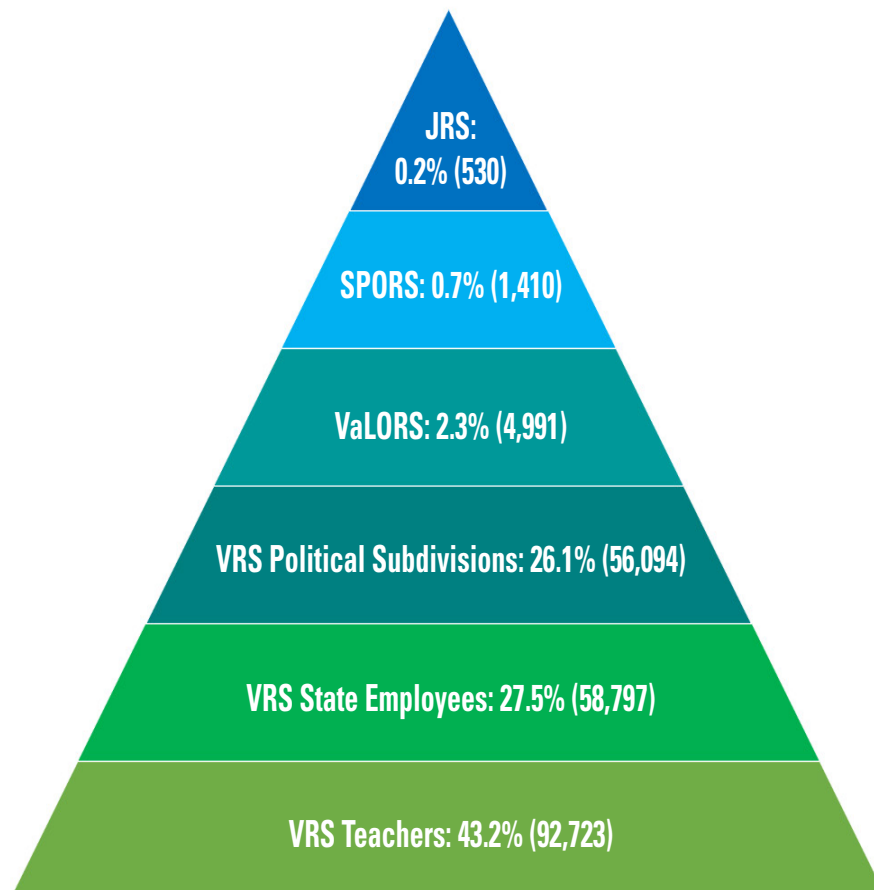
**Inactive &  
Deferred Members  
162,193**

## VRS ACTIVE MEMBERS AT JUNE 30, 2019

	VRS Teachers	VRS Political Subdivisions	VRS State Employees	SPORS	VaLORS	JRS	TOTAL
Plan 1	72,080	44,986	35,955	1,164	3,122	228	<b>157,535</b>
Plan 2	31,767	32,004	15,614	748	5,612	48	<b>85,793</b>
Hybrid Plan	43,775	33,548	25,441	—	—	181	<b>102,945</b>
<b>TOTAL</b>	<b>147,622</b>	<b>110,538</b>	<b>77,010</b>	<b>1,912</b>	<b>8,734</b>	<b>457</b>	<b>346,273</b>

## DISTRIBUTION OF RETIREES AND BENEFICIARIES

AT JUNE 30, 2019



**FYI**

**VRS:** Virginia Retirement System (political subdivisions, state employees, teachers).

**JRS:** Judicial Retirement System

**SPORS:** State Police Officers' Retirement System

**VaLORS:** Virginia Law Officers' Retirement System

**Active Member:** A member working in a covered position with an employer that participates in VRS or who is covered under an optional retirement plan (ORP) administered by VRS.

**Deferred Member:** A member who has left covered employment but has not withdrawn funds and has service credit in VRS or an account balance in a Virginia optional retirement plan.

**Retiree:** A retiree is no longer employed in a covered position and receives a retirement benefit from VRS.

## RETIREES BY YEARS OF SERVICE AT JUNE 30, 2019

	Years of Service						TOTAL
	1-10	11-20	21-30	31-40	41-50	Over 50	
VRS State	19.51%	21.47%	28.04%	26.72%	4.18%	0.08%	100.00%
VRS Teacher	13.14%	23.32%	33.87%	28.04%	1.61%	0.02%	100.00%
VRS Political Subdivision	24.52%	28.26%	30.17%	15.92%	1.10%	0.03%	100.00%
SPORS	4.33%	3.19%	32.20%	44.68%	5.46%	0.14%	100.00%
VaLORS	13.52%	27.61%	47.03%	11.32%	0.50%	0.02%	100.00%
JRS	23.96%	2.08%	6.42%	9.62%	12.26%	45.66%	100.00%
<b>ALL PLANS</b>	<b>17.90%</b>	<b>24.02%</b>	<b>31.54%</b>	<b>24.18%</b>	<b>2.21%</b>	<b>0.15%</b>	<b>100.00%</b>

## RETIREES BY AGE AT RETIREMENT AT JUNE 30, 2019

	Age at Retirement				TOTAL
	Under 55	55-59	60-65	Over 65	
VRS State	16.84%	21.88%	34.00%	27.28%	100.00%
VRS Teacher	14.26%	34.08%	33.80%	17.86%	100.00%
VRS Political Subdivision	24.30%	19.92%	30.43%	25.35%	100.00%
SPORS	54.12%	29.57%	11.42%	4.89%	100.00%
VaLORS	43.56%	24.36%	23.64%	8.44%	100.00%
JRS	5.66%	15.85%	33.21%	45.28%	100.00%
<b>ALL PLANS</b>	<b>18.51%</b>	<b>26.73%</b>	<b>32.60%</b>	<b>22.16%</b>	<b>100.00%</b>

## VRS PARTICIPATING EMPLOYERS AT JUNE 30, 2019

Counties	93
School Boards*	144
Cities and Towns	159
Special Authorities	207
State Agencies	230
<b>TOTAL</b>	<b>833</b>

\* Of the 144 school boards, 132 also provide coverage for non-professional employees and are treated as political subdivisions.

**Defined Benefit Plan:** The retirement plan under VRS is a defined benefit plan for members in Plan 1, Plan 2 and a portion of the Hybrid Retirement Plan. A defined benefit plan provides a monthly benefit during retirement based on age, total service credit and average final compensation.

**Defined Contribution Plan:** The benefit under a defined contribution plan is based on contributions and net investment gains on these contributions. The defined contribution plans administered or authorized by VRS include the Commonwealth of Virginia 457 Deferred Compensation and Cash Match Plans, optional retirement plans for selected employees, a supplemental plan for certain school employees and a portion of the Hybrid Retirement Plan.

**Defined Benefit Component:** The defined benefit component under the Hybrid Retirement Plan provides a retirement benefit based on age, total service credit and average final compensation at retirement. VRS

manages the investments and related risk for member and employer contributions under this component.

**Defined Contribution Component:** The defined contribution component of the Hybrid Retirement Plan provides a retirement benefit based on member and employer contributions and net investment gains on contributions. Members manage the investments and related risk for this component.

**Deferred Compensation:** A portion of a member's compensation that is set aside to be paid at a later date. In most cases, taxes on this income are deferred until it is paid out.

Visit [varetire.org](http://varetire.org) for more detailed information on the retirement plans offered by VRS.

# FYI

# 2019 Financial

## SUMMARY OF FIDUCIARY NET POSITION FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2019	Increase (Decrease)	2018	Increase (Decrease)	2017
<b>Assets:</b>					
Cash, Receivables and Capital Assets	\$ 1,882.4	\$ (143.9)	\$ 2,026.2	\$ 72.6	\$ 1,953.7
Investments	84,957.5	4,194.3	80,763.2	3,965.5	76,797.7
Security Lending Collateral	4,667.8	167.5	4,500.3	(296.6)	4,796.9
<b>Total Assets</b>	<b>91,507.7</b>	<b>4,217.9</b>	<b>87,289.7</b>	<b>3,741.5</b>	<b>83,548.3</b>
<b>Liabilities:</b>					
Accounts Payable	815.7	505.7	310.0	(42.4)	352.4
Investment Purchases Payable	3,179.6	(114.4)	3,294.0	(19.4)	3,313.4
Obligations Under Securities Lending	4,667.8	167.5	4,500.3	(296.6)	4,796.9
<b>Total Liabilities</b>	<b>8,663.1</b>	<b>558.8</b>	<b>8,104.3</b>	<b>(358.4)</b>	<b>8,462.7</b>
<b>Total Net Position – Restricted for Benefits</b>	<b>\$ 82,844.6</b>	<b>\$ 3,659.1</b>	<b>\$ 79,185.4</b>	<b>\$ 4,099.9</b>	<b>\$ 75,085.6</b>

## SUMMARY OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2019	Increase (Decrease)	2018	Increase (Decrease)	2017
<b>Additions:</b>					
Member Contributions	\$ 1,136.8	\$ 48.3	\$ 1,088.5	\$ 25.8	\$ 1,062.7
Employer Contributions	2,862.4	12.7	2,849.7	225.2	2,624.5
Net Investment Income	5,242.5	(267.9)	5,510.4	(2,730.9)	8,241.3
Miscellaneous Revenue & Transfers	4.1	0.5	3.6	(0.1)	3.7
<b>Total Additions</b>	<b>9,245.8</b>	<b>(206.4)</b>	<b>9,452.2</b>	<b>(2,480.0)</b>	<b>11,932.2</b>
<b>Deductions:</b>					
Retirement Benefits	4,990.1	237.2	4,752.9	233.9	4,518.9
Refunds of Member Contributions	117.9	(5.1)	123.0	3.3	119.7
Insurance Premiums and Claims	199.9	(0.4)	200.3	16.2	184.1
Retiree Health Insurance Credit Reimbursements	168.7	4.8	163.9	5.0	159.0
Disability Insurance Benefits	32.9	(6.9)	39.8	0.9	38.9
Line of Duty Act Reimbursements	12.9	0.5	12.4	2.1	10.3
Administrative and Other Expenses	64.2	4.1	60.1	(3.6)	63.7
<b>Total Deductions</b>	<b>5,586.6</b>	<b>234.2</b>	<b>5,352.4</b>	<b>257.8</b>	<b>5,094.6</b>
<b>Net Increase (Decrease) in Net Position</b>	<b>3,659.2</b>	<b>(440.6)</b>	<b>4,099.8</b>	<b>(2,737.8)</b>	<b>6,837.6</b>
Net Position – Beginning of Year	79,185.4	4,099.8	75,085.6	6,837.6	68,248.0
<b>Net Position – End of Year</b>	<b>\$ 82,844.6</b>	<b>\$ 3,659.2</b>	<b>\$ 79,185.4</b>	<b>\$ 4,099.8</b>	<b>\$ 75,085.6</b>

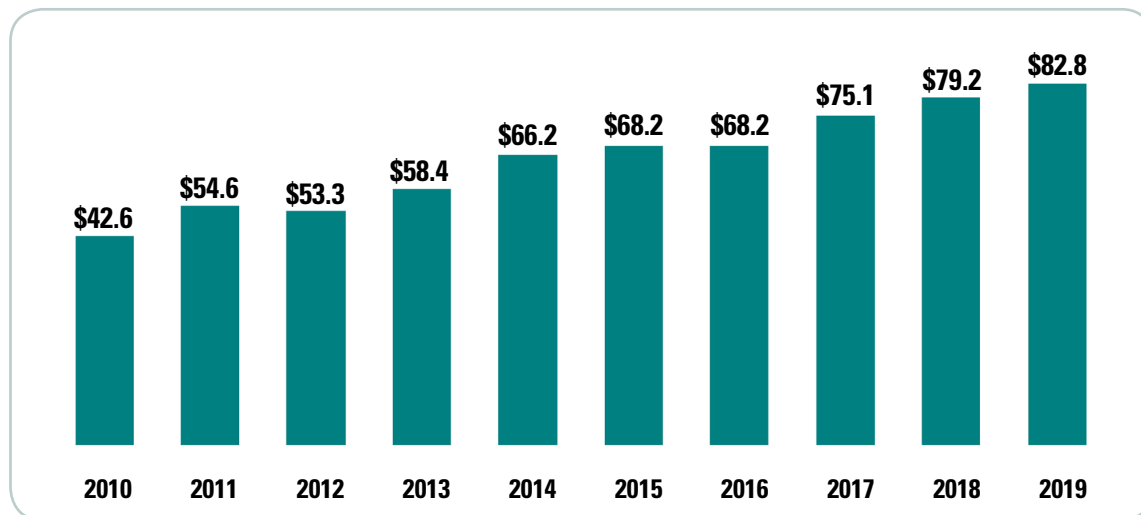


**Fiduciary Net Position:** Reflects the balance of resources available to pay benefits at the end of the fiscal year.

**Changes in Fiduciary Net Position:** Reflects the changes in resources available to pay benefits during the fiscal year.

## VRS NET POSITION FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN BILLIONS)



PLAN FIDUCIARY  
NET POSITION AS A  
PERCENTAGE OF TOTAL  
PENSION LIABILITY

- **VRS State Plan:**  
75.13%
- **VRS Teacher Plan:**  
73.51%
- **VRS Political Subdivision Plans (Aggregate Total):**  
87.82%
- **SPORS:**  
73.52%
- **ValORS:**  
68.31%
- **JRS:**  
82.16%

## NET POSITION RESTRICTED FOR BENEFITS FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN THOUSANDS)

	2019	2018
Virginia Retirement System	\$ 77,392,855	\$ 74,084,142
State Police Officers' Retirement System	865,273	836,702
Virginia Law Officers' Retirement System	1,495,990	1,423,980
Judicial Retirement System	563,456	544,158
Group Life Insurance Advance Premium Deposit Reserve	1,762,972	1,594,773
Retiree Health Insurance Credit Reserve	269,346	235,372
Disability Insurance Trust Fund (VSDP)	488,241	462,961
Line of Duty Act Trust Fund	2,839	1,889
Disability Insurance Trust Fund (VLDP)	3,623	1,463
<b>Total Pension and Other Employee Benefit Reserves</b>	<b>\$82,844,595</b>	<b>\$ 79,185,440</b>

## PENSION PLAN ACTIVITY FOR THE YEARS ENDED JUNE 30

(EXPRESSED IN MILLIONS)

	2019	Increase (Decrease)	2018	Increase (Decrease)	2017
Benefits	\$4,990.1	\$237.2	\$4,752.9	\$234.0	\$4,518.9
Refunds	117.9	(5.1)	123.0	3.3	119.7
Administrative and Other Expenses	59.7	4.2	55.5	(3.9)	59.4
<b>Total Primary Expenses</b>	<b>\$5,167.7</b>	<b>\$236.3</b>	<b>\$4,931.4</b>	<b>\$233.4</b>	<b>\$4,698.0</b>

# 2019 Financial

## PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL OPEB LIABILITY

- **Group Life Insurance Fund:** 52.00%
- **State Employee Health Insurance Credit:** 10.56%
- **Teacher Employee Health Insurance Credit:** 8.97%
- **VRS Political Subdivision Plans Health Insurance Credit (Aggregate Total):** 57.33%
- **State-funded Health Insurance Credit for constitutional officers:** 14.28%
- **State-funded Health Insurance Credit for social services employees:** 15.43%
- **State-funded Health Insurance Credit for registrars:** 14.75%
- **Disability Insurance Program:** 167.18%
- **Virginia Local Disability Program for teachers:** 74.12%
- **Virginia Local Disability Program for political subdivisions:** 49.19%
- **Line of Duty Act Program:** 0.79%

## EQUITY INTERESTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Virginia Retirement System	93.349%	93.464%
State Police Officers' Retirement System	1.053%	1.068%
Virginia Law Officers' Retirement System	1.820%	1.816%
Judicial Retirement System	0.679%	0.689%
Group Life Insurance Fund	2.196%	2.083%
Retiree Health Insurance Fund	0.324%	0.297%
Disability Insurance Trust Fund (VSDP)	0.583%	0.579%
Line of Duty Act Trust Fund	0.003%	0.002%
Virginia Local Disability Program	0.004%	0.002%
<b>Total Equity Interests</b>	<b>100.000%</b>	<b>100.000%</b>

## FUNDS FLOW FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

(EXPRESSED IN THOUSANDS)

	2019	2018
Contributions	\$ 3,999,155	\$ 3,938,182
Net Investment Income	5,242,471	5,510,397
Miscellaneous Additions and Transfers	4,107	3,626
Total Additions	9,245,733	9,452,205
Total Deductions	5,586,578	5,352,383
Net Increase (Decrease)	3,659,155	4,099,822
<b>Net Position – Beginning of Year</b>	<b>79,185,440</b>	<b>75,085,618</b>
<b>Net Position – End of Year</b>	<b>\$ 82,844,595</b>	<b>\$ 79,185,440</b>

## INVESTMENT EXPENSES FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

(EXPRESSED IN THOUSANDS)

	2019	2018
External Management Fees	\$ 431,385	\$ 407,570
Performance Fees	3,709	4,906
Miscellaneous Fees and Expenses	14,283	10,643
In-House Investment Management	37,122	34,225
<b>Total Investment Expenses</b>	<b>\$ 486,499</b>	<b>\$ 457,344</b>

# FYI

**Other Post-Employment Benefits (OPEB):** Benefits that a VRS member will begin to receive at the start of retirement. This does not include pension benefits paid to the retired member.



# Member Engagement 2019

## Empowering Members to Take Action

VRS is meeting members where they are in life, while providing practical ideas for saving. New resources for Hybrid Retirement Plan members produced favorable results this year:



**Active Choice Screen:** 96% of participants who viewed the active choice screen increased their voluntary contributions. The screen, which offers a choice to be proactive and save more for retirement, is presented to hybrid plan members who are not making the full 4% voluntary contribution when they log into their defined contribution accounts.

**SmartStep:** More than 1,300 members used SmartStep to set automatic annual increases in their voluntary contributions, with an average election of 1.14%.

SmartStep



**Go Hybrid!:** Newly hired hybrid members can now set their voluntary contributions at orientation instead of waiting until they start work. This feature is especially helpful to new teachers joining VRS.

## A Holistic Approach to Retirement Education

Studies correlate financial stress with decreased employee productivity and increased health issues. A 2019 survey by the Center for State and Local Government Excellence found that 54% of employees worry about finances or financial decisions while at work, and 65% believe it is important to have a financial literacy program offered by their employer.

The award-winning myVRS Financial Wellness program helps VRS-participating employers address this critical need. The program helps users grow their knowledge and confidence in financial decision-making through a variety of resources, including articles, videos, educational games, calculators and budgeting tools.



- **9,703** registrations since launch
- **67,508** page views through myVRS



Through **myVRS**, we champion a holistic approach to retirement planning.

- **56,046** member and retiree registrations in fiscal year 2019
- **286,052** cumulative registrations through June 30, 2019
- **4,641** retirement plans created
- **395,000** benefit estimates created

The award-winning **myVRS Financial Wellness** program aims to help all members make informed and educated decisions on everyday financial matters while saving for the future.

- **4,925** member registrations
- **32,609** page views through the public website

### Income for VRS plans comes from contributions and investment income.

### Contributions to VRS plans are shared between employers and employees.

Pension contributions are collected as a percentage of each employee paycheck and regularly deposited into the pension trust fund. The allocation of pension costs between employers and employees depends on the cost-sharing policy for the pension plan.

The VRS Board of Trustees sets the retirement plan funding policy and adopts contribution rates for the plans based on recommendations from the plan actuary.

The Board also sets investment policy with the objective of maximizing returns while managing risk within an acceptable range. Member and employer contributions are deposited into the pension trust fund and managed by VRS investment staff under the guidelines established by the Board.

Recommended contribution rates for the statewide retirement systems are communicated to the General Assembly, which has the final authority for the funding of these plans.

FYI

# 2019 Investments

## From the CIO

RONALD D. SCHMITZ, CHIEF INVESTMENT OFFICER

Fiscal year 2019 has been a “glass half-empty” and a “glass half-full” year. On the negative side, we had the weakest manufacturing data in Europe since 2008, a flat yield curve in the U.S., and tariffs at the highest level in a half-century. On the positive side, we saw the strongest January rally in equities since 1987, historically low interest rates, the longest U.S. expansion in history and the lowest jobless claims since 1969.

The Total Fund has tended to perform well versus its benchmark for the longer term. However, the return for fiscal year 2019 fell just short of the benchmark, due to central bank intervention in the markets, which created difficulties in equities and credit markets.

The VRS portfolio provides diversification across five primary asset classes: Private Equity, Investment-Grade Fixed Income, Real Assets, Credit Strategies and Public Equity. VRS also invests in multi-asset class portfolios, Private Investment Partnerships (PIP) and Multi-Asset Public Strategies



(MAPS), to accomplish various portfolio objectives.

The Board of Trustees has adopted an efficient portfolio policy in a risk/reward sense, with the target portfolio expected to generate returns similar to our peer states and risk levels lower than average. The Board reviews the Fund’s long-term expected returns annually and performs a more in-depth analysis every three years.

Corporate activity is slowing for several reasons: diminishing effects of corporate tax cuts, a general global slowdown and growing uncertainty around trade tensions. The “tariff war” is causing companies to slow their pace of cross-border investment. On the other hand, many economic statistics remain strong. Given these circumstances, we have a guarded macro-economic outlook.

Many thanks to the Board of Trustees, Investment Advisory Committee, VRS administration and our team of investment professionals. Together, we continue to build on the great legacy at VRS.

### ANNUALIZED RETURN FOR PERIODS ENDED JUNE 30, 2019:

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years
VRS Total Fund	6.7%	8.8%	6.5%	9.4%	7.1%	6.2%	8.4%
Benchmark*	6.8%	8.7%	6.3%	8.9%	6.6%	5.6%	7.9%

*Investment return calculations were prepared using a time-weighted return methodology based on market value, net of investment expenses.*

*\* The VRS Total Fund Benchmark is a blend of the asset class benchmarks at policy weights. Benchmarks are selected with the help of a third-party investment consultant.*

## FYI

### Asset Allocation:

Assigning specific percentages of investments to different asset classes according to financial goals, risk tolerance and investment time horizon.

### Asset Class:

A group of securities that typically behaves similarly in the marketplace when compared to other groups of securities. Three common asset classes are equities, fixed income and cash equivalents.

### Benchmark:

A standard by which something can be measured or judged.

### Diversification:

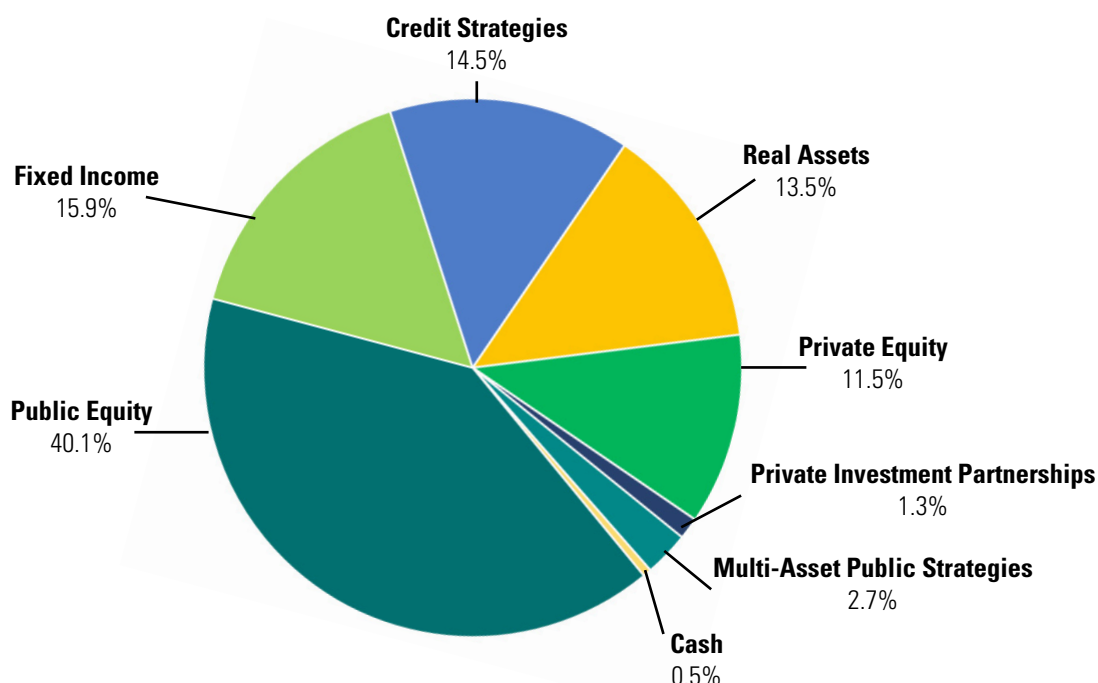
Spreading money among different securities, sectors, industries and strategies within a number of asset classes.

### Total Return:

Return on an investment over a specific period of time. Total return includes income and share price appreciation and depreciation. It assumes that all dividends and capital gains paid during the period are reinvested to buy additional shares.

## ASSET ALLOCATION MIX AT JUNE 30, 2019

(PERCENT OF TOTAL FUND)



Source: Bank of New York Mellon

## INVESTMENT SUMMARY: DEFINED BENEFIT PLANS AT JUNE 30, 2019 AND 2018

(DOLLARS EXPRESSED IN THOUSANDS)

	2019 Fair Value	Percent of Total Value	2018 Fair Value	Percent of Total Value
Total Bonds and Mortgage Securities	\$ 21,896,931	25.94%	\$ 21,773,662	27.06%
Common and Preferred Stocks	24,722,983	29.28%	24,452,265	30.40%
Total Index and Pooled Funds	12,411,909	14.69%	11,863,208	14.75%
Real Assets	9,877,199	11.70%	9,242,121	11.49%
Private Equity	15,083,638	17.87%	12,919,297	16.07%
Total Short-Term Investments	444,368	0.52%	183,400	0.23%
<b>Total Investments</b>	<b>\$ 84,437,028</b>	<b>100.00%</b>	<b>\$ 80,433,953</b>	<b>100.00%</b>

## AWARDS FOR FINANCIAL REPORTING, FUNDING AND ADMINISTRATION (continued from page 3)

- **Certificate of Achievement for Excellence in Financial Reporting** from the Government Finance Officers Association (GFOA) for the VRS *Comprehensive Annual Financial Report* (CAFR) for the fiscal year ended June 30, 2018. This is the 37th consecutive year for which VRS has been honored with the highest form of recognition in governmental accounting and financial reporting.
- **Award for Outstanding Achievement in Financial Reporting** from GFOA for the third VRS *Popular Annual Financial Report* (PAFR) for the fiscal year ended June 30, 2018.
- **2018 Public Pension Standards Award for Funding and Administration** from the Public Pension Coordinating Council (PPCC), the 15th award VRS has received from PPCC.

## HYBRID PARTICIPANT ACCOUNT PLAN ASSETS AT JUNE 30, 2019



# 2019 Serving Those Who Serve Others

## LEARN MORE ABOUT THE VIRGINIA RETIREMENT SYSTEM

In addition to this *Popular Annual Financial Report* (PAFR), VRS publishes a *Comprehensive Annual Financial Report* (CAFR). The 2019 CAFR provides complete audited financial statements and accompanying notes to the financial statements.



Visit [varetire.org/publications](http://varetire.org/publications) to view or download a copy.

Our team is dedicated to fulfilling the VRS vision: “To be the trusted leader in the delivery of benefits and services to those we serve.” We strive to provide exceptional service and support to the commonwealth’s public servants, who are in turn serving citizens in their communities.

### Customer Contact Center

We assist customers with benefit and retirement questions, guiding members and retirees to online tools in myVRS and helping them navigate difficult transitions, including disability or the loss of a loved one.



- 183,118 calls answered
- 6,641 email responses

### Member Counseling

VRS engages with members in a variety of ways to meet their educational and counseling needs:



- Presentations, video conferences, webinars and benefit fairs across the state, reaching nearly 32,000 members.
- In-person member and retiree counseling sessions.
- One-on-one counseling appointments.

### Employer Support

We work closely with more than 800 VRS-participating employers—our partners in the delivery of benefits. We provide:



- Direct access to an employer representative.
- Employer roundtables and site visits, personally reaching nearly 1,000 employer contacts.
- Dedicated support line through our call center.
- In-person and webinar training.
- E-courses for online learning.
- Monthly *Employer Update* newsletter.
- Outreach to nearly 500 new benefit administrators at participating employers to offer technical assistance and guidance on VRS programs and services.

### Web Services

The web team manages VRS and collateral websites. In addition to benefit information, the websites provide news and reminders, access to education and training, and downloadable publications.



[varetire.org](http://varetire.org) (main site for members and retirees): 3.2 million page views

[employers.varetire.org](http://employers.varetire.org) (dedicated site for employers): 280,320 page views

[orphe.varetire.org](http://orphe.varetire.org) (dedicated site for the Optional Retirement Plan for Higher Education): 12,872 page views

**Defined Contribution Plan & Hybrid Retirement Plan websites:** 895,897 page views

## JOIN THE CONVERSATION



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