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## Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on September 21, 2021 in Richmond, Virginia with the following members participating:

Board members:

O'Kelly E. McWilliams, III, Chair  
Joseph W. Montgomery, Vice Chair  
Hon. J. Brandon Bell, II  
John M. Bennett  
Michael P. Disharoon  
William A. Garrett  
W. Brett Hayes  
Troilen G. Seward, Ed.S.

Investment Advisory Committee:

Lawrence E. Kochard, Ph.D., Chair (*by phone*)

VRS Staff:

Patricia Bishop, Ron Schmitz, Jennifer Schreck, John Alouf, Advait Apt, Rory Badura, Parham Behrooz, Matthew Bennett, Caroline Cardwell, Ryan Carlson, Jeanne Chenault, Michael Cooper, Perry Corsello, Harriet Covey, Juanita Cribbs, Sara Denson, Valerie Disanto, Pam Elam, Barry Faison, Jon Farmer, Laurie Fennell, Josh Fox, Brian Goodman, JT Grier, Kelly Hiers, KC Howell, Robert Irving, Wendy Jenkins, Ross Kasarda, Kristina Koutrakos, LaShaunda King, Matthew Kubisiak, Chung Ma, Curt Mattson, Walker Noland, Greg Oliff, Angela Payne, Steve Peterson, Laura Pugliese, Paula Reid, Mark Rein, Jummai Sarki-Hurd, Dan Schlussler, Michael Scott, Jillian Sherman, Virginia Sowers, Dan Whitlock, Steve Woodall and Nick Zizzo.

Guests:

Kam Mangat, CEM Benchmarking, LLC; Adam Rosatelli, Senate Finance and Appropriations Committee; Brian Deveney and Justin Ferrell, Auditor of Public Accounts; Justin Bell, Office of the Attorney General; Michael Martz, Richmond Times-Dispatch; Latosha Johnson, Department of Planning and Budget; Jamie Bitz, Joint Legislative Audit and Review Commission; Tyler Sanders, University of Richmond; Bea Snidow, Virginia Education Association; Lauren Albanese, Financial Investment News; Cyril Espanol and Aaron Weitzman, PEI Media; and Steff Chavez, Mandate Wire.

The meeting convened at 1:01 p.m.

### Opening Remarks

O'Kelly E. McWilliams, III, called the meeting to order and welcomed everyone to September 21, 2021 meeting of the Virginia Retirement System Board of Trustees.

Mr. McWilliams advised that the nominee to fill the vacant seat on the Defined Contribution Plans Advisory Committee (DCPAC) had withdrawn her name from consideration prior to the meeting, and the agenda was updated to reflect the change.

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### Approval of Minutes

Upon Mr. Montgomery's motion, with a second by Mr. Bennett, the VRS Board of Trustees approved the minutes of the June 10, 2021 meeting.

### Report of the Investment Advisory Committee

Lawrence Kochard, Chair of the Investment Advisory Committee (IAC), provided a report on the IAC's August 26, 2021 meeting. Mr. Kochard noted the Committee discussed current market conditions, asset allocation and tracking error. The IAC congratulated the Investment Department for surpassing the board-approved benchmarks, the 27.5% investment return, as well as the total fund asset value exceeding \$100 billion.

The Committee received the annual program reviews and discussed the stress test and sensitivity analysis report. The IAC discussed four prospective recovery scenario simulations and their potential implications for the long-term assumed rate of return, funded status, contribution rates and liquidity.

Mr. McWilliams thanked Mr. Kochard for his report.

### Report of the Chief Investment Officer

Ron Schmitz, Chief Investment Officer, began his report with a market overview and discussed asset allocation, total fund portfolio performance and tracking error, concluding that risk measures are all within Board-approved levels. Next, Mr. Schmitz discussed the New Investment and Terminations report and the Diverse Investment Manager Engagement (DIME) report.

Mr. McWilliams thanked Mr. Schmitz for his report.

### Annual CEM Benchmarking Report of Administration

Kam Mangat of CEM Benchmarking, Inc. provided the annual Pension Administration Benchmarking Report for FY 2020 to the Board. CEM measures cost and service levels and provides an analysis of performance relative to peer agencies as well as comparative data and insights from a broader group of CEM participating plans. The presentation focused on VRS compared to a peer group of other US-based retirement systems with similar membership size. Areas of service reviewed and measured included the call center, VRS website, one-on-one membership counseling and presentations, pension inception and member statements.

Ms. Mangat advised that VRS achieved a total service score of 82, which is above the peer group median of 79. In addition, VRS' service score increased from 76 to 82 between 2013 and 2017 and has remained steady since. Contributing to the improved service score are increased member presentations, decreased time to complete purchases and transfers-in, and enhancements in the customer contact center. With a cost of \$72 per active member and annuitant, VRS' total pension administration cost per active member and annuitant is \$33 below the peer group average. When service and quality metrics are analyzed together, VRS is in the favorable quadrant of a higher relative service score and a lower relative cost. These scores and costs analyses reflect VRS' ability to provide higher service quality in a cost-effective manner.

Ms. Mangat provided a summary of the trend in total pension administration costs from 2013 to 2020. She noted that VRS' total pension administration cost per active member and annuitant increased on average 2.8% per annum, compared to a peer average of 1.7% per annum. This increase is mainly due to IT costs and implementation of major projects and programs such as the Modernization Program, the Hybrid Retirement Plan, the Virginia Local Disability Program, the Financial Wellness section of the agency website, and communication development.

VRS improved from fifth lowest in the previous year to third lowest in pension administration cost per active member and annuitant among its peer group. VRS' pension administration cost remains below the peer group average due to lower third-party costs in front-office transactions and lower support costs per member. Ms. Mangat concluded by reiterating that VRS provides a relatively high level of service at a cost comparatively lower than its peers.

Ms. Mangat advised that data regarding the implications of COVID-19 will be analyzed and presented in next year's report.

Mr. McWilliams thanked Ms. Mangat for her presentation and commended the VRS staff for their hard work in achieving these excellent results.

#### **Report of the Defined Contribution Plans Advisory Committee**

Mr. Bell presented the report of the June 24, 2021 meeting of the Defined Contribution Plans Advisory Committee to the Board.

#### INVESTMENTS

##### Performance Reports

Staff provided the Committee with an overview of the DC plans investment program performance for the unbundled DC plan structure and the TIAA ORPHE bundled DC plan structure as of April 30, 2021.

Staff thanked the Committee for their feedback on the Defined Contribution Plans Investment Belief Statements and indicated additional edits would be incorporated into the final document that would be provided to the Committee during the September 2, 2021 meeting.

#### ADMINISTRATION

##### Administrative Reports and Communication Update

Staff provided updated administrative reports for the first quarter of 2021. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the rollout of various plan initiatives, including financial planning services and splash screen enhancements for the COV 457 and Cash Match plans.

Staff informed the Committee of the ICMA-RC name change to MissionSquare Retirement and Annual Service Review and benchmarking efforts, noting 2020 accomplishments and future initiatives. Staff also shared that VRS was the recipient of the 2021 Communicator Award of Distinction for the COVID-19 Response Campaign. In addition, participation in the Public Retirement Research Lab was discussed.

### ORPHE Update

Staff provided an overview of ORPHE reports for the first quarter of 2021, including plan assets and accounts, and provider election data.

Staff included in the meeting materials the *Q1 2021 Administrative Summary Appendix Supplement* for the Committee to review.

### OTHER BUSINESS

#### Discussion of New Ideas

Mr. Larson discussed the opportunity for employers to assist DC Plans with promoting strategic communication initiatives around key objectives such as increasing contributions or participation rates. Given the role the Committee plays, Mr. Larson expressed interest in being added to the email distribution for the monthly Employer Update. Staff welcomed the opportunity to leverage assistance from employers to help promote and encourage employees to save more for retirement and indicated that DCPAC members would be included on the Employer Update email distribution.

Mr. Larson indicated that he would be willing to share and discuss the findings from his organization's exercise in reviewing materials through a diversity, equity, and inclusion (DEI) lens. Staff indicated they would be interested in receiving information and discussing their findings.

Next, Mr. Bell presented the report of the September 2, 2021 meeting of the Defined Contribution Plans Advisory Committee to the Board.

### DCPAC APPOINTMENTS

Staff informed the Committee of a nomination to fill a vacant seat on the DCPAC.

Staff informed the Committee of the nomination of Meghan Coates, who is recommended to fill an unexpired term ending June 20, 2022.

The Committee recommended approval of the following action to the Administration and Personnel Committee for recommendation to the Board of Trustees.

***Request for Board Action:*** *The Board appoints Meghan Coates to fill the unexpired term of Kathleen T. Seay, which ends June 20, 2022. \**

*\*Subsequent to the DCPAC meeting, Ms. Coates withdrew her name from consideration for the DCPAC. Staff has reached out to the Virginia Municipal League and the Virginia Association of Counties for a new recommendation to fill this seat on the DCPAC.*

### INVESTMENTS

Staff presented final revisions to the VRS Defined Contribution Plans Investment Belief Statements and put forth a recommendation to the DCPAC to approve the revisions and recommend approval of the revisions to the full Board.

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

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***Request for Board Action 2021-09-12: The VRS Board of Trustees approves revisions to the VRS Defined Contribution Plans Investment Belief Statements.***

*The Board adopts these Investment Belief Statements pursuant to the duty to oversee investments under the standard set forth in Code of Virginia § 51.1-124.30. Moreover, Code of Virginia § 51.1-124.22 authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1.*

#### Annual Investments Review

Staff provided an overview of the DCPAC duties and responsibilities as it relates to investments. Staff's annual investment review included a review of the total DC plan assets overseen by the Investment Department for the fiscal year ending June 30, 2021, which also included highlights from staff's annual report covering the investment performance and annual operating expenses for the unbundled DC Plans and bundled TIAA ORPHE programs. Staff informed the Committee there were no changes made to either investment platform. Staff also noted there were no recommended changes to the DC Plans Investment Policy Statements for the unbundled and bundled programs.

Staff included the complete annual investment review package in the appendix.

#### ADMINISTRATION

##### Administrative Reports and Communication Update

Staff provided updated administrative reports for the second quarter ending June 30, 2021. Updates included an overview of assets and accounts across the various defined contribution plans, including an overview of various initiatives such as the hybrid crossover population, asset retention efforts and revisions to the quarterly service review that focus on primary plan metrics.

Staff informed the Committee that the final renewal of the contract for the current record keeper for the unbundled DC Plans ends December 31, 2024 and provided an overview of the projected timeline as it relates to the request for proposals (RFP) for a new contract for a record keeper, effective January 1, 2025.

##### ORPHE Update

Staff provided an overview of ORPHE reports for the second quarter of 2021, including plan assets and accounts, and provider election data.

Staff informed the Committee of amendment changes to the TIAA ORPHE contract, effective October 1, 2021. Staff shared that the changes include the implementation of performance standards, finalization and inclusion of updates not captured in previous amendments, and a pricing reduction to the revenue requirement for participants in the active and legacy contracts.

Staff included in the meeting materials the *Q2 2021 Administrative Summary Appendix Supplement* for the Committee to review.

## 2021 MEETINGS

Staff confirmed the following DCPAC meeting dates for 2021:

- December 2 at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 30, 2021. This is not a DCPAC Committee meeting; however, members may attend if interested.

Mr. McWilliams thanked Mr. Bell for his reports.

### **Report of the Audit and Compliance Committee**

The Board received the report of the Audit and Compliance Committee and placed it on file.

## APPROVAL OF MINUTES

Mr. Montgomery began his report by noting the Committee approved the minutes of its June 3, 2021 meeting.

## EXIT ON THE AUDITOR OF PUBLIC ACCOUNTS (APA) 2020 EMPLOYER ASSURANCES REVIEW AND UPDATE ON THE 2021 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The APA reported it has completed their 2020 Employer Assurances audit work. The audit covers the data VRS prepares and supplies to employers and their auditors to support required financial reporting over pension plans and other post-employment benefits (OPEBs) under Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 75. All resources for employers are available on the VRS website.

The APA also reported the 2021 VRS ACFR Audit is progressing as planned and is on schedule to be finished in advance of December 15, 2021.

## AUDIT REPORTS

The Committee received two audit reports.

- The review of *Hosted Systems – Administration* determined VRS has processes for managing vendor risks for hosted systems; however, opportunities to enhance these processes exist. Three written recommendations were included in the report.
- The review of *Application Controls – VNAV and Enterprise Content Management* noted controls are in place to protect the confidentiality, integrity and availability of VNAV and Enterprise Content Management applications' inputs, processing and outputs.

## QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4

Management presented its status report on the Modernization Program – Phase 4 and discussed the phase's completion and rollout of the remaining member portal functionality.

Internal Audit presented its Quarterly Review and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall status, schedule, budget and scope. Internal Audit acknowledged management's efforts and work in bringing the phase to a close.

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INTERNAL AUDIT ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2021

The Committee received the following updates:

Internal Audit Annual Report

The Audit Director provided the Committee with a summary of the Department's accomplishments over the past year as well as an overview of the Department's initiatives and challenges for the coming fiscal year and the remainder of the long-range plan. She recognized the contributions of the Internal Audit team during the year.

The Audit Director explicitly confirmed the Internal Audit Department and its staff are organizationally independent of the activities they examine and possess the appropriate qualifications to meet the needs of the proposed audit plan. The Audit Director also discussed the Department's conformance with the *IIA's Standards*.

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

Two annual ARFUS Reports as of June 30, 2021, one for management and one for internal audit were presented. Management's ARFUS contained eight internal recommendations, five represented as implemented. Four were reviewed and released. One was reviewed and released with comment, leaving three outstanding recommendations in Management's ARFUS as of June 30, 2021.

Internal Audit's ARFUS contained one external recommendation from the most recent quality assurance review, which was represented as implemented, reviewed and released.

Annual Plan and Long-Range Plan Progress

The Audit Director presented the annual plan results for the fiscal year ended June 30, 2021, along with the status of the long-range plan for the four years ending June 30, 2024.

The Audit Director noted as of the conclusion of the first fiscal year of the long-range plan, modifications have been made to the remaining plan to accommodate the changing risk environment.

PROPOSED FY 2022 ANNUAL PLAN

The Audit Director discussed the proposed annual plan for fiscal year 2022, which is derived from the approved long-range plan.

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

***Request for Board Action 2021-09-13: The VRS Board of Trustees approves the proposed FY2022 Annual Audit Plan.***

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

It was noted there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General during the period of May 1, 2021 through July 31, 2021.

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#### MISCELLANEOUS UPDATES

The Committee received the following miscellaneous updates:

Management's Quarterly Travel Expense and Per Diem Report

The Committee received management's quarterly travel expense and per diem report.

Results of Agency Performance Outcomes and Agency Operational Measures

The Audit Director discussed Internal Audit's review of management's representations regarding the Agency Performance Outcomes and Operational Measures for the fiscal year ended June 30, 2021, noting nothing came to its attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

Internal Audit's Review of Investment Incentive Compensation

The Audit Director noted Internal Audit completed its review of the Investment Department's proposed incentive compensation amounts and determined they were accurately computed in accordance with the authorized pay plan.

Confirmed Committee Meeting Schedule for the 2022 Calendar Year and Next Meeting

The Audit Director shared the confirmed meeting dates for Calendar Year 2022 and the Committee's next meeting date: Monday, December 6, 2021 at 2 p.m.

#### AUDIT DIRECTOR'S PERFORMANCE EVALUATION

The Committee went into closed session to review the Audit Director's performance for the fiscal year ended June 30, 2021.

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

***Request for Board Action 2021-09-14: The VRS Board of Trustees approves a 7% performance bonus for the Audit Director.***

Mr. McWilliams thanked Mr. Montgomery for his report.

#### **Report of the Administration and Personnel Committee**

The Board received the report of the Administration and Personnel Committee and placed it on file.

#### APPROVAL OF MINUTES

Mr. McWilliams began his report by noting the Committee approved the minutes of its June 2, 2021 meeting.

#### REVIEW ATTAINMENT OF FY 2021 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2021 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had four APOs for the fiscal year, with a target of completing at least three. Staff met this goal by successfully completing all four APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to



be met in order to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the call abandonment rate, which was impacted by the ongoing pandemic.

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

***Request for Board Action 2021-09-15:*** *The VRS Board of Trustees approves (i) the attainment of FY 2021 APOs and Operational Measures and (ii) a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

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

Mr. Cooper presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2021.

Upon a motion by Ms. Seward, with a second by Mr. Montgomery, the VRS Board of Trustees approved the following action:

***Request for Board Action 2021-09-16:*** *The VRS Board of Trustees approves performance lump-sum bonuses for eligible administrative employees and eligible Investment Department operations and administration employees.*

REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE (IAC) MEMBERS

Ron Schmitz informed the committee of two IAC members due for reappointment. Mr. Schmitz indicated that Hance West and Nan Leake each wish to continue their service on the IAC. The IAC reviewed the reappointments at its August 26, 2021 meeting and recommended approval of the reappointment of Mr. West and Ms. Leake.

Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the VRS Board of Trustees approved the following action:

***Request for Board Action 2021-09-17:*** *The Board reappoints William “Hance” West and Nancy G. Leake to the Investment Advisory Committee, each for a two-year term ending December 31, 2023.*

BUDGET UPDATE (YEAR END RESULTS AND BIENNIUM BUDGET PROPOSAL)

Jon Farmer, Budget and Performance Reporting Manager, presented the FY 2021 year-end budget results, explaining that VRS finished the year with a surplus of \$14.7 million, which will be returned to the Fund. Mr. Farmer next reviewed the FY 2022 year-to-date budget and indicated that estimated expenditures remain on track for the year. Next, Mr. Farmer provided a detailed review of the agency’s FY 2023-2024 biennium budget proposal. Following discussion on the proposals with the committee members, a request for board action was considered.

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Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the VRS Board of Trustees approved the following action:

***Request for Board Action 2021-09-18:*** *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.*

#### STRATEGIC PLAN UPDATE

Trish Bishop and Michael Cooper provided an update on the agency's strategic planning process. A draft of the detailed plan, which also incorporated the feedback shared by the Board after its last meeting, was shared with the committee. Ms. Bishop advised the committee that staff expects to finalize the strategic plan in the coming weeks and will provide a copy of the final plan to the Board later this fall.

#### INFORMATIONAL ITEM – APPROVE INTERNAL AUDIT DIRECTOR'S PERFORMANCE BONUS

Mr. McWilliams informed the Committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director's performance during its September 13, 2021 meeting. Each year, the A&C Committee reviews the Internal Audit Director's performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the Committee for informational purposes.

#### COMPENSATION AND BENEFITS (CLOSED SESSION)

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

Upon a motion by Mr. Montgomery, with a second by Mr. Bennett, the VRS Board of Trustees approve the following action:

***Request for Board Action 2021-09-19:*** *The VRS Board of Trustees approves payment of an incentive amount of approximately \$7,853,280.10 for FY 2021 to Investment professionals as authorized by the Investment Professionals' Pay Plan.*

Following the approval of the RBA, Mr. McWilliams noted that the VRS Board of Trustees established the Investment Professionals' Pay Plan in order to attract, retrain, and provide an incentive for investment professionals that are key in accumulating the assets needed to support more than 750,000 members and retirees. Mr. McWilliams also noted that approximately two-thirds of benefit payments are funded through investment income. In addition, Mr. McWilliams shared that VRS saves approximately \$45.4 million in external management fees annually by managing about one-third of the portfolio in-house and further noted that CEM estimates that VRS' skilled negotiation of external management costs results in approximately \$40 million a year in savings versus the cost paid by its peers for similar services. Mr. McWilliams commended the outstanding performance by the Investment team, noting the fund exceeded the total fund benchmark, surpassed a milestone of \$100 billion, and achieved a 27.5% investment return for fiscal year 2021.

Internal Audit reviewed the proposed investment incentive compensation for the fiscal year that ended June 30, 2021 and found that the aggregate amount was accurately computed in accordance with the Investment Professionals' Pay Plan.

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Upon a motion by Mr. Montgomery, with a second by Ms. Seward, the VRS Board of Trustees approved the following action:

***Request for Board Action 2021-09-20:*** *The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 15, 2021 and supplemental payment of \$75,000 made on December 1, 2021 as authorized in the 2021 Appropriation Act.*

Mr. McWilliams congratulated Ms. Bishop and her team, noting that VRS achieved a significant milestone this year as online retirement is now available through myVRS for most members. VRS continues to advance in providing members and retirees convenient and effective ways to plan for the future and manage their benefits.

#### **Report of the Benefits and Actuarial Committee**

The Board received the report of the Benefits and Actuarial Committee and placed it on file.

#### **APPROVAL OF MINUTES**

Mr. Garrett began his report by noting the Committee approved the minutes of its June 9, 2021 meeting.

#### **ELECTION OF COMMITTEE VICE CHAIR**

The Committee unanimously approved the nomination of Michael P. Disharoon to serve as Vice Chair.

#### **CHANGES TO GROUP LIFE INSURANCE**

Robert Irving, Customer Services Director, presented the recommendation of VRS' third-party administrator, Securian, to increase the optional group life insurance maximum coverage from four times annual salary to eight times annual salary. The increase is subject to an unchanged maximum dollar amount limit of coverage, which is reviewed at least once every five years by the Board's actuary and, upon their recommendation, increased by the Board.

The guaranteed issue maximum of four times creditable compensation, or \$400,000, will remain the same, as will the coverage maximum of \$800,000. Securian has proposed a one-time opportunity for members to increase coverage without underwriting and subject to the maximum amounts. Current employees will be able to increase existing coverage by one-times creditable compensation, subject to the guaranteed issue limit.

VRS and Securian are partnering to provide members online access to apply for optional life coverage within myVRS by the end of the calendar year. The online application functionality will integrate with myVRS online capabilities and provide an easier application process for members.

The Committee recommends approval of the RBA with a delayed effective date to allow planned online functionality to be in place prior to allowing Securian to implement the increase. Staff will inform the Board of the effective date of the change at a subsequent Board meeting.

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

***Request for Board Action 2021-09-21:*** After considering the recommendations of its group life insurance third-party administrator, the Board approves increasing optional insurance maximum coverage from four times annual salary to eight times annual salary (subject to an unchanged maximum dollar amount limit of coverage).

#### INFORMATION ITEMS

##### Stress Test and Sensitivity Analysis Report

Rory Badura, Senior Staff Actuary, presented the findings of the VRS Stress Test and Sensitivity Analysis report. He noted that the report is based on the June 30, 2020 actuarial valuation and reflects the changes to actuarial assumptions adopted by the VRS Board of Trustees in April 2021 as a result of the quadrennial experience study as well as the 27.5% investment return earned in fiscal year 2021. The report provided analysis of risk to long-term funding, including investment volatility, contribution risk, and longevity risk.

The report analyzes the potential effects on plan funding over the next several years and contains various adverse economic scenarios that illustrated impacts of higher inflation and continued market uncertainty related to COVID variants. The report focuses on adverse events as they better highlight areas of risk. In addition, the impacts of the recent change in the VRS mortality table, which incorporates generational mortality improvement, were highlighted showing the increases in life expectancy and corresponding increases in unfunded liabilities. The change in mortality table is expected to better position the plan to address longevity risk.

As in prior years, the report continued to highlight opportunities that exist to proactively address the legacy unfunded liabilities and to better position the retirement plans to provide financial stability for current and future members. Due to the uncertainty surrounding the COVID-19 recovery and the corresponding impacts on the economy at large, analysis of future impacts on the VRS trust fund will continue as new information becomes available.

##### B&A Committee Meeting Schedule:

- October 13, 2021 at 10:00 a.m.
- November 15, 2021 at 1:00 p.m.

##### Confirmed 2022 Schedule:

- February 9 at 1:00 p.m.
- June 6 at 1:00 p.m.
- October 17 at 1:00 p.m.
- November 14 at 1:00 p.m.

Mr. McWilliams thanked Mr. Garrett for his report.

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### Policy Update

Brian Goodman, Legal Affairs and Compliance Coordinator, presented the revisions to the Freedom of Information Act (FOIA) Electronic Meeting Attendance Policy to the Board. These changes resulted from changes to the *Code*. The first change to the policy limits the number of meetings in which a member may remotely participate due to a personal matter to two meetings or 25%, rounded to the next whole number, within a calendar year. The second change, also related to remote participation, involved added language to now include a member's medical condition or a family member's medical condition that requires the member to provide care. Mr. Goodman also advised there must be a quorum physically present and that these changes became effective July 1, 2021.

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

***Request for Board Action 2021-09-22: The Board adopts a revised "FOIA Electronic Meeting Attendance Policy."***

### Operational Update Series: DC Plan Highlights

Next, Ms. Bishop introduced Kelly Hiers, Defined Contribution Plans Administrator, who presented an overview of the eight defined contribution plans that represent over \$7.3 billion in assets, over 471,000 accounts, and over 267,000 participants. Ms. Hiers described the multi-department collaboration to develop prepackaged employer and member resources that provide helpful information and encourage participants to increase voluntary contributions for future financial security.

VRS partnered with MissionSquare to roll out several financial planning campaigns that provide a variety of resources for each stage of a participant's financial journey. For those considering leaving employment, an information guide and checklist are available to assist in comparing plans when rolling over funds. In addition, a secure, fully customizable Defined Contribution Plans (DCP) app enables participants to view their accounts and change investment options and deposit amounts instantly from a smartphone. Ms. Hiers also highlighted the savings calculators that provide scenarios involving different contribution amounts that enable participants to see the potential of their savings.

Mr. McWilliams thanked Ms. Hiers for her presentation.

### Strategic Plan Update

Michael Cooper, Chief Operating Officer, provided an update on the agency's Strategic Plan document that incorporated the feedback shared by the Board after its last meeting. Mr. Cooper reviewed the Mission, Vision, and Commitment statements, and noted the addition of the Diversity, Equity and Inclusion (DEI) statement and definitions. VRS' DEI initiative is consistent with the Commonwealth's *ONE Virginia* plan to create an environment that fosters belonging and inclusion to encourage creativity, empowerment, and motivation to deliver optimal results and service. Mr. Cooper also provided a brief overview of the plan's goals and noted that each includes measures and targets to ensure that the agency's efforts are meeting the strategies outlined for each goal.

Following Mr. Cooper's presentation, Ms. Bishop noted that the document will reside on the agency website and language regarding adoption of the document will be removed as it does not require action by the Board.

#### Report of the Director

Next, Trish Bishop, VRS Director, reviewed the New Coverage Elections and noted the City of Norfolk will join VRS with a delayed effective date of January 1, 2022. Ms. Bishop advised that staff worked closely with stakeholder groups to produce articles in the Virginia Governmental Employees Association (VGEA) newsletter as well as the Virginia Journal of Education that promote financial wellness, saving strategies and strong credit habits. VRS received the COVID-19 Response Leadership Award and the Technology and Interactive Media Leadership Award from the National Association of Governmental Defined Contribution Plan Administrators (NAGDCA). Furthermore, VRS received three awards from the Public Relations Society of America for the VRS Member website redesign, the myVRS Financial Wellness Backpack Video Series and the "Abide by the Guide" branding video.

Ms. Bishop announced that Douglas Riley, VRS Accounts Payable Specialist, received the 2021 Governor's Honor Award in the category for public service. Mr. Riley is recognized for coordinating vaccination implementation for King William County and organizing efforts to provide meals to residents experiencing financial difficulties during the pandemic. He also serves as a member of the King William Fatherhood Program that provides support and encouragement to fathers raising children. Additionally, Mr. Riley assisted in arranging hearing and vision screening for community members, as well as obtained grants to receive AED equipment and appropriate training for churches throughout King William County.

Mr. McWilliams thanked Ms. Bishop for her report.

#### Litigation Update (Closed Session)

Mr. Disharoon moved, with a second by Mr. Bennett, that the Virginia Retirement System Board of Trustees convene a closed meeting under the Virginia Freedom of Information Act for the purpose of consultation with legal counsel about actual litigation pursuant to the exemption contained in *Code of Virginia* § 2.2-3711(A)(7).

Upon return to open meeting, Mr. Disharoon moved, with a second by Mr. Bennett, the following resolution:

WHEREAS, the Virginia Retirement System Board of Trustees convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of The Virginia Freedom of Information Act; and

WHEREAS, *Code of Virginia* § 2.2-3712 requires a certification by the Board that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, that the Board certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements under this chapter were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered by the Board.

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The Board approved the resolution upon the following roll call vote:

Mr. Bell: Aye  
Mr. Bennett: Aye  
Mr. Disharoon: Aye  
Mr. Garrett: Aye  
Mr. Hayes: Aye  
Mr. Montgomery: Aye  
Ms. Seward: Aye  
Mr. McWilliams: Aye

#### **Other Business**

Lastly, Mr. McWilliams noted that the Benefits and Actuarial Committee will meet October 13, 2021 at 10:00 a.m. and the Board of Trustees will meet October 14, 2021 at 1:00 p.m.

#### **Adjournment**


There being no further business and following a motion by Mr. Montgomery, with a second by Mr. Bell, the VRS Board of Trustees agreed to adjourn the meeting at 3:07 p.m.



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Chair

Patricia  
Bishop



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Secretary



## **Report**

The DCPAC has had two meetings since the last Board meeting.

Pursuant to § 2.2-3708.2(A)(3) of the *Code of Virginia* and Chapter 56 of the 2020 Special Session Acts of Assembly, the Defined Contribution Plans Advisory Committee (DCPAC) of the VRS Board of Trustees convened electronically on June 24, 2021 at 1:00 p.m., and took up the following matters:

### **WELCOME AND INTRODUCTION**

Staff welcomed and introduced committee members, board members, agency officials, representatives from stakeholder groups, and other members of the public joining through electronic means, to the DCPAC.

### **INVESTMENTS**

#### **Performance Reports**

Staff provided an overview of the historical benchmark performance for the period ending April 30, 2021 to the DCPAC, including benchmark performance in the unbundled DC plan structure and the TIAA ORPHE bundled DC Plan structure.

Staff thanked the Committee for their feedback on the DC Investment Belief Statements and indicated additional edits would be incorporated into the final document that would be provided to the Committee during the September 2, 2021 meeting.

### **ADMINISTRATION**

#### **Administrative Reports and Communication Update**

Staff provided updated administrative reports for the first quarter of 2021. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the rollout of various plan initiatives, including financial planning services and splash screen enhancements for the COV 457 and Cash Match plans.

Staff informed the Committee of the ICMA-RC name change to MissionSquare Retirement and Annual Service Review and benchmarking efforts, noting 2020 accomplishments and future initiatives. Staff also shared that VRS was the recipient of the 2021 Communicator Award of Distinction for the COVID-19 Response Campaign. In addition, participation in the Public Retirement Research Lab was discussed.



#### ORPHE Update

Staff provided an overview of ORPHE reports for the first quarter of 2021, including plan assets and accounts, and provider election data.

Staff included in the meeting materials the *Q1 2021 Administrative Summary Appendix Supplement* for the Committee to review.

#### OTHER BUSINESS

##### Discussion of New Ideas

Mr. Larson discussed the opportunity for employers to assist DC Plans with promoting strategic communication initiatives around key objectives such as increasing contributions or participation rates. Given the role the Committee plays, Mr. Larson also expressed interest in being added to the email distribution for the monthly Employer Update. Staff welcomed the opportunity to leverage assistance from employers to help promote and encourage employees to save more for retirement and indicated that DCPAC members would be included on the Employer Update email distribution.

Mr. Larson indicated that he would be willing to share and discuss the findings from his organization's exercise in reviewing materials through a diversity, equity, and inclusion (DEI) lens. Staff indicated they would be interested in receiving information and discussing their findings.

The Defined Contribution Plans Advisory Committee (DCPAC) of the VRS Board of Trustees met in-person on September 2, 2021 at 1:00 p.m., and took up the following matters

### **WELCOME AND INTRODUCTION**

Staff welcomed and introduced committee members, board members, agency officials, representatives from stakeholder groups, and other members of the public joining through electronic means, to the DCPAC.

### **DCPAC APPOINTMENTS**

Staff informed the Committee of a nomination to fill a vacant seat on the DCPAC.

Staff informed the Committee of the nomination of Meghan Coates, who is recommended to fill an unexpired term ending June 20, 2022.

The Committee recommends approval of the following action to the Administration and Personnel Committee for recommendation to the Board of Trustees.

*Recommend RBA for Appointment of DCPAC Member*

***Request for Board Action:*** *The Board appoints Meghan Coates to fill the unexpired term of Kathleen T. Seay, which ends June 20, 2022.*

### **INVESTMENTS**

Staff presented final revisions to the VRS DC Plans Investment Belief Statements and put forth a recommendation to the DCPAC to approve the revisions and recommend revisions to the full Board.

*Recommend RBA for DC Investment Belief Statements*

The Committee recommends approval of the following action to the Board of Trustees.

***Request for Board Action to Approve Revisions to the DC Plans Investment Belief Statements***

***Request for Board Action:*** *The VRS Board of Trustees approves revisions to the VRS Defined Contribution Plans Investment Belief Statements.*

*The Board adopts these Investment Belief Statements pursuant to the duty to oversee investments under the standard set forth in Code of Virginia § 51.1-124.30. Moreover, Code of Virginia § 51.1-124.22 authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1.*

### Annual Investments Review

Staff provided an overview of the DCPAC duties and responsibilities as it relates to investments. Staff's annual investment review included a review of the total DC plan assets overseen by the Investment Department for the fiscal year ending June 30, 2021, which also included highlights from staff's annual report covering the investment performance and annual operating expenses for the unbundled DC Plans and bundled TIAA ORPHE programs. Staff informed the Committee there were no changes made to either investment platform. Staff also noted there were no recommended changes to the DC Plans Investment Policy Statements for the unbundled and bundled programs.

Staff included the complete annual investment review package in the appendix.

### ADMINISTRATION

#### Administrative Reports and Communication Update

Staff provided updated administrative reports for the second quarter ending June 30, 2021. Updates included an overview of assets and accounts across the various defined contribution plans, including an overview of various initiatives such as the hybrid crossover population, asset retention efforts and revisions to the quarterly service review that focus on primary plan metrics.

Staff informed the Committee that the final renewal of the contract for the current record keeper for the unbundled DC Plans ends December 31, 2024 and provided an overview of the projected timeline as it relates to the request for proposal (RFP) for a new contract for a record keeper, effective January 1, 2025.

#### ORPHE Update

Staff provided an overview of ORPHE reports for the second quarter of 2021, including plan assets and accounts, and provider election data.

Staff informed the Committee of amendment changes to the TIAA ORPHE contract, effective October 1, 2021. Staff shared the changes include the implementation of performance standards, finalization and inclusion of updates not captured in previous amendments, and a pricing reduction to the revenue requirement for participants in the active and legacy contracts.

Staff included in the meeting materials the *Q2 2021 Administrative Summary Appendix Supplement* for the Committee to review.

**2021 MEETINGS**

Staff confirmed the following DCPAC meeting dates for 2021:

- December 2 at 1:00 p.m.

The ORPHE Annual Employer Update is scheduled for September 30, 2021. This is not a DCPAC Committee meeting; however, members may attend if interested.

There was no other business to come before the Committee.

That concludes my report to the Board.

Submitted to the Board of Trustees on September 21, 2021.



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J. Brandon Bell, Chair  
Defined Contribution Plans Advisory Committee

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## Report

The Audit and Compliance Committee met on September 13, 2021 and discussed the following:

### **APPROVAL OF MINUTES**

The Committee approved the minutes of its June 3, 2021 meeting.

### **EXIT ON THE AUDITOR OF PUBLIC ACCOUNTS (APA) 2020 EMPLOYER ASSURANCES REVIEW AND UPDATE ON THE 2021 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT**

The APA reported it has completed their 2020 Employer Assurances audit work. The audit covers the data VRS prepares and supplies to employers and their auditors to support required financial reporting over pension plans and other post-employment benefits (OPEBs) under Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 75. All resources for employers are available on the VRS website.

The APA also reported the 2021 VRS ACFR Audit is progressing as planned and is on schedule to be finished in advance of December 15, 2021.

### **AUDIT REPORTS**

The Committee received two audit reports.

- The review of *Hosted Systems - Administration* determined VRS has processes for managing vendor risks for hosted systems; however, opportunities to enhance these processes exist. Three written recommendations were included in the report.
- The review of *Application Controls – VNAV and Enterprise Content Management* noted controls are in place to protect the confidentiality, integrity and availability of VNAV and Enterprise Content Management applications' inputs, processing and outputs.

### **QUARTERLY REVIEW ON MODERNIZATION PROGRAM – PHASE 4**

Management presented its status report on the Modernization Program - Phase 4 and discussed the phase's completion and rollout of the remaining member portal functionality.

Internal Audit presented its Quarterly Review and indicated agreement with management's representations regarding the Modernization Program – Phase 4 overall status, schedule, budget and scope. Internal Audit acknowledged management's efforts and work in bringing the phase to a close.

### **INTERNAL AUDIT ANNUAL PROGRESS REPORTS FOR FISCAL YEAR 2021**

The Committee received the following updates:

#### **Internal Audit Annual Report**

The Audit Director provided the Committee with a summary of the Department's accomplishments over the past year as well as an overview of the Department's initiatives and challenges for the coming fiscal year and the remainder of the long-range plan. She recognized the contributions of the internal audit team during the year.



The Audit Director explicitly confirmed the Internal Audit Department and its staff are organizationally independent of the activities they examine and possess the appropriate qualifications to meet the needs of the proposed audit plan. The Audit Director also discussed the Department's conformance with the *IIA's Standards*.

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

Two annual ARFUS Reports as of June 30, 2021, one for management and one for internal audit, were presented. Management's ARFUS contained eight internal recommendations, five represented as implemented. Four were reviewed and released. One was reviewed and released with comment, leaving three outstanding recommendations in Management's ARFUS as of June 30, 2021.

Internal Audit's ARFUS contained one external recommendation from the most recent quality assurance review, which was represented as implemented, reviewed and released.

**Annual Plan and Long-Range Plan Progress**

The Audit Director presented the annual plan results for the fiscal year ended June 30, 2021, along with the status of the long-range plan for the four years ending June 30, 2024.

The Audit Director noted as of the conclusion of the first fiscal year of the long-range plan, modifications have been made to the remaining plan to accommodate the changing risk environment.

**PROPOSED FY2022 ANNUAL PLAN**

The Audit Director discussed the proposed annual plan for fiscal year 2022, which is derived from the approved long-range plan. The Committee reviewed the plan and voted to recommended approval of the following action to the full Board:

***Request for Board Action:*** *The VRS Board of Trustees approves the proposed FY2022 Annual Plan.*

**QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES**

It was noted there were no Fraud, Waste and Abuse Hotline complaints reported to Internal Audit via the Office of the State Inspector General during the period of May 1, 2021 through July 31, 2021.

**MISCELLANEOUS UPDATES**

The Committee received the following miscellaneous updates:

**Management's Quarterly Travel Expense and Per Diem Report**

The Committee received management's quarterly travel expense and per diem report.

**Results of Agency Performance Outcomes and Agency Operational Measures**

The Audit Director discussed Internal Audit's review of management's representations regarding the Agency Performance Outcomes and Operational Measures for the fiscal year ended

June 30, 2021, noting nothing came to its attention that indicated the outcomes and measures were not appropriately represented for the fiscal year.

**Internal Audit's Review of Investment Incentive Compensation**

The Audit Director noted Internal Audit completed its review of the Investment Department's proposed incentive compensation amounts and determined they were accurately computed in accordance with the authorized pay plan.

**Confirmed Committee Meeting Schedule for the 2022 Calendar Year and Next Meeting**

The Audit Director shared the confirmed meeting dates for Calendar Year 2022 and the Committee's next meeting date: Monday, December 6, 2021 at 2 p.m.

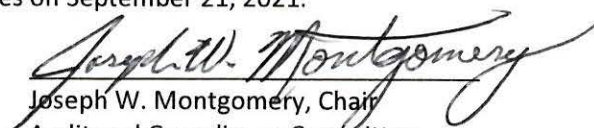
**AUDIT DIRECTOR'S PERFORMANCE EVALUATION**

The Committee went into closed session to review the Audit Director's performance for the fiscal year ended June 30, 2021.

Upon returning to open meeting, the Committee voted to recommend approval of the following action to the full Board:

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

Respectfully submitted to the Board of Trustees on September 21, 2021.



Joseph W. Montgomery, Chair  
Audit and Compliance Committee

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## Report

The Administration and Personnel Committee met on September 15, 2021 and discussed the following:

### **APPROVAL OF MINUTES**

The Committee approved the minutes of its June 2, 2021 meeting.

### **REVIEW ATTAINMENT OF FY 2021 AGENCY PERFORMANCE OUTCOMES (APOs) AND OPERATIONAL MEASURES**

Michael Cooper, Chief Operating Officer, reviewed the results of the FY 2021 agency performance outcomes (APOs) and operational measures. Mr. Cooper noted that the agency had four APOs for the fiscal year, with a target of completing at least three. Staff met this goal by successfully completing all four APOs. In addition, there were sixteen operational measures for the year, of which thirteen had to be met in order to meet the target for the year. Staff successfully met its target for fifteen of the sixteen operational measures. The only measure not met for the year was the call abandonment rate, which was impacted by the ongoing pandemic.

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

***Request for Board Action:*** *The VRS Board of Trustees approves (i) the attainment of FY 2021 APOs and Operational Measures and (ii) a lump-sum bonus equal to 2.5% of salary for eligible administrative employees and eligible Investment Department operations and administration employees.*

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

Mr. Cooper presented a request for board action to approve the performance bonuses for eligible administrative and investment operations and administration employees. Eligible employees who earn an “exceptional” rating on their performance evaluation qualify for a 4% bonus. Employees who earn an “exceeds” rating on their performance evaluation are eligible for a 2% bonus. The bonus amount is based on their salary as of June 30, 2021.

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

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

### **REAPPOINTMENT OF INVESTMENT ADVISORY COMMITTEE (IAC) MEMBERS**

Ron Schmitz informed the committee of two IAC members due for reappointment. Mr. Schmitz indicated that Hance West and Nan Leake each wish to continue their service on the IAC. The IAC reviewed the reappointments at its August 26, 2021 meeting and recommended approval of the reappointment of Mr. West and Ms. Leake.



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

***Request for Board 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, 2023.*

**BUDGET UPDATE (YEAR END RESULTS AND BIENNIUM BUDGET PROPOSAL)**

Jon Farmer, Budget and Performance Reporting Manager, presented the FY 2021 year-end budget results, explaining that VRS finished the year with a surplus of \$14.7 million, which will be returned to the Fund. Mr. Farmer next reviewed the FY 2022 year-to-date budget and indicated that estimated expenditures remain on track for the year. Next, Mr. Farmer provided a detailed review of the agency’s FY 2023-2024 biennium budget proposal. Following discussion on the proposals with the committee members, a request for board action was considered.

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

***Request for Board 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.*

**STRATEGIC PLAN UPDATE**

Trish Bishop and Michael Cooper provided an update on the agency’s strategic planning process. A draft of the detailed plan, which also incorporated the feedback shared by the Board after its last meeting, was shared with the committee. Ms. Bishop advised the committee that staff expects to finalize the strategic plan in the coming weeks and will provide a copy of the final plan to the Board later this fall.

**INFORMATIONAL ITEM – APPROVE INTERNAL AUDIT DIRECTOR’S PERFORMANCE BONUS**

Mr. McWilliams informed the committee that the Audit and Compliance (A&C) Committee reviewed the Internal Audit Director’s performance during its September 13, 2021 meeting. Each year, the A&C Committee reviews the Internal Audit Director’s performance and makes a recommendation for a performance bonus to the Board of Trustees. A copy of the request for board action to provide a performance bonus in the amount of 7% was shared with the committee for informational purposes.

**COMPENSATION AND BENEFITS (CLOSED SESSION)**

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

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

***Request for Board Action:*** *The VRS Board of Trustees approves payment of an incentive amount of approximately \$7,853,280.10 for FY 2021 to VRS investment professionals as authorized by the Investment Professionals’ Pay Plan.*

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Internal Audit reviewed the proposed investment incentive compensation for the fiscal year that ended June 30, 2021 and found that the aggregate amount was accurately computed in accordance with the Investment Professionals' Pay Plan.

***Request for Board Action:*** *The VRS Board of Trustees approves a 5% performance bonus for the VRS Director payable on October 15, 2021 and supplemental payment of \$75,000 made on December 1, 2021 as authorized in the 2021 Appropriation Act.*

Submitted to the Board of Trustees on September 21, 2021.



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O'Kelly E. McWilliams, III, Chair  
Administration and Personnel Committee

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## Report

Pursuant to § 2.2-3708.2(A)(3) et seq. of the *Code of Virginia*, the Benefits and Actuarial Committee convened electronically on September 1, 2021 at 1:00 p.m. and took up the following matters:

### APPROVAL OF MINUTES

The Committee approved the minutes of its June 9, 2021 meeting.

### ELECTION OF COMMITTEE VICE CHAIR

The Committee unanimously approved the nomination of Michael P. Disharoon to serve as Vice Chairman.

### CHANGES TO GROUP LIFE INSURANCE

Robert Irving, Customer Services Director, presented the recommendation of VRS' third-party administrator, Securian, to increase the optional group life insurance maximum coverage from four times annual salary to eight times annual salary. The increase is subject to an unchanged maximum dollar amount limit of coverage, which is reviewed at least once every five years by the Board's actuary and, upon their recommendation, increased by the Board.

The guaranteed issue maximum of four times creditable compensation, or \$400,000, will remain the same, as will the coverage maximum of \$800,000. Securian has proposed a one-time opportunity for members to increase coverage without underwriting and subject to the maximum amounts. Current employees will be able to increase existing coverage by one-times creditable compensation, subject to the guaranteed issue limit.

VRS and Securian are partnering to provide members online access to apply for optional life coverage within myVRS by the end of the calendar year. The online application functionality will integrate with myVRS online capabilities and provide an easier application process for members.

The Committee recommends approval of the RBA with a delayed effective date to allow planned online functionality to be in place prior to allowing Securian to implement the increase. Staff will inform the Board of the effective date of the change at a subsequent Board meeting.

Following some discussion, the Committee recommended approval of the following action to the full Board of Trustees:

***Request for Board Action:*** *After considering the recommendations of its group life insurance third-party administrator, the Board approves increasing optional insurance maximum coverage from four times annual salary to eight times annual salary (subject to an unchanged maximum dollar amount limit of coverage).*

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**INFORMATION ITEMS****Stress Test and Sensitivity Analysis Report**

Rory Badura, Senior Staff Actuary, presented the findings of the VRS Stress Test and Sensitivity Analysis report. He noted that the report is based on the June 30, 2020 actuarial valuation and reflects the changes to actuarial assumptions adopted by the VRS Board of Trustees in April 2021 as a result of the quadrennial experience study as well as the 27.5% investment return earned in fiscal year 2021. The report provided analysis of risk to long-term funding, including investment volatility, contribution risk, and longevity risk.

The report analyzes the potential effect on plan funding over the next several years and contains various adverse economic scenarios that illustrated impacts of higher inflation and continued market uncertainty related to COVID variants. The report focuses on adverse events as they better highlight areas of risk. In addition, the impacts of the recent change in the VRS mortality table, which incorporates generational mortality improvement, were highlighted showing the increases in life expectancy and corresponding increases in unfunded liabilities. The change in mortality table is expected to better position the plan to deal with longevity risk.

As in prior years, the report continued to highlight opportunities that exist to proactively address the legacy unfunded liabilities and to better position the retirement plans to provide financial stability for current and future members. Due to the uncertainty surrounding the COVID-19 recovery and the corresponding impacts on the economy at large, analysis of future impacts on the VRS trust fund will continue as new information becomes available.

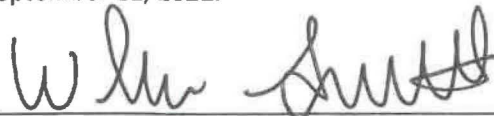
**B&A Committee Meeting Schedule:**

- October 13, 2021 at 10:00 a.m.
- November 15, 2021 at 1:00 p.m.

**Confirmed 2022 Schedule:**

- February 9 at 1:00 p.m.
- June 6 at 1:00 p.m.
- October 17 at 1:00 p.m.
- November 14 at 1:00 p.m.

Submitted to the Board of Trustees on September 21, 2021.



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William A. Garrett, Chair  
Benefits and Actuarial Committee