



February 2, 2024

MEMORANDUM

TO: VRS Board of Trustees

FROM: Patricia S. Bishop
Director

RE: Agenda Materials for February 8th Board Meeting

We are looking forward to the February 8th Board meeting beginning at 1:00 p.m. in the VRS Boardroom located at 1111 East Main Street, Bank of America - Pavilion Building, 3rd floor. Enclosed are the agenda and meeting materials. Boxed lunches will be available beginning at 10:30 a.m.

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

Meeting	Date	Location
Benefits and Actuarial Committee	Wednesday, February 7 th , 1:00 p.m.	Bank of America Pavilion, 1111 E. Main St., 3 rd floor conference room
Administration, Finance and Talent Management Committee	Thursday, February 8 th , 10:00 a.m.	Bank of America Pavilion, 1111 E. Main St., 3 rd floor conference room
Board of Trustees	Thursday, February 8 th , 1:00 p.m.	Bank of America Pavilion, 1111 E. Main St., 3 rd floor conference room

Again, we look forward to seeing you next week. If you have any questions, please feel free to contact me.

Attachments

cc: The Honorable Stephen E. Cummings, Secretary of Finance
Craig Burns, Department of Taxation
Michael Jay, House Appropriations Committee
April Kees, Senate Finance Committee
Mike Tweedy, Senate Finance Committee
Zack Borgerding, Auditor of Public of Accounts
Jon Howe, Department of Planning and Budget
Dean Lynch, VA Association of Counties
Katie Boyle, VA Association of Counties
Bea Snidow, VA Education Association
Jamie Bitz, Joint Legislative Audit & Review Commission
Kimberly Sarte, Joint Legislative Audit & Review Commission
Hal Greer, Joint Legislative Audit & Review Commission
Elizabeth B. Myers, Office of the Attorney General

Josette Bulova, VA Municipal League
Lawrence Kochard, VRS Investment Advisory Committee
Bonnie Atwood, VA Retired Teachers Association



Board of Trustees Meeting
VRS, 1111 E. Main St., 3rd Floor Board Room
Thursday, 2/8/2024
1:00 - 3:30 PM ET

I. Approve Minutes

Board Minutes 12.7.23 - Page 5

II. Report of the Chief Investment Officer

Chief Investment Officer Report - February 2024 - Page 12

Asset Allocation Report - November 2023 - Page 23

Daily Asset Allocation Report - 1.29.2024 - Page 24

Performance Summary 11.30.2023 - Page 25

Plan Tracking Error - Page 26

New Investments and Terminations - 2.8.2024 - Page 27

DIME Quarterly Summary - QE 12.31.2023 - Page 29

Manager Referral Quarterly Summary - QE 12.31.2023 - Page 35

III. Report of the Benefits and Actuarial Committee

B&A Report 2.8.24 - Page 36

- **RBA – Approval of July 1, 2024 Increase Relating to VSDP Creditable Compensation and VSDP COLA**

RBA for VSDP COLA 2024 - Page 39

- **RBA – Approval of July 1, 2024 Increase Relating to VLDP Creditable Compensation**

RBA for VLDP COLA 2024 - Page 41

- **RBA – Approval of July 1, 2024 Increase Relating to Maximum Optional Life, Accidental Death, and Dismemberment Insurance Coverages**

RBA for Maximum OLI - Page 42

2024 Audit COLA Memorandum - signed and VRS COLA Letter 1.31.24 - Page 44

- **RBA – Amend VRS Funding Policy Statement to Include Funding Requirements for VRS Employers With No Active Members, but Inactive or Retired Liabilities**

RBA - Amendments to Funding Policy Statement - Page 49

VRS Funding Policy 2.8.24 - Redline no appendices - Page 51

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

AFT Committee Report 2.8.24 - Page 65

- **RBA – Approve Revised Education and Development for Investment Professionals Policy**

RBA - Tuition Reimbursement and Tenure Agreement - Repayment - Page 67

Investments Education and Development Policy - Redline - Page 69

- **RBA – Approve Revised Proxy Voting and Litigation Policy**

RBA - Approving Litigation Policy - Page 74

Litigation Policy - Redline - Page 76

Proxy Voting Policy - Redline - Page 84

- **RBA – Approve Revised Investment Professionals’ Pay Plan & DCIP**

RBA - Amended Investment Pay Plan & DCIP - Page 92

VRS 2023 Investment Professionals Pay Plan Redline - Page 94

VRS - Restated DCIP - Redline - Page 115

McLagan - VRS Investment Team Comp Review - Page 140

V. Commending Resolution for W. Brett Hayes

W. Brett Hayes - Commending Resolution - Page 157

VI. Legislative Update

2024 Legislative Update - Board - Page 158

VII. Report of the Director

FY 2024 Agency Roadmap Update - December - Page 183

Director's Report - Page 185

VIII. Closed Session

- **Securities Litigation**

Minutes

A regular meeting of the Virginia Retirement System Board of Trustees was held on December 7, 2023, in Richmond, Virginia with the following members participating:

Board members:

A. Scott Andrews, Chair
Joseph W. Montgomery, Vice Chair
Hon. J. Brandon Bell, II
John M. Bennett
Michael P. Disharoon
Susan T. Gooden, Ph. D. (*remotely under § 2.2-3708.3(B)(4)*)
W. Brett Hayes
Jessica Hood
Lindsey Pantele

VRS Staff:

Patricia Bishop, Jennifer Schreck, Andrew Junkin, Advait Apte, Rory Badura, Parham Behrooz, Caroline Cardwell, Jeanne Chenault, Michael Cooper, David Cotter, Juanita Cribbs, Sara Denson, Laurie Fennell, Josh Fox, Jay Gentry, Katherine Grawe, JT Grier, Dane Honrado, KC Howell, Robert Irving, Ross Kasarda, LaShaunda King, Kristina Koutrakos, Matt Lacy, Chung Ma, Walker Noland, Greg Oliff, Angela Payne, Mark Rein, Paula Reid, Dan Schlussler, Emily Trent, Leslie Weldon, and Dan Whitlock.

Guests:

Lauren Albanese, Financial Investment News; Jamie Bitz, Joint Legislative Audit and Review Commission; Joe Ebisa, With Intelligence; Ana Irizarry, MandateWire, Financial Times; Alicia McElhaney, Institutional Investor; Elizabeth Myers, Office of the Attorney General; Erin Rodriguez, Auditor of Public Accounts; Sabiq Shahidullah, FundFire; and Bea Snidow, Virginia Education Association.

The meeting convened at 1:00 p.m.

Opening Remarks

Mr. Andrews called the meeting to order and welcomed everyone to the December 7, 2023, meeting of the Virginia Retirement System Board of Trustees.

Approval of Minutes

Upon a motion by Mr. Montgomery, with a second by Ms. Pantele, the VRS Board of Trustees approved the minutes from its November 16, 2023, meeting.

Report of the Chief Investment Officer

Mr. Junkin began his report with a market overview and discussed asset allocation, total fund performance and tracking error, concluding that risk measures are within Board-approved levels. Mr. Junkin then discussed the New Investments and Terminations report.

Mr. Andrews thanked Mr. Junkin for his report.

Report of the Defined Contribution Plans Advisory Committee

The Board received the report of the Defined Contribution Plans Advisory Committee (DCPAC) and placed it on file.

The Defined Contribution Plans Advisory Committee (DCPAC) convened on November 30, 2023, at 1:00 p.m. and took up the following matters:

WELCOME AND INTRODUCTION

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

ADMINISTRATION

Administrative Reports and Communication Update

Staff provided an update on administrative reports for the third quarter of 2023. Updates included an overview of assets and accounts across the various defined contribution plans, as well as participant trends and the impact of various plan initiatives. Staff shared with the Committee an overview of efforts related to its TPA annual service reviews, plan adoption updates, SECURE 2.0 updates and communications campaign highlights.

ORPHE Update

Staff provided an overview of ORPHE reports for the third quarter of 2023, including plan assets and accounts.

ORPHE Employer Update Report

Mr. Larson provided an overview of the ORPHE Annual Employer Update hosted by VRS on September 19, 2023. He noted that 27 participating institutions were represented.

DC Plans Recordkeeper RFP Update

Staff provided an update on the record keeper transition. VRS is still working with Voya on the contract. The employer transition website is live and will be promoted soon. The participant website will launch in Summer 2024.

Annual Administrative Expense Reports

Staff provided an overview of the administrative expense report and annual cost update for FY 2023, as required by the DCPAC Charter. The report provided both direct and indirect costs associated with administering VRS' Defined Contribution Plans. Total administrative costs related to participants and expenditures for FY 2023 were provided, along with a cost trend analysis over the five-year period from FY 2019 to FY 2023.

INVESTMENTS

Performance Reports

Staff provided an overview of the October 31, 2023, investment performance reports for the unbundled DC plans and the TIAA (RC contract) ORPHE. Staff highlighted areas where passively managed investment option performance for the longer dated return series was 10 basis points or more above benchmark performance. Staff shared with the Committee major sources of differences between passively managed indexed fund and benchmark performance. Actively managed and capital preservation funds' performance was highlighted as appropriate.

Staff informed the Committee that as a result of VRS' participation in BlackRock's Proxy Voting Choice Program, VRS recently transitioned to an ISS proxy voting policy that aligns with that which is used for the VRS defined benefit plan for those BlackRock funds offered through the unbundled DC plans and the TIAA (RC contract) ORPHE.

CEM Defined Contribution Plans Survey

Staff reviewed the CEM DC Plans 2022 survey results, which was comprised of 99 corporate and 23 public plans representing \$1.2 trillion in assets. Staff informed the Committee that the survey results included the unbundled DC Plans supplemental 457 Deferred Compensation Plan, in addition to the bundled TIAA program for ORPHE. Staff noted that the TIAA information was based solely on the TIAA RC contract. Staff included the CEM DC Survey Reports in the Appendix for the Committee to review.

OTHER BUSINESS

Code of Ethics

Staff informed the Committee that an email notification would be forthcoming that includes instructions for completing the review and affirmation of the Board of Trustees' Code of Ethics and Conduct, an

annual requirement of VRS advisory committee members. Staff shared that Committee members will be able to electronically sign and submit the affirmation statement.

Discussion of New Ideas

No new business was brought before the Committee.

2024 MEETINGS

The Committee is scheduled to meet on the following dates in 2024, all at 1:00 p.m.:

- Thursday, March 14th
- Thursday, May 23rd
- Thursday, September 12th
- Thursday, December 5th

Mr. Andrews thanked Senator Bell for his report.

Report of the Audit and Compliance Committee

The Board received the report of the Audit and Compliance Committee (A&C) and placed it on file.

APPROVAL OF MINUTES

Mr. Montgomery began his report by noting the Committee approved the minutes of its September 20, 2023, meeting.

EXIT ON THE AUDITOR OF PUBLIC ACCOUNTS (APA) 2023 ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) AUDIT

The APA informed the committee the audit work over the 2023 VRS Annual Comprehensive Financial Report (ACFR) was in its final stage. Upon completion, the APA anticipates issuing an unmodified opinion on VRS' financial statements. They noted their companion "Report on Internal Controls and Compliance" would be issued next month (January).

ENTRANCE WITH THE APA REGARDING EMPLOYER ASSURANCES (GASB 68 AND 75)

The APA then provided the committee with an overview of its upcoming examinations designed to provide participating employers and their auditors the assurances necessary to prepare their own annual comprehensive financial statements in accordance with Governmental Accounting Standards Board (GASB) Statements:

- No. 68, which focuses on employer reporting over pension plans.
- No. 75, which deals with employer reporting over other post-employment benefit plans.

The APA anticipates issuing its opinions on these matters on or about June 30, 2024.

AUDIT REPORTS

The committee received two audit reports.

- The review of *Global Public Equity – External Managers* determined VRS provides appropriate oversight and monitoring of the program. There were no formal recommendations as a result of this review.
- The review of *Refunds* concluded that overall, sufficient controls are in place to support refund processing and that the associated processes are working as expected. There were no formal recommendations as the result of this review; however, observations were noted within the conclusions section of the report.

QUALITY ASSURANCE REVIEW OF THE INTERNAL AUDIT DEPARTMENT

The Audit Director presented the results of the department’s Annual Quality Assurance Improvement Program Review as of June 30, 2023, noting the review concluded there is reasonable assurance the VRS Internal Audit Department is generally operating in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The Audit Director highlighted the milestones for the upcoming updates to the Global Internal Audit Standards and the timing of the department’s next external Quality Assurance Review.

QUARTERLY REPORT ON FRAUD, WASTE AND ABUSE HOTLINE CASES

It was noted there was one Fraud, Waste and Abuse Hotline complaint reported to Internal Audit via the Office of the State Inspector General during the period of August 1, 2023, through October 31, 2023. The case was unfounded and closed.

MANAGEMENT’S QUARTERLY TRAVEL EXPENSE AND PER DIEM REPORT

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

CONFIRMATION OF 2024 MEETING SCHEDULE

The committee received confirmation of the 2024 VRS Board and Committee meeting dates. The committee’s next meeting is scheduled for Wednesday, March 27, 2024, at 1 p.m.

Mr. Andrews thanked Mr. Hayes for his report.

Report of the Director

Trish Bishop, VRS Director, began her report with an update on the agency roadmap for FY 2024, noting all projects are progressing as planned, as well as a review of New Coverage Elections.

Ms. Bishop then made the following announcements to the Board:

- Pensions and Investments (P&I) recognized VRS with an honorable mention in the P&I Excellence and Innovation Award program. VRS, along with partner MissionSquare, were recognized for the 2022 Hybrid Retirement Plan auto-escalation communications campaign resulting in an opt-out rate of less than 1%.
- The Government Finance Officers Association of the United States and Canada (GFOA) recognized VRS with an Award for Outstanding Achievement in Financial Reporting for the *Popular Annual Financial Report* (PAFR). This is the sixth consecutive year VRS was eligible to achieve this recognition.
- The annual Conflict of Interest Act (COIA) filing is due by Wednesday, February 1, 2024, for Statements of Economic Interests and Financial Disclosure statements. The filing period covers January 1, 2023, to December 31, 2023.
- The annual Code of Ethics and Standards of Conduct training will be distributed to the Board electronically.
- The Joint Legislative Audit & Review Commission will meet Monday, December 11, 2023, at 2:00 p.m. and present the annual VRS Oversight Report.
- Member Spotlight - A member profile in the November issue of Member News contained a warm tribute to Sandra Tomlinson, who is retiring after 49 years of service at Natural Tunnel State Park creating an outpouring of likes and shares for a well-respected state employee in southwest Virginia. The post created quite a stir, with 108,000 impressions on Facebook, making it the most popular member spotlight post ever. The tribute was written by PR team member Andrew Ringle. Congratulations go out to Sandra for her decades of service.
- The Agency Annual Meeting and Breakfast will be held at the Greater Richmond Convention Center on December 13, 2023, to celebrate annual achievements and present awards.

Mr. Andrews thanked Ms. Bishop for her report.

Next, Mr. Andrews thanked Mr. Hayes for his professionalism and acknowledged his contributions to VRS for over 10 years of service to the VRS Board of Trustees. Mr. Andrews expressed gratitude for Mr. Hayes' support and assistance surpassing the required tenure to ensure a smooth transition.

Further, Mr. Andrews recognized Cindy Wilkinson, Director of Policy, Planning and Compliance, who is retiring February 1, 2024, after 31 years of total service to the Commonwealth, and 13 years with VRS. Mr. Andrews congratulated Ms. Wilkinson on her retirement and expressed the Board's appreciation and gratitude for her exceptional service and faithful representation of VRS.

Securities Litigation (Closed Session)

Upon a motion by Mr. Montgomery, with a second by Mr. Disharoon, the Virginia Retirement System Board of Trustees convened 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. Montgomery 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, § 2.2-3712 of the *Code of Virginia* requires a certification by the Board that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED, 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.

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

Senator Bell: Aye
Mr. Bennett: Aye
Mr. Disharoon: Aye
Dr. Gooden: *
Mr. Hayes: Aye
Ms. Hood: Aye
Mr. Montgomery: Aye
Ms. Pantele: Aye
Mr. Andrews: Aye

*Dr. Gooden's audio could not be heard during the roll call vote and therefore her vote was not recorded.

Other Business

There being no further business, Mr. Andrews noted there were no upcoming board meetings for the remainder of the calendar year and encouraged attendance of the VRS Agency Annual Meeting and Breakfast at the Greater Richmond Convention Center on December 13, 2023, at 8:30 a.m.

Adjournment

Following a motion by Mr. Disharoon, with a second by Senator Bell, the VRS Board of Trustees agreed to adjourn the meeting.

The meeting concluded at 1:29 p.m.

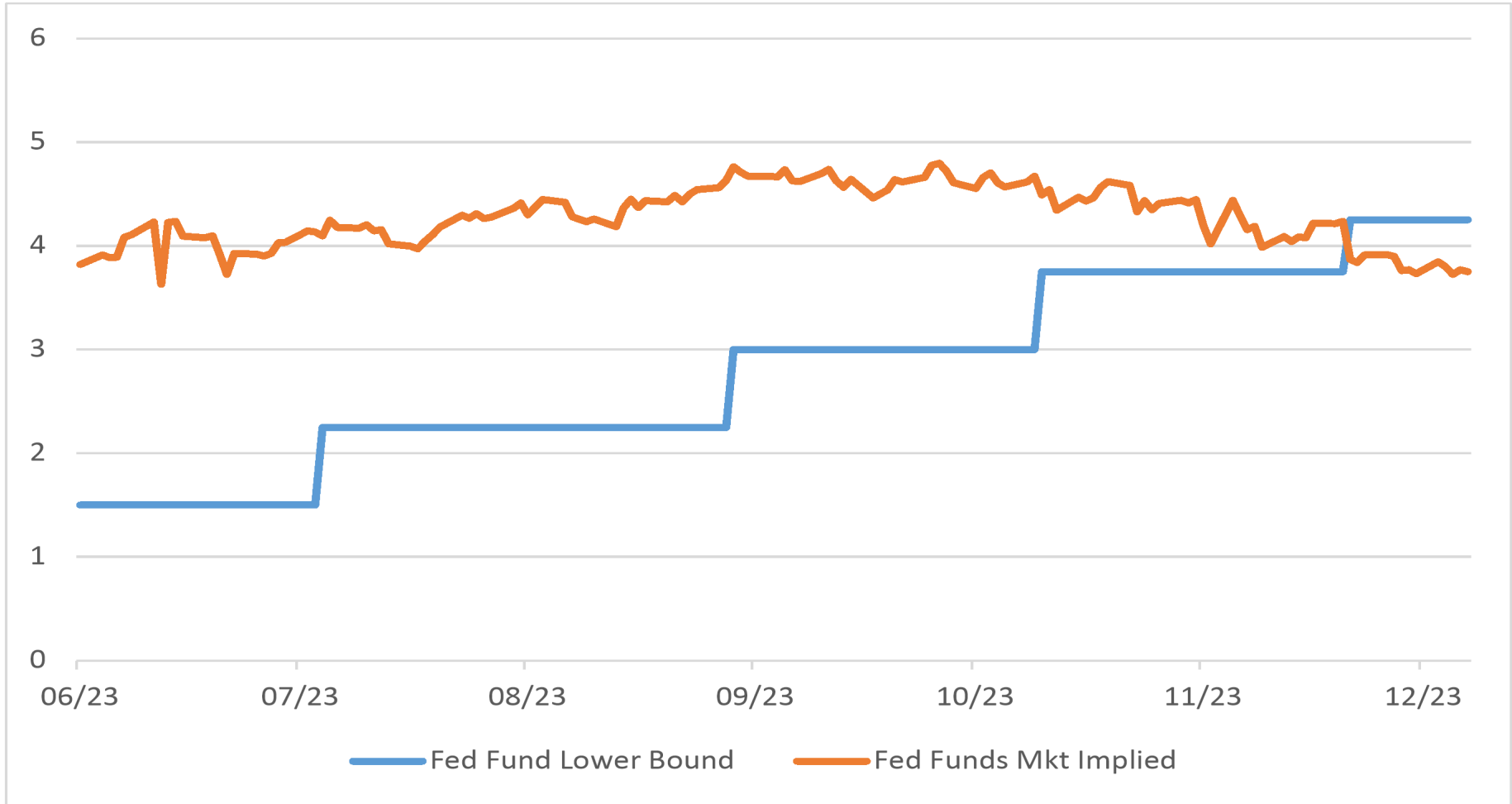
Chair

Secretary

Chief Investment Officer Report Market Review – February 2024 Andrew Junkin



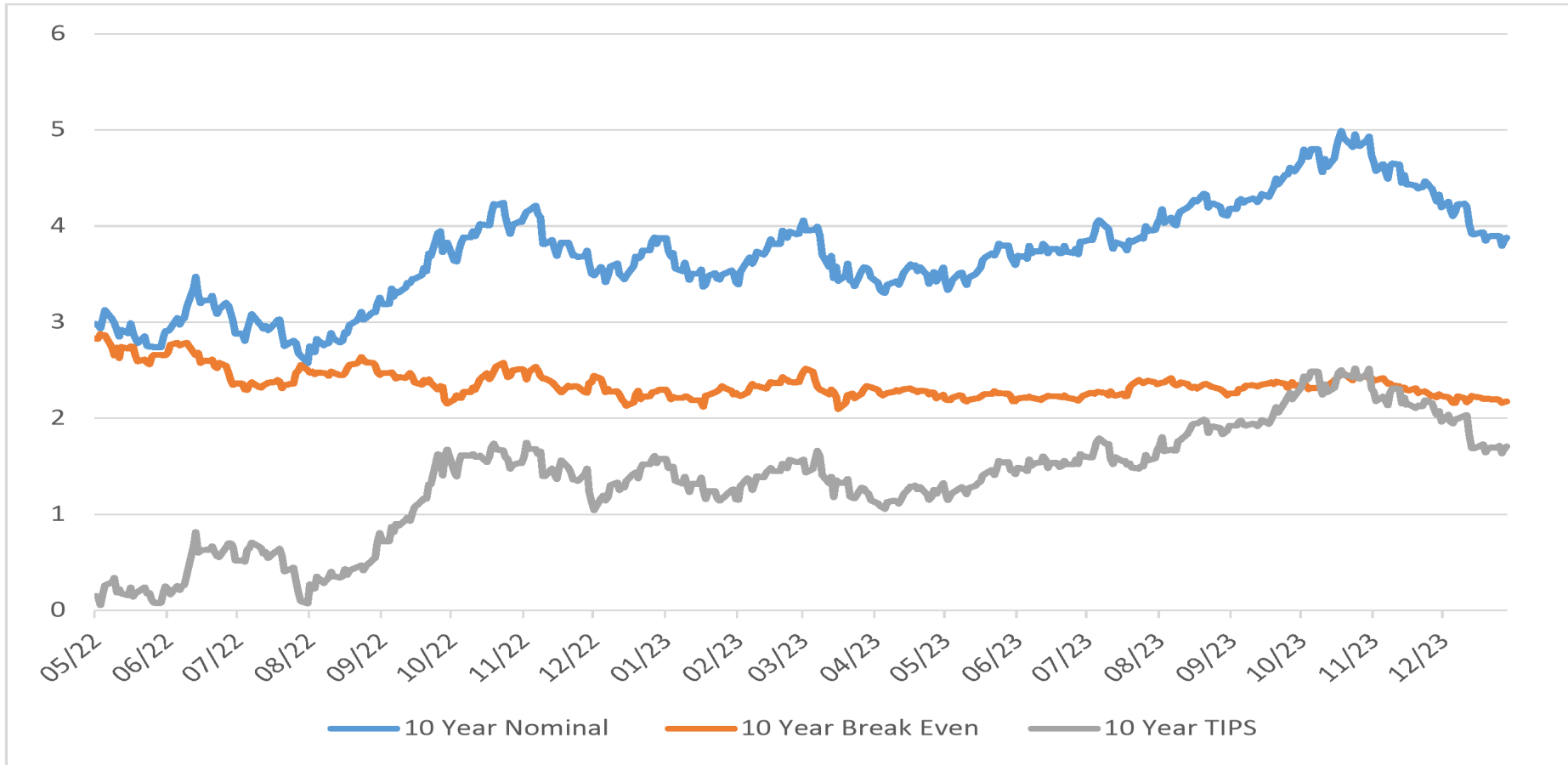
Forward (Implied) vs Fed Fund (Target)



Data Source: Bloomberg

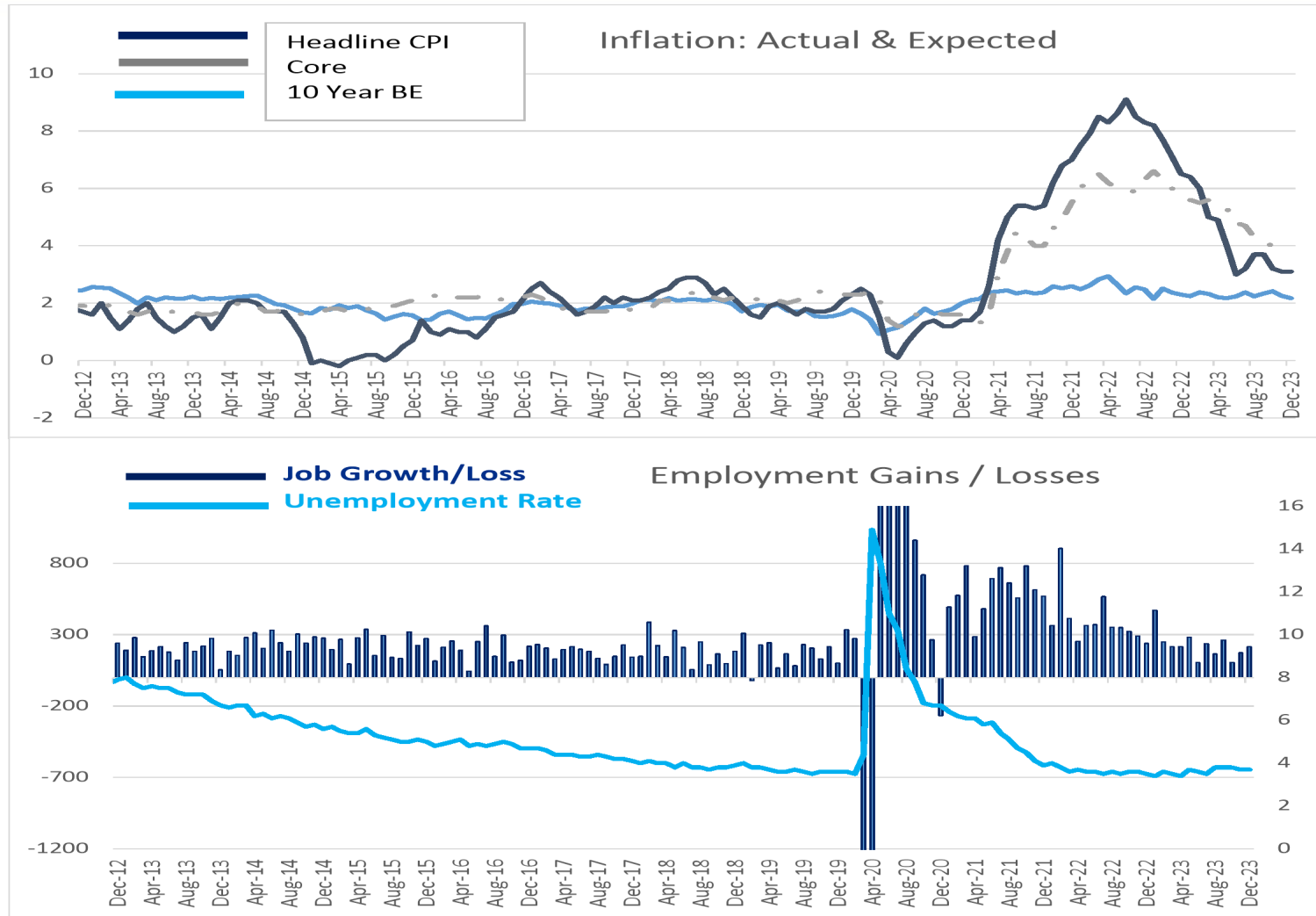
** Implied curve replaced with Dec 2024 index which started in June 2023

Rate Moves (10Y Nominal, Real & BEI)



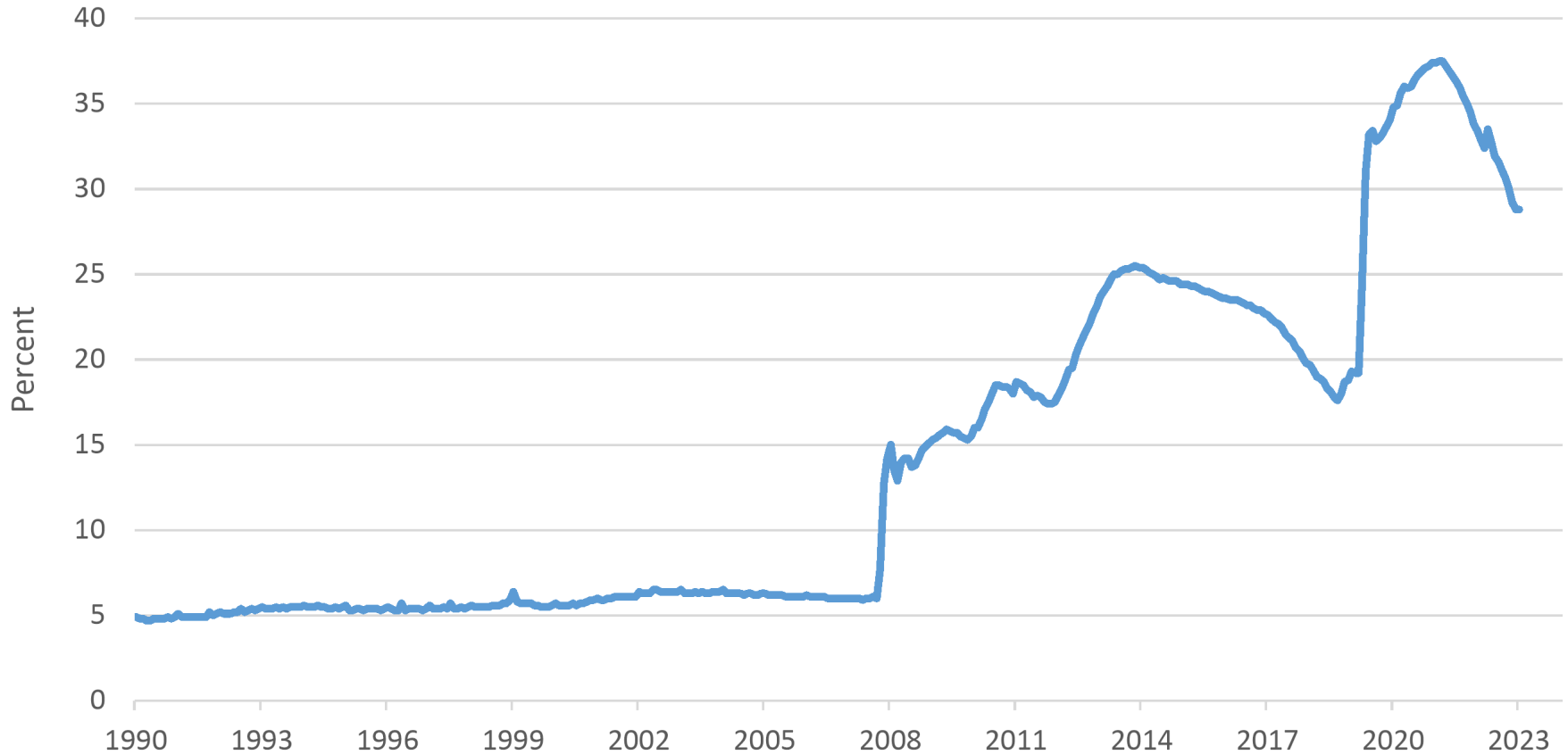
Data Source: Bloomberg

Inflation and Employment



Data Source: Bloomberg

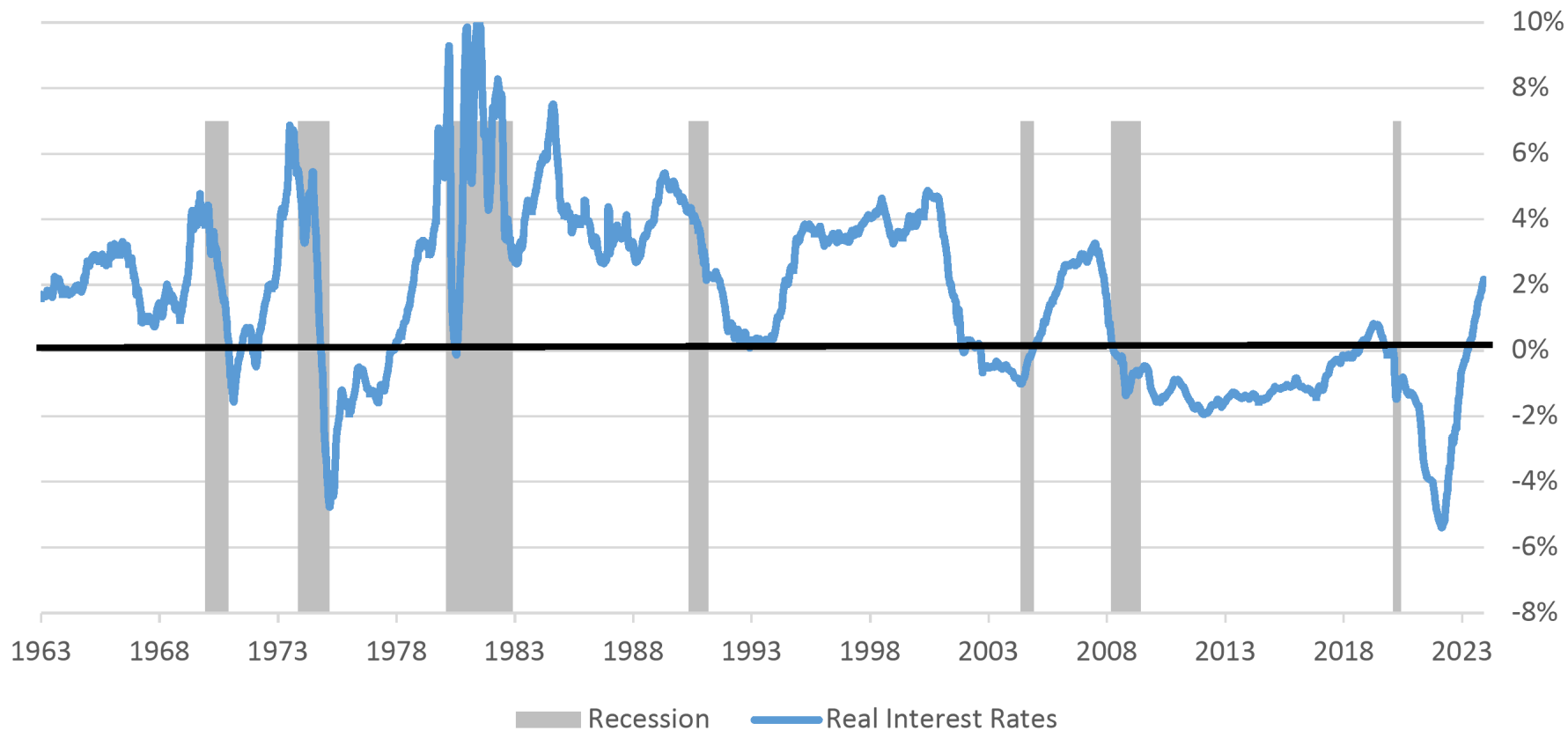
Federal Reserve Balance Sheet as a % of GDP



Data Source: Bloomberg

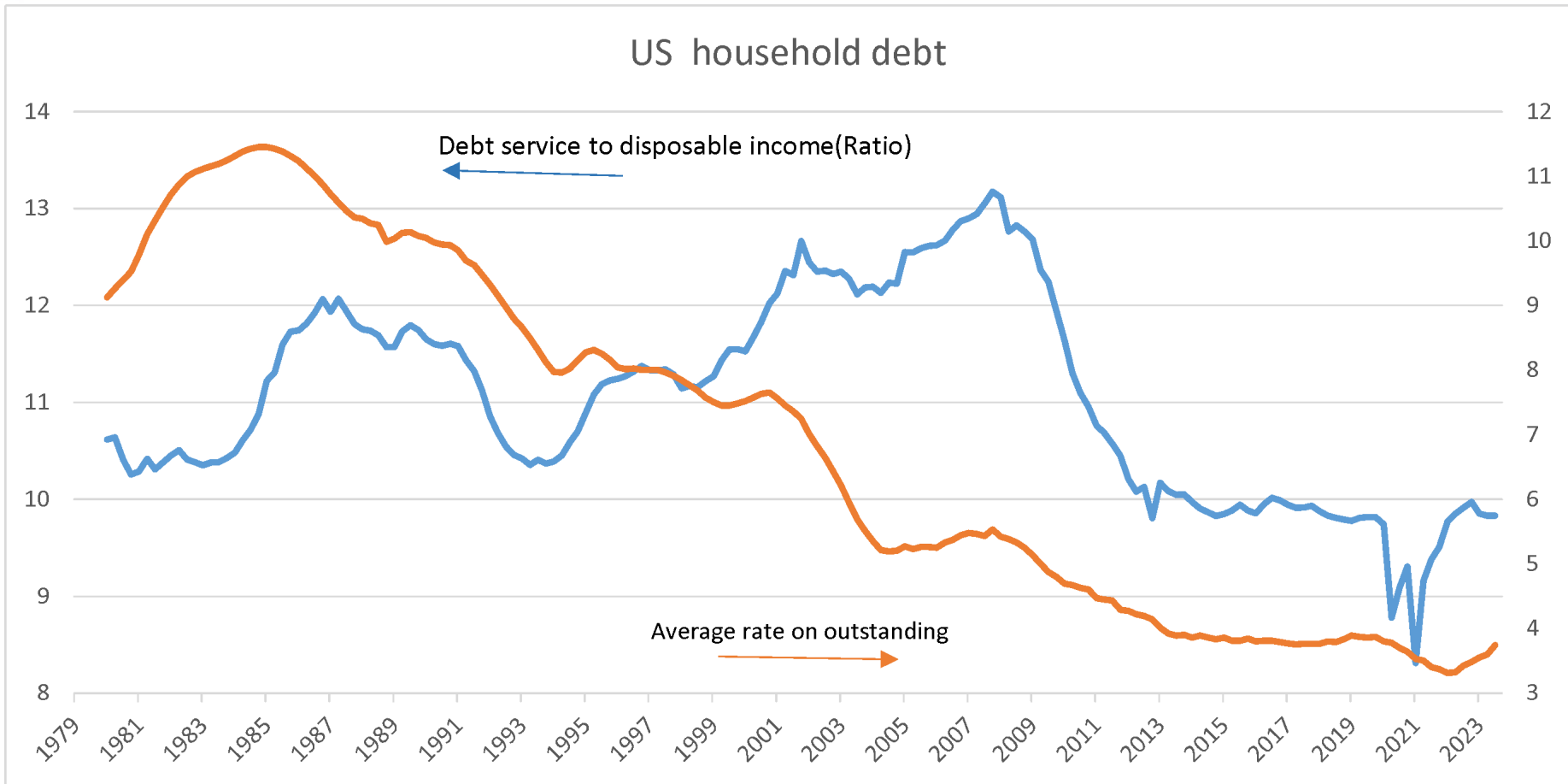
Higher Real Cost of Money

Real Interest Rates (FED Funds-Core CPI), 21 day smoothing



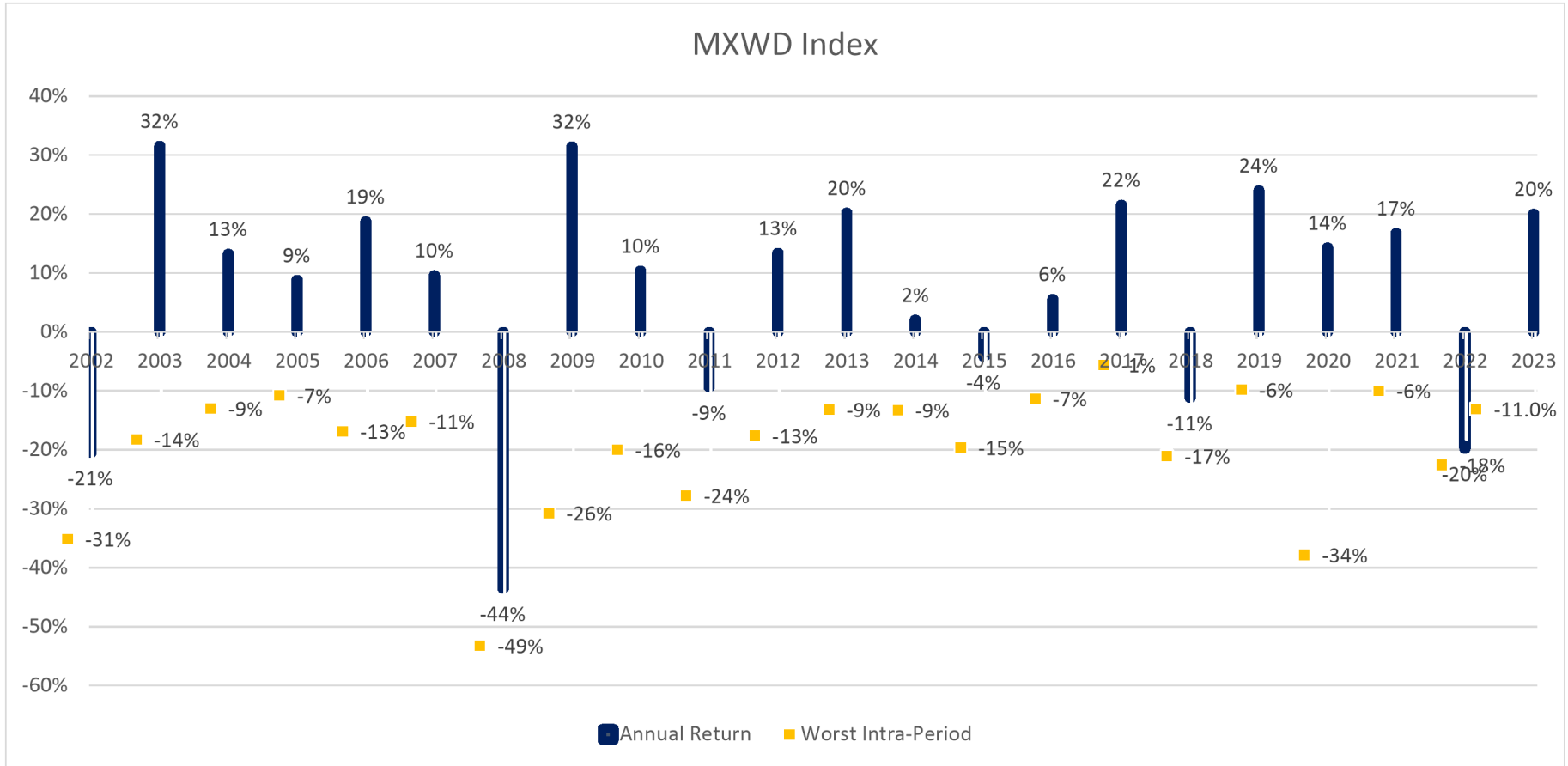
Data Source: Bloomberg

US Household Debt



Data Source: Bloomberg

Annual Equity Market Selloffs (Annual)



Data Source: Bloomberg

** Max draw down experienced on October 27 this year (-10.98%)

Equity, FI, & Real Assets as of 12/31/23

	12/31/2023	FYTD	1 Year	3 Year	5 Year	10 Year
Equity	Russell 3000	8.43%	25.96%	8.54%	15.16%	11.48%
	MSCI ACWI xUS	6.12%	18.60%	4.97%	9.02%	4.85%
	MSCI ACWI Index	7.48%	22.81%	6.24%	12.27%	8.48%
	MSCI ACWI Min Vol	13.62%	8.35%	7.06%	1.67%	7.10%
FI/Cash	Bloomberg US Aggregate	3.37%	5.53%	-3.31%	1.10%	1.81%
	US HY Ba/B 2% Issuer Cap	7.37%	12.56%	1.75%	5.49%	4.64%
	ICE BofA US 3 Month Treasury Bill Index	2.71%	5.05%	2.17%	1.89%	1.26%
RA	FTSE EPRA/NAREIT US Index	7.57%	13.48%	6.75%	6.48%	7.13%
	Bloomberg Commodity Index	-0.14%	-7.91%	10.76%	7.23%	-1.11%

Data Source: Bloomberg

Congratulations, Kristina Koutrakos!

The International Centre for Pension Management (ICPM) is pleased to welcome **Kristina Koutrakos** as one of its newest board members.

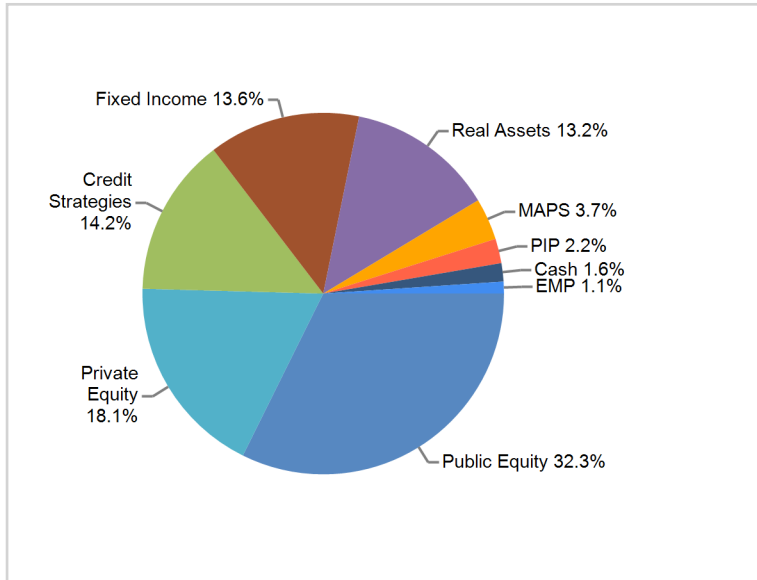


Congratulations, Laura Pugliese!



Laura Pugliese, VRS Portfolio Manager, Investments-Defined Contributions, has been named Vice Chair of the Defined Contribution Institutional Investment Association's (DCIIA) Plan Sponsor Institute (PSI) Executive Committee.





Tracking Error	
3Yr-Total Fund:	2.54%
3Yr-Total Public:	1.67%
5Yr-Total Fund:	2.28%
5Yr-Total Public:	1.53%

	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range		Internal %
Total Fund	106.5						28.5%
Public Equity	34.4	32.3%	34.0%	-1.7%	-5%	+5%	48.2%
Fixed Income	14.5	13.6%	15.0%	-1.4%	-3%	+5%	95.3%
Credit Strategies	15.1	14.2%	14.0%	0.2%	-5%	+5%	
Real Assets	14.0	13.2%	14.0%	-0.8%	-5%	+5%	
Other RA	4.7	4.4%					
Private Equity	19.3	18.1%	16.0%	2.1%	-5%	+5%	
MAPS	4.0	3.7%	4.0%	-0.3%	-2%	+2%	
DSTRAT	1.7	1.6%					
RBI	2.3	2.1%					0.6%
PIP	2.3	2.2%	2.0%	0.2%	-2%	+2%	
EMP	1.1	1.1%	0.0%	1.1%		+3%	
Cash	1.7	1.6%	1.0%	0.6%	-1%	+4%	

High-Level Exposure	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range	
Total Equity	53.7	50.4%	50.0%	0.4%	-10%	10%
Fixed Income + Cash	16.2	15.2%	16.0%	-0.8%	-4%	9%

	Current \$Bil	Current Weight	Policy Limit
Hedge Funds	9.8	9.2%	15.0%

* Total Fund includes the following amt held by the Treasurer of VA: \$ 456 million

• The values shown for each asset class on this report may differ from the VRS Monthly Performance Report due to adjustments related to derivative positions in the Rebalance Account, pending transactions, and certain accruals. The values on this report are a more descriptive representation of the Virginia Retirement System's true economic exposure to each asset class.(1 adjustments applied)

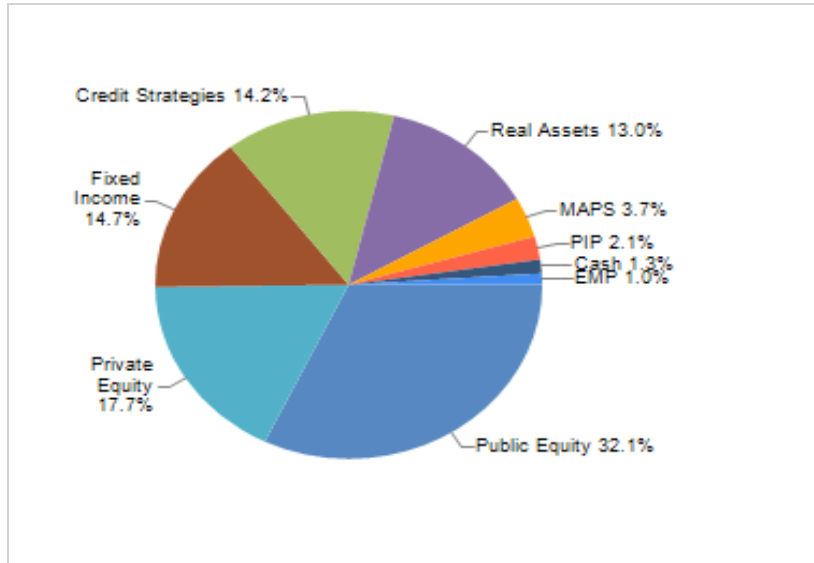
*Total Fund and Total Public annualized tracking error is calculated using compounded quarterly returns as of 9/30/2023

* Differences in totals are due to rounding.

Daily Asset Allocation Report

January 29, 2024

For Internal Investment Purposes Only



Tracking Error	
3Yr-Total Fund:	2.54%
3Yr-Total Public:	1.67%
5Yr-Total Fund:	2.28%
5Yr-Total Public:	1.53%

	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range		Internal %
Total Fund	110.2						30.2%
Public Equity	35.9	32.8%	33.0%	-0.2%	26%	40%	49.6%
Fixed Income	15.9	14.5%	16.0%	-1.5%	12%	23%	95.6%
Credit Strategies	15.7	14.4%	14.0%	0.4%	7%	21%	
Real Assets	14.1	12.9%	14.0%	-1.1%	7%	21%	
Other RA	4.9	4.5%					
Private Equity	19.0	17.4%	16.0%	1.4%	9%	23%	
MAPS	3.0	2.7%	4.0%	-1.3%	1%	9%	
DSTRAT	0.7	0.6%					6.6%
RBI	2.3	2.1%					0.6%
PIP	2.4	2.2%	2.0%	0.2%	0%	4%	
EMP	1.2	1.1%	0.0%	1.1%	0%	6%	
Cash	3.1	2.8%	2.0%	0.8%	0%	7%	
Total Fund	109.5	100.0%	100.0%	0.0%			
Leverage	0.7	0.6%	1.0%	-0.4%	0%	3%	
Total Fund with Asset Allocation Leverage	110.2	100.6%	101.0%	-0.4%			

High-Level Exposure	Current \$Bil	Current Weight	Policy Weight	Variance	Allowable Range	
Total Equity	54.9	50.1%	49.0%	1.1%	39%	59%
Fixed Income + Cash	19.0	17.3%	18.0%	-0.7%	12%	27%

* Total Fund includes the following amt held by the Treasurer of VA: \$ 470 million

• The values shown for each asset class on this report may reflect adjustments related to derivative positions in the Rebalance Account, pending transactions and certain accruals, in order to provide a more descriptive representation of the true economic exposure to each asset class (1 adjustments applied)

*Total Fund and Total Public annualized tracking error is calculated using compounded quarterly returns as of 9/30/2023

* Differences in totals are due to rounding.

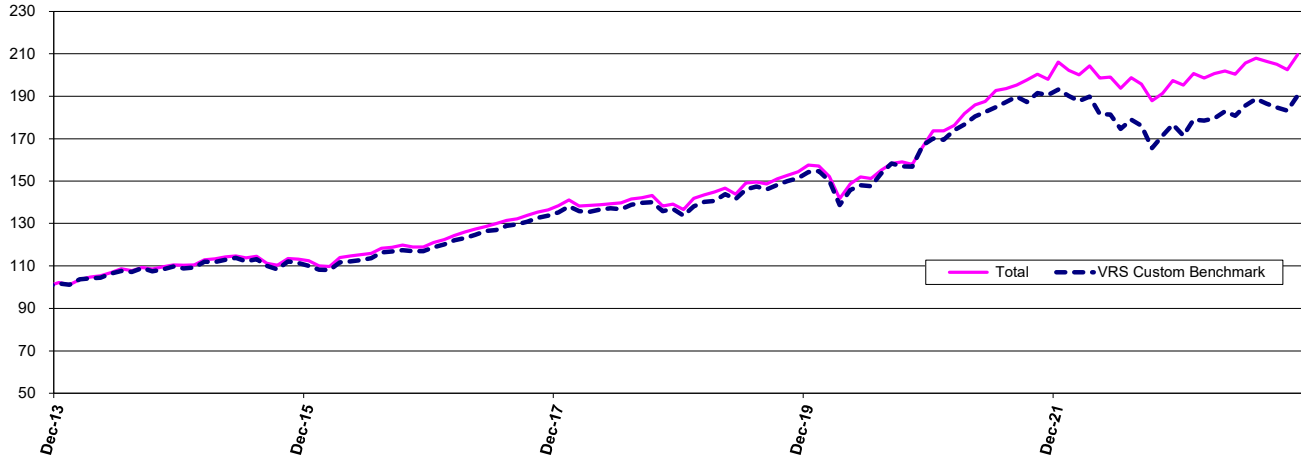
PERFORMANCE SUMMARY
Rolling Periods Ending
November 30, 2023



TOTAL FUND PERFORMANCE

	10 Yr	5 Yr	3 Yr	1 Yr	Qtr	Month	Fiscal YTD	Cal YTD	Market Value (\$MM)
Total Public Equity Strategies	7.7	8.5	6.6	10.7	1.7	8.5	2.4	14.0	34,433
<i>Benchmark</i>	7.8	8.9	5.8	11.6	1.3	9.3	2.2	16.0	
Total Fixed Income	2.2	1.9	-3.5	2.2	0.4	4.6	-0.1	2.4	14,456
<i>Benchmark</i>	1.4	0.9	-4.2	1.8	0.4	4.6	-0.1	2.2	
Total Credit Strategies	6.1	7.2	7.1	9.2	2.9	0.8	3.8	9.0	15,001
<i>Benchmark</i>	4.9	5.3	3.5	10.3	2.3	2.9	4.4	10.3	
Total Real Assets	9.6	8.0	10.1	-2.0	-0.7	0.1	-0.9	-2.6	14,041
<i>Benchmark</i>	7.3	5.5	6.6	-6.2	-0.9	-0.2	-1.7	-6.2	
Total Private Equity	15.9	17.1	21.4	5.6	2.5	0.3	2.5	6.9	19,277
<i>Benchmark</i>	11.5	9.5	8.0	13.8	6.8	-2.8	7.0	26.0	
Total Private Investment Partnerships	n/a	9.2	14.0	4.9	1.7	0.0	1.7	4.9	2,338
<i>Benchmark</i>	n/a	6.9	6.8	5.5	2.6	-0.1	3.0	8.9	
Total Multi-Asset Public Strategies	n/a	5.0	4.8	6.1	0.9	2.3	1.8	7.0	3,980
<i>Benchmark</i>	n/a	5.8	2.9	7.2	1.5	3.5	2.5	8.9	
Total Fund	7.6	8.5	8.0	6.2	1.5	3.5	1.9	7.3	106,511
<i>VRS Custom Benchmark</i>	6.6	6.8	4.5	7.7	2.1	3.9	2.6	11.0	

10-Year Performance Indexed to 100



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

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

Total Fund Tracking Error



Figure 1: Policy Tracking Error Rolling Three Year - Plan (as of 09/30/2023)

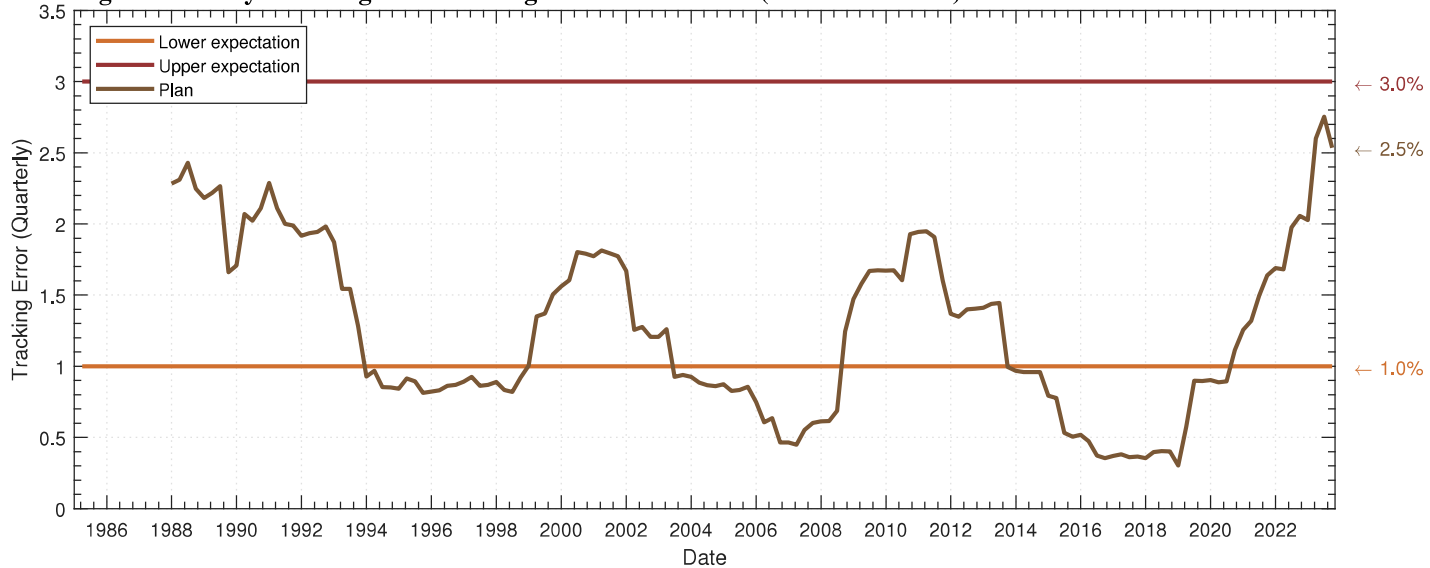
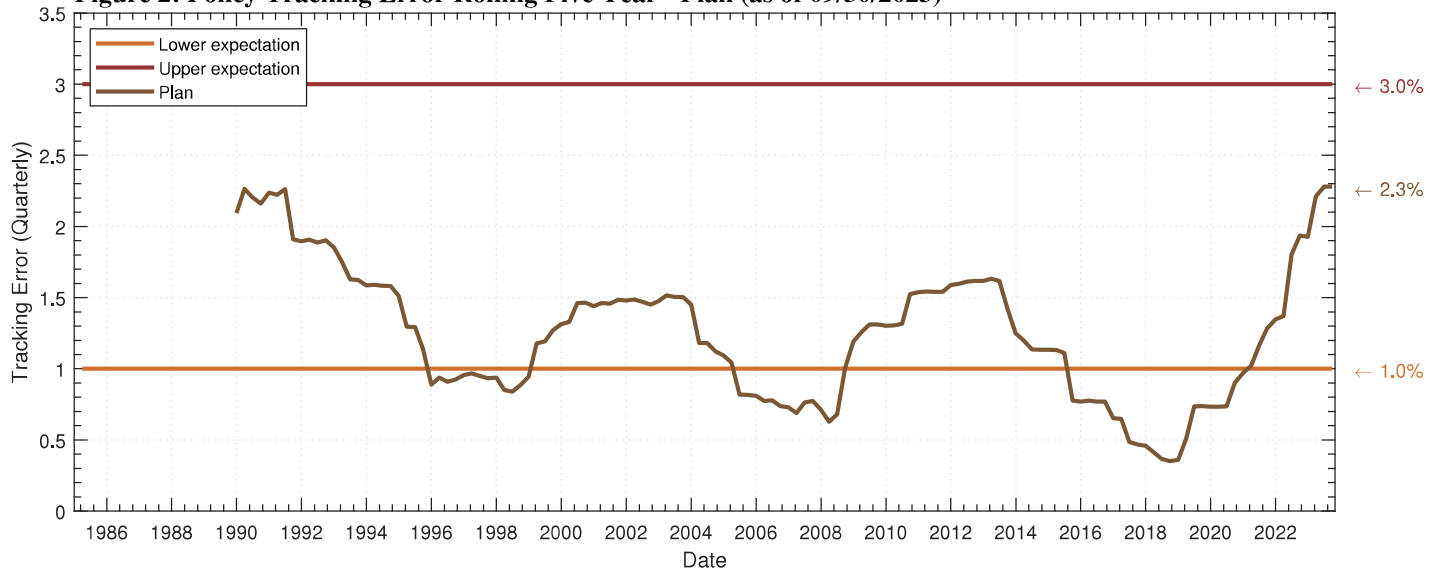


Figure 2: Policy Tracking Error Rolling Five Year - Plan (as of 09/30/2023)



Virginia Retirement System

The VRS Defined Benefit Plan Investment Policy Statement established the total fund tracking error range as the allowable observed tracking error calculated quarterly using 5 years of history.

Program	Action	Effective Date	Commitment/Current Value	Funding/Defunding Period	Description
Real Assets	Hired	12/22/2023	\$100 Million	4 years	DigitalBridge Partners Fund III – An infrastructure fund that targets digital infrastructure on a global basis.
Real Assets	Hired	01/09/2024	\$200 Million	5 years	PGIM Energy Lending Separate Account – A separate account focused on North American oil and gas lending.
Public Equity	Hired	12/01/2023	\$500 Million	Immediate	WCM Global Growth – A long-only equity strategy.
Public Equity	Opened	01/02/2024	\$5.5 Billion	Immediate	Bearfence – An internally managed global low volatility equity strategy.
Public Equity	Closed	01/02/2024	\$1.6 Billion	Immediate	Piedmont – An internally managed developed non-U.S. low volatility strategy.
Public Equity	Closed	01/02/2024	\$3.4 Billion	Immediate	Mobjack – An internally managed U.S. low volatility strategy.
Public Equity	Terminated	12/29/2023	\$144 Million	Immediate	Taiyo Fund, LP – A Japanese equity activist fund.
Dynamic Strategies	Terminated	12/29/2023	\$118 Million	Immediate	BlackRock Shenandoah – An internally directed global asset allocation strategy.
Dynamic Strategies	Terminated	12/29/2023	\$2 Million	Immediate	Shenandoah AQR Market Neutral - A market neutral strategy investing in value equities.
Dynamic Strategies	Terminated	12/29/2023	\$80 Million	Immediate	MetLife Climate Aware Fixed Income – A long-only, multi-asset fixed income strategy emphasizing climate-readiness.
Dynamic Strategies	Terminated	12/29/2023	\$51 Million	Immediate	Nordea Global Climate & Environment – A long-only global equity mandate focused on opportunities resulting from climate change.
Dynamic Strategies	Terminated	12/29/2023	\$46 Million	Immediate	Schroders Global Climate Change – A long-only global equity mandate investing across a variety of climate-related themes.

VRS Investment Department
 Recap of New Investments/Terminations
 Time Period: 12/08/2023 – 02/08/2024



Program	Action	Effective Date	Commitment/ Current Value	Funding/ Defunding Period	Description
Dynamic Strategies	Terminated	12/29/2023	\$117 Million	Immediate	Wellington Emerging Market Development – A targeted emerging market equity strategy investing around economic development themes.
Dynamic Strategies	Terminated	12/29/2023	\$762 Million	Immediate	BlackRock Global Tactical Asset Allocation – A multi-asset, public market mandate designed to add alpha through the management of asset class exposures.
Dynamic Strategies	Terminated	12/29/2023	\$631 Million	Immediate	JPMorgan Global Tactical Asset Allocation - A multi-asset, public market mandate designed to add alpha through the management of asset class exposures.
Dynamic Strategies	Hired	01/05/2024	\$700 Million	Immediate	VRS BLK Global Dynamic Allocation Strategy Fund LLC - A multi-asset absolute return portfolio.
Dynamic Strategies	Hired	02/01/2024	\$350 Million	Immediate	MAS Global Dynamic Allocation Strategy Fund LLC - A multi-asset absolute return portfolio.
Credit Strategies	Terminated	12/29/2023	\$135 Million	1 year	Solus Core Opportunities –An opportunistic credit strategy.
Total Fund	Implemented	01/01/2024	N/A	N/A	VRS Asset Allocation Leverage - Staff implemented the Board approved Asset Allocation Leverage.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending December 31, 2023

Investment Program	Activity	Manager Name	Description	VRS Action
Public Equity	On-Going Monitoring of Current VRS Manager	Ariel Global (minority and women-owned firm) ¹	Current VRS global equity manager.	Staff performed on-going due diligence and monitoring of this current VRS manager during the quarter.
Public Equity	Virtual Manager Meeting	Discerene (minority and women-owned firm) ¹	Manager runs global long-only and long-short strategies.	Staff held an introductory meeting with this manager to discuss the firm and their strategy.
Public Equity	Virtual Manager Meeting	Impactive Capital (minority and women-owned firm) ¹	Manager runs concentrated U.S. small and mid-cap strategy and takes activist approach as needed.	Staff had an update meeting with this manager to discuss their firm and strategy.
Public Equity	Virtual Manager Meeting	Palisade (women-owned firm) ¹	Manager runs a U.S small-cap core strategy.	Staff held an introductory meeting with this manager to discuss the firm and their strategy.
Public Equity	Virtual Manager Meeting	Tiger Pacific Capital LP (minority-owned firm) ¹	Manager focused on Asia long/short investments.	Staff had an update meeting with this manager to discuss the firm and their strategy.
Public Equity and Credit Strategies	Periodic Update Communication with Consultant	N/A	Aon Hewitt Investment Consulting is the consultant used by these two investment programs.	Periodic communication to review the DIME monitoring activity done on behalf of VRS as well as industry trends.
Credit Strategies	Communication with Fund Manager	Sycamore Tree Capital Partners (minority owned) ¹	Manager actively investing in a CLO fund.	Staff reviewed materials and received an update.
Credit Strategies	Communication with Fund Manager	Crayhill Capital Management (minority owned) ¹	Manager raising a fund focused on Opportunistic and Income-Producing Asset-Based strategies.	Staff reviewed materials.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending December 31, 2023

Credit Strategies and Risk-Based Investments	Periodic Communication with Fund-of-Funds Manager	N/A	Aksia is the consultant used by these two investment programs.	Periodic communication to review DIME and other emerging managers along with other opportunities more broadly.
Risk-Based Investments	On-Going Monitoring of Current VRS Manager	Systematica Investments (women-owned firm) ¹	A multi-asset class manager.	Staff performed on-going due diligence and monitoring of this current VRS manager during the quarter.
Private Equity	Virtual Manager Meeting	645 Ventures (minority-owned firm) ¹	Early-stage software venture investors.	Staff had a meeting with this manager during the quarter.
Private Equity	Virtual Manager Meeting	Acon Equity Partners (minority-owned firm) ²	Middle market buyout fund investing in dislocated companies in consumer, industrial, and business services.	Staff had a meeting with this manager during the quarter.
Private Equity	Virtual Manager Meeting	Advaita (minority and women-owned firm) ¹	Early-stage venture fund that invests in companies that help further communities and focus on decarbonization.	Staff had a meeting with this manager during the quarter.
Private Equity	Virtual Manager Meeting	Bloccelebrate VC (women-owned firm) ¹	A venture investment firm focusing on blockchain technology.	Staff had a meeting with this manager during the quarter.
Private Equity	Virtual Manager Meeting	Lateral Investment Management (minority-owned firm) ²	Growth equity buyout fund focusing on minority and women led businesses in technology and business services.	Staff had a meeting with this manager during the quarter.
Private Equity	Virtual Manager Meeting	Nile Capital (minority-owned firm) ¹	A private equity firm acquiring GP stakes of asset management firms.	Staff had a meeting with this manager during the quarter.
Private Equity	Virtual Manager Meeting	PACE Healthcare Capital (women-owned firm) ¹	A venture capital firm investing in digital health and healthcare tech companies.	Staff had a meeting with this manager during the quarter.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending December 31, 2023

Private Equity	Virtual Manager Meeting	Recognize (minority-owned firm) ²	Technology fund investing in transformation and platform services in the middle market.	Staff had a meeting with this manager during the quarter.
Private Equity	Virtual Manager Meeting	Trident Management LLC (minority-owned firm) ¹	A control-oriented buyout firm investing with independent sponsors as operating partners to acquire US based companies.	Staff had a meeting with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Asia Alternatives (minority and women-owned firm) ¹	A fund of funds manager focusing on alternative investments in Asia.	Staff had a meeting with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	MBK Partners (minority-owned firm) ¹	A North Asia private equity firm.	Staff had a meeting with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	SIRIS Capital (minority-owned firm) ¹	A middle market buyout firm making control investments in data/telecommunications, technology, and technology-enabled business service companies in North America.	Staff had a meeting with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Sycamore Partners (minority-owned firm) ¹	Middle market buyout fund targeting consumer and retail companies.	Staff had a meeting with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Veritas Capital (minority-owned firm) ²	Middle market buyout fund targeting primarily technology or technology-enabled solutions to government.	Staff had a meeting with this manager during the quarter.
Private Equity	On-Going Monitoring of Current VRS Manager	Vista Equity Partners (minority-owned firm) ¹	A large market buyout fund targeting enterprise software companies.	Staff had a meeting with this manager during the quarter.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending December 31, 2023

Real Assets	On-Going Monitoring of Current VRS Manager	Artemis Real Estate Partners (women-owned firm) ¹	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS women owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Capri EGM (minority-owned firm) ¹	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS minority owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Grain Management (minority-owned firm) ¹	Current VRS infrastructure manager.	Staff performed on-going due diligence and monitoring of this current VRS minority owned manager during the quarter.
Real Assets	On-Going Monitoring of Current VRS Manager	Pantheon Ventures	Current VRS infrastructure and natural resource fund-of-funds manager.	Staff had periodic communication with this manager to discuss potential DIME firms in their market.
Real Assets	On-Going Monitoring of Current VRS Manager	Pritzker Realty Group (women-owned firm) ¹	Current VRS real estate manager.	Staff performed on-going due diligence and monitoring of this current VRS women owned manager during the quarter.
Real Assets	Periodic Update Communication with Consultant	N/A	The Townsend Group is the consultant used by Real Assets.	Periodic communication to review the DIME monitoring activity done on behalf of VRS as well as real estate and infrastructure industry trends.
Real Assets	Virtual Manager Meeting	SoLa Impact (minority-owned firm) ¹	Manager focused on acquiring and developing affordable and workforce housing in Southern California.	Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending December 31, 2023

Real Assets	Communication with Fund Manager	Melange Capital Partners (minority-owned firm) ²	Manager focused on secondary investments in the energy sector.	Staff reviewed materials and discussed their background, company, and current fundraise initiative.
Real Assets	Manager Meeting	Belay Investment Group (women-owned firm) ¹	Manager focused on investing with local operators and sector specialists across commercial real estate property types.	Staff held an update meeting with this manager while attending a large real estate conference to discuss their team, strategy and fund focus, as well as current fundraise initiative.
Real Assets	Virtual Manager Meeting	Zam Development (minority-owned firm) ²	Manager focused on opportunistic development across geographies and property types including hotels, data centers and single-family rentals.	Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative.
Real Assets	Virtual Manager Meeting	Kinterra Capital (women-owned firm) ²	Manager focused on investing in battery metals and related infrastructure transactions.	Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative.
Real Assets	Virtual Manager Meeting	ArrowMark Partners (women and minority-owned firm) ²	Manager focused on middle-market commercial real estate lending.	Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative.
Real Assets	Communication with Fund Manager	Griffith Properties (women-owned firm) ¹	Value-add real estate manager focused on commercial RE in New England and Mid-Atlantic U.S.	Staff discussed updates to their current fundraise initiative in follow-up to last quarter's meeting.
Real Assets	Virtual Manager Meeting	Emerald Bridge Capital (women-owned firm) ¹	Manager focused on energy infrastructure and energy real assets investing.	Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative.

VRS Investment Department
DIME Quarterly Report
Activity for Quarter Ending December 31, 2023

Real Assets	Virtual Manager Meeting	Circuit Avenue (minority-owned firm) ²	Manager focused on re-developing single-family homes in the Detroit area to provide affordable housing.	Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative.
Real Assets	Virtual Manager Meeting	Avanath Capital Partners (minority-owned firm) ¹	Manager focused on affordable housing across the U.S.	Staff held an introductory meeting with this manager to discuss their background, company, and current fundraise initiative on their open-end fund.
Real Assets	Virtual Manager Meeting	UpShot Capital Advisors (minority-owned firm) ¹	Value-add real estate manager focused primarily on healthcare related properties.	Staff held an update meeting with this manager to discuss changes to their team, strategy and fund focus, as well as current fundraise desires.
Fixed Income	On-Going Monitoring of Current VRS Manager	Payden & Rygel (women-owned firm) ¹	Current VRS emerging market debt manager.	Staff had various interactions with this current VRS women-owned manager during the quarter.

Index:

- 1 – The manager is considered Diverse Investment Management Engagement (DIME) under the Commonwealth of Virginia definition, which defines ownership threshold of 51% or more.
- 2 – The manager is considered DIME under the definition that considers industry best practices and defines an ownership threshold of greater than or equal to 33% and less than 51% of firm ownership or carry.

VRS Investment Department
Quarterly External Investment Manager Referral Report
Activity for Quarter Ending December 31, 2023

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

Report

The VRS Benefits and Actuarial Committee met on February 7, 2024, and took up the following matters:

APPROVAL OF MINUTES

The Committee approved the minutes of its November 16, 2023, meeting.

COST OF LIVING ADJUSTMENTS

Virginia Sickness and Disability Program

Rory Badura, Senior Staff Actuary, presented the recommendations of Gabriel, Roeder, Smith & Company (GRS), the plan actuary, regarding statutory annual adjustments to Virginia Sickness and Disability Program (VSDP) creditable compensation for members on long-term disability. For VSDP, Mr. Badura advised that the Plan Actuary recommends an increase in the creditable compensation for VRS pension benefit purposes of 4.00%, effective July 1, 2024. In addition, a COLA in the amount of 3.56% shall be applied to long-term disability (LTD) benefit payments for Plan 1 members vested prior to January 1, 2013. A COLA of 3.00% shall be applied for Plan 1 members not vested prior to January 1, 2013, and all Plan 2 and Hybrid Retirement Plan members who have been recipients of LTD benefits for at least one year. The calculations were reviewed by VRS staff and Internal Audit.

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

Request for Board Action: *Effective July 1, 2024, the following increases shall apply:*

- *The creditable compensation used in calculating the member's average final compensation at retirement shall be increased in the amount of 4.00% for a Plan 1, Plan 2 or Hybrid member who has been the recipient of long-term disability (LTD) benefits for at least one calendar year under the Virginia Sickness and Disability Program (VSDP); and*
- *A cost of living adjustment shall be applied to the net LTD benefit payment of 3.56% for Plan 1 members vested prior to January 1, 2013, or 3.00% for Plan 1 members not vested by January 1, 2013, and all Plan 2 and Hybrid members.*

Virginia Local Disability Program

Mr. Badura advised that for the VLDP program the Plan Actuary recommends an increase in the creditable compensation used at retirement of 4.00%, effective July 1, 2024. The VLDP plan does not provide for a COLA on LTD benefits being received. The calculations for the increase in creditable compensation were reviewed by VRS staff and Internal Audit.

After receiving the report and some discussion, the Committee recommended approval of the following action to the full Board of Trustees:

Request for Board Action: Effective July 1, 2024, each recipient of LTD benefits under the Virginia Local Disability Program (VLDP) who has been receiving LTD benefits for at least one calendar year, and who ultimately retires directly from LTD, will have their creditable compensation at date of disability increased by an amount set by the Board to be used in determining the member's average final compensation for disability retirement. The recommendation applicable to July 1, 2024, is an increase of 4.00% to be applied to a recipient's creditable compensation.

Optional Life, Accidental Death, and Dismemberment Insurance

Mr. Badura provided an overview of the increases to the maximum Optional Life, Accidental Death, and Dismemberment insurance coverages recommended by GRS. The current maximum coverage for Optional Life, Accidental Death, and Dismemberment insurance for insured active employees is \$800,000, and GRS has recommended an increase to \$975,000. In addition, GRS has recommended that the current maximum coverage for Optional Life insurance for insured retirees be increased from \$300,000 to \$375,000. After discussion, the Committee recommended approval of the following action to the full Board of Trustees:

Request for Board Action: Effective July 1, 2024, the maximum Optional Life, Accidental Death, and Dismemberment insurance coverage for active employees shall increase to \$975,000, and the maximum Optional Life insurance coverage for active retirees shall increase to \$375,000.

VRS Funding Policy Update

Next, Mr. Badura reviewed the recommended updates to the VRS Funding Policy Statement. The updates would provide greater flexibility in obtaining funding for employers who no longer have active members covered by VRS. The current funding policy is structured assuming that employers are active ongoing entities and develops contributions as a percentage of active payroll. Currently, there are 14 employers with no active VRS members that still have liabilities associated with inactive or retired members. The proposed changes would provide VRS with additional means to ensure the funding of benefits for these employers.

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

Request for Board Action: The Board approves the changes to the VRS Funding Policy Statement (Funding Policy) to allow VRS to determine alternative funding requirements for employers with no active members who still have retirees or inactive members eligible for future VRS benefits. Such alternative funding requirements may include allowing ad hoc payments that may be necessary to cover future benefits if employer assets are insufficient to cover future cash flow needs.

INFORMATION ITEMS

2024 COLAs Called for Under Statute Not Requiring Board Approval

Mr. Badura noted that, by statute, VRS cost of living increases are based on the consumer price index for all items, all urban consumers, as published by the Bureau of Labor Statistics of the U.S. Department of

Labor. Mr. Badura advised that the COLA increase effective July 1, 2024, of 3.56% is applicable to eligible Plan 1 members vested prior to January 1, 2013. A COLA increase of 3.00% is applicable to Plan 1 members not vested prior to January 1, 2013, and all Plan 2 and Hybrid Plan members effective July 1, 2024. This figure was calculated by GRS, the VRS plan actuary, and verified by VRS and Internal Audit staff. The COLA did not require action by the Committee.

The Group Life Insurance Program minimum benefit for members retired with at least 30 years of service is to be increased by the same COLA applicable to VRS Plan 2 members, or 3.00%, effective July 1, 2024. The new minimum life insurance payout, effective July 1, 2024, will be \$9,532. The Group Life Insurance Program minimum did not require action by the Committee. The calculations were reviewed by VRS staff and Internal Audit.

2024 Legislative Update

Ms. Bishop and Ms. Jack provided an update on VRS-related legislation in the 2024 General Assembly session.

2024 B&A Committee Meeting Schedule:

- April 17 at 1:00 p.m.
- June 12 at 1:00 p.m.
- October 16 at 1:00 p.m.
- November 14 at 10:00 a.m.

Submitted to the Board of Trustees on February 8, 2024.

John M. Bennett, Chair
Benefits and Actuarial Committee



Approval of July 1, 2024, increase relating to VSDP creditable compensation and VSDP COLA.

Requested Action

Effective July 1, 2024, the following increases shall apply:

- The creditable compensation used in calculating the member's average final compensation at retirement shall be increased in the amount of 4.00% for a Plan 1, Plan 2, or Hybrid member who has been the recipient of long-term disability (LTD) benefits for at least one calendar year under the Virginia Sickness and Disability Program (VSDP); and
- A cost of living adjustment shall be applied to the net LTD benefit payment of 3.56% for Plan 1 members vested prior to January 1, 2013, or 3.00% for Plan 1 members not vested by January 1, 2013, and all Plan 2 and Hybrid members.

Description/Background

Code of Virginia § 51.1-1112(C) provides: "Creditable compensation during periods an employee receives long-term disability benefits shall (i) not include salary increases awarded during the period covered by long-term disability benefits and (ii) be increased annually by an amount recommended by the actuary of the Virginia Sickness and Disability Program and approved by the Board."

Code of Virginia § 51.1-1117(B) provides: "The average final compensation of any participating full-time employee taking a service retirement under any provision of this title shall be equal to his creditable compensation on the date of the commencement of the disability increased by an amount recommended by the program actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement."

Code of Virginia § 51.1-1128(B) provides the same requirement for participating full-time employees receiving supplemental (work-related) disability benefits: "The employee's average final compensation shall be equal to his creditable compensation on the date of the commencement of the disability increased by an amount recommended by the actuary of the Virginia Retirement System, and approved by the Board, from the date of the commencement of the disability to the date of retirement."

In accordance with these provisions, each year VRS requests that the plan actuary recommend the cost of living adjustment (COLA) to be applied to the benefit paid and to the creditable compensation of LTD recipients who have been receiving such benefits for at least one calendar year under VSDP.

In 2011, the Board amended the process for determining the COLA to be applied to the creditable compensation of LTD recipients for purposes of calculating service retirement. It is now based on the combined average increase in the pay rate for State, SPORS, and VaLORS VSDP members active at the beginning and the end of the most recent plan year before the date of determination of the COLA.

Rationale for Requested Action

Per the attached January 18, 2024, letter, the VRS plan actuary, Gabriel, Roeder, Smith & Company, observed increases in creditable compensation of 8.47% during fiscal year 2023 for members enrolled in

VSDP. Based on the recommendation from the plan actuary, and consistent with past practice, the recommended increase in creditable compensation for purposes of service retirement from disability shall be 4.00%, and after offsets, an adjustment to the benefit payments of VSDP LTD recipients who have been receiving such payments for at least one calendar year of 3.56% for Plan 1 members vested as of January 1, 2013, or 3.00% for Plan 1 members not vested by January 1, 2013 and all Plan 2 and Hybrid members.

Authority for Requested Action

The Board’s authority for this action is contained in *Code of Virginia* §§ 51.1-1112, -1117, and -1128.

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



Approval of July 1, 2024, increase relating to VLDP creditable compensation.

Requested Action

Effective July 1, 2024, each recipient of LTD benefits under the Virginia Local Disability Program (VLDP) who has been receiving LTD benefits for at least one calendar year, and who ultimately retires directly from LTD, will have their creditable compensation at date of disability increased by an amount set by the Board to be used in determining the member’s average final compensation for disability retirement. The recommendation applicable July 1, 2024, is an increase of 4.00% to be applied to a recipient’s creditable compensation.

Description/Background

Code of Virginia § 51.1-1161(C) provides: “The average final compensation of any participating full-time employee taking a service retirement under any provision of this title shall be equal to his creditable compensation on the date of the commencement of the disability increased by an amount recommended by the program actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.”

Code of Virginia § 51.1-1169(C) provides: “The employee's average final compensation shall be equal to his creditable compensation on the date of the commencement of the disability increased by an amount recommended by the actuary of the Virginia Retirement System, and approved by the Board, from the date of the commencement of the disability to the date of retirement.”

In accordance with these provisions, VRS requested that its actuary recommend the COLA to be applied to the creditable compensation of LTD recipients who have been receiving such benefits for at least one calendar year under VLDP.

Rationale for Requested Action

Per the attached January 18, 2024, letter, the VRS plan actuary, Gabriel, Roeder, Smith & Company, observed increases in creditable compensation of 7.98% during fiscal year 2023 for VLDP members. Based on the recommendation from the plan actuary, and consistent with past practice the recommended increase in creditable compensation for purposes of service retirement from disability shall be 4.00%.

Authority for Requested Action

The Board’s authority for this action is contained in *Code of Virginia §§ 51.1-1161 and -1169.*

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



Increase maximum Optional Life, Accidental Death, and Dismemberment insurance coverages, effective July 1, 2024.

Requested Action

Effective July 1, 2024, the maximum Optional Life, Accidental Death, and Dismemberment insurance coverage for active insured employees shall increase to \$975,000, and the maximum Optional Life insurance coverage for active retirees shall increase to \$375,000.

Description/Background

Code of Virginia § 51.1-512(A) provides: “The Board shall, under the terms and conditions specified by the Board, make available to each active insured employee optional life, accidental death, and dismemberment insurance in incremental additional amounts not to exceed a maximum amount determined by the Board. Such maximum shall be reviewed at least once every five calendar years by the actuary of the Virginia Retirement System and increased by the Board upon the recommendation of the actuary. The amount recommended by the actuary shall be based upon the annual increases in the United States Average Consumer Price Index for all items, all urban consumers (CPI-U), as published by the Bureau of Labor Statistics of the United States Department of Labor.”

Code of Virginia § 51.1-512(E) provides: “The optional amount of life insurance in force on an employee who retires for service on an immediate retirement allowance, or for an employee who retired for disability on an immediate retirement allowance and who attains his "normal retirement date" as defined in § 51.1-124.3, may be continued provided the retiree was continuously insured under this section for a period of at least 60 continuous months prior to retirement, or prior to reaching his "normal retirement date" as defined in § 51.1-124.3 for a disability retirement. This continued insurance shall be in incremental amounts not to exceed a maximum amount determined by the Board and the amounts and corresponding maximum coverage shall reduce beginning at the employee's "normal retirement date" as defined in § 51.1-124.3, as determined by the Board. This maximum coverage amount shall be reviewed at least once every five calendar years as provided for under subsection A. The life insurance continued under this subsection shall cease upon the earliest of (i) the date the retiree attains age 80, (ii) lapse for nonpayment of premium, or (iii) return to employment and eligibility for active employee life insurance under Chapter 5 (§ 51.1-500 et seq.) of Title 51.1. All accidental death and dismemberment insurance shall cease at retirement.”

In accordance with these provisions, every five years VRS requests a recommendation for the maximum amount of coverage for Optional Life, Accidental Death, and Dismemberment insurance for insured active employees, and a maximum amount of coverage for Optional Life insurance for insured retirees. (Note: The insured retirees would only have Optional Life coverage since the statute provides that all accidental death and dismemberment insurance ceases at retirement.)

The current maximum amount of coverage for Optional Life, Accidental Death, and Dismemberment insurance for insured active employees is \$800,000, and the current maximum amount of coverage for Optional Life insurance for insured retirees is \$300,000. These maximums have been in place since July 1, 2019.

Rationale for Requested Action

Per the attached January 31, 2024, letter, GRS has recommended \$975,000 as the maximum amount of coverage for Optional Life, Accidental Death, and Dismemberment insurance for insured active employees, and \$375,000 as the maximum amount of coverage for Optional Life insurance for insured retirees.

Authority for Requested Action

The Board’s authority for this action is contained in *Code of Virginia* § 51.1-512.

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



MEMORANDUM

TO: Patricia S. Bishop, VRS Director

FROM: Jennifer P. Bell Schreck, VRS Internal Audit Director 

DATE: February 1, 2024

RE: Cost of Living Adjustments (COLAs)

Internal Audit has reviewed the amounts referred to as "Cost of Living Adjustments" as set forth in the attached letter and supporting table from VRS' actuary, Gabriel, Roeder, Smith & Company dated January 31, 2024.

In conducting our review, we independently recalculated the "Cost of Living Adjustments" using data and procedures provided by management and the actuary, while confirming certain external components associated with such calculations. We also examined the Code of Virginia sections referred to in the actuary's letter and supporting table.

Based upon our review, we found the "Cost of Living Adjustments" in the above referenced letter and table to be valid and accurate, based on the data provided, subject to the assumptions included therein with respect to increases in the VSDP LTD benefit, VSDP creditable compensation and VLDP creditable compensation, where the amounts are not specified by statute, but instead are to be recommended by the actuary and approved by the Board.

Please let me know if you have any questions. I ask that you share this information with the Benefits and Actuarial Committee.

Attachment



January 31, 2024

Mr. Rory Badura, ASA, EA, FCA, MAAA
 Senior Staff Actuary
 Virginia Retirement System
 1200 E. Main Street
 Richmond, VA 23219

Re: Cost of Living Adjustments (COLA) Effective July 1, 2024

Dear Mr. Badura:

As requested, we have calculated the annual COLA called for under Virginia Code for the Virginia Retirement System (VRS), the Virginia Sickness and Disability Program (VSDP), the Virginia Local Disability Program (VLDP) and the Group Insurance Program, in particular, the Group Life Insurance (GLI).

The following table summarizes the adjustments recommended effective July 1, 2024. Those denoted in **bold** require action by the Board of Trustees to set the amount of adjustment.

COLA Type/Group	Required by Code	Adjustment Level Set by Board Resolution	July 1, 2024	
			Adjustment	Annual Amount
VRS Plan 1 (Vested as of 1/1/2013)	Yes	N/A	3.56%	N/A
VRS Plan 1 Non-Vested, Plan 2, and Hybrid Plan	Yes	N/A	3.00%	N/A
VSDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Yes	Yes	4.00%	N/A
VLDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Yes	Yes	4.00%	N/A
VSDP Plan 1 (Vested as of 1/1/2013) (Net LTD Benefit)	Yes	Yes	3.56%	N/A
VSDP Plan 1 Non-Vested, Plan 2, and Hybrid	Yes	Yes	3.00%	N/A
GLI Minimum Benefit (Applicable to employees with at least 30 years of creditable service)	Yes	N/A	3.00%	\$ 9,532
Optional Life Maximum Benefit (Applicable to Active Employees)	Yes	Yes	22.10%	\$975,000
(Applicable to Retirees)	Yes	Yes	22.10%	\$375,000
(Applicable to Spouses)	Yes	Yes	N/A	\$487,500

Mr. Rory Badura
Virginia Retirement System
January 31, 2024
Page 2

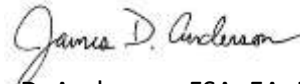
The COLA adjustments were calculated in accordance with the Virginia Code and our understanding of Board of Trustee Policies and Procedures, as adopted February 4, 2011. Refer to the enclosure for additional detail supporting the calculated COLA adjustments.

Please let us know if you have any questions.

Sincerely,
Gabriel, Roeder, Smith & Company



Rebecca L. Stouffer, ASA, FCA, MAAA



James D. Anderson, FSA, EA, FCA, MAAA

RLS/JDA:ah

Enclosure

cc: Sandy Jack, VRS



VRS, VSDP, VLDP, GLI COLA and Recommendations Effective July 1, 2024

COLA Type/Group	Brief Description	Code Section(s)	Average CPI-U		CPI-U Increase ¹	COLA Calculation		
			2022	2023		100% of First 3.00%	50% of Next 4.00%	COLA
VRS Plan 1 (Vested as of 1/1/2013)	100% of the CPI-U Increase up to 3.00% plus 50% of the next 4.00%. Minimum COLA of 0.00%. Maximum COLA of 5.00%.	51.1-166.B.	292.655	304.702	4.12%	3.00%	0.56%	3.56%
COLA Type/Group	Brief Description	Code Section(s)	Average CPI-U		CPI-U Increase ¹	COLA Calculation		
VRS Plan 1 Non-Vested, Plan 2, and Hybrid Plan	100% of the CPI-U increase up to 2.00%, plus 50% of the next 2.00%. Minimum COLA of 0.00%. Maximum COLA of 3.00%.	51.1-166.B.	2022	2023		100% of First 2.00%	50% of Next 2.00%	COLA
VRS Plan 1 Non-Vested, Plan 2, and Hybrid Plan	100% of the CPI-U increase up to 2.00%, plus 50% of the next 2.00%. Minimum COLA of 0.00%. Maximum COLA of 3.00%.	51.1-166.B.	292.655	304.702	4.12%	2.00%	1.00%	3.00%
COLA Type/Group	Brief Description/Rationale ²	Code Section(s)	Creditable Compensation ³		% Increase in Pay	COLA Calculation		
VSDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	As recommended by Cavanaugh Macdonald Consulting, LLC and adopted by the Board in 2011, the VSDP Creditable Compensation COLA is based on the increase in the pay rate for State, SPORS and VaLORS VSDP members active at the beginning and the end of the most recent plan year before the date of determination of the COLA. The COLA calculated in this manner may be modified to reflect extraordinary pay adjustments during a given year; however, is subject to the Maximum COLA. Maximum COLA of 4.00%.	51.1-1117.B. 51.1-1123.C. 51.1-1128.B.	2022	2023		100% of First 4.00%		COLA
VSDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	As recommended by Cavanaugh Macdonald Consulting, LLC and adopted by the Board in 2011, the VSDP Creditable Compensation COLA is based on the increase in the pay rate for State, SPORS and VaLORS VSDP members active at the beginning and the end of the most recent plan year before the date of determination of the COLA. The COLA calculated in this manner may be modified to reflect extraordinary pay adjustments during a given year; however, is subject to the Maximum COLA. Maximum COLA of 4.00%.	51.1-1117.B. 51.1-1123.C. 51.1-1128.B.	\$4,428,116,033	\$4,803,131,988	8.47%	4.00%		4.00%
COLA Type/Group	Brief Description/Rationale	Code Section(s)	Creditable Compensation		% Increase in Pay	COLA Calculation		
VLDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Apply approach similar to the "VSDP Creditable Compensation." The VLDP Creditable Compensation COLA was based on the increase in the pay rate for Hybrid Pension Plan members (of the Teacher Plan and non-hazardous duty Political Subdivisions) active at the beginning and the end of the most recent plan year before the date of determination of COLA. The COLA calculated in this manner may be modified to reflect extraordinary pay adjustments during a given year, subject to the VSDP maximum COLA level.	51.1-1161.C. 51.1-1169.C.	2022	2023		100% of First 4.00%		COLA
VLDP Creditable Compensation (for VRS Pension Benefit Determination Purposes)	Apply approach similar to the "VSDP Creditable Compensation." The VLDP Creditable Compensation COLA was based on the increase in the pay rate for Hybrid Pension Plan members (of the Teacher Plan and non-hazardous duty Political Subdivisions) active at the beginning and the end of the most recent plan year before the date of determination of COLA. The COLA calculated in this manner may be modified to reflect extraordinary pay adjustments during a given year, subject to the VSDP maximum COLA level.	51.1-1161.C. 51.1-1169.C.	\$4,587,454,648	\$4,953,561,618	7.98%	4.00%		4.00%
COLA Type/Group	Brief Description/Rationale	Code Section(s)				COLA Calculation		
VSDP Plan 1 (Vested as of 1/1/2013) (Net LTD Benefit)	As individuals in receipt of LTD benefits are akin to retirees receiving a retirement allowance, adjust the Net LTD benefit by 100% of the COLA for VRS Plan 1 (Vested as of 1/1/2013).	51.1-1112.C. 51.1-1125.C.						3.56%
VSDP Plan 1 (Vested as of 1/1/2013) (Net LTD Benefit)	As individuals in receipt of LTD benefits are akin to retirees receiving a retirement allowance, adjust the Net LTD benefit by 100% of the COLA for VRS Plan 1 (Vested as of 1/1/2013).	51.1-1112.C. 51.1-1125.C.						3.56%
COLA Type/Group	Brief Description/Rationale	Code Section(s)				COLA Calculation		
VSDP Plan 1 Non-Vested, Plan 2, and Hybrid	As individuals in receipt of LTD benefits are akin to retirees receiving a retirement allowance, adjust the Net LTD benefit by 100% of the COLA for VRS Plan Non-Vested, Plan 2 and Hybrid Plan.	51.1-1112.C. 51.1-1125.C.						3.00%
VSDP Plan 1 Non-Vested, Plan 2, and Hybrid	As individuals in receipt of LTD benefits are akin to retirees receiving a retirement allowance, adjust the Net LTD benefit by 100% of the COLA for VRS Plan Non-Vested, Plan 2 and Hybrid Plan.	51.1-1112.C. 51.1-1125.C.						3.00%

¹ Increase in CPI-U is the ratio, or percentage change, of the current year CPI-U to prior year CPI-U index. By Code, the CPI-U index is defined as the calendar year average of the monthly CPI-U averages.

² The COLA maximum is not explicitly stated in the Request for Board Action (RBA) – 2011-02-04. Based upon a review of the 2022 Cost of Living Adjustments letter, dated January 20, 2022, and confirmation with the VRS staff, GRS understands that a maximum COLA of 4.00% is applicable under the current policies and procedures.

³ Creditable Compensation has been compiled from the data provided by the VRS for the June 30, 2022 and June 30, 2023 actuarial valuations.



VRS, VSDP, VLDP, GLI COLA and Recommendations Effective July 1, 2024 (Concluded)

COLA Type/Group	Brief Description	Code Section(s)	Adjusted Minimum Benefit Calculation					
			COLA	Before COLA	After COLA			
GLI Minimum Benefit (Applicable to employees with at least 30 years of creditable service)	Minimum \$8,000 is indexed annually by 100% of the VRS COLA for Plan 1 Non-Vested, Plan 2, and Hybrid Plan.	51.1-505.B.				3.00%	\$9,254	\$9,532

COLA Type/Group	Brief Description	Code Section(s)	December:	CPI-U	Increase	Adjusted Maximum Benefit Calculation		
						Increase	Before Increase	After Increase
Optional Life Insurance Maximum Benefit (Applicable to Active Employees)	Maximum amount is set by the Board. The maximum shall be reviewed at least once every five calendar years. Increase is based upon the annual increases in the CPI-U. The method uses the 5-year increase in December CPI-U basis, applied to the previous maximum, rounded to the nearest \$25,000. The adjusted benefit shall be no less than the prior benefit.	51.1-512.A.	2018	251.233		22.10%	\$800,000	\$975,000
			2019	256.974	2.29%			
			2020	260.474	1.36%			
			2021	278.802	7.04%			
			2022	296.797	6.45%			
			2023	306.746	3.35%			
			5-Year Increase		22.10%			

COLA Type/Group	Brief Description	Code Section(s)	Adjusted Maximum Benefit Calculation					
			Increase	Before Increase	After Increase			
Optional Life Insurance Maximum Benefit (Applicable to Retirees)	The optional amount of life insurance in force on an employee who retires for service (on an immediate retirement allowance) may be continued under select conditions. The amount of increase is determined following the same procedure as is in place for the "Applicable to Active Employees" group.	51.1-512.E.				22.10%	\$300,000	\$375,000

COLA Type/Group	Brief Description	Code Section(s)	Adjusted Maximum Benefit Calculation					
			Increase	Before Increase	After Increase			
Optional Life Insurance Maximum Benefit (Applicable to Spouses)	For the spouse of an active insured employee: an amount up to 50% of the maximum amount of optional insurance available to the employee under 51.1-512.	51.1-512.1.A.1.					\$400,000	\$487,500





Amend VRS Funding Policy Statement to Address Payments to Cover Benefits for Employers with No Active Members

Requested Action

The Board approves the changes to the VRS Funding Policy Statement (Funding Policy) to allow VRS to determine alternative funding requirements for employers with no active members who still have retirees or inactive members eligible for future VRS benefits. Such alternative funding requirements may include allowing ad hoc payments that may be necessary to cover future benefits if employer assets are insufficient to cover future cash flow needs.

Description/Background

VRS staff recommends this change to the Funding Policy in order to provide greater flexibility in pursuing funding for employers who no longer have active members covered by VRS. The current funding policy is structured assuming that employers are active ongoing entities and, therefore, develop contributions as a percentage of active payroll. However, we currently have 14 employers who have no active VRS members and who still have liabilities associated inactive or retired members. Three of these 14 entities have liabilities that are not covered by their assets and therefore would require ad hoc contributions to bring their funding levels back to an adequate level.

The Funding Policy is currently silent on this issue and the proposed additions to the Funding Policy will provide VRS with additional means to ensure the funding of benefits for these employers with no active VRS members.

Rationale for Requested Action

The VRS Funding Policy Statement memorializes the methods by which the Board has elected to fund each plan, and the proposed amendments to the policy statement allow for increased flexibility in dealing with employers with no active members.

A redlined version of the amended Funding Policy is attached to this RBA.

Authority for Requested Action

Article X, § 11 of the *Constitution of Virginia* requires that VRS benefits be funded using methods that are consistent with generally accepted actuarial principles, and *Code of Virginia* § 51.1-124.22(A)(8) authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date

VRS Funding Policy Statement¹

1. Introduction

A plan funding policy determines how much should be contributed each year by employers and participants to provide for the secure funding of benefits in a systematic fashion.

The principal goal of a funding policy is to ensure that future contributions along with current plan assets are sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due. The funding policy should seek to manage and control future contribution volatility to the extent reasonably possible, consistent with other policy goals. The actuarially determined contribution should be calculated in a manner that fully funds the long-term costs of promised benefits, while balancing the goals of 1) keeping contributions relatively stable and 2) equitably allocating the costs over the employees' period of active service.

The current funding policy used by the VRS Board sets contribution rates using the Entry Age Normal cost method, an investment return assumption of 6.75%, an inflation assumption of 2.5%, and a closed 20-year amortization period for unfunded liabilities (Legacy unfunded liabilities as of 6/30/13 are amortized over a closed 30-year amortization period.)

Article X, § 11 of the *Constitution of Virginia* provides that the Virginia Retirement System benefits shall be funded using methods which are consistent with generally accepted actuarial principles. Until 2012, the Annual Required Contribution (ARC) as described in the Governmental Accounting Standards Board's (GASB's) Statements No. 25 and No. 27 was a de facto funding policy for many public-sector retirement systems, including the Virginia Retirement System.

The Board sets contribution rates for all local employers under this policy. However, with respect to the plans for state employees and the teacher plan, while the rates developed under the Board's policy are the certified contribution rates, the Governor and the General Assembly determine the funding that they will provide through the state budget process toward the Board certified contribution rates for the State and Teachers and other statewide OPEB plans. Beginning in FY 2013, § 51.1-145.K1 of the Code of Virginia set out guidelines for the General Assembly to follow for the funding of the contribution rates certified by the VRS Board, phasing in from approximately 67% of Board-certified rate to 100% of the Board-certified rate over the next four biennia. These statutory guidelines do not apply to funding levels for Other Postemployment Benefits (OPEBs) administered by VRS.

¹ Adopted October 17, 2013; amended November 14, 2013, June 7, 2016, November 15, 2017, November 20, 2019, ~~and~~ October 18, 2022, ~~and~~ [October 18, 2023](#), and [February 8, 2024](#).

In June 2012, GASB revised public pension accounting standards and has communicated an important message in the process: accounting standards are no longer funding standards. However, GASB did not address how employers should calculate the annual required contribution (ARC). To assist state and local government employers, several national groups developed policy guidelines for funding standards. This document is the result of an extensive review of the current funding policy, industry standards and best practices, and the development and approval of funding policy assumptions effective with the June 30, 2013 valuation. A copy of Request for Board Action 2013-07-18 adopting the funding policy assumptions is attached. This Funding Policy is intended to provide guidance to future Boards on how to set employer contribution rates and support the plan's primary goals of contribution and budgetary predictability, accumulation of required assets over time to provide for all benefits earned and achievement of intergenerational equity.

In June 2015, GASB adopted two new statements regarding OPEBs. GASB statement 74, *Financial Reporting for Postemployment Benefits Other than Pension Plans*, and GASB statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. These statements replace GASB 43 and GASB 45. As was the case with GASB 67 and 68, these new statements represent a significant change to the methods used to account for postemployment benefits and provide for a clear separation between accounting for and funding of OPEBs. The new standards require the adoption of a new funding policy for OPEB plans. The current VRS funding policy has been modified to accommodate funding requirements for the VRS OPEB plans.

The VRS OPEB plans include the Health Insurance Credit Program, Group Life Insurance Program, the Virginia Sickness and Disability Program (VSDP), the Virginia Local Disability Program (VLDP) and the Long Term Care benefits associated with the VSDP and VLDP. The Line of Duty Act Fund is also a defined benefit OPEB plan, although it is not a benefit exclusively for VRS members.²

² As of April 2016 all VRS OPEBs already incorporate the actuarial methods outlined in the Funding Policy, with the following exceptions:

- Health Insurance Credit Program for Political Subdivisions will incorporate a five-year asset smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- The Long Term Care valuation will incorporate the Entry-Age Normal cost method and five-year smoothing method for funding valuations effective with the June 30, 2016 actuarial valuation.
- Line of Duty Act Program (LODA) is currently not prefunded and as set forth in the *Code* shall be funded on a current disbursement basis or in other words is considered a "pay-as-you-go" plan. As such, the plan has no unfunded liabilities and uses market value of assets for valuation purposes. In the event that the General Assembly takes action to begin prefunding this program, the Board of Trustees would move to adopt the various funding provisions contained in this document including moving the program to a five-year asset smoothing method for funding valuations effective with any decision to prefund the LODA program.

These changes were approved by the Board of Trustees at its June 7, 2016 meeting, and were incorporated into this amended Funding Policy. Where a particular actuarial method was already in use, the Funding Policy notes that the Board confirms the actuarial methods for OPEBs.

The Funding Policy addresses the following general policy objectives:

- Ensure funding of plans is based on actuarially determined contributions;
- Build funding discipline into the policy to ensure promised benefits can be paid;
- Maintain intergenerational equity so the cost of employee benefits is paid by the generation of individuals who receive services;
- Make employer costs a consistent percentage of payroll; and
- Require clear reporting to show how and when plans will be adequately funded.

This document serves as the Funding Policy for VRS. It has been prepared by VRS in collaboration with the Board and the VRS Plan Actuary and is effective as of the June 30, 2013 valuation, and modified to accommodate the OPEB plans effective as of the June 30, 2016 valuation.

2. Authority

The Virginia Retirement System is administered in accordance with Title 51.1, chapters 1, 2, 2.1, 3 and 4 of the *Code of Virginia*. The contribution to be paid by members of VRS is fixed at a level that covers only part of the cost of accruing benefits. The balance of the cost is paid by employers within the Trust Fund (the “Fund”).

The OPEB plans are administered in accordance with Title 51.1, chapters 5, 11, 11.1, and 14 of the *Code of Virginia*. The cost associated with OPEBs is generally borne by the employer and benefits are paid from the various trust funds. An exception to this practice is the Group Life Insurance Program. The Board determines the amount each insured shall contribute for the cost of insurance and by statute this amount is capped at \$0.70 per month for each \$1,000 of annual salary. Each employer determines whether this cost will be paid by the member or funded by the employer. The balance of the cost is paid by employers within the Fund. The Group Life Insurance plan, however, is a cost-sharing plan so all employers are charged the same rate.

The Funding Policy focuses on the pace at which these liabilities are funded and, in so far as is practical, the measures to ensure that employers pay for their own liabilities.

The Funding Policy is authorized by a framework that includes:

- Article X, § 11 of the *Constitution of Virginia*
- Title 51.1 of the *Code of Virginia*

This is the framework within which the VRS Plan Actuary carries out valuations to set employer contribution rates and provide recommendations to the Board when other funding decisions are required. The Funding Policy applies to all employers participating in the Fund.

The methods and assumptions used in the VRS funding policy are periodically reviewed as part of the quadrennial experience study as required under § 51.1-124.22(A)(4). As such, the content of this document may be updated to reflect changes approved by the VRS Board of Trustees.

3. Contributions

The Funding Policy provides for periodic employer contributions set at actuarially determined rates in accordance with recognized actuarial principles (§51.1-145(A)). Originally based on parameters set out in GASB 25/27 and GASB 43/45, the contribution should include the employer's normal cost and provisions for amortizing any unfunded actuarial accrued liability (UAAL) in accordance with the requirements originally defined in GASB 25/27 and GASB 43/45.

Member and employer contributions for retirement are required by §§ 51.1-144 and -145 of the *Code of Virginia*. Chapters 5, 11, 11.1, and 14 of Title 51.1 of the *Code of Virginia* and the applicable provisions in each year's Appropriation Act relate to contribution requirements for OPEB plans administered by VRS.

Employer contributions are normally made up of two main elements³:

- a) the estimated cost of future benefits being accrued, referred to as the "normal cost"; and
- b) an adjustment for the funding position of accrued benefits relative to the Fund's actuarially adjusted assets, or the "amortization payment UAAL." If there is a surplus there may be a contribution reduction; if there is a deficit, there will be a contribution addition, with the amount of surplus or deficit being spread over a number of years.

Items a) and b) above are then combined and expressed as a percentage of covered payroll.

Employer contribution rates are set each biennium and are in effect for the entire biennium. Valuations in the "off" years are for informational purposes only. Generally, employers with well-funded pension plans consistently pay their annual required contribution in full.

Where this process as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the VRS staff, working with the Plan Actuary, may determine alternative funding requirements that would maintain the political subdivision's solvency while also meeting the other objectives of this Funding Policy Statement. For employers with no active members who still have retirees or inactive members eligible for future VRS benefits, this includes ad hoc payments that may be necessary to cover future benefits if employer assets are insufficient to cover future cash flow needs.

With respect to statewide plans, if unfunded liabilities exist in a plan, the Board may recommend alternative contribution rates in excess of the actuarially determined rates if opportunities exist to accelerate paydown of unfunded liabilities. Examples of alternative rates could potentially include approaches such as maintaining rates from the prior year if rates drop in subsequent rate setting or maintaining a higher level contribution rate until a certain funded status is achieved.

³ Contributions also include administrative expenses.

4. Funding Target

VRS operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on an ongoing basis. This means that contribution rates are set with the intent of funding 100% of a member's benefits during a member's working lifetime. The Line of Duty Act Fund is an exception, as employer contributions are currently determined by the Board on a current disbursement basis per statute. As such, the target funding level for all ongoing employers for LODA is at or near 0% of its accrued liabilities.

Funded Status is defined as the ratio of the actuarial value of assets to the value placed on the benefits, or plan's liabilities, by the VRS Plan Actuary. The VRS Plan Actuary reports on the funded status of each plan in the system in each annual valuation.

5. Actuarial Cost Method

The actuarial cost method is the means by which the total present value of all future benefits for current active and retired participants is allocated to each year of service (i.e., the "normal cost" for each year) including past years (i.e., the "actuarial accrued liability"). There are several available actuarial cost methods, but most governmental plans use the entry age normal (EAN) cost method while a significant minority use the projected unit credit (PUC) method. In the past, VRS has used the EAN method for most of the plans it administers.

Although the EAN and PUC cost methods are both considered reasonable under actuarial standards of practice and GASB 25 and GASB 43 in most circumstances, it is important for plan stakeholders to understand the implications of either method. EAN tends to recognize actuarial liabilities sooner than PUC, and it also tends to result in a more stable normal cost pattern over time for pay-related benefits, even in the face of demographic shifts. The more stable normal cost pattern over time should help in reducing the risk of higher levels of future contributions.

Under the PUC method, the plan's normal cost is the present value of the benefits "earned" during the year, but based on projected pay levels at retirement. For an individual participant, the PUC normal costs increase each year because the present value increases as the participant gets a year closer to retirement. In contrast, under the EAN method, the normal cost is specifically determined to remain a level percentage of pay over each participant's career.

Because EAN normal cost rates are level for each participant, the normal cost pattern for the entire plan under EAN is more stable for pay-related benefits in the face of demographic shifts in the workforce. It is this normal cost stability that makes the EAN method the preferred funding method for pay-related benefits of public plans.

GASB has reaffirmed its decision to require governmental pension plans to base their financial statement reporting on the EAN method. For comparability, GASB has also decided to require governmental OPEB plans, which may not provide pay-related benefits, to base their financial statement reporting on the EAN method.

Effective with the June 30, 2013 valuation, the Board has adopted the Entry-Age Normal cost method in deriving plan liabilities. This is a continuation of the Board's existing cost method. Effective with the June 30, 2016 valuation, the Board has adopted the Entry-Age Normal cost method for all OPEB plans.

6. Asset Valuation Method

Because investment markets are volatile and because pension plans typically have long investment horizons, asset-smoothing techniques can be an effective tool to manage contribution volatility and provide a more consistent measure of plan funding over time. Asset-smoothing methods reduce the effect of short-term market volatility on contributions, while still tracking the overall movement of the market value of plan assets, by recognizing the effects of investment gains and losses over a period of years. This is also in keeping with § 51.1-145(A), which requires that contribution rates be determined in a manner so as to remain relatively level from year to year.

Determining the ideal asset-smoothing policy involves balancing the two goals of ensuring fairness across generations and controlling contribution volatility for plan sponsors. A very long smoothing period will greatly reduce contribution volatility, but this may mean the impact of recent investment experience is deferred to future generations. However, a very short smoothing period (or none at all) may result in contribution requirements that fluctuate dramatically from year to year.

Such volatility may also result from an asset-smoothing method that constrains how far the smoothed value differs from the market value by imposing a market value "corridor." A corridor is typically expressed as a ratio of the smoothed value of assets to the market value of assets. Actuarial standards of practice and related actuarial studies seek to identify asset-smoothing methods that achieve a reasonable balance between how long it takes to recognize investment experience (the smoothing period) and how much smoothing is allowed in the meantime (the corridor). The resulting smoothing periods are in the range of three to 10 years (with five the most common) and a corridor wide enough to allow the smoothing method to function except in the most extreme conditions.

While the smoothing period for governmental plans is not limited by federal laws or regulations, the Actuarial Standards Board has set out principles for asset smoothing in ASOP No. 44. Under these principles, when a smoothed asset valuation method is used, the actuary should select a method so that the smoothed asset values fall within a reasonable range of the corresponding market values and any differences between the actuarial value and market value of assets should be recognized within a reasonable period.

Effective with the June 30, 2013 valuation, the Board has adopted a five-year asset smoothing period, which also includes a corridor that will restrict the smoothed value from falling below 80% of the true market value or exceeding 120% of the true market value. This is a continuation of the Board's existing asset valuation method. Effective with the June 30, 2016 valuation, the Board has adopted the same asset smoothing period and corridors for the OPEB plans, with the exception of the LODA program, which, by statute, does not prefund benefits. In the event a change to the statutory contribution requirements

of the LODA program necessitate an asset valuation method, the same asset smoothing period and corridors should be applied to the LODA program at that time.

7. Amortization Method

Amortization of unfunded liabilities is a major component of the annual contribution. Amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. The Plan Actuary uses the specific amortization periods adopted by the Board for all employers when developing a method over which to pay down any unfunded liabilities that may exist. The amortization period should allow adjustments to contributions to be made over periods that appropriately balance intergenerational equity against the goal of keeping contributions level as a percentage of payroll over time as required by § 51.1-145.

Amortization of the unfunded actuarial accrued liability (UAAL) determines how current and future UAAL will be paid off or “amortized,” and so includes how changes in benefits or actuarial assumptions that affect the actuarial accrued liability should be funded over time. Even more than with asset smoothing methods, amortization policies involve a balance between controlling contribution volatility and ensuring a fair allocation of costs among generations. Longer amortization periods help keep contributions stable, but excessively long periods may inappropriately shift costs to future generations. In seeking to achieve an appropriate balance between these two important policy goals, a comprehensive amortization policy will involve the following distinct elements:

- Payment basis
- Payment structure
- Amortization period

A. Payment Basis: Level Dollar vs. Level Percent of Pay

One of the first considerations is whether amortization payments will be set at a level dollar amount (similar to a home mortgage) or as a level percent of pay. The great majority of public pension plans use level-percent-of-pay amortization where the payments toward the UAAL increase each year at the same rate as is assumed for payroll growth. Compared with the level-dollar approach, payments start at a lower dollar amount under the level percent approach, but then increase in proportion to payroll. The level-dollar method is more conservative in that it funds the UAAL faster in the early years. However, the level-percent-of-pay approach is consistent with the pay-related structure of benefits under most public plans. Moreover, because the normal cost is also determined as a level percent of pay, level percent amortization provides a total cost that remains level as a percentage of pay. In contrast, level-dollar amortization of UAAL will produce a total cost that decreases as a percentage of pay over the amortization period. A plan should balance these considerations in choosing between level-percent and level-dollar amortization. Section 51.1-145(A) of the *Code of Virginia* provides in part that “[t]he total annual employer contribution for each employer, expressed as a percentage of the annual membership payroll, shall be determined in a manner so as to remain relatively level from year to year....”

Effective with the June 30, 2013 valuation the Board has elected to use the level percent of pay payment basis. This is consistent with historical VRS practice. Effective with the June 30, 2016 valuation the Board confirms the continued use of the level percent of pay payment basis put in effect June 30, 2013 for the OPEB plans when an actuarially determined contribution is calculated.

B. Payment Structure

Amortization policy must also consider how amortization payments should be structured. For example, a determination needs to be made as to whether the entire UAAL should be aggregated and amortized as a single amount, or whether the plan should track individual bases for each source of UAAL or surplus each year, and amortize these separately. Amortization periods can be fixed, open or “rolling” (with the amortization period restarted each year).

Although use of a single amortization base provides simplicity, use of separate amortization bases for each source of UAAL has the advantage of tracking separately each new portion of UAAL and providing another mechanism to stabilize contribution rates. Under this approach, over time there will be a series of bases, one for each year’s gain or loss as well as for any other changes in UAAL. This provides useful information to stakeholders, as they can view the history of the sources of a plan’s UAAL in any year. The use of separate amortization bases should help balance the annual ups and downs in the UAAL. In practice, the number of bases will be limited by the length of the amortization period as eventually bases will be fully amortized, and so will no longer be part of the UAAL.

Fixed amortization periods identify a date certain by which each portion of the UAAL will be funded. This can be contrasted with open or rolling amortization, whereby the plan “resets” its amortization period every year. This is analogous to a homeowner who refinances his mortgage each year. Although both methods are common in current practice, fixed amortization periods have the advantage of providing stakeholders with a clearer understanding of the ultimate funding target (full funding) and the path to get there. It is the structure required for private sector pensions, and is increasingly common for public pension plans.

Effective with the June 30, 2013 valuation the Board has elected to use individual bases for each source of UAAL or surplus each year and to use fixed amortization periods rather than open or rolling periods. This is a change from past VRS practice but is consistent with industry best practices. Effective with the June 30, 2016 valuation the Board confirms the continued use of individual bases for each source of UAAL or surplus each year and the use of fixed amortization periods rather than open or rolling periods put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open period. In the event a change to the statutory contribution requirements of the LODA program necessitate a payment structure, individual bases for each source of UAAL or surplus each year and fixed amortization periods, rather than open or rolling periods, will be used by the LODA program at that time.

C. Amortization period

Amortization period is a determination of the appropriate period of time over which amortization should occur. The answer can depend on the source of the UAAL being amortized, as discussed below:

UAAL Due to Actuarial Gains/ Losses

Actuarial gains and losses arise when there is a difference between the actuary's estimates (assumptions) and the actual experience of the plan. They can result from demographic experience (e.g., the number of new retirees is higher or lower than expected), investment experience (e.g., returns that are higher or lower than expected), or other economic experience (e.g., payroll growth that is higher or lower than expected). In determining the appropriate period for amortizing gains and losses, plan sponsors should strike a balance between reducing contribution volatility (which would lead to longer amortization periods) and maintaining a closer relationship between contributions and routine changes in the UAAL (which would lead to shorter amortization periods). For many plans, amortization periods in the range of 15 to 20 years for gains and losses would assist plans in achieving a balance between these objectives.

UAAL Due to Changes in Actuarial Assumptions

Assumption changes will result in an increase or decrease in the UAAL. Unlike gains and losses, which reflect actual past experience, assumptions are modified when future expectations about plan experience change. This amounts to taking the effect of future expected gains or losses and building it into the cost today. For that reason, and because of the long-term nature of assumption changes, a plan could be justified in using a longer amortization period than that used for actuarial gains or losses, perhaps in the range of 15 to 25 years.

Amortization of UAAL Due to Plan Amendments

Because plan amendments are under the control of the plan sponsor, managing contribution volatility is generally not a consideration for plan amendments. This means that the primary rationale in selecting the period is to support intergenerational equity by matching the amortization period to the demographics of the participants receiving the benefit. This leads to shorter, demographically based amortization periods. For active participants, this could be the average future working lifetime of the active participants receiving the benefit improvement, while for retirees, this could be the average life expectancy of the retired participants receiving the benefit improvement. This approach would usually result in no longer than a 15-year amortization period for benefit improvements.

An equitable amortization policy should ensure that the UAAL will be paid off in a reasonable period of time. Long amortization periods can make paying down the UAAL appear more affordable, but, because interest charges accrue and compound on the unpaid UAAL, it is prudent to set amortization periods that are not excessively long. This is especially important where level

percent of pay amortization is used.

In an effort to balance the need to pay down the current unfunded liability while managing already increasing contribution rates, the Board elected to manage the paydown of any unfunded liabilities created prior to June 30, 2013 over a 30-year closed period. In an effort to better manage intergenerational equity and to build funding discipline into the VRS policy, the Board also decided that future unfunded liabilities would be best amortized over 20-year closed periods.

With long amortization periods, the UAAL may increase during the early years of amortization period, even though contributions are being made to amortize the UAAL. This phenomenon, known as “negative amortization”, occurs only with level percent of pay amortization. This happens because, under level percent of pay amortization, the lower early payments can actually be less than interest on the outstanding balance, so that the outstanding balance increases instead of decreases. For typical public plans, this happens whenever the average amortization period is longer than approximately 20 years.

While there is nothing inherently wrong with negative amortization in the context of a public plan, stakeholders should be aware of its consequences, especially for amortization periods substantially longer than 20 years. Negative amortization is a particular concern for plans using open, or rolling, amortization periods. As described above, plans that use open/rolling amortization methods “reset” to a new amortization period every year. By contrast, a plan using a closed amortization commits to paying down the UAAL over a fixed period.

Effective with the June 30, 2013 valuation the Board has elected to amortize the legacy unfunded liability as of June 30, 2013, over a closed 30-year period. New sources of unfunded liability will be explicitly amortized over closed 20-year periods. The amortization period for the deferred contributions from the 2010-2012 biennium will remain a 10-year closed period. These amortization periods reflect a shift to closed amortization periods and tiered successive 20-year closed periods for new sources of unfunded liability. This is a change from past VRS practice of using a 20-year rolling method. Effective with the June 30, 2016 valuation the Board confirms the continuation of the amortizations put in effect June 30, 2013 for all OPEB plans, with the exception of the LODA program, which, by statute, is currently not prefunded. For the purposes of accounting disclosures under GASB 43 and 45, the LODA program will continue to use an open 30- year period. In the event a change to the statutory contribution requirements of the LODA program necessitate an amortization period, the LODA program will, at that time, explicitly amortize new sources of unfunded liability over closed 20-year periods.

Effective November 20, 2019, the Board amends this policy to clarify that amortization periods of explicit bases may be shortened in an effort to pay off unfunded liabilities of either pensions or OPEBs earlier than originally scheduled.

Effective October 18, 2022, the Board amends this policy to set the amortization period for unfunded liabilities generated by plan amendments to be 10 years rather than 20 years.

Effective October 18, 2023, the Board amends this policy for pension and OPEB plans to allow for the legacy unfunded liability, which was originally amortized over a 30-year period in 2013,

and all subsequent amortization bases established between 2014 and 2023, which were initially amortized over 20 years, to be amortized over a new 20-year period. New layers will be established in future years according to the parameters of the funding policy. The reset would exclude unfunded liabilities being amortized over a shorter 10-year period associated with new employers or benefit enhancements elected by certain political subdivision employers.

8. Actuarial Assumptions

Setting actuarial assumptions is critical to the funding of a plan. Forward-looking assumptions about plan demographics, wages, inflation, investment returns and more drive the measurement of liabilities and costs, and therefore affect funding. Unlike the selection of funding methods, which involves a fair degree of policy discretion, the selection of assumptions should be based solely on best estimates of actual future experience. While it may be tempting to set assumptions based on how they might affect current contribution requirements, such “results-based assumption setting” should be avoided. ***It is the plan’s actual experience that ultimately determines the cost of the benefits, so the assumptions should try to anticipate actual experience.*** Periodic reexamination of plan assumptions is an essential part of any plan’s actuarial processes. As a general rule, many plans conduct an experience study every three to five years, an interval that should help ensure that assumptions remain appropriate in the face of evolving conditions and experience. VRS reviews assumptions every four years as required under § 51.1-124.22(A)(4).

All assumptions should be consistent with Actuarial Standards of Practice and reflect professional judgment regarding future outcomes.

VRS plans to continue experience studies once every four years as required by § 51.1-124.22(A)(4) to determine whether changes in the actuarial assumptions are appropriate.

Appendix A contains a chart summarizing some of the current assumptions used for the various benefit plans managed by the VRS.

Appendix B is RBA 2013-07-18, which documents the approval of VRS funding policy assumptions.

Appendix C is RBA 2013-11-26, which documents the approval of revisions to the VRS funding policy assumptions for political subdivisions.

Appendix D is RBA 2016-06-15, which documents the approval of VRS funding policy methods and assumptions with regard to the OPEB plans.

Appendix E is RBA 2016-06-16, which documents the Board’s approval of changes to actuarial methods for certain OPEB plans.

Appendix F is RBA 2017-04-9, which documents the approval of VRS funding policy assumptions.

Appendix G is RBA 2019-10-13, which documents approval of a discount rate of 6.75% for

actuarial valuations effective with the June 30, 2019 valuations.

Appendix H is RBA 2019 -11 -, which documents the approval of the use of shortened amortization periods for unfunded liabilities and maintaining prior contribution rates to assist in paying unfunded liabilities.

9. Additional Considerations

Where the Funding Policy Statement as applied to a political subdivision would, in the Plan Actuary's opinion, not be expected to maintain the plan's solvency, the Board authorizes the VRS staff, working with the Plan Actuary, to determine alternative funding requirements that would maintain the plan's solvency while also meeting the other objectives as stated in the Board's funding policy.

1. **Additional Funding Contribution** - The Additional Funding Charge is the contribution rate needed, if necessary, to allow the local system to use the plan's assumed Investment Return Rate as its Single Equivalent Interest Rate (SEIR) under GASB Statement No. 67. The additional funding contribution rate, if needed, allows for the use of the 6.75% investment return as the single equivalent investment return assumption for purposes of the GASB 67/68 statements. To determine the SEIR, the Fiduciary Net Position (FNP) must be projected into the future for as long as there are anticipated benefits payable under the plan's provisions applicable to the members and beneficiaries of the system on the Measurement Date. If the FNP is not projected to be depleted at any point in the future, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR. If the FNP is projected to be depleted, an Additional Funding Charge is developed to avoid depletion.

2. **Surcharge for "At Risk" Plans** – Political subdivision plans identified as potentially "at-risk" due to low funded levels may require an additional surcharge or shortened amortization periods to bring the funding level of the plan to a sustainable level as determined by the Plan Actuary.

For employers with no active covered positions who still have liabilities associated with retirees or inactive members eligible for future VRS benefits, this would include ad hoc lump sum contributions to cover the liabilities associated with former members who are still due a benefit.

2.3. **Limitation on Benefit Enhancements Increasing Liability** - Benefit enhancements to a political subdivision pension plan that would have the effect of increasing the plan's liabilities by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become non-forfeitable may take effect during any plan year if the political subdivision's current funded ratio for such plan year would be at least 75 percent after taking into account such amendment.

In order to increase benefits in circumstances where the funded ratio would be less than 75 percent after taking into account the amendment, the political subdivision would be required to make a lump sum contribution in the amount necessary to bring the funding level to 75

percent as of the effective date of the change, in addition to any increase in annual funding due to plan enhancements.

Any accrued liability generated by the plan amendment that is not covered by the lump sum contribution will be amortized over no more than 10 years.

3.4. Pension Plans for New Employers –

Any new employer must have a funded status of at least 75 percent for pension benefits. Any past service that is granted by the employer or purchased at the time the employer joins VRS must be at least 75 percent funded at the join date with the remaining amount amortized over no more than 10 years.

4.5. Health Insurance Credit (HIC) Elections –

Any employer (new and existing VRS employers) that elects the HIC benefit is required to pay an initial contribution equal to the greater of two years of expected benefit payments or the amount required to reach at least 25 percent funded for its HIC plan, with the remainder of the unfunded liability amortized over no more than 10 years.

In addition, Any employer (new and existing employers) that wishes to enhance the health insurance credit by electing the extra \$1.00 of coverage per year of creditable service or expand coverage to additional non-covered members is required to meet the following requirements:

- If the funded status of the plan is below 50% prior to the change, the employer must make an initial contribution equal to the full increase in the plan's liability associated with enhancing the HIC benefit.
- If the funded status of the plan is greater than 50% but below 75% prior to the change, the employer must make an initial contribution equal to 50% of the increase in the plan's liability associated with enhancing the HIC benefit, with the remaining additional liability to be amortized over 10 years.
- If the funded status of the plan is greater than 75% prior to the change, the employer must make an initial contribution in the amount necessary to keep the funded status at the 75% threshold after the change, with any remaining additional liability to be amortized over 10 years.

10. Conclusion

In funding defined benefit pension plans and OPEBs, governments must satisfy a range of objectives. In addition to the fundamental objective of funding the long-term costs of promised benefits to plan participants, governments also work to:

1. Keep employer's contributions relatively stable from year to year
2. Allocate pension costs on an equitable basis
3. Manage pension risks
4. Pay off unfunded liabilities over reasonable time periods

This Funding Policy was developed to help decision-makers understand the tradeoffs involved in

reaching these goals and to document the reasoning that underlies the Board's decisions.

Adopted October 17, 2013

Amended November 14, 2013, June 7, 2016, November 15, 2017, and November 20, 2019, ~~and October 18, 2022,~~
and February 8, 2024.

Report

The Administration, Finance and Talent Management Committee met on February 8, 2024, and discussed the following:

APPROVAL OF MINUTES

The Committee approved the minutes of its September 20, 2023, meeting.

APPROVE REVISED EDUCATION AND DEVELOPMENT FOR INVESTMENT PROFESSIONALS POLICY

Andrew Junkin, Chief Investment Officer (CIO), advised the Committee of proposed changes to the Education and Development for Investment Professionals Policy (Policy). The Policy provides the CIO the authority to require a tenure agreement for employees who receive reimbursement of education expenses up to \$100,000 and *requires* a tenure agreement of at least 48 months for reimbursable expenses in excess of \$100,000. If an employee leaves employment prior to completing the tenure agreement period, the employee must repay on a prorated basis any reimbursed amount within 30 days of separating employment. The amendment to the policy allows the CIO to authorize a repayment agreement as an alternative to the 30-day repayment requirement.

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

Request for Board Action: *The VRS Board of Trustees approves amendments to the Education and Development for Investment Professionals Policy (Policy), effective February 8, 2024, to authorize the Chief Investment Officer to approve repayment agreements for the repayment of tuition reimbursement under the Policy.*

APPROVE REVISED PROXY VOTING AND LITIGATION POLICY

David Cotter, Director of Legislative and Government Affairs, advised the Committee of proposed changes to the Proxy Voting and Litigation Policy. The first change is to separate the policy into two separate policies: the Proxy Voting Policy and the Litigation Policy. The second revision pertains to the Litigation Policy, and includes substantive changes designed to streamline the process for approving decisions to participate in litigation.

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

Request for Board Action: *The VRS Board of Trustees approves replacing the existing Proxy Voting and Litigation Policy with two separate policies: (i) Proxy Voting Policy and (ii) Litigation Policy.*

APPROVE REVISED INVESTMENT PROFESSIONALS' PAY PLAN POLICY

Paula Reid, HR Director, provided an overview of proposed changes to the Investment Professionals' Pay Plan (Pay Plan) and the Defined Contribution Incentive Plan (DCIP). Ms. Reid was joined by Maureen Reilly and Margot Nigro of McLagan who reviewed their recent classification and compensation analysis. Several resulting changes are proposed to the Pay Plan and DCIP.

Request for Board Action: *The VRS Board of Trustees approves the amended Investment Professionals' Pay Plan (Pay Plan), effective February 10, 2024, and an amended Defined Contribution Incentive Plan (DCIP), effective July 1, 2023.*

Submitted to the Board of Trustees on February 8, 2024.

A. Scott Andrews, Chair
Administration, Finance and Talent Management Committee



Authorize Repayment Agreements for Tuition Reimbursements under the Education and Development for Investment Professionals Policy.

Requested Action

The VRS Board of Trustees amends the Education and Development for Investment Professionals Policy (Policy), effective February 8, 2024, to authorize the Chief Investment Officer to approve repayment agreements for the repayment of tuition reimbursement under the Policy.

Rationale for Requested Action

The Virginia Retirement System (VRS) is committed to supporting employee education activities to improve the knowledge and abilities of its staff. VRS maintains policies related to financial support for education of its employees. For investment department staff, VRS adheres to the Education and Development for Investment Professionals Policy (Policy). The Policy outlines the process for requesting, approving, and reimbursing allowable expenses for training, tuition reimbursement and attainment of professional designations. Additionally, the Policy supports the retention of current investment professionals and attraction of new talent.

The Policy authorizes the VRS Chief Investment Officer (CIO) to approve tuition reimbursement for investment professionals unless the estimated cost exceeds \$100,000. When the estimated cost of tuition-related expenses exceeds \$100,000, the Administration, Finance and Talent Management Committee, acting on behalf of the VRS Board of Trustees (Board), must review and approve the request.

In addition, when reimbursable expenses exceed \$100,000, the requesting investment professional must enter a tenure agreement with VRS and the tenure agreement must provide for at least 48 months of continued employment after the investment professional completes his or her course of study. When reimbursable expenses are \$100,000 or less, the CIO determines the need for a tenure agreement and the length of such agreement on a case-by-case basis.

The Policy further requires an investment professional to repay VRS if (i) he or she prematurely ends the course of study or (ii) does not continue employment with VRS for the agreed upon period of time after completing the course of study. Currently, the Policy provides that the investment professional must make repayment of the prorated amount due within 30 days of the date of their separation.

The amendments to the Policy gives the CIO the discretion to approve a written repayment agreement as an alternative to the current 30-day repayment requirement, specifically allowing that an investment professional may make repayments “in accordance with the terms of a written repayment agreement approved by the CIO.”

There are also amendments that make certain non-substantive editorial changes to the Policy.

A redlined version of the Policy is attached.

Authority for Requested Action

Code of Virginia § 51.1-124.22(A)(8) authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1 of the *Code of Virginia*. Section 51.1-124.24(A) permits the Board to employ a CIO to direct, manage, and administer the investment department.

Section V. (B)(14) of the Board’s Governance Policy delegates authority to the CIO for developing, implementing, and supervising plans, policies, standards, programs, and services for investment personnel. This RBA authorizes the CIO to proceed with an action that requires prior Board approval pursuant to the Policy.

The above action is approved.

A. Scott Andrews, Chairman
VRS Board of Trustees

Date

Education and Development for Investment Professionals

Policy Objective

The Virginia Retirement System (VRS) is committed to supporting employee education activities so that employees can fully contribute their talents to achieve the Investment Department's business objectives and to provide employees with lifelong learning. This policy establishes the process for requesting, approving, and reimbursing allowable expenses for training, tuition reimbursement, and attainment of professional designations. Additionally, the policy supports the retention of current investment professionals and attraction of new talent.

The basis for decisions to approve education and development opportunities include an assessment of the job relatedness, the benefit to the employee and to the agency, costs, funding, job performance, and/or staffing considerations.

Training

Training includes participation in conferences, seminars, workshops, and classes that do not generally result in certification or receipt of a grade. ~~The~~ VRS generally pays for the costs of these activities in advance.

An employee must complete a Travel/Training/Tuition Reimbursement Request and Cost Estimate to request training and must obtain approval by his/her supervisor prior to enrolling in a class.

An employee who does not enroll or voluntarily withdraws from a training program without appropriate notification may be required to repay the agency.

Tuition Reimbursement

~~The~~ VRS provides for reimbursement for individual college classes offered by an accredited college or university or undergraduate or graduate degree programs. The course will generally result in the receipt of a grade, academic credits, certification, or license. An employee may request tuition reimbursement once he/she has satisfactorily completed the first six months of employment with VRS.

An employee must complete a Travel/Training/Tuition Reimbursement Request and Cost Estimate to request tuition reimbursement and must obtain approval by his/her supervisor prior to enrolling for a course. The Chief Investment Officer must also approve an employee's request to obtain a degree.

An employee must receive a grade of "C" or better for undergraduate classes and a grade of "B" or better for graduate level courses to receive reimbursement or equivalent grades in graduate programs such as Superior Pass (SP)-4.0, High Pass (HP)-3.5 or Pass (P)-3.0.

After successful completion of a course or billing point of a degree program, the employee must complete a **Miscellaneous Expense Reimbursement Form** and attach proof of expenses (includes books and study guides) and grade received. ~~The~~VRS reimburses on a semester basis, at the end of class grading periods or at billing points of a degree program.

The following expenses are not eligible for tuition reimbursement:

- Expenses or fees associated with non-traditional programs such as a college level equivalency program (CLEP) for which accelerated credits are earned
- Expenses for which an employee receives other sources of funding, such as grants or scholarships
- Recreational and transcript fees
- Fees for dropped classes
- Mileage
- Courses taken on an audit basis

Reimbursement for an out-of-state degree program will be limited to the highest tuition charged by an in-state college or university for a similar program unless the Chief Investment Officer (CIO) approves an exception.

If the total cost of tuition and reimbursable expenses authorized in this policy or contained in a tenure agreement exceeds \$100,000, then the Administration ~~and~~ **Personnel (A&P), Finance and Talent Management (AFT)** Committee of ~~the~~ VRS Board of Trustees must review and approve the request and tenure agreement.

The need for a tenure agreement (see attached sample) and the length of such agreement will be determined on a case by case basis. However, a tenure agreement is required if the total projected expenses exceed \$100,000. The length of tenure agreements will be at least for forty-eight (48) months when the reimbursable expenses exceed \$100,000. Otherwise, an evaluation will be made by the Chief Investment Officer with input from the employee's direct supervisor and will include consideration of the following:

- the estimated total cost to complete the particular program/degree in relation to the total compensation paid; and,
- the estimated time to complete the program/degree.

If an employee voluntarily leaves ~~the~~ VRS prior to completing the employment obligation or ~~the~~ VRS terminates employment for cause, he/she must repay ~~the~~ VRS on a prorated basis for the amount of tuition reimbursement received. The employee must

repay the prorated amount (i) within 30 days from the date of separation or (ii) in accordance with the terms of a written repayment agreement approved by the CIO.

The provisions of the Internal Revenue Code covering Employer-Provided Educational Assistance allow employers to reimburse tax-free up to \$5,250 per calendar year. Any reimbursements in excess of this limit may have to be included in the employee's taxable income. However, if the expenses associated with an MBA or other degree program qualify as "working condition fringe benefits" under Section 132 of the Internal Revenue Code of 1986, as amended, such qualified expenses should not be treated as income to the employee and should not be included on the employee's Form W-2.

Professional Designations

~~The~~ VRS provides for payment of related expenses to obtain the Certified Financial Analyst designation or other job related professional designations.

An employee must complete a **Travel/Training/Tuition Reimbursement Request and Cost Estimate** to request payment for certification enrollment and should obtain approval by his/her supervisor prior to enrolling in a certification program. The agency will pay in advance for required costs, such as course fees, registration fees, books/study guides and exam fees.

If an employee receives a non-passing grade, the agency will not pay for re-enrollment costs until the employee successfully passes the program examination.

Exceptions

The CIO will review and approve educational situations not covered in this policy. However, the CIO may present the exceptional request to the ~~A&P committee~~ **AFT Committee** for review and approval, if the CIO deems it appropriate to do so.

The CIO has the discretion to approve time out of the office for professional designation preparation and college/university course work, as warranted, or Investment Department supervisors can approve leave requests for educational pursuits.

VRS Degree Reimbursement Program Employment Tenure Agreement

This Agreement, made and entered into this ____ day of _____, is by and between the Virginia Retirement System (herein referred to as VRS) and _____, (herein referred to as Employee).

The Employee is enrolled in the following degree program:

_____ at the following accredited college/university:

_____ and is expected to complete his/her study by:

Upon registration for each enrollment period, the Employee will provide documentation of enrollment in a degree program.

~~The~~ VRS agrees to pay the full tuition and related costs for the program, estimated to be \$_____, which includes books, class materials, lodging and meals while attending _____. The payments will be paid directly to the Employee, after the Employee submits a Travel/Training/Tuition Reimbursement Request and Cost Estimate and a Miscellaneous Reimbursement/Payment request.

~~The~~ VRS maximum reimbursement for tuition and air travel costs to the Employee is \$_____. [The tuition amounts above \$5,250 each calendar year and the air travel reimbursements amounts will not be taxable income reported on the Employee's W-2 forms as they will be treated as a working condition fringe benefit under § 132 of the Internal Revenue Code of 1986, as amended.]

Upon completion of study for a given enrollment period, the Employee will provide VRS with documentation for course(s) grades and payment. To qualify for reimbursement, the Employee must have passed the class with a grade of "C" or better if it is an undergraduate level course, and a grade of "B" or better is a graduate level course or equivalent grades in graduate programs such as Superior Pass (SP)-4.0, High Pass (HP)-3.5 or Pass (P)-3.0.

For any course that the Employee does not attain at least a pass (P) or higher, the Employee shall be liable to ~~the~~ VRS for reimbursement of the corresponding tuition and related costs. The Employee must reimburse ~~the~~ VRS for such course before the start of the next term or before the graduation date, if the unsatisfactory grade occurs in the final term.

The tuition and related costs do not include travel to and from the residential sessions, a laptop computer, a personal Internet service provider (ISP), visas, or vaccinations. [However, ~~the~~ VRS agrees to pay the air travel costs to and from the residential sessions. Air travel bookings and reimbursement for the air travel must comply with the VRS travel policy and the Employee must file a Travel Expense Reimbursement Request.]

The Employee agrees to work for ~~the~~ VRS for a minimum of four years, after completing the course of study. In the event the Employee voluntarily leaves employment of ~~the~~ VRS, or ~~the~~ VRS terminates employment for cause, prior to completing the four-year tenure agreement, the Employee must repay ~~the~~ VRS on a prorated basis (1/48th per month) for each month remaining in the four-year tenure agreement. If the Employee voluntarily leaves VRS employment or ~~the~~ VRS terminates employment for cause, during the course of study the full amount of reimbursements is due. The repayment must be made within 30 days from date of separation, and may be deducted from any payments due the employee from VRS (i.e. leave pay-outs, refunds, etc.)

By affixing their signatures, respectively, the Employee and the VRS Chief Investment Officer agree to the provisions of this agreement.

Employee

Date

VRS Chief Investment Officer

Date



**Adopt Separate Proxy Voting Policy and
Litigation Policy to Replace
Current Proxy Voting and Litigation Policy**

Requested Action

The Board replaces the existing Proxy Voting and Litigation Policy with two separate policies: (i) Proxy Voting Policy and (ii) Litigation Policy.

Rationale for Requested Action

The Board's Proxy Voting and Litigation Policy currently governs two different subject matters: (i) proxy voting and (ii) the conduct of litigation by the Board. Having separate policies governing each subject matter provides greater visibility for the provisions of each policy and will facilitate any future amendments to the policies.

The separate Proxy Voting Policy contains no substantive changes from the current portions of the Proxy Voting and Litigation Policy that the Board has established to govern proxy voting.

The separate Litigation Policy makes numerous non-substantive technical and clarifying amendments to ensure that the language used in the Policy is consistent throughout.

In addition, there are several substantive changes made to the Litigation Policy designed to streamline the process for approving decisions to participate in litigation.

The revised Litigation Policy will allow the Director and the Chief Investment Officer (CIO) to approve participation in a particular case when there is not time to bring the matter before the Board for a decision. Under the current policy, such approval must be granted by the Director, CIO, and Board Chair.

In addition, the revised Litigation Policy eliminates the requirement to provide a summary of the decision to participate in a case at the next Board meeting. The Board will still receive a summary of the action from the Director at the time the decision is made by the Director and the CIO. This change will eliminate the need for the Board to go into closed session for purposes of receiving a litigation update when the Board has already been provided the relevant information.

The Administration, Finance and Talent Management Committee reviewed the revised Proxy Voting Policy and Litigation Policy and recommends their approval to the entire Board.

Redlined versions of the two policies are attached to this RBA.

Authority for Requested Action

Section 51.1-124.22(A)(8) authorizes the Board to promulgate regulations and procedures and make determinations necessary to carry out the provisions of Title 51.1 of the *Code of Virginia*.

The above action is approved.

A. Scott Andrews, Chairman
VRS Board of Trustees

Date

BOARD OF TRUSTEES' ~~PROXY VOTING AND~~ LITIGATION POLICY

GUIDING PRINCIPLE

The guiding principle for the Virginia Retirement System's ("VRS") proxy voting and litigation activity is fiduciary responsibility, only taking actions that are in the best interest of the plan's participants and beneficiaries.

I. POLICY STATEMENT

A. ~~PROXY VOTING~~

~~It is the policy of VRS to review all proxy issues carefully and to vote them in the best interest of the participants and beneficiaries of the fund. The Board should review a report on VRS proxy voting from time to time, which includes an evaluation of any outside Proxy Voting Service Provider.~~

B.A. VRS AS LONG-TERM INVESTOR

VRS should act like an owner of companies in which it invests by encouraging long-term value creation. However, the costs of becoming an active investor must be considered. VRS should always seek cost-effective means for acting as an owner. VRS can share the costs of any shareholder activism litigation by joining organizations made up of other similar institutional investors who are also concerned about creating and improving economic value for shareholders.

C.B. LITIGATION

Other than cases brought under the Virginia Administrative Process Act,¹ the most common type of litigation that affects VRS directly is securities litigation class actions for investments in which VRS has incurred a loss. From time to time,² other types of litigation will arise, including cases where VRS is a defendant and cases brought under the Virginia Fraud Against Taxpayers Act (*Code of Virginia* § 8.01-216.1 et seq.). While VRS acknowledges that there are situations that may give rise to a fiduciary duty to pursue legal action on its own to recover on a claim, VRS also places significant weight on the fact that most (if not all) of these domestic claims will be prosecuted by class action attorneys on behalf of a multitude of institutional investors,³ whether or not VRS undertakes ~~an~~ active role involvement in the litigation. Consequently, the default position for VRS in connection with domestic securities litigation is to simply file claims in connection with the settlement of securities litigation class action matters based on VRS holdings in the affected securities.

¹ Article V, section A (20) of the Board Governance Policy delegates authority to the Director to issue final case decisions regarding applications for disability retirement and other matters that have been appealed pursuant to the Administrative Process Act.

VRS will consider ~~an active role~~ involvement in securities litigation typically in those cases where (i) VRS has experienced a significant loss related to illegal conduct, fraud, or willful wrongdoing, (ii) active involvement could provide added value to VRS (e.g., in the form of a higher recovery than if VRS was not involved), either in the specific case or on a longer-term, portfolio-wide basis, or (iii) in the case of foreign litigation ~~where~~, active involvement is the only avenue for recovery. For the purposes of this policy and as a general guideline, a loss is significant when it exceeds three basis points of the total fund value ("Loss Threshold"). The decision to ~~take an active role~~ become actively involved in any securities litigation requires a balancing of the costs and benefits involved.

1. Domestic Securities Litigation

In considering whether to ~~take an active role~~ become actively involved in domestic securities litigation, VRS ~~should~~ will also assess the long-term consequences of litigation as well as the impact of litigation on staff productivity. VRS will appoint outside counsel with expertise in securities litigation to assist in determining whether fraud or willful wrongdoing has occurred in connection with the acquisition or ownership of its investments. Outside counsel will identify significant cases that should be brought to the Board's attention and, if the Board decides to ~~take an active role~~ become actively involved in the case, ~~to~~ will help evaluate an appropriate litigation strategy.²

2. Foreign Securities Litigation

The landscape of United States securities laws drastically changed with the Supreme Court decision in *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247 (2010). Under *Morrison*, investors no longer have the protection of the U.S. securities laws if the securities were purchased on a foreign exchange. After the *Morrison* decision, it is no longer possible to pursue a recovery in securities litigation in a foreign jurisdiction as a "free rider" as part of a class action, and an affirmative decision to participate in the class is typically required. Generally, in cases pending in foreign jurisdictions, VRS will only consider recovery methods that do not involve any risk that VRS would be liable for any expenses if the litigation were unsuccessful. For example, in most cases, VRS would not consider pursuing recovery in a foreign jurisdiction where the losing party in litigation pays the prevailing party's fees and costs. However, VRS ~~might~~ will consider such foreign litigation if there was-is insurance or other indemnification protections in place to cover the potential "loser pays" liability.

3. Other Litigation

On relatively rare occasions, other types of litigation affect VRS that are not related to securities litigation for investments in which VRS has incurred a loss. For example, VRS may be a defendant in litigation, and the outcome of the litigation could affect the assets in the trust fund. While these types of cases are relatively rare and arise under unique facts and circumstances, the

² See "Selection of Counsel" in section II(C)(2).

same guiding principle applies to the strategic decisions that may be involved in their resolution.

III. **GUIDELINES**

~~A.~~ PROXY VOTING

~~VRS should contract out the development of proxy voting positions to a Proxy Voting Service Provider. The decision by VRS staff to hire an outside Proxy Voting Service Provider should be based on a thorough review of the provider's proxy voting policies. These proxy voting policies must be based on sound economic analysis and research of proxy issues and driven solely by the objective of enhancing and protecting shareholder returns. VRS staff should review and evaluate the Proxy Voting Service Provider used by VRS from time to time.~~

~~Generally, VRS policy mandates that the Proxy Voting Service Provider vote all proxies. Exceptions to this policy include commingled or mutual funds where proxy policies are part of the fund documentation and certain separate accounts where proxy voting is part of the firm's investment strategy. VRS staff should review the proxy voting policies of such managers for overall reasonableness and should use the results of this review as a manager evaluation criterion.~~

~~VRS staff should provide to the Board from time to time a review and evaluation of the VRS Proxy Voting Service Provider.~~

~~B.A.~~ **VRS AS LONG-TERM INVESTOR**

It is expected that VRS will align itself with certain oversight organizations with an eye toward creating and improving economic value for shareholders. This will provide VRS with access to multiple, cost-effective tools for promoting good corporate governance at portfolio companies and for monitoring regulatory organizations such as the Securities and Exchange Commission. Moreover, membership will provide information and analysis about potential litigation, corporate governance issues, and best practices and solutions going forward.

~~C.B.~~ **LITIGATION**

1. Filing Proofs of Claim

The VRS custodial bank is responsible for filing all proofs of claim, including the necessary supporting documents and information, in every securities class action pending in the U.S. in which VRS has an interest (the "Claims Filing"). To memorialize the custodian's Claims Filing responsibilities, the Chief Investment Officer ("CIO") shall prepare and revise, as appropriate, a statement of work to be included with the custodial agreement setting out formal Claims Filing procedures for the custodial bank to follow. These procedures shall include:

- i. Identifying and reviewing all class action recoveries for which VRS is eligible (whether by settlement or trial);
- ii. Providing timely notice of each settlement recovery, with sufficient time to allow VRS to opt out;

- iii. Filing complete and accurate proof of claim forms in a timely fashion on behalf of VRS;
- iv. Providing quarterly reports regarding these efforts; and
- v. Providing quarterly reports identifying all securities litigation proceeds recovered by VRS directly or on its behalf.

Alternatively, the VRS Board may elect to use a third-party vendor to be responsible for the Claims Filing activities.

2. Selection of Counsel

VRS has undertaken an open procurement process to select a number of outside counsel firms to provide legal advice related to investments and has entered into contractual agreements with each of the firms. Pursuant to this policy, VRS staff is authorized to select which of these firms ~~should~~ will assist with a specific action depending on the facts and circumstances of each case. Criteria may include the firm's expertise in a particular area of law, the firm's analysis of a specific case, the firm's fee structure, or the firm's recommended strategy.

3. Class Actions - Securities Listed on a Domestic Exchange

The Board desires to create an evaluation policy that provides guidance regarding when and how VRS will become actively involved in domestic securities litigation, including seeking lead plaintiff status. The VRS Board adopts this policy to place itself, the CIO and the Director, with the advice of counsel, in the best position to identify, protect, and serve the best interests of VRS.

The following is an outline of the procedures to assist in decisions regarding domestic securities litigation issues.

i. Monitoring and Evaluation Procedures

VRS may retain a vendor specializing in identifying and analyzing potential and existing securities cases to perform this function, and to report its findings on a timely basis. VRS also retains law firms as outside counsel to monitor and advise VRS of recently -filed class actions that appear to have merit and for which VRS has sustained a loss that (i) exceeds its Loss Threshold or (ii) is substantial and involves unique factors justifying the involvement of VRS regardless of the Loss Threshold.

When a case meets the Loss Threshold for active ~~management involvement by VRS~~, VRS staff, in consultation with the eOffice of the Attorney General ("OAG") and outside counsel, shall evaluate whether the class action is meritorious and deserves closer examination. The evaluation shall include a review of available information regarding the lawsuit before considering whether to seek lead plaintiff status or embark on some other active claim management strategy (e.g., opting out of the class and pursuing a separate claim).

ii. Decision-making Process

Absent a loss exceeding the Loss Threshold or unusual and compelling circumstances, the VRS Board will not consider pursuing any active claim management strategy for any given case without the concurrence of ~~the Office of the Attorney General ("OAG")~~. VRS staff should work with outside counsel to evaluate securities litigation options available to VRS on a case-by-case basis. VRS may also engage other vendors to monitor and identify potential securities litigation cases. These outside entities should forward material pertaining to such cases to VRS for further review and evaluation under the guidance contained in this policy.

The VRS Board will only consider ~~taking an active role becoming actively involved~~ in domestic securities litigation in accordance with the "Monitoring and Evaluation Procedures" described above.

If these initial criteria are met, VRS staff should coordinate its analysis with outside counsel to ensure that the situation meets the VRS criteria. If so, VRS staff and outside counsel should forward relevant information and a recommended course of legal action to VRS investment staff for review and evaluation consistent with the guidance contained in this policy. Following this review and evaluation, VRS staff should only forward a recommendation to pursue legal action to the VRS Board for those cases that are considered appropriate under this policy. A case that does not exceed the Loss Threshold is presumed not to be an appropriate case to forward to the VRS Board absent unusual or compelling circumstances.

In most cases, decisions regarding whether to become actively involved a given domestic securities case must be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the decision may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified and provided a summary of the action taken by the Director and CIO as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting. This procedure may also be used for other time-sensitive decisions related to securities litigation where it is deemed in the best interests of the plan to do so, to the extent such decisions are in conformance with this policy.

If the VRS Board (or its designees under this policy) approves a recommendation to ~~pursue an active role become actively involved~~ in a given domestic securities case, VRS will work with outside counsel to pursue an agreed-upon litigation or active claim management strategy.

The VRS Board should receive an annual report on the total asset recoveries from securities litigation received during the year, including a status report on any litigation in which VRS is the lead plaintiff.

iii. Settlement or Other Disposition/Resolution

In most cases, decisions to settle a case or to pursue other disposition or resolution in a given case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, ~~the decision may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision.~~ The VRS Board shall be notified and provided a summary of the action taken by the Director and CIO as soon as practicable upon the exercise of such authority; ~~and the VRS Board shall receive a summary of the action at its next regular meeting.~~

4. **Class Actions - Securities Listed on a Foreign Exchange**

Given the ~~new realities~~structure of global securities litigation after *Morrison*, VRS must ~~adapt to the new challenges of monitoring~~ its portfolio to ensure that opportunities to recover assets based on securities fraud are not lost. This includes the analysis of whether to participate in an action in a foreign jurisdiction or to bring a state law action.

i. Participation in a Foreign Action

Unlike the class action process in the United States where investors can remain absent, receive notice of a settlement, and then decide to file a proof of claim or opt-out of the class action case, foreign actions generally require investors to join as named plaintiffs or "opt-in" at the commencement of the case. This "opt-in" process will require affirmative decisions by VRS early in the process to join the case (and sometimes prior to the case being filed) to recover anything on its losses.

~~There are select foreign jurisdictions such as Australia, Japan and possibly other emerging jurisdictions where participation is very similar to the claims filing process in domestic actions. For example,~~ In general, VRS will only participate in foreign securities litigation when participation does not involve a risk that VRS would be liable for expenses if the litigation is unsuccessful (i.e.e.g., no "loser pays" rule or the "loser pays" risk is assumed by a third party), and VRS could assume a passive role in its participation in the case after an initial filing of transactional data supporting the VRS claim. Under those circumstances, the Loss Threshold does not come into play as the only way for VRS to participate in a foreign case to maximize its potential recovery on actionable losses is to take affirmative action.

~~In the case of jurisdictions (such as Australia and Japan) where participation in a foreign action does not involve a risk that VRS would be liable for expenses if the litigation is unsuccessful,~~ VRS staff should obtain assurances and recommendations from its outside counsel and the OAG in the review and evaluation of foreign actions ~~in those jurisdictions~~. In cases where there is no risk that VRS will be liable for expenses in the event of a loss, the decision to participate in a foreign action may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the

Director and CIO, ~~and with the advice of counsel, is authorized to make the decision to participate in a foreign action.~~ The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and ~~the VRS Board~~ shall receive a summary of the action ~~at its next regular meeting.~~ Consistent with the *Code of Virginia*, VRS staff will coordinate its efforts with OAG or the Governor's Office as appropriate under the circumstances.

ii. Participation in State Law Actions

Another option that is sometimes available with a foreign loss is to bring an action under state law in the United States. Because there are numerous issues that must be considered beforehand, the VRS Board should consider an action under state law only under very rare circumstances and after extensive consultation with staff, OAG, and outside counsel. In most cases, decisions regarding bringing a state law action related to a given foreign case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, ~~the decision may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision.~~ The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and ~~the VRS Board~~ shall receive a summary of the action ~~at its next regular meeting.~~

iii. Settlement or Other Disposition/Resolution

In most cases, decisions to settle a case or to pursue other disposition or resolution in a given case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such settlement or other disposition, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, ~~the decision may be made, with the advice of counsel, by the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision.~~ The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and ~~the VRS Board~~ shall receive a summary of the action ~~at its next regular meeting.~~

iv. Monitoring Procedures

VRS recognizes the importance of developing a protocol to stay informed and make prudent decisions relating to its involvement in foreign actions. VRS will use outside counsel and other entities to assist in monitoring foreign actions. This will ensure that VRS has the greatest possible visibility into applicable deadlines so VRS can make a timely and informed decision on whether to participate in a given foreign action and in what manner such participation will occur.

The VRS Board should receive an annual report on the total asset recoveries from foreign

securities litigation received during the year.

5. Other Litigation

In all other types of litigation, with the exception of cases under the Administrative Process Act, such as those cases where VRS is a defendant and settlement negotiations may be ongoing, VRS staff will submit recommendations for actions (e.g., approval of a settlement), in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, ~~the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with~~ the Director and CIO, ~~and~~ with the advice of counsel, ~~are~~ is authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and ~~the VRS Board~~ shall receive a summary of the action ~~at its next regular meeting~~. Consistent with the *Code of Virginia*, VRS staff will coordinate its efforts with OAG or the Governor's Office as appropriate under the circumstances.

III. INTERPRETATION ~~interpretation~~

The Board of Trustees intends that this Policy should be construed broadly to provide the flexibility necessary for VRS to take immediate action where it is required to protect the best interests of the Fund's members, retirees and beneficiaries. In all cases, any such action must be reported to the Board at the earliest practicable opportunity and the Board shall receive a summary ~~ized of the action at the next regular meeting of the Board~~.

BOARD OF TRUSTEES' PROXY VOTING ~~AND LITIGATION~~ POLICY

GUIDING PRINCIPLE

The guiding principle for the Virginia Retirement System's ("VRS") proxy voting ~~and litigation activity~~ is fiduciary responsibility, only taking actions that are in the best interest of the plan's participants and beneficiaries.

I. POLICY STATEMENT

A. PROXY VOTING

It is the policy of VRS to review all proxy issues carefully and to vote them in the best interest of the participants and beneficiaries of the fund. The Board should review a report on VRS proxy voting from time to time, which includes an evaluation of any outside Proxy Voting Service Provider.

B. VRS AS LONG-TERM INVESTOR

VRS should act like an owner of companies in which it invests by encouraging long-term value creation. However, the costs of becoming an active investor must be considered. VRS should always seek cost-effective means for acting as an owner. VRS can share the costs of any shareholder activism by joining organizations made up of other similar institutional investors who are also concerned about creating and improving economic value for shareholders.

~~C. LITIGATION~~

~~Other than cases brought under the Virginia Administrative Process Act,[†] the most common type of litigation that affects VRS directly is securities litigation class actions for investments in which VRS has incurred a loss. From time to time other types of litigation will arise, including cases where VRS is a defendant and cases brought under the Virginia Fraud Against Taxpayers Act (*Code of Virginia* § 8.01-216.1 et seq.). While VRS acknowledges that there are situations that may give rise to a fiduciary duty to pursue legal action on its own to recover on a claim, VRS also places significant weight on the fact that most (if not all) of these domestic claims will be prosecuted by class action attorneys on behalf of a multitude of institutional investors, whether or not VRS undertakes an active role. Consequently, the default position for VRS in connection with domestic securities litigation is to simply file claims in connection with the settlement of securities litigation class action matters based on VRS holdings in the affected securities.~~

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~~VRS will consider an active role in securities litigation typically in those cases where (i) VRS has experienced a significant loss related to illegal conduct, fraud, or willful wrongdoing, (ii) active involvement could provide added value to VRS (e.g., in the form of a higher recovery than if VRS was not involved), either in the specific case or on a longer-term, portfolio-wide basis, or (iii) in the case of foreign litigation where active involvement is the only avenue for recovery. For the purposes of this policy and as a general guideline, a loss is significant when it exceeds three basis points of the total fund value ("Loss Threshold"). The decision to take an active role in any securities litigation requires a balancing of the costs and benefits involved.~~

~~In considering whether to take an active role in securities litigation, VRS should also assess the long-term consequences of litigation as well as the impact of litigation on staff productivity. VRS will appoint outside counsel with expertise in securities litigation to assist in determining whether fraud or willful wrongdoing has occurred in connection with the acquisition or ownership of its investments. Outside counsel will identify significant cases that should be brought to the Board's attention and, if the Board decides to take an active role in the case, to help evaluate an appropriate litigation strategy.²~~

~~The landscape of United States securities laws drastically changed with the Supreme Court decision in *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247 (2010). Under *Morrison*, investors no longer have the protection of the U.S. securities laws if the securities were purchased on a foreign exchange. After the *Morrison* decision, it is no longer possible to pursue a recovery in securities litigation in a foreign jurisdiction as a "free rider" as part of a class action, and an affirmative decision to participate in the class is typically required. Generally, in cases pending in foreign jurisdictions, VRS will only consider recovery methods that do not involve a risk that VRS would be liable for any expenses if the litigation were unsuccessful. For example, in most cases, VRS would not consider pursuing recovery in a foreign jurisdiction where the losing party in litigation pays the prevailing party's fees and costs. However, VRS might consider such foreign litigation if there was insurance in place to cover the potential "loser pays" liability.~~

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IL GUIDELINES

A. PROXY VOTING

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²See "Selection of Counsel" in section II(C)(2).

by the objective of enhancing and protecting shareholder returns. VRS staff should review and evaluate the Proxy Voting Service Provider used by VRS from time to time.

Generally, VRS policy mandates that the Proxy Voting Service Provider vote all proxies. Exceptions to this policy include commingled or mutual funds where proxy policies are part of the fund documentation and certain separate accounts where proxy voting is part of the firm's investment strategy. VRS staff should review the proxy voting policies of such managers for overall reasonableness and should use the results of this review as a manager evaluation criterion.

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~~C. LITIGATION~~

~~1. Filing Proofs of Claim~~

~~The VRS custodial bank is responsible for filing all proofs of claim, including the necessary supporting documents and information, in every securities class action pending in the U.S. in which VRS has an interest (the "Claims Filing"). To memorialize the custodian's Claims Filing responsibilities, the Chief Investment Officer ("CIO") shall prepare and revise, as appropriate, a statement of work to be included with the custodial agreement setting out formal Claims Filing procedures for the custodial bank to follow. These procedures shall include:~~

- ~~i. Identifying and reviewing all class action recoveries (whether by settlement or trial)~~
- ~~ii. Providing timely notice of each settlement recovery, with sufficient time to allow VRS to opt out~~
- ~~iii. Filing complete and accurate proof of claim forms in a timely fashion on behalf of VRS~~
- ~~iv. Providing quarterly reports regarding these efforts~~
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~~Alternatively, the VRS Board may elect to use a third-party vendor to be responsible for the Claims Filing activities.~~

~~2. Selection of Counsel~~

~~VRS has undertaken an open procurement process to select a number of outside counsel firms to provide legal advice related to investments and has entered into contractual agreements with each of the firms. Pursuant to this policy, VRS staff is authorized to select which of these firms should assist with a specific action depending on the facts and circumstances of each case. Criteria may include the firm's expertise in a particular area of law, the firm's analysis of a specific case, or the firm's recommended strategy.~~

~~3. — Class Actions — Securities Listed on a Domestic Exchange~~

~~The Board desires to create an evaluation policy that provides guidance regarding when and how VRS will become actively involved in domestic securities litigation, including seeking lead plaintiff status. The VRS Board adopts this policy to place itself, the CIO and the Director, with the advice of counsel, in the best position to identify, protect, and serve the best interests of VRS.~~

~~The following is an outline of the procedures to assist in decisions regarding domestic securities litigation issues.~~

~~i. — Monitoring and Evaluation Procedures~~

~~VRS may retain a vendor specializing in identifying and analyzing potential and existing securities cases to perform this function, and to report its findings on a timely basis. VRS also retains law firms as outside counsel to monitor and advise VRS of recently filed class actions that appear to have merit and for which VRS has sustained a loss that (i) exceeds its Loss Threshold or (ii) is substantial and involves unique factors justifying the involvement of VRS regardless of the Loss Threshold.~~

~~When a case meets the Loss Threshold for active management, VRS staff, in consultation with the office of the Attorney General ("OAG") and outside counsel, shall evaluate whether the class action is meritorious and deserves closer examination. The evaluation shall include a review of available information regarding the lawsuit before considering whether to seek lead plaintiff status or embark on some other active claim management strategy (e.g., opting out of the class and pursuing a separate claim).~~

~~ii. — Decision-making Process~~

~~Absent a loss exceeding the Loss Threshold or unusual and compelling circumstances, the VRS Board will not consider pursuing any active claim management strategy for any given case without the concurrence of the Office of the Attorney General ("OAG"). VRS staff should work with outside counsel to evaluate securities litigation options available to VRS on a case-by-case basis. VRS may also engage other vendors to monitor and identify potential securities litigation cases. These outside entities should forward material pertaining to such cases to VRS for further review and evaluation under the guidance contained in this policy.~~

~~The VRS Board will only consider taking an active role in litigation in accordance with~~

the "Monitoring and Evaluation Procedures" described above.

If these initial criteria are met, VRS staff should coordinate its analysis with outside counsel to ensure that the situation meets the VRS criteria. If so, VRS staff and outside counsel should forward relevant information and a recommended course of legal action to VRS investment staff for review and evaluation consistent with the guidance contained in this policy. Following this review and evaluation, VRS staff should only forward a recommendation to pursue legal action to the VRS Board for those cases that are considered appropriate under this policy.

In most cases, decisions regarding a given case must be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting. This procedure may also be used for other time-sensitive decisions related to securities litigation where it is deemed in the best interests of the plan to do so, to the extent such decisions are in conformance with this policy.

If the VRS Board (or its designees under this policy) approves a recommendation to pursue an active role in a given case, VRS will work with outside counsel to pursue an agreed-upon litigation or active claim management strategy.

The VRS Board should receive an annual report on the total asset recoveries from securities litigation received during the year, including a status report on any litigation in which VRS is the lead plaintiff.

iii. Settlement or Other Disposition/Resolution

In most cases, decisions to settle a case or to pursue other disposition or resolution in a given case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting.

4. Class Actions – Securities Listed on a Foreign Exchange

Given the new realities of global securities litigation after *Morrison*, VRS must adapt to the new challenges of monitoring its portfolio to ensure that opportunities to recover assets based

~~on securities fraud are not lost. This includes the analysis of whether to participate in an action in a foreign jurisdiction or to bring a state law action.~~

~~i. — Participation in a Foreign Action~~

~~Unlike the class action process in the United States where investors can remain absent, receive notice of a settlement, and then decide to file a proof of claim or opt-out of the class case, foreign actions generally require investors to join as named plaintiffs or "opt-in" at the commencement of the case. This "opt-in" process will require affirmative decisions by VRS early in the process to join the case (and sometimes prior to the case being filed) to recover anything on its losses.~~

~~There are select foreign jurisdictions such as Australia, Japan and possibly other emerging jurisdictions where participation is very similar to the claims filing process in domestic actions. For example, participation does not involve a risk that VRS would be liable for expenses if the litigation is unsuccessful (i.e., no "loser pays" rule or the risk is assumed by a third party), and VRS could assume a passive role in its participation in the case after an initial filing of transactional data supporting the VRS claim. Under those circumstances, the Loss Threshold does not come into play as the only way for VRS to participate in a foreign case to maximize its potential recovery on actionable losses is to take affirmative action.~~

~~In the case of jurisdictions (such as Australia and Japan) where participation in a foreign action does not involve a risk that VRS would be liable for expenses if the litigation is unsuccessful, VRS staff should obtain assurances and recommendations from its outside counsel and the OAG in the review and evaluation of foreign actions in those jurisdictions. In cases where there is no risk that VRS will be liable for expenses in the event of a loss, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision to participate in a foreign action. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting. Consistent with the *Code of Virginia*, VRS staff will coordinate its efforts with OAG or the Governor's Office as appropriate under the circumstances.~~

~~ii. — Participation in State Law Action~~

~~Another option that is sometimes available with a foreign loss is to bring an action under state law in the United States. Because there are numerous issues that must be considered beforehand, the VRS Board should consider an action under state law only under very rare circumstances and after extensive consultation with staff, OAG, and outside counsel. In most cases, decisions regarding bringing a state law action related to a given foreign case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such involvement, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is~~

~~authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting.~~

~~iii. Settlement or Other Disposition/Resolution~~

~~In most cases, decisions to settle a case or to pursue other disposition or resolution in a given case will be submitted, in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS by such settlement or other disposition, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting.~~

~~iv. Monitoring Procedures~~

~~VRS recognizes the importance of developing a protocol to stay informed and make prudent decisions relating to its involvement in foreign actions. VRS will use outside counsel and other entities to assist in monitoring foreign actions. This will ensure that VRS has the greatest possible visibility into applicable deadlines so VRS can make a timely and informed decision on whether to participate in a given foreign action and in what manner such participation will occur.~~

~~The VRS Board should receive an annual report on the total asset recoveries from foreign securities litigation received during the year.~~

~~5. Other Litigation~~

~~In all other types of litigation, with the exception of cases under the Administrative Process Act, such as those cases where VRS is a defendant and settlement negotiations may be ongoing, VRS staff will submit recommendations for actions (e.g., approval of a settlement), in advance, to the VRS Board at a regular meeting or, where immediate action is necessary, at a special meeting. However, where it is determined that immediate action is required in order to preserve the rights or interests of VRS, and the matter cannot be timely presented at a regular or special meeting, or where a quorum cannot be reached at such meeting, the Chair of the VRS Board (or if the Chair is not available, the Vice Chair or the Chair's designee), after consultation with the Director and CIO, and with the advice of counsel, is authorized to make the decision. The VRS Board shall be notified as soon as practicable upon the exercise of such authority, and the VRS Board shall receive a summary of the action at its next regular meeting. Consistent with the *Code of Virginia*, VRS staff will coordinate its efforts with OAG or the Governor's Office as appropriate under the circumstances.~~

~~6. Interpretation~~

~~The Board of Trustees intends that this Policy should be construed broadly to provide the flexibility necessary for VRS to take immediate action where it is required to protect the best interests of the Fund's members, retirees and beneficiaries. In all cases, any such action must be reported to the Board at the earliest practicable opportunity and summarized at the next regular meeting of the Board.~~



Approve changes to Investment Professionals' Pay Plan and the Defined Contribution Incentive Plan.

Requested Action

The Virginia Retirement System Board of Trustees approves an amended Investment Professionals' Pay Plan ("Pay Plan"), effective February 10, 2024, and an amended Defined Contribution Incentive Plan (DCIP), effective July 1, 2023.

Description/Background

The VRS Board of Trustees approved the current Pay Plan on September 21, 2023, effective December 10, 2023, and the current DCIP on September 22, 2022, effective January 1, 2023.

Rationale for Requested Action

The proposed amendments to the DCIP make technical amendments to remove references to a position that no longer exists at VRS (Chief Managing Director), add references to a Deputy Chief Investment Officer (Deputy CIO), and make other clarifying amendments proposed by outside counsel to update existing provisions to align with the provisions of the SECURE 2.0 Act, including increasing contribution limits and cash-out amounts and updating language regarding required minimum distributions and withdrawals without tax penalties.

The proposed amendments to the DCIP are made retroactive to the beginning of the DCIP plan year, which began on July 1, 2023.

The proposed amendments to the Pay Plan make several changes.

First, the amendments make the provisions of the Pay Plan consistent with the terms of the DCIP and federal contribution limits, providing that any portion of an incentive award for the Chief Investment Officer (CIO) that cannot be contributed to the DCIP due to Internal Revenue Code contribution limits will be contributed to the § 415(m) plan.

Second, based on recommendations contained in the McLagan Investment Compensation Program Review dated January 2024, the amendments make changes to the Pay Plan to better align with market data. The changes include:

- Increasing the salary range for the CIO.
- Including a description of and salary range for a Deputy CIO position in the event such a position is added at a later date for succession management purposes.

Finally, there are numerous non-substantive editorial amendments made throughout the Pay Plan to standardize and update the language of the DCIP and Pay Plan.

Outside benefits counsel and VRS staff collaborated on the amended and restated Pay Plan and DCIP.

Redlined versions of the revised Pay Plan and DCIP are attached.

Authority for Requested Action

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

The above action is approved.

A. Scott Andrews, Chair
VRS Board of Trustees

Date



**VIRGINIA RETIREMENT SYSTEM
INVESTMENT PROFESSIONALS'
PAY PLAN**

Effective ~~December~~ February 10-10, 20234

OVERVIEW & PAY PHILOSOPHY

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

This [Pay Plan](#) includes three core elements:

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

Overall, this [pay Plan](#) is designed to:

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

Importantly, this [pay Plan](#) anchors on two broad and long-standing philosophical principles:

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

I. Base Salary

SALARY RANGES

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

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

Investment Professionals' Pay Plan

Effective ~~December~~ February 10, 2024

Each position's salary range includes a defined:

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

Grade	Position	Salary Range (\$ Thousands)		
		Min (\$)	Mid (\$)	Max (\$)
10 11	Chief Investment Officer	\$365,479	\$483,557	\$607,257
		\$373,000	\$498,000	622,000
10	Deputy Chief Investment Officer	\$338,000	\$450,000	\$563,000
9	Managing Director	\$309,252	\$410,461	\$511,671
8	Program Director	\$264,270	\$354,234	\$444,198
7	Director – Strategy, Research, Risk and/or Investment Decision Support	\$230,533	\$309,252	\$387,970
6	Senior Portfolio Manager	\$230,533	\$309,252	\$387,970
5	Portfolio Manager	\$179,928	\$241,779	\$303,629
4	Senior Investment Officer	\$151,815	\$202,419	\$253,292
3	Investment Officer	\$118,078	\$157,437	\$196,797
2	Senior Investment Analyst	\$89,964	\$118,078	\$146,192
1	Investment Analyst	\$73,096	\$95,587	\$118,078

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

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

Salary Adjustments

Oversight & Administration

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

Investment Professionals' Pay Plan**Effective ~~December~~ February 10, 2024****Merit Increases**

- Salary increases are based on meeting individual performance standards. The supervisor completes the evaluation after the end of the fiscal year. If a participant in the investment employees' pay plan does not meet overall performance standards, then the participant is ineligible for performance increases to their base salary and market adjustments to their

Investment Professionals' Pay Plan

Effective ~~December~~ February 10, 2024~~2023~~

base salary for that performance cycle. Performance cycles are on a fiscal year basis (July 1 through June 30) and typically begin with an effective date of performance plans in the first quarter of the new fiscal year.

- The CIO will receive base salary increases as approved by the VRS Board ~~of Trustees~~ and in accordance with the terms in the CIO's Employment Agreement, with approved effective dates established by the VRS Board ~~of Trustees~~.

Starting Salaries

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

Reallocation

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

In-grade Adjustments

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

Promotions

Promotions occur when an individual moves into a position in a higher job class. Promotions can be competitive (selected through a recruitment and hiring process) or non-competitive (through a job reclassification or reallocation). Unless the CIO approves an exception, promotions will not exceed a 15% increase. However, the individual's salary will always be at least at the minimum of the range of the new job, regardless of the amount of the increase.

Downward Assignment

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

II. Incentive Pay ~~Plan~~

PLAN ADMINISTRATION

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

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

Investment Professionals' Pay Plan
Effective ~~December~~ February 10, 2024~~2023~~

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

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

PLAN ELIGIBILITY

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

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

Chief Investment Officer

Deputy Chief Investment Officer

Managing Director – Portfolio Solutions Group

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

Managing Director – Public Market Assets

Program Director

Director – Strategy, Research, Risk and/or Investment Decision Support

Senior Portfolio Manager

Portfolio Manager

Senior Investment Officer

Investment Officer

Senior Investment Analyst

Investment Analyst

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

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

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

OVERALL INCENTIVE PLAN MECHANICS

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

Investment Professionals' Pay Plan**Effective ~~December~~ February 10, 2024**

- Eligible Plan participants will be assigned an incentive opportunity, expressed as a percentage of their actual earned base salary.
- Incentive opportunities vary by position, with the level of such opportunities increasing with the degree to which the position directly affects VRS' investment performance.

Investment Professionals' Pay Plan

Effective ~~December~~ February 10, 2024

- Incentives are weighted or allocated to separate Plan components, described below, with the specific components and weightings varying by position:
 1. Total Fund relative investment performance
 2. Asset Class relative investment performance
 3. Average of Asset Class Multipliers (for positions that support multiple asset classes)
 4. Qualitative – focuses on individual achievement of assigned objectives.
- After year-end, payouts under each Plan component would be determined based on performance.
- Each participant's preliminary award would equal the sum of all of their performance adjusted Plan components.
- Final awards would equal preliminary awards adjusted, up or down, based on the Total Fund's one-year absolute return. Specifically, there will be no adjustment for returns between 0% and the assumed rate of return, currently 6.75%. There will be a positive one-for-one adjustment for returns in excess of the assumed rate of return (e.g., if Total Fund one-year actual absolute return equals +9.75%, then the preliminary awards will be increased by 3%). There will be a negative one-for-one adjustment for a return less than 0% (e.g., if Total Fund one-year actual absolute return equals -15%, then the preliminary awards will be reduced by 15%). This adjustment is specifically intended to systematically take into account, in the shorter term, the effect of market cycles on the health of the pension plan by providing a mechanism to reflect the impact of up and down markets on incentive compensation.
- ~~50% of eligible senior staff members' awards (up to IRS limits) will be deferred into tax-qualified accounts. See section III, Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP). While deferred, awards are subject to the Total Fund's annual absolute return.~~
- ~~All other awards paid in cash.~~

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

INCENTIVE OPPORTUNITIES

Incentive opportunities will vary by position based on multiple criteria:

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

Actual awards can vary based on performance.

2
Investment Professionals’ Pay Plan
Effective ~~December~~ February 10, 2024~~2023~~

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

Incentive Levels	
VRS Position	Incentive ¹ (% Salary)
Chief Investment Officer	70 ²
<u>Deputy Chief Investment Officer</u>	<u>65²</u>
Managing Director – Portfolio Solutions Group	65 ²
Managing Director – Private Market Assets and DC Plans	65 ²
Managing Director – Public Market Assets	65 ²
Program Director	60 ²
Director – Strategy, Research, Risk and/or Investment Decision Support	50
Senior Portfolio Manager	50
Portfolio Manager	40
Senior Investment Officer	30
Investment Officer	30
Senior Investment Analyst	20
Investment Analyst	10

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

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

INCENTIVE WEIGHTINGS

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

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

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

2
Investment Professionals’ Pay Plan
Effective ~~December~~ February 10, 2024/2023

Incentive Weightings by Plan Component					
VRS Position	Total Fund %	Asset Class Multipliers %	Asset Class %	Qualitative %	Total
		(% of total incentive weighted to each component)			
Chief Investment Officer ¹	60	20 ¹		20	100
<u>Deputy Chief Investment Officer</u>	<u>60</u>	<u>20¹</u>		<u>20</u>	<u>100</u>
Managing Director – Portfolio Solutions Group	60	20 ¹		20	100
Managing Director – Private Market Assets and DC Plans	40	40 ²		20	100
Managing Director – Public Market Assets	40	40 ³		20	100
Program Director	30	50 ⁴	50	20	100
Director – Strategy, Research, Risk and/or Investment Decision Support	30	50 ⁴		20	100
Senior Portfolio Manager	20		60	20	100
Portfolio Manager	20		60	20	100
Senior Investment Officer	20	60 ⁴	60	20	100
Investment Officer	20	60 ⁴	60	20	100
Senior Investment Analyst	20	30 ⁴	30	50	100
Investment Analyst	20	30 ⁴	30	50	100

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

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

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

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

QUANTITATIVE PLAN COMPONENTS

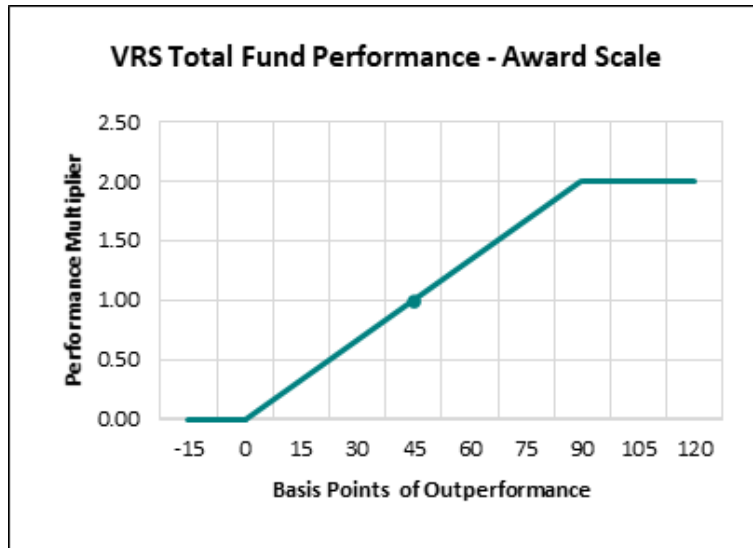
These Plan components link participants’ incentive compensation to relative investment performance or, more specifically, the extent by which the Total Fund and/or Asset Class performance exceeds passive benchmarks (indices) as measured over trailing three- and five-year annualized periods (each weighted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

For purposes of this Plan:

- Measurement of relative investment performance is net of third-party fees, which consist of investment management fees and performance fees paid to investment managers, custodian fees, legal fees, internal investment staff administrative expenses, and miscellaneous fees.
- A performance-award scale defines the linkage between relative investment performance and a corresponding Performance Multiplier. Illustrating this approach at the Total Fund level, when VRS’ relative investment performance:
 - Equals zero or less (i.e., no relative value added), then the VRS Performance Multiplier will equal zero and there will be no incentive payouts under this Plan component.
 - Equals 45 bps, then the VRS Performance Multiplier will equal 1.00 and there will be a 100% payout of this Plan component.
 - Equals 90 bps or more, then the VRS Performance Multiplier will equal 2.00 and there will be a 200% payout of this Plan component.
 - Is anywhere between zero and 90 bps, then the VRS Performance Multiplier is determined on an interpolated, straight-line basis.

Investment Professionals' Pay Plan Effective December 10, 2023

Note: The Board approved the Verus recommended excess return objective (45 basis points) for the Total Fund at the June 15, 2020 meeting with an effective date of July 1, 2020. For implementation purposes, the Total Fund excess return objective will be a blend of the former excess return objective (30 basis points) to be used until June 30, 2020, and the new excess return objective (45 basis points) to be used from July 1, 2020 onward.



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

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

QUALITATIVE PLAN COMPONENT

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

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

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

Investment Professionals' Pay Plan
Effective December 10, 2023

DETERMINING PRELIMINARY AWARDS

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

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

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

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

Preliminary Award **\$91,200**

DETERMINING FINAL AWARDS

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

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

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

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

Final Award **\$91,200**

**Investment Professionals' Pay Plan
Effective December 10, 2023**

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

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

Preliminary Award \$91,200

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

Final Award \$93,936

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

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

Preliminary Award \$91,200

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

Final Award \$77,520

PAYING OUT FINAL AWARDS

Board Review

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

Final Award Payout

Final awards will be paid out as follows:

- For ~~VRS' most eligible senior staff (i.e., incumbents in positions at or above the level of Program Director) when awards are paid the CIO, Deputy CIO, Managing Directors, and Program Directors~~, 50% of ~~the~~ total award amounts up to the ~~specified~~ Internal Revenue Code (IRC) § 415(c)(1)(A) plan limits will be ~~deferred contributed to~~ the DCIP plan. ~~For the CIO only, any portion of this amount that cannot be contributed to the DCIP due to the IRC plan limits will instead be contributed to the § 415(m) plan.~~ All other amounts are paid in cash. See Section III ~~of this document describes the terms of the § 415(c)(1)(A) plan.~~
- For all other Plan participants, awards are paid 100% in cash.
- _____

Timing of Cash Payouts

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

Investment Professionals' Pay Plan Effective December 10, 2023

INCENTIVE PLAN PROVISIONS

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

III. Defined Contribution Incentive Plan for VRS Investment Management Personnel (DCPIP)

PARTICIPATION

~~The DCIP is plan covers, in relevant part, the VRS investment professionals who are members of the Investment Management Committee, which currently include the at or above the level of Program Director. Such positions currently include meet the definition of eligible participant. “Eligible participants” in the DCIP are the CIO, Chief Managing Director, Deputy CIO, Managing Directors, and Program Directors, including Research.~~ The Board retains the discretion to ~~modify and~~, at any time, the positions that are eligible to participate in the ~~DCIP is plan~~.

AMOUNTS SUBJECT TO ANNUAL DEFERRAL

- ~~Deferrals into Contributions to this plan-DCIP~~ only occur in years when VRS’ Board decides, at its full and complete discretion, to allow payment of incentive awards.
- ~~Commencing with (and including fiscal 2013),~~ in years when VRS’ Board decides to pay incentive awards, 50% of ~~the participants’~~ final awards up to specified IRC § 415(c)(1)(A) limits will be ~~deferred-contributed to into this plan~~ the DCIP for each eligible participant. For the CIO only, any portion of the incentive award that cannot be contributed to the DCIP due to the IRC plan limits will instead be contributed to the § 415(m) plan. All other amounts are paid in cash.

INVESTMENT RETURN

~~Participants’~~ Eligible participants’ ~~deferred~~ accounts in the DCPIP and, if applicable, the § 415(m) plan, will earn an “investment return” (positive or negative) equaling the current annual rate of return of the VRS Fund.

However, upon attaining age 55, the DCPIP permits ~~members of the Investment Management Committee~~ eligible participants who have established accounts in the Commonwealth of Virginia 457 Deferred Compensation Plan, to transfer a portion ~~(but not all) of their account to into~~ the Virginia Cash

Investment Professionals' Pay Plan

Effective December 10, 2023

Match Plan. This transfer right allows ~~DCPIP eligible~~ participants in the DCIP at who are age 55 or older at any time after attaining age 55, to direct their own investments among the select any combination of the investment options then offered by available under the Virginia Cash Match Plan. Notwithstanding the transfer right, ~~members of the Investment Management Committee eligible participants at age 55 or older~~ must leave at least a minimal balance amount in their DCPIP account in order to keep the , to avoid having to re-open the account open for future contributions. The VRS Defined Contribution Plan Administrator will assist eligible participants with these transfers.

The CIO cannot transfer funds from the § 415(m) plan to the Virginia Cash Match Plan because the § 415(m) plan is a non-qualified "excess benefit plan" not permitted to be held in trust for the exclusive benefit of the plan participants.

Investment Professionals' Pay Plan
Effective December 10, 2023

FUND TRANSFERS AND DISTRIBUTIONS

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

~~The eligible participant's DCIP account accumulated DCPIP trust balances will be distributed to the eligible participant as soon as administratively practicable following the last day of the quarter in which the eligible participant terminates employment with the Commonwealth of Virginia. The eligible participant may elect to receive the balance in the DCPIP either in cash or as a "roll-over" into another retirement or related benefit vehicle/trust plan or IRA, or a combination of both. All payouts/distributions/rollovers will be credited with earnings through the latest quarter end for which finalized performance is available, by the date of the payment distribution/rollover.~~

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

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

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

TAXATION

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

IV. Other Compensation Plan Information

Competitive Pay Increases

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

Sign-on Bonuses

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

Relocation Expenses

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

Employment at Will

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

Investment Professionals' Pay Plan

Effective December 10, 2023

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

Investment Professionals' Pay Plan Effective December 10, 2023

409A Compliance

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

CLASS STRUCTURE

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

Chief Investment Officer

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

Deputy Chief Investment Officer

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

Managing Director

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

Program Director

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

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

Strategy – The position within Strategy identifies and evaluates relative value-based tilt opportunities that have the potential to 1) improve the fund's return without materially increasing the risk, 2) reduce the fund's risk without materially reducing the return, or 3) some combination of these objectives. In addition, staff within Strategy 1) review and evaluate the implications of macro-economic conditions, 2)

Investment Professionals' Pay Plan

Effective December 10, 2023

analyze current conditions and opportunities within major asset classes and key asset class subsectors, 3) monitor and evaluate the tactical and strategic tilts of key VRS investment partners, and 4) identify strategy ideas including risk and return expectations for base case and alternative scenarios.

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

Investment Professionals' Pay Plan Effective December 10, 2023

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

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

Senior Portfolio Manager

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

Portfolio Manager

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

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

Senior Investment Officer

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

Investment Officer

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

**Investment Professionals' Pay Plan
Effective December 10, 2023**

Senior Investment Analyst

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

Investment Analyst

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

**DEFINED CONTRIBUTION INCENTIVE PLAN
FOR VRS PERSONNEL**

Amended and Restated Effective ~~January~~ ~~March 1, 2023~~ ~~2024~~ July 1, 2023

4853-3240-2847.14851-6974-2586.3

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I. ESTABLISHMENT AND RESTATEMENT OF PLAN.....	1
Section 1.01. Plan Establishment and History	1
Section 1.02. Plan Restatement.....	1
ARTICLE II. CONSTRUCTION AND DEFINITIONS	1
Section 2.01. Construction and Governing Law	1
Section 2.02. Definitions.....	2
ARTICLE III. ELIGIBILITY AND PARTICIPATION	6
Section 3.01. Participation	6
Section 3.02. Cessation of Contributions.....	6
Section 3.03. Reemployment	6
ARTICLE IV. CONTRIBUTIONS	7
Section 4.01. Employer Contributions.....	7
Section 4.02. Transfer Contributions	7
Section 4.03. Rollover Contributions.....	7
Section 4.04. Expenses of Plan.....	7
ARTICLE V. LIMITATIONS ON CONTRIBUTIONS.....	7
Section 5.01. Code Section 415(c) Limits	7
Section 5.02. Excess Annual Additions.....	8
ARTICLE VI. ACCOUNTING	8
Section 6.01. Participant Accounts	8
Section 6.02. Valuation.....	9
Section 6.03. General Statement of Method of Account Valuations.....	9
Section 6.04. Adjustment of Accounts on Valuation Date	9
Section 6.05. Value of Accounts.....	10
Section 6.06. Participant Statements.....	10
ARTICLE VII. TRUST	10
Section 7.01. Trust Fund.....	10
Section 7.02. Trust Status	10
ARTICLE VIII. DISTRIBUTIONS	10
Section 8.01. Commencement and Form of Distributions.....	10
Section 8.02. Mandatory Cash-Out.....	10
Section 8.03. Required Minimum Distribution Rules	11
Section 8.04. Additional Tax on Early Withdrawals	12
Section 8.05. Transfers from the Plan.....	12
ARTICLE IX. LOANS	12
ARTICLE X. VESTING	13

Section 10.01.	Vesting	13
Section 10.02.	Felony Convictions	13
ARTICLE XI.	ROLLOVERS FROM THIS PLAN	13
Section 11.01.	Definitions for this Article	13
Section 11.02.	Direct Transfer of Eligible Rollover Distribution.....	14
Section 11.03.	Mandatory Withholding of Eligible Rollover Distributions.....	15
Section 11.04.	Explanation of Plan Distribution and Withholding Requirements	15
ARTICLE XII.	ADMINISTRATION OF THE PLAN.....	16
Section 12.01.	Authority of the Administrator	16
Section 12.02.	Powers of the Administrator	16
Section 12.03.	Delegation by Administrator.....	16
Section 12.04.	Employment of Consultants.....	16
ARTICLE XIII.	REQUESTS FOR INFORMATION AND OTHER CLAIMS PROCEDURES	16
Section 13.01.	Requests for Information Concerning Eligibility, Participation and Contributions	16
Section 13.02.	Requests for Information Concerning the Trust	16
Section 13.03.	Processing of Claims.....	17
ARTICLE XIV.	QUALIFIED GOVERNMENTAL EXCESS BENEFIT ARRANGEMENT	17
Section 14.01.	General.....	17
Section 14.02.	Eligibility and Participation	17
Section 14.03.	Contributions and Vesting	17
Section 14.04.	415(m) Accounts.....	17
Section 14.05.	Distributions on Account of Severance from Employment.....	18
Section 14.06.	Distributions Upon Participant's Death.....	18
ARTICLE XV.	AMENDMENT AND TERMINATION	18
Section 15.01.	Amendment and Termination	18
Section 15.02.	Adverse Effects.....	18
Section 15.03.	Distribution Upon Termination of the Plan	18
ARTICLE XVI.	MISCELLANEOUS	19
Section 16.01.	Non-Alienation	19
Section 16.02.	Military Service	20
Section 16.03.	Limitation of Rights and Obligations	20
Section 16.04.	Federal and State Taxes	21
Section 16.05.	Erroneous Payments.....	21
Section 16.06.	Payments to Minors or Incompetents	21
Section 16.07.	Missing or Lost Participants	21
Section 16.08.	No Reversion	21
Section 16.09.	Claims of Other Persons	22
Section 16.10.	Counterparts.....	22

**DEFINED CONTRIBUTION INCENTIVE PLAN
FOR VRS PERSONNEL**

ARTICLE I.
ESTABLISHMENT AND RESTATEMENT OF PLAN

Section 1.01. Plan Establishment and History.

(a) Pursuant to the Section 51.1-124.22.A.11 the Code of Virginia ("Va. Code"), the Board of Trustees of the Virginia Retirement System ("Board") established the Defined Contribution Incentive Plan for VRS Personnel ("Plan"), effective July 1, 2002, in order to provide retirement benefits for eligible employees.

(b) The Plan is, and is intended to remain, a defined contribution plan qualified under Code Section 401(a) and a profit sharing plan within the meaning of Code Section 401(a)(27), with contributions made without regard to profits. The Plan is a governmental plan within the meaning of Code Section 414(d) and Section 3(32) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). As a governmental plan, ERISA does not apply.

(c) The Plan was most recently amended and restated effective ~~May 1, 2013~~ January 1, 2023, ~~and was amended three times thereafter.~~

Section 1.02. Plan Restatement.

(a) The Plan is now being amended and restated effective ~~January~~ March ~~July~~ 1, 2023.

(b) Except as otherwise specifically provided herein, the Plan as hereinafter set forth establishes the rights and obligations with respect to individuals who are Employees on and after January ~~March~~ July 1, 2023, and to transactions under the Plan on and after ~~January~~ March ~~July~~ 1, 2023. The rights and benefits, if any, of individuals who are not Employees on or after ~~January~~ March ~~July~~ 1, 2023, shall be determined in accordance with the terms and provisions of the Plan that were in effect on the date of their Severance from Employment, except as otherwise specifically provided herein or in a subsequent amendment.

ARTICLE II.
CONSTRUCTION AND DEFINITIONS

Section 2.01. Construction and Governing Law.

(a) This Plan shall be interpreted, enforced, and administered in accordance with the Code and, when not inconsistent with the Code, or expressly provided otherwise herein, the Va. Code without regard to conflict of law principles.

(b) Words used herein in the masculine gender shall be construed to include the feminine gender where appropriate, and *vice versa*, and words used herein in the singular or plural shall be construed as being in the plural or singular, where appropriate, and *vice versa*.

(c) The headings and subheadings in the Plan are inserted for convenience of reference only and are not to be considered in the construction of any provision of the Plan.

(d) If any provision of the Plan shall be held to violate the Code or be illegal or invalid for any other reason, that provision shall be deemed to be null and void, but the invalidation of that provision shall not otherwise impair or affect the Plan.

(e) In resolving any conflict between provisions of the Plan and in resolving any other uncertainty as to the meaning or intention of any provision of the Plan, the interpretation that causes the Plan to (i) constitute a qualified plan under the provisions of Code Section 401 with the earnings of the Trust exempt from income tax under Code Section 501, (ii) constitute a profit sharing plan within the meaning of Code Section 401(a)(27), (iii) be a governmental plan as defined in ERISA Section 3(32) and Code Section 414(d), and (iv) comply with all applicable requirements of the Code, shall prevail over any different interpretation.

Section 2.02. Definitions. When the initial letter of a word or phrase is capitalized herein, the meaning of such word or phrase shall be as follows:

(a) "Account" means the separate account maintained for each Participant to reflect his or her interest under the Plan attributable to his or her Employer Contributions pursuant to Section 4.01.

(b) "Administrator" means VRS; provided, however, that to the extent that VRS has delegated any of its responsibilities as Administrator to any other person or persons, the term Administrator shall be deemed to refer to that person or persons. The VRS Director shall serve as the chief administrative officer of the Plan.

(c) "Agent" means a service provider selected by the Administrator, in its sole and absolute discretion, to provide services under the Plan.

(d) "Annual Addition" means the annual addition as defined in Code Section 415(c) and as modified in Code Sections 415(l)(1) and 419A(d)(2). In general, Code Section 415(c) defines annual addition as the sum of the following amounts credited to a Participant's accounts for the Limitation Year under this Plan and any other defined contribution plan maintained by the Employer:

- (1) Employee contributions;
- (2) Employer contributions, including Employer Contributions under Section 4.01;
- (3) forfeitures;
- (4) amounts allocated to an individual medical account, as defined in Code Section 415(l)(2), which is part of a pension or annuity plan maintained by the Employer or a Related Employer, or both, as applicable; and

(5) mandatory employee contributions to a defined benefit plan maintained by the Employer unless the contributions are picked up by the Employer pursuant to Code Section 414(h)(2).

Annual Additions shall not include transfer contributions or rollover contributions.

(e) "Applicable Form" means the appropriate form as designated and furnished by the Administrator or the Agent to make any election or provide any notice required by the Plan. In those circumstances where a written election or consent is not required by the Plan or the Code, the Administrator and/or the Agent may prescribe an electronic or telephonic form in lieu of or in addition to a written form.

(f) "Beneficiary" means any person, company, trustee, or estate designated by the Participant on the Applicable Form to receive any benefits payable under the Plan in the event of the Participant's death. If the designated primary or contingent Beneficiary does not survive the Participant or there is no Beneficiary designated, the Participant's Beneficiary shall be determined in accordance with Va. Code Section 51.1-162, as follows: (i) the Participant's surviving Spouse, or if none; (ii) the Participant's children and descendants of deceased children, per stirpes, or if none; (iii) the Participant's parents equally if both living, or if none; (iv) the duly appointed executor or administrator of the Participant's estate, or if none; (v) the next of kin entitled to inherit under the laws of the Participant's domicile at the time of death. If a Beneficiary survives the Participant but dies before the entire Account has been distributed, then the unpaid balance of the Account shall be distributed to the Beneficiary's estate. Beneficiary also means an alternate payee within the meaning of Code Section 414(p)(8).

(g) "Board" means the Board of Trustees of the Virginia Retirement System.

(h) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(i) "Commonwealth" means the Commonwealth of Virginia and an agency or instrumentality thereof.

(j) "Cost-of-Living Adjustment" means the cost-of-living adjustment prescribed by the Secretary of the Treasury under Code Section 401(a)(17) or 415(d) for any applicable year.

(k) "Effective Date" of the Plan means July 1, 2002, and of this amendment and restatement means ~~January March~~ July 1, 2023.

(l) "Eligible Employee" means an Employee who is employed by VRS and is (i) the Director of VRS or (ii) a member of the Investment Management Committee. As of the Effective Date of this amendment and restatement, the Investment Management Committee includes the (i) Chief Investment Officer, (ii) Deputy Chief Investment Officer, (iii) ~~the Chief Managing Director~~, (iii) ~~Managing Directors~~, and (iv) ~~(ivii)~~ Program Directors, ~~including Research~~.

(m) "Employee" means any common law employee employed by an Employer. An Employee does not include an independent contractor.

(n) "Employer" means the Commonwealth.

(o) "Employer Contributions" mean the contributions made to the Plan by the Employer on behalf of a Participant pursuant to Section 4.01.

(p) "Excess Annual Additions" mean that portion of a Participant's Employer Contributions to the Plan and contributions to another 401(a) defined contribution plan maintained by the Employer or a Related Employer for a Limitation Year which exceeds the limits of Code Section 415.

(q) "Excess Benefit Plan" means the qualified governmental excess benefit arrangement under Code Section 415(m) that is described in Article XIV.

(r) "Excess Contribution" means, with respect to a Participant, the Employer contributions that would have been made for a 415(m) Participant to a 401(a) Plan for a Plan Year, but could not be made because of the application of Code Section 415(c).

(s) "HEART" means the Heroes Earnings Assistance and Relief Tax Act of 2008, as amended from time to time.

(t) "Incentive Compensation" means the incentive award approved under the Virginia Retirement System Investment Professionals' Pay Plan, as amended from time to time, or such other applicable authority, for a Plan Year.

(u) "Limitation Year" means the Plan Year.

(v) "Participant" means any Eligible Employee who is or may become eligible to receive a benefit of any type under the Plan. A Participant shall also mean, when appropriate to the context, a former Eligible Employee who is eligible to receive a benefit of any type under the Plan.

(w) "Plan" means the Defined Contribution Incentive Plan for VRS Personnel, as amended from time to time.

(x) "Plan Compensation" means all compensation as defined in Code Section 415(c)(3). In general, Code Section 415(c)(3) defines compensation as all of an Employee's wages as defined in Code Section 3401(a) for the purposes of income tax withholding at the source but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 3401(a)(2)); provided, however, Plan Compensation shall also include the amount of any elective deferrals, as defined in Code Section 402(g)(3), and any amount contributed or deferred by the Employer at the election of the Employee and which is not includible in the gross income of the Employee by reason of Code Section 125, 403(b), 132(f)(4), 401(k), or 457(b). Plan Compensation for a Plan Year includes compensation paid by the later of (i) two and one-half months after an Employee's Severance from Employment, or (ii) the end of the Plan Year that includes the date of the Employee's Severance from Employment, if:

(1) the payment is regular compensation for services during the Employee's regular working hours, or compensation for services outside the Employee's regular

working hours (*e.g.*, overtime or shift differential), commissions, bonuses, or other similar payments and the payment would have been paid to the Employee prior to a Severance from Employment if the Employee had continued in employment with the Employer; or

(2) the payment is for unused accrued bona fide sick, vacation, or other leave, but only if the Employee would have been able to use the leave if the Employee had continued in employment.

Plan Compensation does not include any amounts "picked up" by the Employer within the meaning of Code Section 414(h). Plan Compensation for any Plan Year shall not exceed the limits under Code Section 401(a)(17) increased by the Cost-of-Living Adjustment.

(y) "Plan Year" means the 12 month period beginning July 1.

(z) "Related Employer" means the Employer and any other entity which is under common control with the Employer under Code Section 414(b), (c) or (m). For this purpose, the Board shall determine which entities are Related Employers based on a reasonable, good faith standard and taking into account the special rules applicable under Notice 89-23, 1989-1 C.B. 654.

(aa) "Section" means, when not preceded by the word Code, a section of the Plan.

(bb) "Severance from Employment" means the complete termination of the employment relationship between the Employee, the Employer, and any employer who participates in a retirement plan established under Chapters 1, 2, 2.1, or 3 of Title 51.1 of the Va. Code.

(cc) "Spouse" means the person to whom the Participant is legally married under federal law.

(dd) "Trust" means the Trust for the Defined Contribution Incentive Plan for VRS Personnel, which may incorporate one or more qualified trusts under Code Section 401(a), custodial accounts treated as qualified trusts under Code Section 401(f), and/or annuity contracts treated as qualified trusts under Code Section 401(f), established under the Plan to hold Plan assets.

(ee) "Trust Fund" means the assets of the Plan held pursuant to the terms of the Plan and the Trust.

(ff) "Trustee" means the trustee or any successor trustee designated and appointed by VRS, and includes a custodian of a custodial account or an insurer of an annuity contract under Code Section 401(f).

(gg) "USERRA" means the Uniformed Services Employment and Reemployment Rights Act of 1994, as amended from time to time.

(hh) "Valuation Date" means the last day of each calendar quarter of the Plan Year and such other date or dates as the Administrator may designate.

(ii) "Va. Code" means the Code of Virginia, as amended from time to time.

(jj) "Vested" means the interest of the Participant or Beneficiary in his or her Accounts which is unconditional, legally enforceable, and nonforfeitable at all times.

(kk) "VRS" means the Virginia Retirement System.

(ll) "401(a) Plan" means this Plan and all other tax-qualified defined contribution plans under Code Section 401(a) maintained by the Employer,

(mm) "415(m) Account" means the separate bookkeeping account maintained for each 415(m) Participant reflecting his or her interest under the Excess Benefit Plan attributable to Excess Contributions.

(nn) "415(m) Participant" means an Eligible Employee or former Eligible Employee who has an 415(m) Account balance under the Excess Benefit Plan. Effective June 30, 2013, the individual serving as Chief Investment Officer is the only 415(m) Participant. No other Participant is or may become a 415(m) Participant.

ARTICLE III. **ELIGIBILITY AND PARTICIPATION**

Section 3.01. Participation.

(a) An Eligible Employee who is a Participant on the day before the Effective Date of this amended and restated Plan shall continue to be a Participant on the Effective Date.

(b) An Employee who becomes an Eligible Employee on or after the Effective Date of this amended and restated Plan shall become a Participant in the Plan on the date he or she becomes an Eligible Employee.

(c) VRS shall notify the Eligible Employee of his or her eligibility to participate in the Plan. To become a Participant under the Plan, an Eligible Employee must complete the Applicable Forms, which may include enrollment, beneficiary designation, and investment election forms, and return them to the Administrator or Agent, as applicable.

Section 3.02. Cessation of Contributions. A Participant shall cease to be eligible for Employer Contributions under the Plan when (i) he or she is no longer an Eligible Employee or (iii) the Plan is terminated.

Section 3.03. Reemployment. A former Eligible Employee who subsequently becomes an Eligible Employee again shall participate in the Plan as described in Section 3.01.

ARTICLE IV. **CONTRIBUTIONS**

Section 4.01. Employer Contributions.

(a) The Employer shall make an Employer Contribution to the Plan on behalf of each Participant for the Plan Year as follows:

(1) Except as provided in subparagraph (2), a Participant shall receive an Employer Contribution to his or her Account each Plan Year equal to the sum of (i) a specified percentage of the Incentive Compensation determined for such Participant by the Board for such Plan Year and (ii) any additional amount determined by the Board to be made on behalf of such Participant; provided, however, that if the Board does not specify a percentage under (i) for a Plan Year, the Employer Contribution shall be 50% of the Incentive Compensation.

(2) A Participant who is the Director of VRS shall receive an Employer Contribution to his or her Account each Plan Year in an amount to be determined by the Board in its sole and absolute discretion from time to time as allowed by applicable law.

(b) Employer Contributions for any Plan Year shall be subject to the limit under Code Section 401(a)(17), as increased by the Cost-of-Living Adjustment, if applicable.

(c) Employer Contributions shall be paid to the Plan by the Employer within the time required by law for the Plan Year during which they are being made. Employer Contributions shall be allocated to each Participant's Account as of the date made to the Plan, but no later than the last day of the Plan Year.

Section 4.02. Transfer Contributions. The Plan shall not accept transfer contributions of any kind.

Section 4.03. Rollover Contributions. The Plan shall not accept rollover contributions of any kind.

Section 4.04. Expenses of Plan. All reasonable expenses of administering the Plan shall be charged against and paid from the Participant's Accounts, subject to the terms of the Trust, unless paid by the Employer or VRS. The Administrator shall have the right to allocate expenses associated with maintaining the Accounts of terminated Employees to such Accounts, even if no expenses are allocated to the Accounts of active Employees, in accordance with rules promulgated by the Internal Revenue Service.

ARTICLE V. **LIMITATIONS ON CONTRIBUTIONS**

Section 5.01. Code Section 415(c) Limits.

(a) Notwithstanding any provision of the Plan to the contrary, Annual Additions to the Plan and any other Code Section 401(a) plan maintained by the Employer or a Related Employer for a Participant in a Limitation Year shall not exceed the limitations set forth in Code Section 415(c).

(b) The Code Section 415(c) limit for any Limitation Year is the lesser of:

(1) \$66,000 for 2023 and 691,000 for 2024~~2~~, increased by the Cost-of-Living Adjustment thereafter; or

(2) 100% of the Participant's Plan Compensation for the Limitation Year.

Section 5.02. Excess Annual Additions.

(a) If as of the end of the Plan Year, the Annual Additions allocated to any Participant's Account exceed the limitations of this Article V, the Excess Annual Additions will be corrected as permitted under the Employee Plans Compliance Resolution System (or similar Internal Revenue Service correction program).

(b) If a Participant has Excess Annual Additions for a Plan Year, an adjustment to comply with this Article shall be made as soon as administratively possible, but no later than the time permitted under Internal Revenue Service guidance: (i) first, to all plans not hereinafter described; (ii) second, to any profit sharing plan (such as this Plan) that does not provide matching contributions based on the employee's elective deferrals to a 403(b) or 457(b) plan that is required to be aggregated with this Plan; (iii) third, to any profit sharing plan providing matching contributions based on the employee's elective deferrals to a 403(b) or 457(b) plan that is required to be aggregated with this Plan (such as the Virginia Cash Match Plan); (iv) fourth, to any money purchase pension plan that is required to be aggregated with this Plan; (v) fifth, to any target benefit plan that is required to be aggregated with this Plan; (vi) sixth, to any welfare benefit fund and individual medical benefit account; and (vii) seventh, to any defined benefit plan requiring mandatory employee contributions that is required to be aggregated with this Plan.

(c) If a Participant is a participant in two or more plans of the same type described in paragraph (b), the adjustment provided for in paragraph (b) to such plans shall be made to contributory plans or aspects thereof first, and then to non-contributory plans or aspects thereof.

ARTICLE VI.
ACCOUNTING

Section 6.01. Participant Accounts. The Administrator or Agent shall establish and maintain adequate records to reflect the Accounts of each Participant and Beneficiary. Credits and charges shall be made to such Accounts to reflect additions, distributions, and withdrawals, and to reflect gains or losses pursuant to the terms of the Trust. The maintenance of individual Accounts is for accounting purposes only, and a segregation of Plan assets to each Account shall not be required. Participants do not have the right to direct the investment of their Accounts under the Plan.

Section 6.02. Valuation. As of each Valuation Date, the Trustee shall determine the fair market value of the Trust Fund. Based on the valuation of the Trustee, the Administrator shall determine the value of the Account of each Participant.

Section 6.03. General Statement of Method of Account Valuations. The value of the Account of a Participant as of each Valuation Date shall be equal to the value of the Account as of the preceding Valuation Date less any payments from the Account since the preceding

Valuation Date, plus the amount of any Employer Contributions allocated to the Account since the preceding Valuation Date, and plus or minus the applicable adjustments under Section 6.04.

Section 6.04. Adjustment of Accounts on Valuation Date. The Account of each Participant shall be adjusted as of each Valuation Date in accordance with the provisions of this Section.

(a) The Trustee shall determine the fair market value of the Trust Fund as of each Valuation Date by a method uniformly applied. For purposes of this Section, the determination of fair market value shall be subject to the following rules:

(1) The current fair market value shall exclude any Employer Contributions allocated since the prior Valuation Date.

(2) The fair market value as of the immediately preceding Valuation Date shall include Employer Contributions allocated as of such date but shall exclude benefits paid and withdrawals made from the Trust Fund during the period beginning with the preceding Valuation Date and ending with the current Valuation Date.

(b) The increase or decrease, if any, in the Trust Fund shall be equal to the difference between the value of the Trust Fund as of the current Valuation Date and the value of the Trust Fund as of the immediately preceding Valuation Date.

(c) As of the close of business on each Valuation Date, the Administrator shall allocate the increase or decrease, as the case may be, of the Trust Fund to the Accounts of the Participants in the Trust Fund, each Account being treated separately, in the same proportion that the balance of each Account of a Participant in the Trust Fund as of the close of business on the immediately preceding Valuation Date bears to the balance of all Accounts of all Participants in the Trust Fund as of the close of business on the immediately preceding Valuation Date.

(d) For purposes of the preceding allocations, the balance of the Account of a Participant as of the preceding Valuation Date shall be equal to his or her respective balance as of the immediately preceding Valuation Date reduced by any payments or withdrawals since such date.

(e) If the Administrator determines in making any valuation, allocation or adjustments to a Participant's Account that the strict application of this Section will not produce an equitable and non-discriminatory allocation among the Participant Accounts, the Administrator may modify its procedures under this Section for purposes of achieving an equal and non-discriminatory allocation under the Plan.

Section 6.05. Value of Accounts. The value of an Account as of any date shall be the value of the Account after all adjustments and allocations as of the Valuation Date on or immediately before such date, increased by the amount of any Employer Contributions allocated to the Account after the prior Valuation Date and reduced by the amount of any payments or withdrawals made from the Account after the prior Valuation Date.

Section 6.06. Participant Statements. The Administrator or the Agent shall provide to each Participant a statement reflecting the value of the Participant's Account within a reasonable period after each reporting period, but no less than annually. All reports to Participants shall be based on the fair market value of investments credited to their Accounts as of the reporting dates.

ARTICLE VII. **TRUST**

Section 7.01. Trust Fund. All Employer Contributions under the Plan shall be transferred to the Trustee to be held in Trust as part of the Trust Fund in accordance with the provisions of the Plan and the Trust, as applicable. All assets held in connection with the Plan, including all Employer Contributions, all property and rights acquired or purchased with such amounts, and all income attributable to such amounts, property or rights, shall be held in, managed, invested and distributed in Trust as part of the Trust Fund, in accordance with the provisions of the Plan. All benefits under the Plan shall be distributed solely from the Trust Fund, and the Employer and/or VRS shall have no liability for any such benefits other than the obligation to make Employer Contributions as provided in the Plan.

Section 7.02. Trust Status. The Trust Fund shall be held in Trust for the exclusive benefit of Participants and Beneficiaries under the Plan in accordance with Code Section 501(a). No part of the Trust Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants and their Beneficiaries, and for defraying the reasonable expenses of the Plan and Trust. The Trust is exempt from tax pursuant to Code Sections 401(a) and 501(a).

ARTICLE VIII. **DISTRIBUTIONS**

Section 8.01. Commencement and Form of Distributions.

(a) A Participant or Beneficiary, as applicable, shall receive a lump sum distribution of his or her Vested Account as soon as administratively practicable following the last day of the quarter in which Participant has a Severance from Employment.

(b) Notwithstanding paragraph (a), a distribution may be delayed for a reasonable period in the event that the recipient cannot be located or is not competent to receive the benefit payment, there is a dispute as to the proper recipient of the benefit payment, additional time is needed to complete the Plan valuation adjustments and allocations, or additional time is necessary to properly explain the recipient's distribution options.

Section 8.02. Mandatory Cash-Out. A lump sum payment of the Participant's Account may be made without the consent of the Participant if his or her Account balance exceeds \$1,000 but does not exceed \$5,000 (\$7,000 effective January 1, 2024), provided that such distribution shall be made in a direct rollover to an individual retirement plan designated by the Administrator, unless the Participant elects to have such distribution paid directly to an eligible retirement plan specified by the Participant in a direct rollover or to receive the distribution directly in a lump sum. Any lump sum payments made under this Section 8.02 shall be made in a uniform and nondiscriminatory manner. This Section does not apply to an individual who is not a Participant.

Section 8.03. Required Minimum Distribution Rules.

(a) The provisions of this Section 8.03 take precedence over any inconsistent provisions of the Plan. ~~All distributions under this Plan shall be made in accordance with a reasonable good faith interpretation of Code Section 401(a)(9) and the regulations promulgated thereunder, including the incidental death benefit rules under Code Section 401(a)(9)(G) and the changes under the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, SECURE 2.0 of 2022, and Treasury Regulation Sections 1.401(a)(9)-1 through -9, as each may be amended from time to time. All distributions under this Plan shall be made in accordance with Code Section 401(a)(9) and the regulations promulgated thereunder, including the incidental death benefit rules under Code Section 401(a)(9)(G), and the changes under the Setting Every Community Up for Retirement Enhancement Act of 2019, and any regulatory guidance issued thereunder, and shall comply with rules under this Section 8.03.~~

(b) Distributions may only be made over one of the following periods (or a combination thereof):

- (1) The life of the Participant;
- (2) The life of the Participant and a designated individual Beneficiary;
- (3) A period certain not extending beyond the life expectancy of the Participant;

or

(4) A period certain not extending beyond the joint and last survivor life expectancy of the Participant and designated individual Beneficiary.

(c) A Participant's Accounts shall be distributed to the Participant beginning no later than April 1 of the calendar year following the calendar year ~~following the later in which the Participant attains age 70½ (age 72 for distributions required to be made after December 31, 2019, with respect to a Participant who would have attained age 70½ after December 31, 2019) or, if later, April 1 of (i) the calendar year in which the Participants attains his or her applicable age within the meaning of Code Section 401(a)(9)(C)(v) or (ii) following the calendar year in which that~~ the Participant has a Severance from Employment.

(d) The Administrator or its Agent shall calculate the amounts required to be distributed to a Participant under this Section and notify such Participant of such distributions prior to the date distributions must begin.

~~Notwithstanding anything in this Section 8.03 to the contrary, for 2020 or such longer period as provided in legislation modifying or extending the Coronavirus Aid, Relief, and Economic Security Act of 2020, the minimum distribution requirements will be satisfied for 2020 as provided in this paragraph. Effective March 27, 2020, or as soon as administratively practicable thereafter, a Participant or Beneficiary who would have been required to receive a required minimum distribution in 2020 (or paid in 2021 for the 2020 calendar year for a Participant with a required beginning date of April 1, 2021) but for the enactment of Code Section 401(a)(9)(I) ("2020 RMDs") and who would have satisfied that requirement by receiving distributions that are (i) equal to the 2020 RMDs, or (ii) one~~

~~or more payments (that include the 2020 RMDs) in a series of substantially equal periodic payments made at least annually and expected to last for the life (or life expectancy) of the Participant, the joint lives (or joint life expectancies) of the Participant and the Beneficiary, or for a period of at least 10 years ("Extended 2020 RMDs"), will receive this distribution unless the Participant or Beneficiary chooses not to receive such distributions. Participants and Beneficiaries described in the preceding sentence will be given the opportunity to elect to stop receiving the distribution described in the preceding sentence. In addition, 2020 RMDs and Extended 2020 RMDs will not be treated as eligible rollover distributions in 2020.~~

Section 8.04. Additional Tax on Early Withdrawals.

(a) Generally, and except as described in paragraph (b), if a Participant receives any amount under the Plan, his or her tax for the taxable year in which such amount is received is increased by an amount equal to ten percent (10%) of the portion of such amount which is includible in gross income. Such amount shall be included in gross income to the extent allocable to income on the Trust and shall not be included in gross income to the extent allocable to the investment in the Trust as provided in Code Section 72(e)(2)(b).

(b) The penalty described in paragraph (a) generally does not apply to any distribution (i) made on or after the date on which the Participant attains age 59½, (ii) made on or after the death of the Participant, (iii) attributable to the Participant becoming disabled within the meaning of Code Section 72(m)(7), (iv) which is part of a series of substantially equal periodic payments made (not less frequently than annually) for the life or life expectancy of the Participant or the joint lives (or joint life expectancies) of such Participant and his or her designated Beneficiary, (v) made to a Participant after Severance from Employment following the attainment of age 55, (vi) which is a qualified reservist distribution within the meaning of Code Section 72(t)(2)(G)(iii), (vii) made pursuant to a qualified domestic relations order, (viii) that is a qualified birth or adoption distribution, (ix) that is a terminal illness distribution, (xii) that is for deductible medical expenses, or (xiii) or (vii) any other circumstance permitted by the Code or the Internal Revenue Service.

Section 8.05. Transfers from the Plan.

(a) The Plan shall permit a transfer a portion of a Participant's Account (but not all of the Participant's Account) from the Plan to the Virginia Cash Match Plan if (i) the Participant has obtained age 55 and (ii) the Participant has established an account under the Commonwealth of Virginia 457 Deferred Compensation Plan. The transferred amounts shall be held in the Virginia Cash Match Plan in the Participant's Account undersuch plan.

(b) The transfer shall satisfy such rules and policies established by the Administrator.

ARTICLE IX.
LOANS

Loans are not permitted under the Plan.

ARTICLE X.
VESTING

Section 10.01. Vesting. A Participant shall be 100% Vested in his or her Accounts at all times.

Section 10.02. Felony Convictions.

(a) Notwithstanding Section 10.01, if a Participant (i) is convicted of a felony and (ii) his or her Employer determines that the felony arose from misconduct occurring on or after July 1, 2011, in any position in which the Participant was covered for retirement purposes under any retirement system administered by the Board, the Participant shall forfeit his or her Employer Contribution Account. Such forfeiture shall occur following the Employer's notification to VRS that a felony conviction arising from such misconduct has been obtained and the administrative process as set forth in Va. Code Section 51.1-124.13 has concluded.

(b) Forfeitures arising under paragraph (a) shall be allocated to a forfeiture account under the Plan, and shall be used to reduce Plan expenses.

ARTICLE XI.
ROLLOVERS FROM THIS PLAN

Section 11.01. Definitions for this Article. For purposes of this Article, the following definitions shall apply.

(a) "Direct Rollover" means an Eligible Rollover Distribution that is paid directly to an Eligible Retirement Plan for the benefit of the Distributee.

(b) "Distributee" means a Participant, the Spouse of the Participant, or the Participant's former Spouse who is the alternate payee under a qualified domestic relations order as defined in Code Section 414(p), and a Participant's non-Spouse Beneficiary, any of whom is eligible to receive a distribution from the Plan.

(c) "Eligible Retirement Plan," as defined under Code Section 402(c)(8)(B), means:

- (1) an individual retirement account described in Code Section 408(a);
- (2) an individual retirement annuity (other than an endowment contract) described in Code Section 408(b);
- (3) any annuity plan described in Code Section 403(a);
- (4) a plan described in Code Section 403(b);
- (5) a qualified plan described in Code Section 401(a);

(6) a Code Section 457(b) eligible deferred compensation plan which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state;

(7) a Roth individual retirement account described in Code Section 408A(e) provided the Distributee's adjusted gross income does not exceed any limit applicable under federal law for the tax year in which the distribution occurs; and

(8) a SIMPLE IRA described in Code Section 408(p)(1), provided that the rollover contribution is made after the two year period described in Code Section 72(t)(6).

In the case of a distribution to a non-Spouse Beneficiary, an Eligible Retirement Plan means the plans described in subparagraphs (1) and (2) only, to the extent consistent with the provisions of Code Section 402(c)(11) and any successor provisions thereto or additional guidance issued thereunder.

(d) "Eligible Rollover Distribution," as defined in Code Section 402(f)(2)(A), means any distribution of all or any portion of the balance to the credit of the Distributee under the Plan, excluding the following:

(1) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of 10 years or more;

(2) any distribution to the extent such distribution is required under Code Section 401(a)(9);

(3) the portion of any distribution that is not includible in gross income; however, a portion of a distribution will not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions that are not includible in gross income, although such portion may be transferred only to an individual retirement account or annuity described in Code Section 408(a) or (b) or to a qualified retirement plan described in Code Section 401(a) that agrees to separately account for amounts so transferred (and earnings thereon), including separately accounting for the portion of the distribution that is includible in gross income and the portion of the distribution that is not so includible;

(4) any distribution which is made upon the financial hardship of the Participant; and

(5) other items designated by regulations, or by the Commissioner in revenue rulings, notices, or other guidance, as items that do not constitute an eligible rollover distribution.

Section 11.02. Direct Transfer of Eligible Rollover Distribution. A Distributee may elect on an Applicable Form to have an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan as specified by the Distributee in a Direct Rollover, at the time and in the manner

prescribed by the Administrator. An Eligible Rollover Distribution that is paid to an Eligible Retirement Plan in a Direct Rollover is excludable from the Distributee's gross income under Code Section 402; provided, however, if any portion of such Eligible Rollover Distribution is subsequently distributed from the Eligible Retirement Plan, that portion shall be included in gross income to the extent required under Code Section 402, 403, or 408.

Section 11.03. Mandatory Withholding of Eligible Rollover Distributions.

(a) If the Distributee of an Eligible Rollover Distribution does not elect to have the Eligible Rollover Distribution paid directly from the Plan to an Eligible Retirement Plan in a Direct Rollover pursuant to Code Section 401(a)(31), the Eligible Rollover Distribution shall be subject to a mandatory 20% federal income tax withholding under Code Section 3405(c). Only that portion of the Eligible Rollover Distribution that is not paid directly from the Plan to an Eligible Retirement Plan in a Direct Rollover shall be subject to the mandatory withholding requirement under Code Section 3405(e), and only to the extent such amount would otherwise be includible in the Distributee's taxable gross income.

(b) If a Distributee elects to have an Eligible Rollover Distribution paid to the Distributee, the distribution may be excluded from the gross income of the Distributee provided that said distribution is contributed to an Eligible Retirement Plan no later than the 60th day following the day on which the Distributee received the distribution.

(c) If the Plan distribution is not an Eligible Rollover Distribution, said distribution shall be subject to the elective withholding provisions of Code Section 3405(a) and (b).

Section 11.04. Explanation of Plan Distribution and Withholding Requirements.

(a) Not fewer than 30 days nor more than 180 days before an Eligible Rollover Distribution, the Administrator shall provide each Distributee a written explanation as required under Code Section 402(f), which explains the rules:

(1) under which a Distributee may elect to have an Eligible Rollover Distribution paid in a Direct Rollover to an Eligible Retirement Plan;

(2) that require the withholding of tax on an Eligible Rollover Distribution if it is not paid in a Direct Rollover to an Eligible Retirement Plan;

(3) that provide that a distribution shall not be subject to tax if the distribution is rolled over to an Eligible Retirement Plan within 60 days after the date the Distributee receives the distribution; and

(4) if applicable, certain special rules regarding taxation of the distribution as described in Code Sections 402(d) and (e).

(b) Notwithstanding paragraph (a), a distribution may begin fewer than 30 days after the notice discussed in the preceding sentence is given, provided that the Administrator clearly informs the Participant that he or she has a right to a period of at least 30 days after receiving the

notice to consider the decision of whether or not to elect a distribution and the Participant, after receiving a notice, affirmatively elects a distribution.

ARTICLE XII.
ADMINISTRATION OF THE PLAN

Section 12.01. Authority of the Administrator. The Administrator is responsible for performing the duties required for operation of the Plan. The Administrator shall have all power necessary or convenient to enable it to exercise its authority under the Plan. In connection therewith, the Administrator may provide rules and regulations, not inconsistent with the provisions hereof, for the operation and management of the Plan, and may from time to time amend or rescind such rules or regulations. The Administrator is authorized to accept service of legal process for the Plan.

Section 12.02. Powers of the Administrator. The Administrator shall have the power and discretion to construe and interpret the Plan, including any ambiguities, to determine all questions of fact or law arising under the Plan, and to resolve any disputes arising under and all questions concerning administration of the Plan. The Administrator may correct any defect, supply any omission or reconcile any inconsistency in the Plan in such manner and to such extent as the Administrator may deem expedient and, subject to the Plan's claims procedures, the Administrator should be the sole and final judge of such expediency. Benefits under the Plan shall be paid only if the Administrator decides in its discretion that the Participant or Beneficiary is entitled to them.

Section 12.03. Delegation by Administrator. The Administrator may delegate to an individual, committee, or organization to carry out its fiduciary duties or other responsibilities under the Plan. Any such individual, committee, or organization delegated fiduciary duties shall be a fiduciary until the Administrator revokes such delegation. A delegation of the Administrator duties or responsibilities may be revoked without cause or advance notice. Such individual, committee, or organization shall have the same power and authority with respect to such delegated fiduciary or other responsibilities as the Administrator has under the Plan.

Section 12.04. Employment of Consultants. The Administrator may employ one or more persons to render advice with regard to its responsibilities under the Plan.

ARTICLE XIII.
REQUESTS FOR INFORMATION AND OTHER CLAIMS PROCEDURES

Section 13.01. Requests for Information Concerning Eligibility, Participation and Contributions. Requests for information concerning eligibility, participation, contributions, or any other aspects of the operation of the Plan, and service of legal process, should be in writing and directed to the Administrator of the Plan.

Section 13.02. Requests for Information Concerning the Trust. Requests for information concerning the Trust and its terms, conditions, and interpretations thereof, claims thereunder, and any requests for review of such claims, should be in writing and directed to the Administrator of the Plan.

Section 13.03. Processing of Claims. Claims under the Plan shall be processed in a manner consistent with the Virginia Administrative Process Act, Va. Code Section 2.2-4000 *et seq.*

ARTICLE XIV.
QUALIFIED GOVERNMENTAL EXCESS BENEFIT ARRANGEMENT

Section 14.01. General.

(a) The Excess Benefit Plan is intended to be a portion of the Plan that is a qualified excess benefit arrangement within the meaning of Code Section 415(m)(3) and an exempt governmental deferred compensation plan described in Code Section 3121(v)(3). Code Sections 83, 402(d), 409A, 457(a), and 457(f) shall not apply to the Excess Benefit Plan. The sole purpose of the Excess Benefit Plan is to provide for contributions that would have been made to a 401(a) Plan absent the limitations of Code Section 415(c).

(b) No election is provided at any time to a 415(m) Participant, directly or indirectly, to defer compensation under the Excess Benefit Plan, and no employee pre-tax or after-tax contributions may be made to or under the Excess Benefit Plan at any time.

(c) Under no circumstances shall Excess Contributions under the Excess Benefit Plan be credited to the Plan or paid from the Trust. The Excess Benefit Plan shall be and remain unfunded, and amounts credited to a Participant's 415(m) Account shall be payable from the Employer's general assets only. The Excess Benefit Plan constitutes an unsecured promise by the Employer to make benefit payments in the future from its general assets.

Section 14.02. Eligibility and Participation.

(a) The Chief Investment Officer is the only Participant eligible to participate in the Excess Benefit Plan.

(b) The Chief Investment Officer shall automatically participate in the Excess Benefit Plan for a Plan Year if the Board determines there is an Excess Contribution for the Plan Year.

Section 14.03. Contributions and Vesting.

(a) The Board shall make an Excess Contribution for each 415(m) Participant to the Excess Benefit Plan not later than the latest date on which contributions could be made to the 401(a) Plan for such Plan Year to which the Excess Contribution relates.

(b) A 415(m) Participant is 100% Vested in his or her 415(m) Account at all times.

Section 14.04. 415(m) Accounts. The Administrator or Agent shall establish and maintain adequate records to reflect the 415(m) Accounts of each 415(m) Participant. The 415(m) Account shall reflect the record of the 415(m) Participant's interest under this Excess Benefit Plan attributable to Excess Contributions made by the Board and the earnings and losses thereon. The maintenance of individual accounts is for accounting purposes only, and a segregation of Excess

Benefit Plan assets to each 415(m) Account shall not be required. 415(m) Participants do not have the right to direct the investment of their 415(m) Accounts under the Excess Benefit Plan.

Section 14.05. Distributions on Account of Severance from Employment. A Participant's 415(m) Account shall be distributed in a single lump sum payment within 180 days after the Participant's Severance from Employment. The amount to be distributed to the Participant shall be determined based on the value of the Participant's 415(m) Account as determined on the last day of the quarter in which the Participant has a Severance from Employment with the Employer.

Section 14.06. Distributions Upon Participant's Death. In the event that the 415(m) Participant dies before receiving a distribution of the amount credited to his or her 415(m) Account, such amount shall be distributed in a single lump sum payment within 180 days of the Participant's death to the Participant's Beneficiary. The amount to be distributed to the Participant's Beneficiary shall be determined based on the value of the Participant's 415(m) Account as determined on the last day of the quarter in which the Participant died.

Section 14.07. Expenses of Excess Benefit Plan. All reasonable expenses of administering the Excess Benefit Plan shall be charged against and paid from 415(m) Participants' 415(m) Accounts, unless paid by the Employer.

ARTICLE XV. **AMENDMENT AND TERMINATION**

Section 15.01. Amendment and Termination. While it is expected that the Plan shall continue indefinitely, the Commonwealth reserves the right to amend, freeze, or terminate the Plan, or to discontinue any further Employer Contributions to the Plan at any time. The Board may, consistent with Va. Code Section 51.1-124.22.A.11, make any amendment to the Plan, provided that no such amendment shall reduce, suspend or terminate the accrued benefits otherwise payable to a Participant or Beneficiary hereunder as of the date of such amendment. To the extent required by the exclusive benefit rule, any amendment shall not be effective to the extent that the amendment has the effect of causing any Plan assets to be diverted to or inure to the benefit of the Employer, or to be used for any purpose other than providing benefits to Participants and Beneficiaries and defraying reasonable expenses of administering the Plan. Notwithstanding the foregoing, the Board hereby delegates to the VRS Director the right to modify, alter, or amend the Plan in whole or in part to make any technical modification, alteration or amendment which in the opinion of VRS' counsel is necessary to comply with federal law.

Section 15.02. Adverse Effects. Any amendment or termination of the Plan cannot adversely affect the benefits accrued by Participants prior to the date of amendment or termination. The Plan may not be amended in a manner that violates any provision of the Code.

Section 15.03. Distribution Upon Termination of the Plan. The Commonwealth has the right to completely terminate this Plan at any time and in its sole discretion. In such a case, VRS shall arrange for suitable distribution of Plan assets, including the possibility of transfer to another 401(a) plan or plans. The Trustee shall not be required to pay out any asset of the Trust Fund to Participants and Beneficiaries or a successor plan upon termination of the Trust until the

Trustee has received written confirmation from VRS (i) that all provisions of the law with respect to such termination have been complied with, and, (ii) after the Trustee has made a determination of the fair market value of the assets of the Plan, that the assets of the Plan are sufficient to discharge when due all obligations of the Plan required by law. The Trustee shall rely conclusively upon such written certification and shall be under no obligation to investigate or otherwise determine its propriety.

ARTICLE XVI.
MISCELLANEOUS

Section 16.01. Non-Alienation.

(a) A Participant's Account under the Plan shall not be liable for any debt, liability, contract, engagement, or tort of the Participant or his or her Beneficiary, nor subject to anticipation, sale, assignment, transfer, encumbrance, pledge, charge, attachment, garnishment, execution, alienation, or any other voluntarily or involuntarily alienation or other legal or equitable process, nor transferable by operation of law.

(b) Notwithstanding paragraph (a), the Plan shall comply with any judgment, decree or order ("domestic relations order") which establishes the right of an alternate payee within the meaning of Code Section 414(p)(8) to all or a portion of a Participant's benefit under the Plan to the extent that it is a "qualified domestic relations order" ("QDRO") under Code Section 414(p). The Administrator shall establish reasonable written procedures to determine whether a domestic relations order is a QDRO and to administer the distribution of benefits with respect to such orders, which procedures may be amended from time to time, and which shall be provided to Participants upon request. Notwithstanding any other provisions in the Plan, the Plan may make an immediate distribution to the alternate payee pursuant to a QDRO.

(c) Notwithstanding paragraph (a), the Plan shall offset from the benefit otherwise payable to a Participant or his or her Spouse such amounts as are permitted to be offset under a court order, civil judgment, or settlement agreement in accordance with Code Section 401(a)(13)(C).

(d) Notwithstanding paragraph (a), the Administrator may pay from Participant's or Beneficiary's Account under the Plan the amount that the Administrator finds is lawfully demanded under a levy issued by the Internal Revenue Service with respect to that Participant or Beneficiary or is sought to be collected by the United States Government under a judgment resulting from an unpaid tax assessment against the Participant or Beneficiary. Except in the case of an alternate payee within the meaning of Code Section 414(p)(8), under no circumstances may a payment under this paragraph (d) take place before a Participant has a Severance from Employment.

(e) Notwithstanding paragraph (a), pursuant to Va. Code Section 51.1-124.4(A), the Administrator shall honor any process for a debt to the Employer who has employed such person, and except for administrative actions pursuant to Chapter 19 (Section 63.2-1900 *et seq.*) of Title 63.2 of the Va. Code or any court process to enforce a child or child and spousal support

obligation. Under no circumstances may a payment under this paragraph (e) take place before a Participant has a Severance from Employment.

Section 16.02. Military Service.

(a) Notwithstanding any provisions of this Plan to the contrary, contributions, benefits, and service credit with respect to qualified military service shall be provided in accordance with USERRA, HEART, Code Section 414(u), and Code Section 401(a)(37). For purposes of this Section, "qualified military service" means any service in the uniformed services as defined in USERRA by any individual if such individual is entitled to reemployment rights under USERRA with respect to such service.

(b) If a Participant whose employment is interrupted by qualified military service or who is on a leave of absence for qualified military service under Code Section 414(u), timely resumes employment with the Employer in accordance with USERRA as an Eligible Employee, the Employer shall make the Employer Contributions that would have been made if the Participant had remained employed during the Participant's qualified military service. Contributions must be made no later than 90 days after the date of reemployment or when the Employer Contributions are normally due for the year in which the qualified military service was performed, if later.

(c) To the extent provided under Code Section 401(a)(37), in the case of a Participant whose employment is interrupted by qualified military service and who dies while performing qualified military service, the survivor of such Participant shall be entitled to any additional benefit (other than benefit accruals) provided under the Plan as if the Participant timely resumed employment in accordance with USERRA and then, on the next day, terminated employment on account of death.

(d) Differential wage payments within the meaning of Code Section 414(u)(12)(D) shall be treated as Plan Compensation under the Plan.

Section 16.03. Limitation of Rights and Obligations. Neither the establishment nor maintenance of the Plan, nor any amendment thereof, nor the purchase of any insurance contract, nor any act or omission under the Plan or resulting from the operation of the Plan shall be construed:

(a) as conferring upon any Participant, Beneficiary or any other person any right or claim against VRS, the Employer, the Administrator, or the Trust, except to the extent that such right or claim shall be specifically expressed and provided in the Plan;

(b) as a contract or agreement between VRS and/or the Employer and any Participant or other person; or

(c) as an agreement, consideration, or inducement of employment or as affecting in any manner or to any extent whatsoever the rights or obligations of VRS, the Employer, or any Employee to continue or terminate the employment relationship at any time.

Section 16.04. Federal and State Taxes. It is intended that Employer Contributions, plus any earnings thereunder, are excludable from gross income for federal and state income tax

purposes until paid to Participants or Beneficiaries. However, the Administrator does not guarantee that any particular federal or state income, payroll or other tax consequence will occur as a result of participation in this Plan.

Section 16.05. Erroneous Payments. If the Administrator or its Agent makes any payment that according to the terms of the Plan and the benefits provided hereunder should not have been made, the Administrator or its Agent may recover that incorrect payment, by whatever means necessary, whether or not it was made due to the error of the Administrator or its Agent, from the person to whom it was made or from any other appropriate party. For example, if any such incorrect payment is made directly to a Participant, the Administrator or its Agent may deduct it when making any future payments directly to that Participant.

Section 16.06. Payments to Minors or Incompetents. If a Participant or Beneficiary entitled to receive any benefits hereunder is a minor or is determined to be legally incapable of giving valid receipt and discharge for such benefits by a court or by the Administrator, benefits shall be paid to such person as the Administrator may designate for the benefit of such Participant or Beneficiary. Such payments shall be considered a payment to the Participant or Beneficiary and shall, to the extent made, be deemed a complete discharge of any liability for such payments under the Plan.

Section 16.07. Missing or Lost Participants. In the event that the Administrator does not have current contact information for or is unable to identify a Participant or Beneficiary under the Plan, the Administrator shall make reasonable attempts to determine the address and identity of the Participant or Beneficiary entitled to benefits under the Plan. A reasonable attempt to locate a missing or lost Participant or Beneficiary shall include (i) providing notice to the Participant at the Participant's last known address via certified mail; (ii) determining whether the Employer's records or the records of another plan maintained by the Employer has a more current address for the Participant; (iii) attempting to contact any named Beneficiary of the Participant; and (iv) searching for the missing Participant via free electronic search tools, such as Internet search engines, public record databases, obituaries, and social media. If such search methods are unsuccessful, based on the facts and circumstances, the Administrator may use other search methods, including using Internet search tools, commercial locator services, credit reporting agencies, information brokers, investigation databases, and analogous services that may involve charges. The Administrator may charge missing Participants and Beneficiaries reasonable expenses for efforts to find them. In the event that the Administrator is unable to locate a Participant or Beneficiary entitled to benefits under the Plan, the Trustee shall continue to hold the benefits due to such person under the Plan.

Section 16.08. No Reversion. Under no circumstances or conditions will any Employer Contributions revert to, be paid to, or inure to the benefit of, directly or indirectly, VRS or the Employer, but shall be held for the exclusive purpose of providing benefits to Participants and their Beneficiaries and defraying the reasonable expenses of administering the Plan. However, if Employer Contributions are made by VRS or the Employer by mistake of fact, these amounts and, if applicable, any interest earned therein, may be returned to VRS or the Employer, as applicable, within one year of the date that they were made.

Section 16.09. Claims of Other Persons. The provisions of the Plan will not be construed as giving any Participant or any other person, firm, or corporation, any legal or equitable right against VRS or the Employer, its officers, employees, or directors, except the rights as specifically provided for in this Plan or created in accordance with the terms and provisions of this Plan.

Section 16.10. Counterparts. The Plan may be executed in any number of counterparts, each of which shall be deemed to be an original. All counterparts shall constitute but one and the same instrument and shall be evidenced by any one counterpart.

IN WITNESS WHEREOF, the Board has caused this amended and restated Plan to be adopted as of the Effective Date.

**BOARD OF TRUSTEES OF THE
VIRGINIA RETIREMENT SYSTEM**

By: _____

Printed Name: A. Scott Andrews

Title: Chair, VRS Board of Trustees

Date: ~~September 22, 2022~~ February 8, 2024



Investment Compensation Program Review

January 2024

Competitive Market Trends in Asset Management

Public Funds

- In 2022 salaries and total cash compensation increased approximately +5% at median
- Many funds continue to struggle with recruiting efforts and losing talent to private sector firms
- Public and political scrutiny over pay intensifies. Bonus paying funds continue to be in the spotlight
- 2023 salaries increased more than in previous years with ~+5% increases across pay bands

Private Sector

- YE 2022:
 - Revenues, profits, & C&B fell from 2021's high-water-marks
 - For high earners, the largest year-over-year decline in pay since 2008
 - For 85% of EE's w/total comp <\$250K, pay was up. YE 2021 salary increases saved the day
- 2023's Math: Flat Revenues + Rising Costs (C&B up -> salaries + benefits; Non-C&B up (G&A expenses) + Desire to Protect Margins = Incentive Pools Down ~5%
- 2023's Management Actions:
 - Cost discipline intensifies, especially about headcount:
 - Legacy businesses are squeezed (RIFs, attrition, early retirements)
 - Growth focuses on strategic hires and new initiatives (alts, data/AI)
 - Firms' approach to change varies widely (aggressively leaning in; cautiously resisting)
- 2023's Mood:
 - Kumbaya is strained as:
 - Resources are squeezed and workloads increase
 - Pay is expected to fall for a second year, with no relief in sight for 2024
 - "We're tired, but the grass is brown everywhere"

Introduction & Methodology

- Virginia Retirement System Board of Trustees (“VRS”) asked McLagan to assess the competitiveness of VRS’ investment professionals’ pay levels versus their Board-approved targeted pay positioning. Specifically, for:
 - Salaries, VRS targets the 75th percentile of leading public pension funds.
 - Target total compensation, VRS targets market median total cash (weighted 75% to leading public pension funds and 25% to a broad range of private sector firms).
- In reviewing its current pay levels, VRS would like to ensure that it continues to:
 - Attract, motivate and retain its skilled investment professionals.
 - Benefit all stakeholders through a compensation plan that is clear, aligned with performance, competitive and cost effective.
 - Directly align compensation with long-term investment performance.
- To complete this review, McLagan:
 - Reviewed background materials provided by VRS (e.g., plan documents, updated survey matches, etc.).
 - Assembled pay data from McLagan’s proprietary *2023 Investment Management Surveys* for VRS’ long-standing blended peer group (weighted 75% to leading public funds and 25% to a broad range of private sector firms).

Pay Level Analysis

▪ **Base Salary**

- In aggregate, VRS’ base salary spend for 48 investment professionals of \$10.9M was positioned 6% below the targeted \$11.6M 75th percentile.

	VRS Inv Prof		Targeted Pay Positioning	Competitive Market Leading Public Funds - Salary			VRS Variance vs. Targeted Positioning
	# of Incs	Salary		25th	50th	75th	
Base Salary	48	\$10,869	75th %ile Public Funds	\$9,129	\$10,102	\$11,579	-6%

▪ **Target Total Compensation**

- VRS’ aggregate \$16M target total compensation (i.e., base salary + target incentives) was positioned 11% below the targeted \$17.9M median total cash.

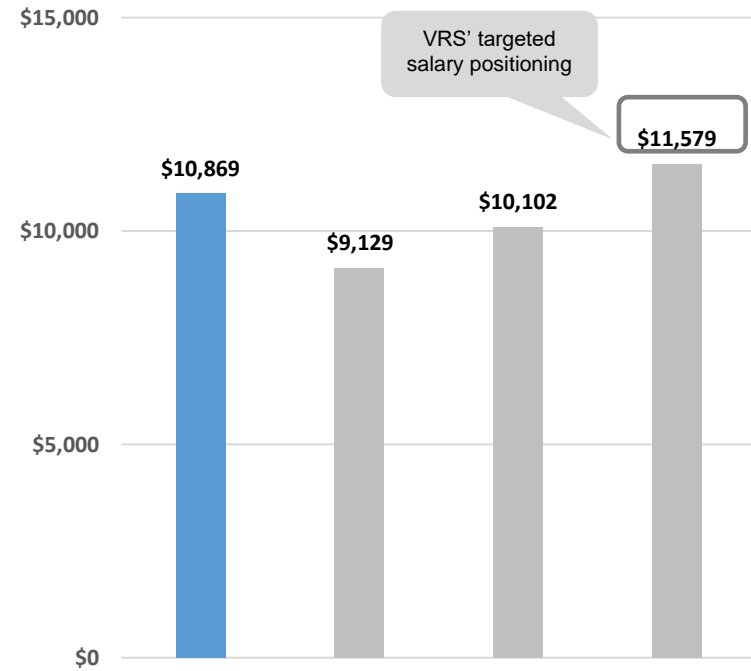
	VRS Inv Prof		Targeted Pay Positioning	Competitive Market PF / Priv Sect Blend - T. Cash			VRS Variance vs. Targeted Positioning
	# of Incs	Target T. Comp		25th	50th	75th	
Target Total Comp	48	\$15,952	Med 75% / 25% Blend T. Cash	\$13,220	\$17,858	\$25,504	-11%

Note: VRS targets total compensation (salary + cash incentives + deferral) at the median (50th percentile) total cash compensation (salary + cash incentives) of the public fund / private sector blend.

Overview – Base Salaries and Target Total Comp

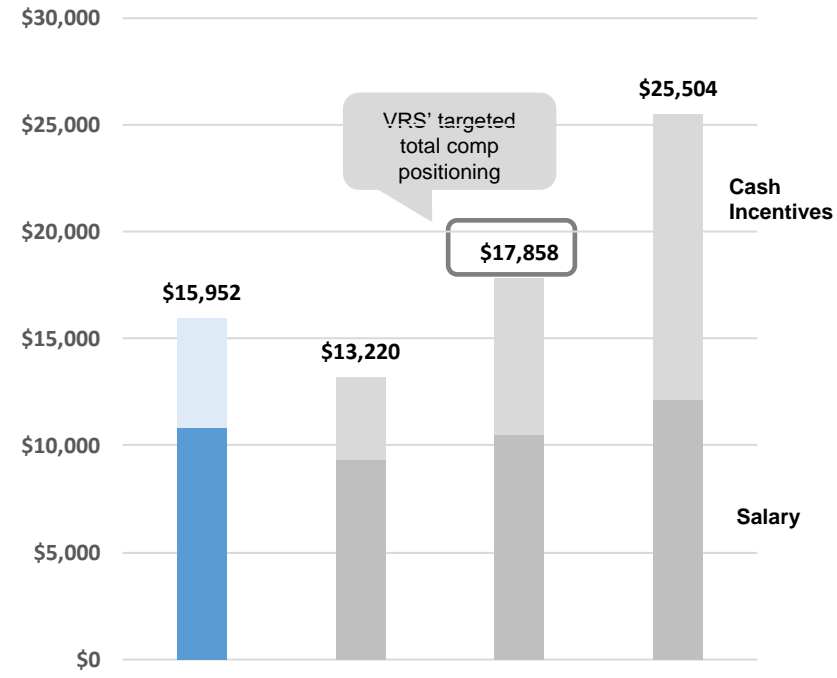
Aggregate spend for 48 VRS incumbents

VRS' Salaries vs. Leading Public Funds



	VRS	Leading Public Funds		
		25th	50th	75th
Salary	\$10,869	\$9,129	\$10,102	\$11,579
Variance		19%	8%	-6%

VRS' Target Total Comp vs. 75/25 Blend



	VRS	75th Pub Fund / 25% Priv Sect T. Cash		
		25th	50th	75th
Salary	\$10,869	\$9,353	\$10,538	\$12,179
Cash Incentive	\$5,083	\$3,866	\$7,320	\$13,325
Total Cash	\$15,952	\$13,220	\$17,858	\$25,504
Variance		21%	-11%	-37%

* VRS' data includes salary + cash incentives + deferred award.

Pay Level Analysis

Base Salaries

- In aggregate, VRS' salary spend is positioned 6% below the 75th percentile of other leading public funds. 67% of staff are paid below the 75th percentile.
- Aggregate salary spend for most VRS levels fall within ~10% of the targeted 75th percentile.

VRS Investment Management	Salary	# EEs Matched	Leading Public Funds Base Salary			Positioning vs 75th Percentile		VRS vs 75th
			25th	50th	75th	% Under	% Over	
Chief Investment Officer	\$450	1	\$439	\$525	\$631	100%	0%	-29%
Managing Director	1,185	3	885	1,005	1,185	33%	67%	0%
Program Director	2,174	7	1,833	2,051	2,427	100%	0%	-10%
Director	1,138	4	822	925	1,046	25%	75%	9%
Senior Portfolio Manager	285	1	217	239	280	0%	100%	2%
Portfolio Manager	3,835	17	3,218	3,489	3,978	59%	41%	-4%
Senior Investment Officer	191	1	153	171	199	100%	0%	-4%
Investment Officer	1,269	10	1,274	1,370	1,481	90%	10%	-14%
Senior Investment Analyst	91	1	93	100	110	100%	0%	-18%
Investment Analyst	251	3	196	226	241	33%	67%	4%
Total	\$10,869	48	\$9,129	\$10,102	\$11,579	67%	33%	-6%

Base Salaries + Target Incentives

- In aggregate, VRS' target total compensation spend fell 11% below the median of the 75/25 blended peer group (with 60% of incumbents below the targeted median).
- It is important to note that all positions have the opportunity to earn more than median compensation for maximum levels of performance.

VRS Investment Management	T. Comp	# EEs Matched	Blended Peer Group T. Cash			Positioning vs 50th Percentile		VRS vs 50th
			25th	50th	75th	% Under	% Over	
Target Total Comp								
Chief Investment Officer	\$765	1	\$676	\$875	\$1,257	100%	0%	-13%
Managing Director	1,955	3	1,627	2,610	3,839	100%	0%	-25%
Program Director	3,445	7	2,928	4,513	6,412	100%	0%	-24%
Director	1,708	4	1,236	1,570	2,147	25%	75%	9%
Senior Portfolio Manager	428	1	354	494	698	100%	0%	-13%
Portfolio Manager	5,369	17	4,285	5,301	8,228	29%	71%	1%
Senior Investment Officer	248	1	212	267	344	100%	0%	-7%
Investment Officer	1,650	10	1,588	1,857	2,164	90%	10%	-11%
Senior Investment Analyst	109	1	98	115	130	100%	0%	-6%
Investment Analyst	276	3	218	256	284	0%	100%	8%
Total	\$15,952	48	\$13,220	\$17,858	\$25,504	60%	40%	-11%

Pay Level Analysis

VRS Midpoints

- While the previous pages focused on actual salaries and incentive opportunities, the below analysis focuses on VRS' target midpoints.
- Most targeted salary midpoints are currently above the public fund 75th percentile.
- Most targeted total compensation midpoints are within 10% of the blended public fund and private sector median total cash.

Position	# of Incs.	Salary Grade	Base Salary			Sal + Target Incentive			
			Current Mid	Pub Fund 75th Sal	Variance %	% Sal	Current Mid	75/25 Med T. Cash	Variance %
Chief Investment Officer	1	10	474	631	-25%	70%	806	875	-8%
Managing Director	3	9	402	395	2%	65%	664	870	-24%
Program Director	7	8	347	347	0%	60%	556	645	-14%
Director	4	7	303	261	16%	50%	455	393	16%
Senior Portfolio Manager	1	6	303	280	8%	50%	455	494	-8%
Portfolio Manager	17	5	237	234	1%	40%	332	312	6%
Senior Investment Officer	1	4	198	199	0%	30%	258	267	-3%
Investment Officer	10	3	154	148	4%	30%	201	186	8%
Senior Investment Analyst	1	2	116	110	5%	20%	139	115	20%
Investment Analyst	3	1	94	80	16%	10%	103	85	21%

Note: Market values (pub fund 75th & 75/25 median) represent averages for multi-incumbent positions.

VRS' Current and Proposed Salary Ranges

- To remain competitive with other leading public funds, McLagan proposes the below changes to VRS' salary structure:
 - No changes to existing grades aside from CIO
 - Adjust CIO range to more closely align with market data

Grade	Position	PF 75th %ile	Proposed Salary Range		
			Min	Mid	Max
11	Chief Investment Officer	\$631	\$373	\$498	\$622
10	Deputy CIO	450	338	450	563
9	Managing Director	395	303	402	502
8	Program Director	347	259	347	435
7	Director	261	226	303	380
6	Senior Portfolio Manager	280	226	303	380
5	Portfolio Manager	234	176	237	298
4	Senior Investment Officer	199	149	198	248
3	Investment Officer	148	116	154	193
2	Senior Investment Analyst	110	88	116	143
1	Investment Analyst	80	72	94	116

VRS' Proposed Salaries & Target Total Comp

- Incorporating VRS' current target incentives (as a percent of salary) and proposed salary ranges, VRS' target total compensation range is largely in line with the 75/25 median of market total cash values.

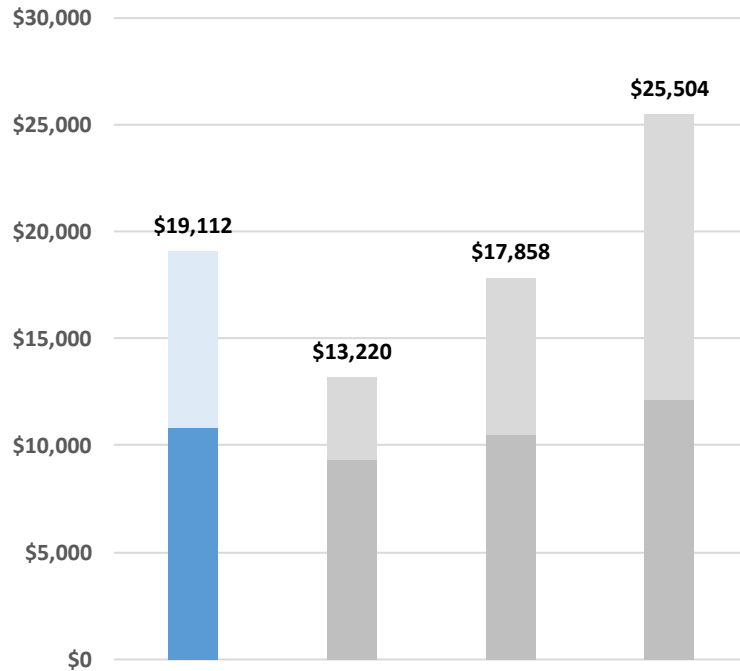
Position	Salary Grade	VRS - Proposed Salary Range		
		Minimum	Midpoint	Maximum
Chief Investment Officer	11	373	498	622
Managing Director	9	303	402	502
Program Director	8	259	347	435
Director	7	226	303	380
Senior Portfolio Manager	6	226	303	380
Portfolio Manager	5	176	237	298
Senior Investment Officer	4	149	198	248
Investment Officer	3	116	154	193
Senior Investment Analyst	2	88	116	143
Investment Analyst	1	72	94	116

Sal + Target Incentive						
Incentive % Sal	Target T. Comp Range			75/25		
	Minimum	Midpoint	Maximum	Median T. Cash	Variance \$	Variance %
70%	635	846	1,058	875	29	-3%
65%	500	664	828	870	206	-24%
60%	415	556	697	645	89	-14%
50%	339	455	571	393	-62	16%
50%	339	455	571	494	39	-8%
40%	247	332	417	312	-20	6%
30%	193	258	323	267	9	-3%
30%	150	201	251	186	-15	8%
20%	106	139	172	115	-24	20%
10%	79	103	127	85	-18	21%

Appendix I

Overview – Maximum and Actual Total Compensation (vs. Mkt T. Cash)

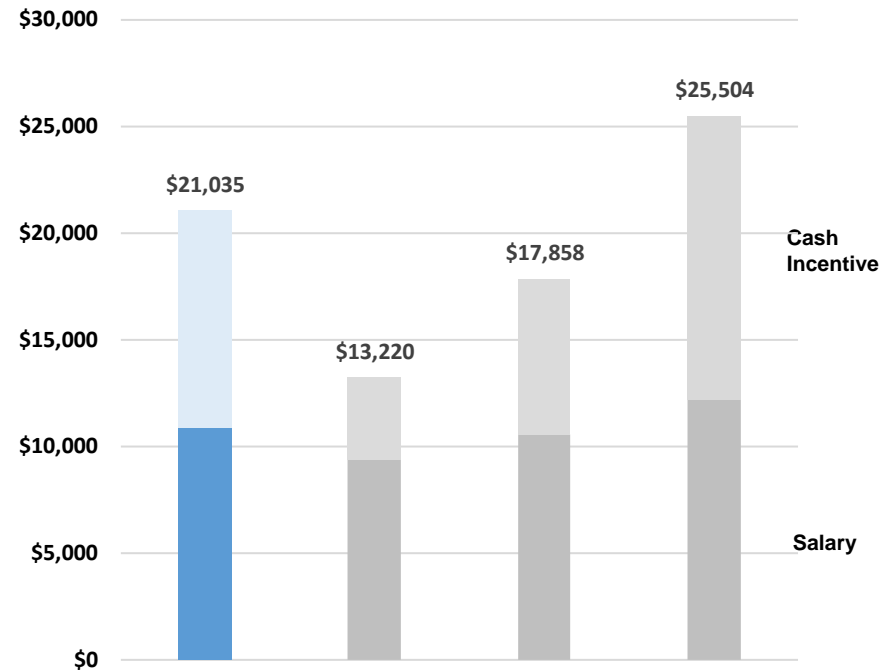
VRS' Actual Total Comp vs. 75/25 Blend



75th Pub Fund / 25% Priv Sect T. Cash

	VRS	25th	50th	75th
Salary	\$10,869	\$9,353	\$10,538	\$12,179
Cash Incentive	\$8,243	\$3,866	\$7,320	\$13,325
Total Cash	\$19,112	\$13,220	\$17,858	\$25,504
Variance		45%	7%	-25%

VRS' Max Total Comp vs. 75/25 Blend



75th Pub Fund / 25% Priv Sect T. Cash

	VRS	25th	50th	75th
Salary	\$10,869	\$9,353	\$10,538	\$12,179
Cash Incentive	\$10,166	\$3,866	\$7,320	\$13,325
Total Cash	\$21,035 *	\$13,220	\$17,858	\$25,504
Variance		59%	18%	-18%

* VRS' data includes salary + cash incentives + deferred award.

Base Salaries + Maximum Incentives

- Consistent with its pay philosophy, all VRS positions have the opportunity to earn above-median pay for superior performance (e.g., all incentive components at maximum). As with previous years, VRS' \$21M maximum total compensation falls between the \$17.9M median and \$25.5M 75th percentile.

VRS Investment Management	T. Comp	# EEs Matched	Blended Peer Group T. Cash			Positioning vs 50th Percentile		VRS vs 50th
			25th	50th	75th	% Under	% Over	
Maximum Total Comp								
Chief Investment Officer	\$1,080	1	\$676	\$875	\$1,257	0%	100%	23%
Managing Director	2,725	3	1,627	2,610	3,839	33%	67%	4%
Program Director	4,716	7	2,928	4,513	6,412	29%	71%	5%
Director	2,277	4	1,236	1,570	2,147	0%	100%	45%
Senior Portfolio Manager	570	1	354	494	698	0%	100%	16%
Portfolio Manager	6,903	17	4,285	5,301	8,228	0%	100%	30%
Senior Investment Officer	306	1	212	267	344	0%	100%	14%
Investment Officer	2,030	10	1,588	1,857	2,164	30%	70%	9%
Senior Investment Analyst	127	1	98	115	130	0%	100%	10%
Investment Analyst	302	3	218	256	284	0%	100%	18%
Total	\$21,035	48	\$13,220	\$17,858	\$25,504	13%	88%	18%

Base Salaries + Actual Earned Incentives

- Based on actual earned incentives, VRS' \$19.1M total compensation spend is about 7% above the \$17.9M median reflecting that for these 48 incumbents, actual payouts were above target and below maximum levels.

VRS Investment Management	T. Comp	# EEs Matched	Blended Peer Group T. Cash			Positioning vs 50th Percentile		VRS vs 50th
			25th	50th	75th	% Under	% Over	
Actual Total Comp								
Chief Investment Officer	\$878	1	\$676	\$875	\$1,257	100%	0%	0%
Managing Director	2,505	3	1,627	2,610	3,839	100%	0%	-4%
Program Director	4,425	7	2,928	4,513	6,412	100%	0%	-2%
Director	2,009	4	1,236	1,570	2,147	25%	75%	28%
Senior Portfolio Manager	467	1	354	494	698	100%	0%	-5%
Portfolio Manager	6,250	17	4,285	5,301	8,228	12%	88%	18%
Senior Investment Officer	292	1	212	267	344	0%	100%	9%
Investment Officer	1,871	10	1,588	1,857	2,164	40%	60%	1%
Senior Investment Analyst	117	1	98	115	130	0%	100%	2%
Investment Analyst	299	3	218	256	284	0%	100%	17%
Total	\$19,112	48	\$13,220	\$17,858	\$25,504	40%	60%	7%

Leading Public Funds Peer Group

Fund	Total AUM (as of 12/31/22)
CA Public Employees' Retirement Sys	\$444.7
CA State Teachers' Retirement Sys	302.1
New York State & Local Retirement Sys	242.3
State of Wisconsin Investment Board	225.6
Teacher Retirement Sys of Texas	200.0
State Board of Administration of Florida	177.7
Washington State Investment Board	149.3
New York State Teachers' Retirement Sys	128.1
Ohio Public Employees Retirement System	123.8
Michigan State Retirement Systems	92.6
State Teachers Retirement Sys of Ohio	88.0
CO Public Employees' Retirement Assoc.	55.4
75th Percentile	\$229.8
Median	163.5
25th Percentile	116.0
Virginia Retirement System	\$100.3

Private Sector Firm Summary

All Private Sector Firms				
	# of Firms	AUM		
		25th	50th	75th
Banks	43	\$21.1	\$61.5	\$254.6
Insurance Companies	64	27.6	71.6	157.8
Advisory Firms	155	14.6	55.4	183.5
Endowments, Foundations & Corporate Plan Sponsors	88	2.8	6.8	15.1
All Private Sector Firms	350	\$7.4	\$31.7	\$123.3



Resolution of Appreciation

PRESENTED TO

W. Brett Hayes

*W*HEREAS, W. Brett Hayes was first appointed to serve on the Virginia Retirement System Board of Trustees in March 2013 and was subsequently reappointed for a second term in June 2018, serving with distinction; and

*W*HEREAS, Mr. Hayes served as a Member of the Investment Policy Committee; the Administration, Finance, and Talent Management Committee; and the Strategic Projects Committee, and contributed to these discussions by virtue of his broad knowledge of investment best practices; and

*W*HEREAS, Mr. Hayes served as a Member and then Chair of the Defined Contribution Plans Advisory Committee, and also served as a Member, and then Vice Chair of the Audit and Compliance Committee, where his extensive knowledge of investments and retirement plans assisted him in successfully leading and contributing to Committee discussions and deliberations; and

*W*HEREAS, Mr. Hayes, by virtue of his considerable experience in investments and his vast expertise in financial and advisory services, asset management, and economic matters, contributed immeasurably to the success of the System.

*N*OW, THEREFORE, BE IT RESOLVED, that on February 8, 2024, we, the members of the Board of Trustees of the Virginia Retirement System, hereby acknowledge Mr. Hayes's loyal and faithful service to the Board of Trustees, the Virginia Retirement System, its members, retirees, and the Commonwealth of Virginia, and express our gratitude for his contributions, stewardship, and commitment as a member of the Board of Trustees.

A. SCOTT ANDREWS, CHAIR

2024 Legislation*



- The General Assembly convened on January 10.
- Crossover- when most bills from the originating chamber can only be heard in the opposite chamber- begins **February 14**. Other than the Budget Bills, bills that have not cleared the originating chamber before then will not pass.
- Committees must complete their work on their Budget Bills by February 18.
- The General Assembly is scheduled to adjourn on March 9.
- The General Assembly is scheduled to reconvene on April 17 for the “veto session.”

2024 VRS Bills



Bill Number	Patron	Description
HB 70	Bulova	Allows members of the Virginia Retirement System to purchase service credit for prior full-time active duty military service of at least 180 consecutive days in any federally established branch of the armed services (adds Space Force and any other future new branches established).
SB 458	Marsden	<p>Also provides that any funds or other property held in a Virginia Retirement System defined contribution plan, deferred compensation plan, or cash match plan remaining unclaimed for more than five years shall be presumed abandoned under the Virginia Disposition of Unclaimed Property Act and may escheat to the state treasury.</p> <p>HB 70 passed the House on 1/30 & referred to SFAC. SB 458 was reported from SFAC on 2/6.</p>

2024 VRS-Related Bills

General Registrar Early Retirement Bill

Bill Number	Patron	Description
HB 1529	Cordoza	<p>The bill changes the term of office for general registrars from four years to eight years. It also adds general registrars to the list of officers who are exempted from general early retirement provisions and may obtain normal retirement benefits when they are involuntarily separated from service and have 20 or more years of creditable service.</p> <p>Referred to Privileges & Elections.</p>

2024 VRS-Related Bills

Local Hazardous Duty Bills

Bill Number	Patron	Description
HB 231	Campbell	Adds animal control officers to the list of local employees eligible to receive enhanced retirement benefits for hazardous duty service. SB 218 included municipal park rangers but was amended to remove them. The bills apply only to service earned on or after 7/1/2025. Item 484 #4h \$200,000 NGF in FY25 SB 218: Item 484 #1s HB 231 was carried over to 2025 in HAC on 2/5. SB 218 reported from SFAC on 2/6.
SB 218	Locke	

2024 VRS-Related Bills

VaLORS

Bill Number	Patron	Description
HB 675	Runion	<p>Allows the Virginia School for the Deaf & Blind to establish a campus police force. Campus police officers are members of VaLORS.</p> <p>The bill is effective 7/1/2024.</p> <p>Reported by Education & referred to HAC 1/29. Reported from HAC 2/5.</p>
HB 891	Kent	<p>Adds conservation officers of the Department of Conservation and Recreation to the membership of the Virginia Law Officers' Retirement System (VaLORS). The bill has a delayed effective date of 7/1/2025.</p> <p>HB 891 was tabled in subcommittee; HB 1312 passed the House 2/2.</p> <p>Item 469 #2h \$1.4 mil GF in FY25 & FY26; Item 484 #5h \$138,500 NGF in FY25</p>
HB 1312	Orrock	
HB 1401	Clark	<p>Adds full-time firefighters employed by the Department of Military Affairs to VaLORS for service earned on or after 7/1/2025.</p> <p>Passed House 2/2.</p> <p>Item 486 #2s \$50,000 NGF in FY25</p>

Bill Number	Patron	Description
SB 396	McDougle	<p>Increases, for the purposes of determining benefits provided under the Judicial Retirement System, the retirement multiplier from 1.0 percent to 1.7 percent. The increase would apply only to judges who are participants in the hybrid retirement program and who are at least age 55 at the time of appointment. The bill provides that such changes apply only to service earned as a judge on or after July 1, 2025. The bill has a delayed effective date of July 1, 2025.</p> <p>Substitute puts all new judges who are appointed to an initial term on or after July 1, 2024 and who are age 55 or older at the time of appointment into Plan 1 with 3.5 weighted service.</p> <p>Substitute reported from SFAC on 2/6.</p>

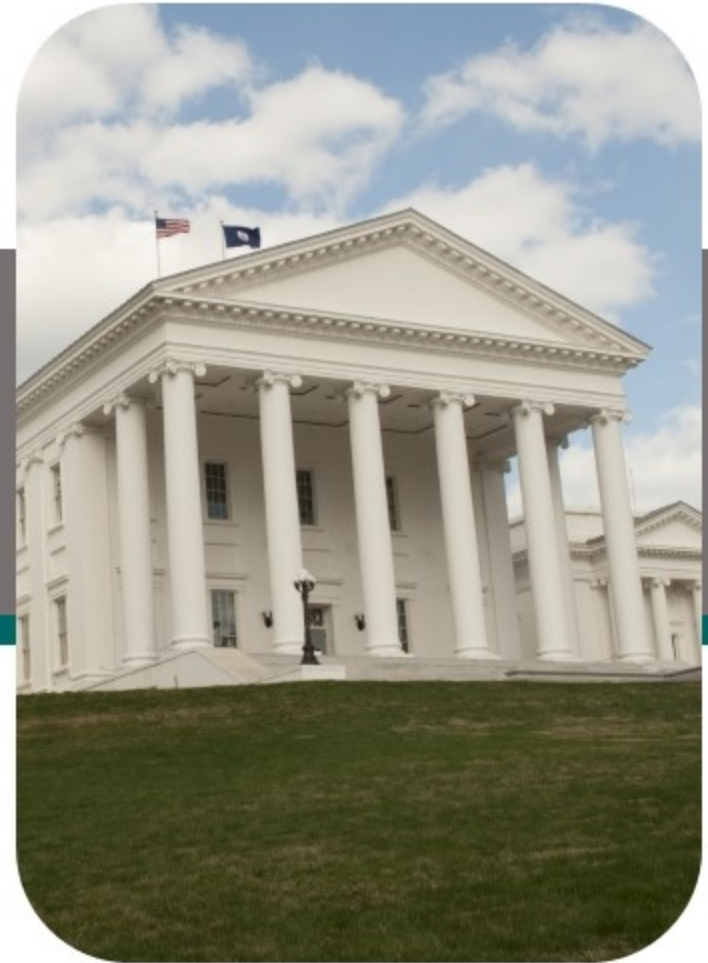
2024 LODA Bills

Bill Number	Patron	Description
HB 232	Campbell	Provides employees of contributing nonprofit private institutions of higher education, defined in the bill, and
HB 751	Walker	contributing private police departments, defined in the bill, with the benefits granted to employees of participating
SB 466	Obenshain	employers under LODA. The bill clarifies that LODA shall not apply to any private institution of higher education or private police department that is not a contributing nonprofit private institution of higher education or contributing private police department, respectively. HB 751 also included the Lynchburg Regional Airport Police Department. HB 232 & HB 751 failed to report from subcommittee 1/18. SB 466 reported from SFAC with an amendment for implementation costs on 2/6. HB 751: Item 469 #8h \$50,000 GF each in FY25 & FY26 SB 466: Item 484 #2s \$50,000 NGF in FY25

2024 LODA Bills

Bill Number	Patron	Description
<p>HB 321</p> <p>SB 649</p>	<p>McQuinn</p> <p>Salim</p>	<p>Increases from \$25,000 to \$100,000 the death benefit payout under the Virginia Line of Duty Act for a death caused by occupational cancer, respiratory disease, or hypertension or heart disease for those deaths that will occur on or after July 1, 2024.</p> <p>A SB 649 substitute makes the death benefit for these presumptive deaths \$50,000.</p> <p>HB 321: Item 469 #6h \$150,000 GF each in FY25 & FY26 SB 649: Item 484 #6s \$50,000 GF each in FY25 & FY26</p> <p>HB 321 reported from HAC on 2/5. SB 649 substitute was reported from SFAC on 2/6.</p>
<p>HB 1433</p>	<p>Hodges</p>	<p>Provides that for purposes of continued health insurance pursuant to the Line of Duty Act, an eligible dependent includes a child that was born or adopted prior to the employee's claim approval date. Under current law, an eligible dependent includes a child born or adopted prior to the time of the employee's death or disability.</p> <p>HB 1433 reported from HAC on 2/5.</p>

Other Bills



Resolutions

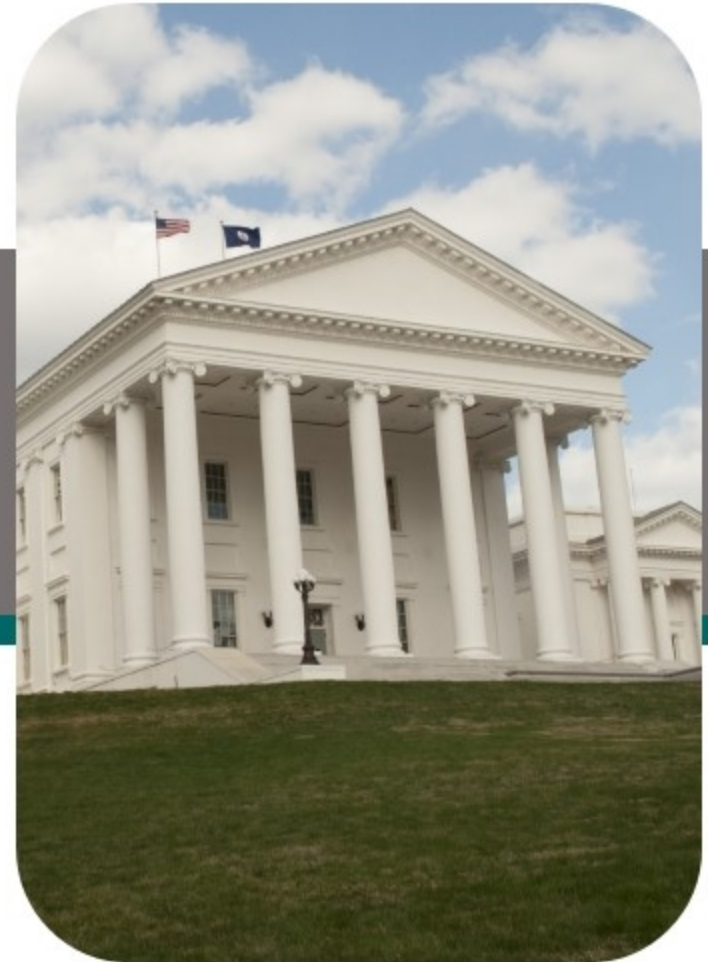
Bill Number	Patron	Description
HJ 53	Batten	<p>Directs JLARC to study the effect of salaries, employment benefits, & other relevant factors on recruiting & retaining high-quality, fully licensed teachers, including (i) examining these factors in relation to teacher recruitment & retention in each local school division; (ii) identifying disparities in these factors in relation to teacher recruitment & retention rates between high-poverty & rural school divisions, high-income school divisions, & the Commonwealth on average; (iii) reviewing these factors in relation to the rates of teacher recruitment & retention and the numbers of fully licensed teachers in adjoining states & the District of Columbia; and (iv) identifying factors that positively impact the recruitment & retention of high-quality, fully licensed teachers.</p> <p>SJ 9 failed to report from Senate Rules 1/26</p>
HJ 56	Cordoza	
SJ 9	Sturtevant	

2024 VRS-Related Bills

New Fund and Work Group Bills

Bill Number	Patron	Description
HB 133	Convirs-Fowler	<p>Creates the Emergency Response Toxic Exposure Grant Fund & Program to provide funding to local government employee responders exposed to toxic materials when responding to declared emergencies. Directs the Dept. of Fire Programs to convene a work group to assess eligibility for funding, administration, investment, & other criteria. Directs the work group to submit a report to the General Assembly no later than 11/1/2024.</p> <p>HB 133 substitute introduced in HAC as a § 1 bill for a working group only.</p> <p>HB 133 was reported from General Laws & referred to HAC. Substitute reported from HAC on 2/2.</p> <p>SB 650 reported from Rules on 2/2 & re-referred to SFAC.</p> <p>Item 405 #1h for \$5,000,000 GF in FY 2025</p>
SB 650	Rouse	

Budget- Rates and Funding



VRS Rates

Item #	Description
469	Per HB 473 of the 2022 session, employer contribution rates are separated effective 7/1/2024. Item 469 includes the Board-certified DB employer contribution rate only. Estimated DC employer contribution rate (mandatory and voluntary) is now separate, within each Department. Does not change total amount agencies require for VRS contributions.
469	<p>Employer Contribution Rates:</p> <p>VRS 12.52%</p> <p>SPORS 31.32%</p> <p>VaLORS 24.60% (Board-certified rate is 22.81%)</p> <p>JRS 30.67% (Board-certified rate is 30.66%)</p> <p>Teachers 14.21%</p>

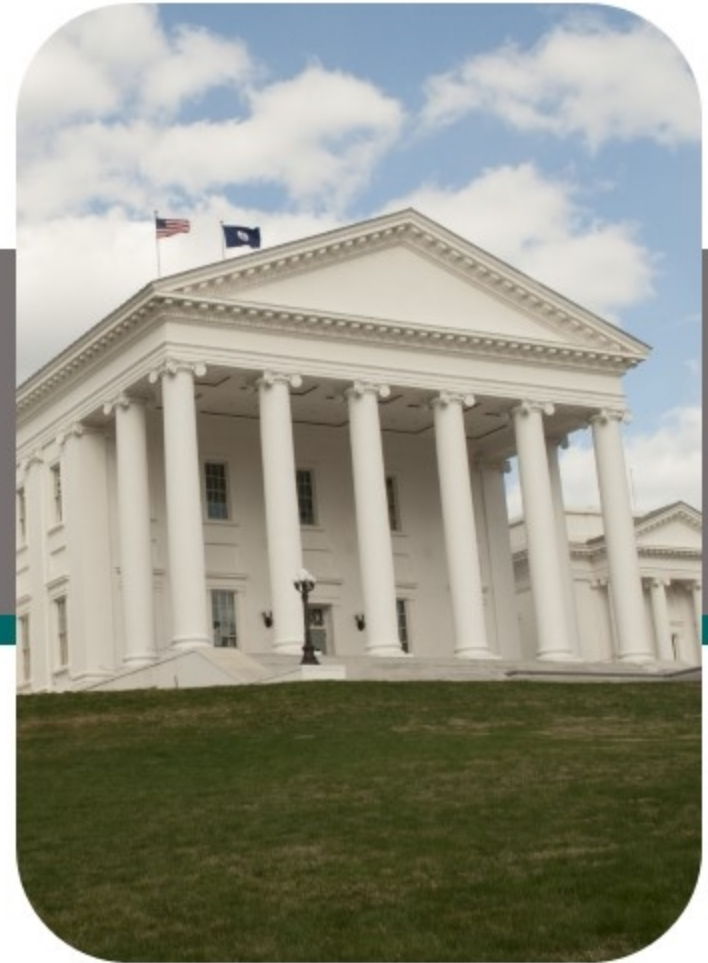
OPEB Rates and LODA premiums

Item #	Description
469	OPEB Rates: State HIC 1.12% Teacher HIC 1.21% State GLI 1.34% Teacher GLI 0.54% VSDP 0.50% Constitutional Officers HIC 0.36% General Registrar HIC 0.32% Local social services boards HIC 0.37%
469	LODA premium \$995/covered employee

VRS Infusion- Teacher Plan

Item #	Description
	Provides \$115 million GF and \$235 million from the Literary Fund in FY25 for a lump sum payment to address unfunded liabilities in the Teacher Plan. Estimated to improve the funded status by approximately 0.6%.

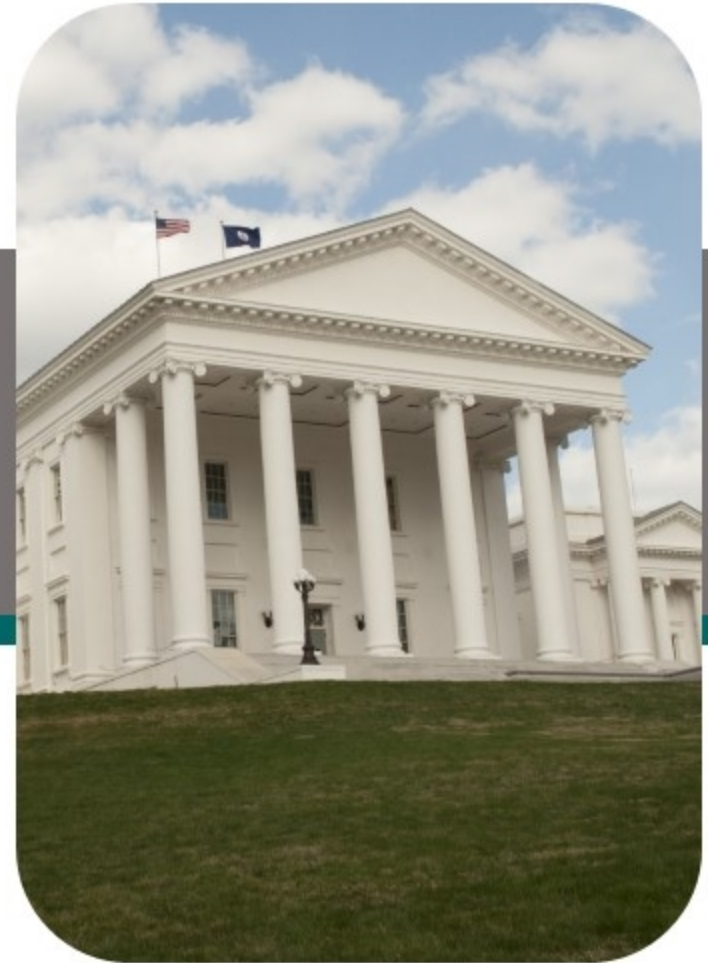
Budget- Salary Actions



Governor's Introduced Budget	<p>Targeted salary increases</p> <p>Item 484: Section AA.1 through BB.7 includes several salary actions for state employees:</p> <ul style="list-style-type: none">• 1% salary increase in FY2026 for state employees, adjunct faculty, and graduate teaching assistants• 2% salary increase in FY2026 in Direct Aid for SOQ-funded positions• 1% bonus for FT state employees & state-supported local employees on 12/1/2025 & 12/1/2026• State share of 1% bonus for SOQ-funded positions

House Member Amendments	<p>Various salary amendments for several positions:</p> <ul style="list-style-type: none">• 4% salary increase & 1% bonus each year for state & state-supported locals• 5% salary increase for sheriffs, deputies & regional jail officers• 5% salary increase for sheriffs & staff• 10% salary increase for deputy sheriffs with law enforcement responsibility• Targeted increase for communication operators & supervisors• Targeted salary increase for treasurers
Senate Member Amendments	<p>Various salary amendments for several positions:</p> <ul style="list-style-type: none">• 4% salary increase each year for state & state-supported locals (eliminates bonus)• 5% salary increase for sheriffs & staff• 10% salary increase for deputy sheriffs with law enforcement responsibility• 9% increase for communication operators & supervisors• Targeted salary increase for treasurers & Commissioner of Revenue• 5% salary increase for teachers

Failed Legislation



2024 VRS-Related Bills

Investment Bill

Bill Number	Patron	Description
HB 388	Griffin	<p>Provides that unless the Board of Trustees of the Virginia Retirement System can demonstrate that a social investment, defined in the bill as an investment that is based on diversity, equity, & inclusion, would provide a superior rate of return compared to a similar investment that is not a social investment with a similar time horizon and risk, neither the Board nor any external fiduciary utilized by the Board may invest or make recommendations regarding state funds for the purpose of social investment on or after 7/1/2024.</p> <p>The bill failed to report from subcommittee 1/29.</p>

Financial Reporting Bill

Bill Number	Patron	Description
HB 162	Reid	<p>Requires retirement systems to provide disclosures describing the process and criteria used for selecting third-party fund managers, advisers, or consultants and other persons providing services to the retirement system. Such information shall be included in a retirement system's annual report.</p> <p>The bill was continued to 2025 in subcommittee 1/29 at the request of the patron.</p>

2024 VRS-Related Bills

Local Hazardous Duty Bills

Bill Number	Patron	Description
HB 38	Clark	Add 911 dispatchers to the list of local employees eligible to receive enhanced retirement benefits for hazardous duty service.
HB 300	Ballard	
HB 630	Cherry	The bills are effective for service earned on or after 7/1/2025, but also allow localities to choose whether they will provide hazardous duty benefits for earlier service as a dispatcher.
SB 328	Jordan	HB 38: Item 484 #1h \$137,000 NGF in FY25
SB 472	Obenshain	HB 630: Item 484 #2h \$137,000 NGF in FY25 Item 469 #4h \$577,000 GF in FY26 & Item 484 #8h \$138,500 NGF in FY25
		HB 38, HB 300, and HB 630 were carried over to 2025 in subcommittee on 2/5.
		SB 472 incorporated into SB 328. Carried over to 2025 in SFAC on 2/6.

2024 VRS-Related Bills

VaLORS

Bill Number	Patron	Description
HB 631	Cherry	<p>Adds 911 dispatchers with agencies already listed in the VaLORS definition of “Employee” to VaLORS for service earned on or after 7/1/2025.</p> <p>Item 469 #1h \$577,000 NGF in FY26 & Item 484 #3h \$138,500 NGF in FY25</p> <p>HB 631 was carried over to 2025 in subcommittee on 2/5.</p>

Local Hazardous Duty Bills

Bill Number	Patron	Description
HB 1438	Wiley	<p>Requires localities to provide enhanced retirement benefits for hazardous duty service to juvenile detention specialists.</p> <p>The bill is effective 7/1/2024.</p> <p>HB 1438 was amended to make this a local election. The bill was carried over to 2025 in subcommittee on 2/5.</p>

2024 Return to Work Bills

Bill #	Patron	Description
HB 99	Green	Adds law-enforcement officers to the Retiree School Security Officer (RSSO) subsection as a position retired law-enforcement officers can return to full-time.
HB 1393	Jones	<p>HB 99 was tabled in subcommittee 1/29 & HB 1393 was continued to 2025 in subcommittee 1/29 at the request of the patron.</p> <p>HB 99: Item 484 #10h \$200,000 NGF in FY25</p>
SB 548	Craig	<p>Adds law-enforcement officers to the Retiree School Security Officer (RSSO) subsection as a position retired law-enforcement officers can return to full-time.</p> <p>Also reduces the break in service retirees must have after retirement from six months to one month.</p> <p>Item 486 #1s \$425,000 NGF Each in FY25 & FY26</p> <p>Carried over to 2025 in SFAC on 2/6.</p>

2024 VRS-Related Bills

Additional Service Credit Bills

Bill Number	Patron	Description
HB 687	O'Quinn	<p>Allows an individual who serves concurrently as a full-time primary or secondary school teacher & as a full-time school bus driver to be granted additional service credit for providing such services at no cost to the employee. The bill specifies that the amount of credit allowable shall be equivalent to the amount of credit that the individual would earn if he were employed only as a full-time school bus driver.</p> <p>Both bills stricken at request of patrons.</p> <p>Item 484 #11h- \$200,000 NGF Item 484 #5s- \$50,000 NGF in FY25</p>
SB 622	Pillion	

Hazardous Duty Supplement Bill

Bill Number	Patron	Description
SB 130	New Craig	<p>Provides that a member of SPORS or VaLORS or a local employee who is eligible for a hazardous duty supplement shall receive such supplement amount from the date of retirement. Under current law, the supplement is only allowed from retirement until (i) the member's Social Security retirement age for SPORS & local employees with enhanced benefits & (ii) the member's 65th birthday for VaLORS. The bill applies only to eligible members who retire on & after 7/1/2025.</p> <p>Item 484 #3s \$50,000 NGF in FY25 Bill passed by indefinitely 2/6 in SFAC</p>



VRS Project Portfolio FISCAL YEAR 2024 December 30, 2023

Status Indicator

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

Agency Performance Objectives (APOs)	Strategic Alignment	Status	2023						2024						
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
			Customer Experience Enhancements: Call Management System (CMS) - Phase 1	Member, Retiree and Employer Education, Outreach and Partnership	●										
Customer Experience Enhancements: Voice of the Customer (VoC) Program – Phase 1	Member, Retiree and Employer Education, Outreach and Partnership	●													
Records Management Program – Phase 2 Implementation	Digital Transformation and Secure Service Delivery	●													
Hybrid Plan – Contribution Separation Legislation Implementation Phase 2	Superior Governance and Long-Term Financial Health	●													
Human Resource Information System (HRIS) Implementation – Phase 1	Organization Strength Culture and Engagement	●													
IT Initiatives ¹		Status	2023						2024						
Onboard and Operationalize Security MSP	Digital Transformation and Secure Service Delivery	●													
Implement Secure and Remote Support Solution	Technology Infrastructure	●													
Research and Replace Secure File Transfer System	Technology Infrastructure	●													
Migrate from Cisco to Teams Voice	Technology Infrastructure	●													
Implement Enterprise Identity and Access Management Solution	Digital Transformation and Secure Service Delivery	●													
Other Projects ²		Status	2023						2024						
Continue Agency Project Portfolio Process Enhancements	Superior Governance and Long-Term Financial Health	●													
Conduct Transition Activities to New DC/Hybrid Record Keeping Service Business Partner	Superior Governance and Long-Term Financial Health	●													
Lease Space Renewal	Superior Governance and Long-Term Financial Health	●													
Update VRS Optional Form Factors and Review Early Retirement Reduction Factors	Superior Governance and Long-Term Financial Health	●													
Legislation		Status	2023						2024						
HB2314 HIC Increase for State Retirees		●													
HB1789 HIC Increase for Constitutional Officers and Employees		●													
SB1403 Income Tax Subtraction; Professional Firefighter Pension		★													
SB1449 JRS		★													
HB1452 Add OAG Medical Fraud Investigators to LODA		★													
SB1411 RTW Law Enforcement Report		★													
HB1630/SB1289/SB1479 RTW Report		★													
Secure 2.0		●													
Operational/Ongoing Activities		Status	2023						2024						
COLA 2023		★													
FYE 2023		★													
EDGE		●													
Retirement Wave 2023		★													
Teacher Contracts		★													
MBPs		★													
Annual Code of Ethics Training		★													
Annual Security Awareness Training		★													
FOIA Training		N/S													
ACFR		★													
PAFR		★													
LODA Annual Report		★													
GASB 67		★													
GASB 68		N/S													
GASB 74		★													
GASB 75		N/S													
Actuarial Valuations		★													
myVRS Annual Updates		★													
Update Contribution Rates in VNAV		N/S													
1099/W2		●													

Operational/Ongoing Activities	Status	2023						2024						
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Annual Roadmap Review	N/S													
FYE 2024	N/S													
Retirement Wave 2024	N/S													
Commonwealth Bond Disclosure	N/S													
ORPHE Surcharge Billing for FY 2024	N/S													
Data Fixes	●													
ALM Backlog Prioritization	●													
Employer VNAV Security Review	N/S													
VRS Fund Sensitivity and Stress Testing Report for GA	N/S													
Legislation FY 2024	●													

¹Initiatives led directly by Technology Services.

²Other initiatives are led by other business units and supported by Technology Services.

Yellow Status Items

Item	Due Date	Comments

Red Status Items

Item	Due Date	Comments
N/A		

Realignments/Adjustments

Item	Due Date	Comments
N/A		

Director's Report

February 8, 2024

Trish Bishop, VRS Director



New Employer Coverage

Coverage Elected	Details
New VRS Employer	Richmond Behavioral Health Authority (City of Richmond), Effective April 1, 2024

VRS Board Retreat: Save the Date

March 19-20, 2024 • Westin Richmond

MARCH 2024						
SUN	MON	TUE	WED	THU	FRI	SAT
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

This year's schedule:

Day 1: Afternoon session followed by a reception and dinner.

Day 2: Breakfast and a morning session followed by lunch.

Watch for your retreat invitation to come!