

# Joint Legislative Audit and Review Commission VRS Presentation

July 14, 2008



Virginia  
Retirement  
System

# Agenda

- Chairman Overview  
*A. Marshall Acuff, Jr.*
- Investments Overview  
*Charles Grant, CIO*
- Administration Overview  
*Robert Schultze, Director*

# Chairman's Remarks



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# VRS Board Members

- A. Marshall Acuff Jr.,  
Chair
- John M. Albertine, Ph.D.,  
Vice Chair
- Edwin T. Burton III, Ph.D.
- Robert L. Greene
- Judith Ewell, Ph.D.
- Palmer P. Garson
- Mitchell L. Nason
- Paul W. Timmreck
- Raymond B. Wallace Jr.

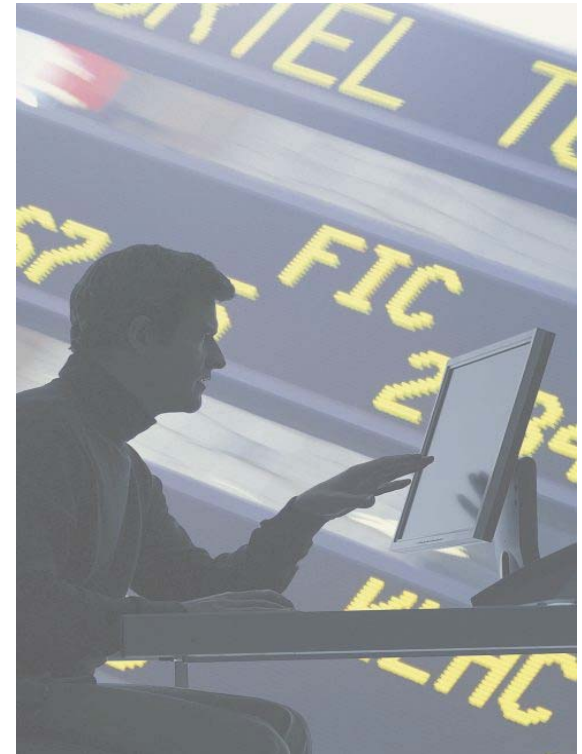
# VRS Board Retreat

## VRS Board Retreat

- September 26, 2008
- Richmond Omni
- Retreat topics
  - Current market conditions
  - Impact of inflation
  - Review of actuarial methods/assumptions
  - Discussion of possible changes in GASB reporting rules

# Investments

*Charles Grant*  
*Chief Investment Officer*

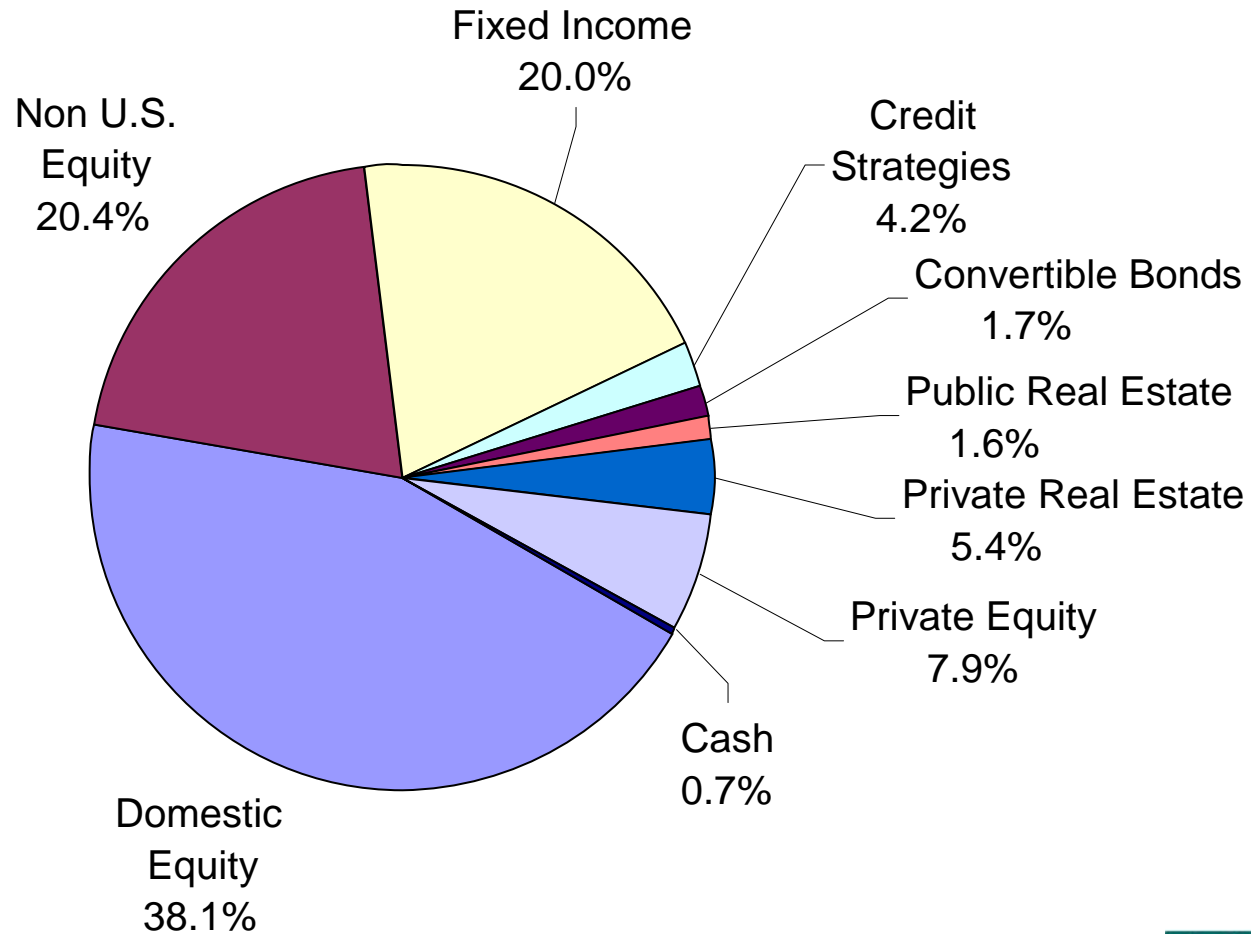


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# VRS Investment Department

- 30 professionals managing \$55.7 billion (as of 3/31/08)
- Assets managed internally and externally
- Investment objective:
  - Maximize return while managing risk
  - Risk tolerance determined by Board of Trustees using asset-liability analysis
  - VRS liabilities are “long term,” we can be patient and accept market volatility

# Asset Allocation as of 3/31/08



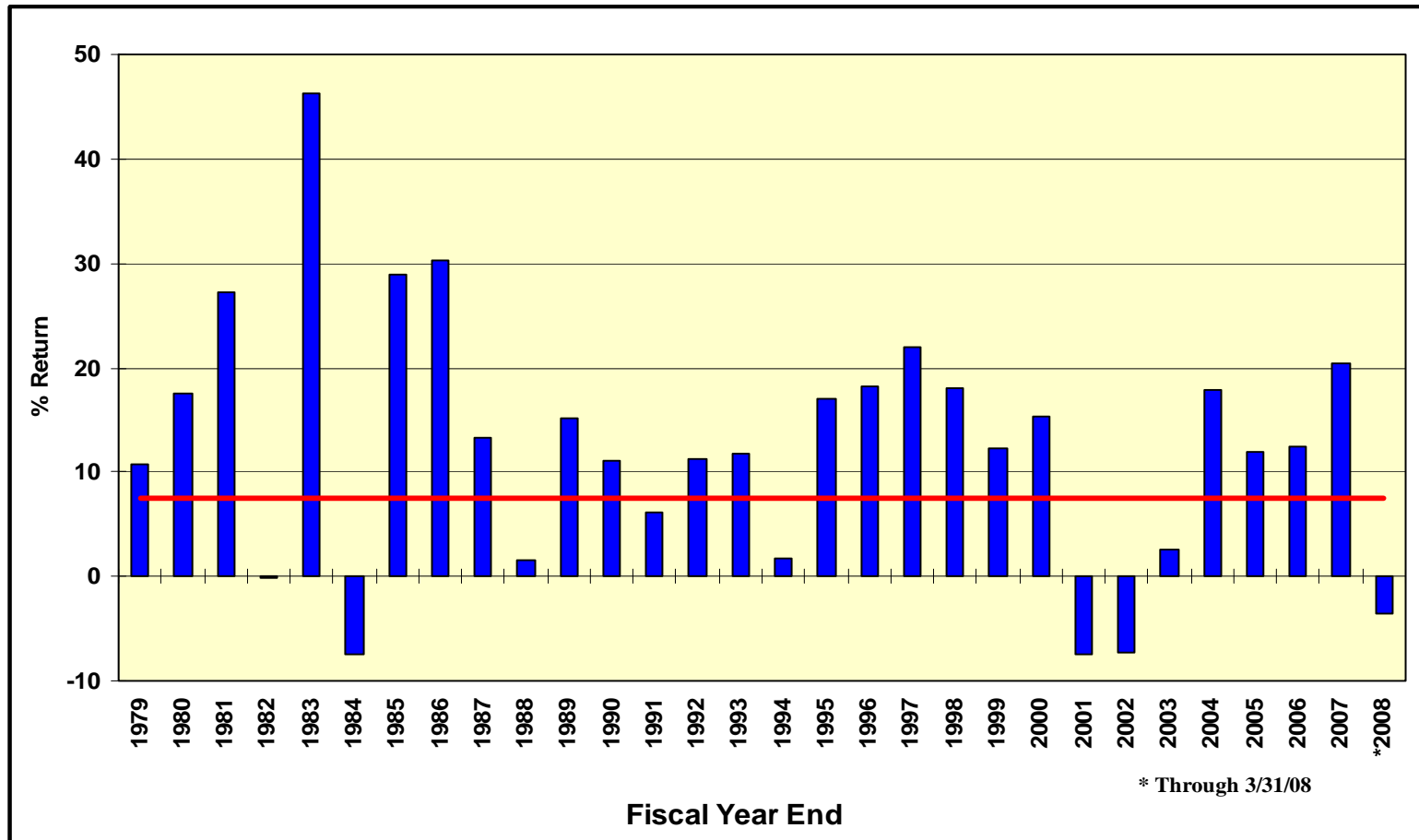
Total Fund: \$55.7 billion

# Total Performance Ending 3/31/08

	VRS (%)	Benchmark (%)	Difference (%)
1 Yr	1.46	0.46	1.00
3 Yr	10.12	9.17	.95
5 Yr	13.88	13.11	.77
10 Yr	7.05	6.41	.64
15 Yr	9.78	9.23	.55

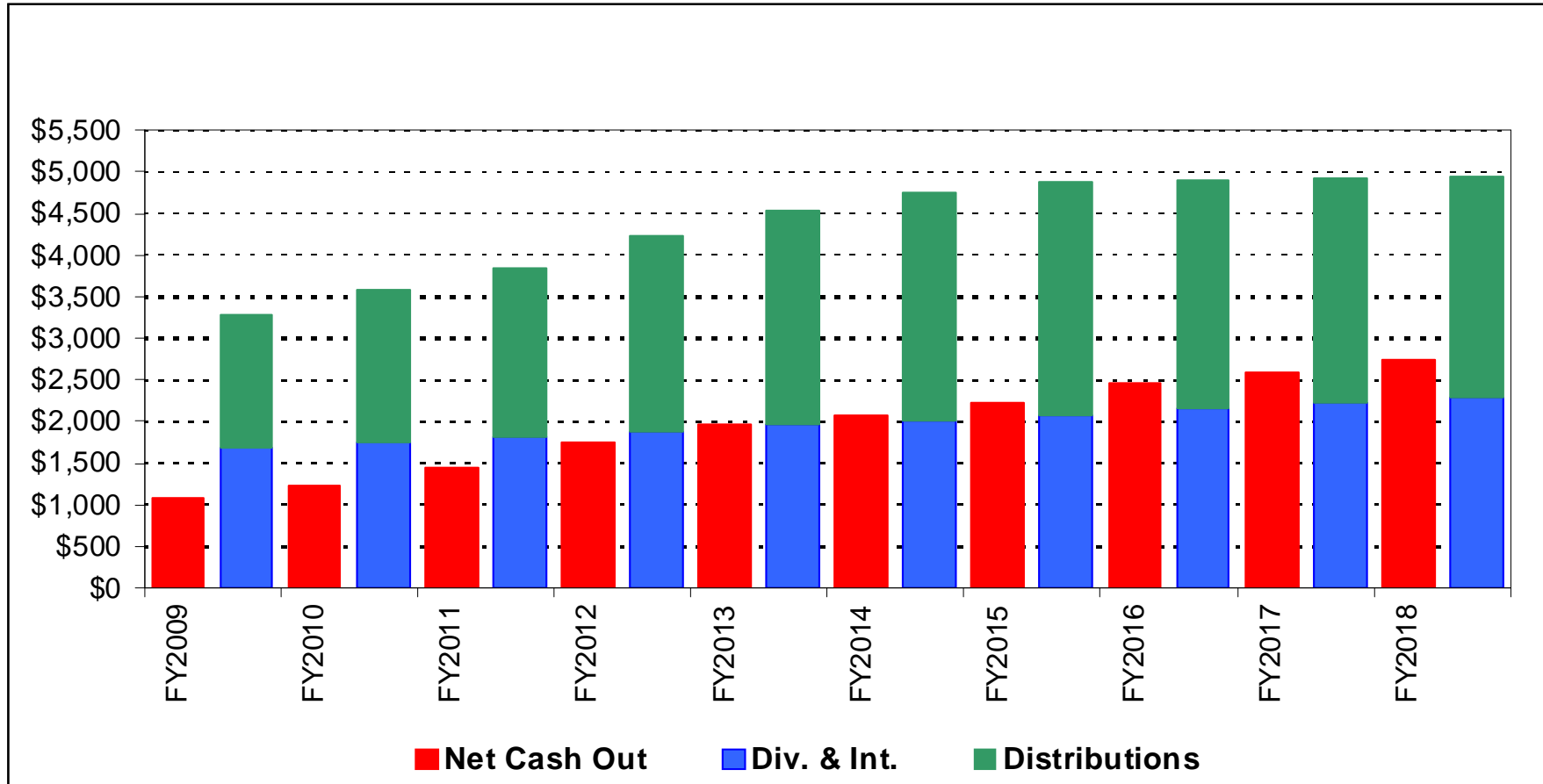
Performance is net of fees

# VRS Fiscal Year Returns



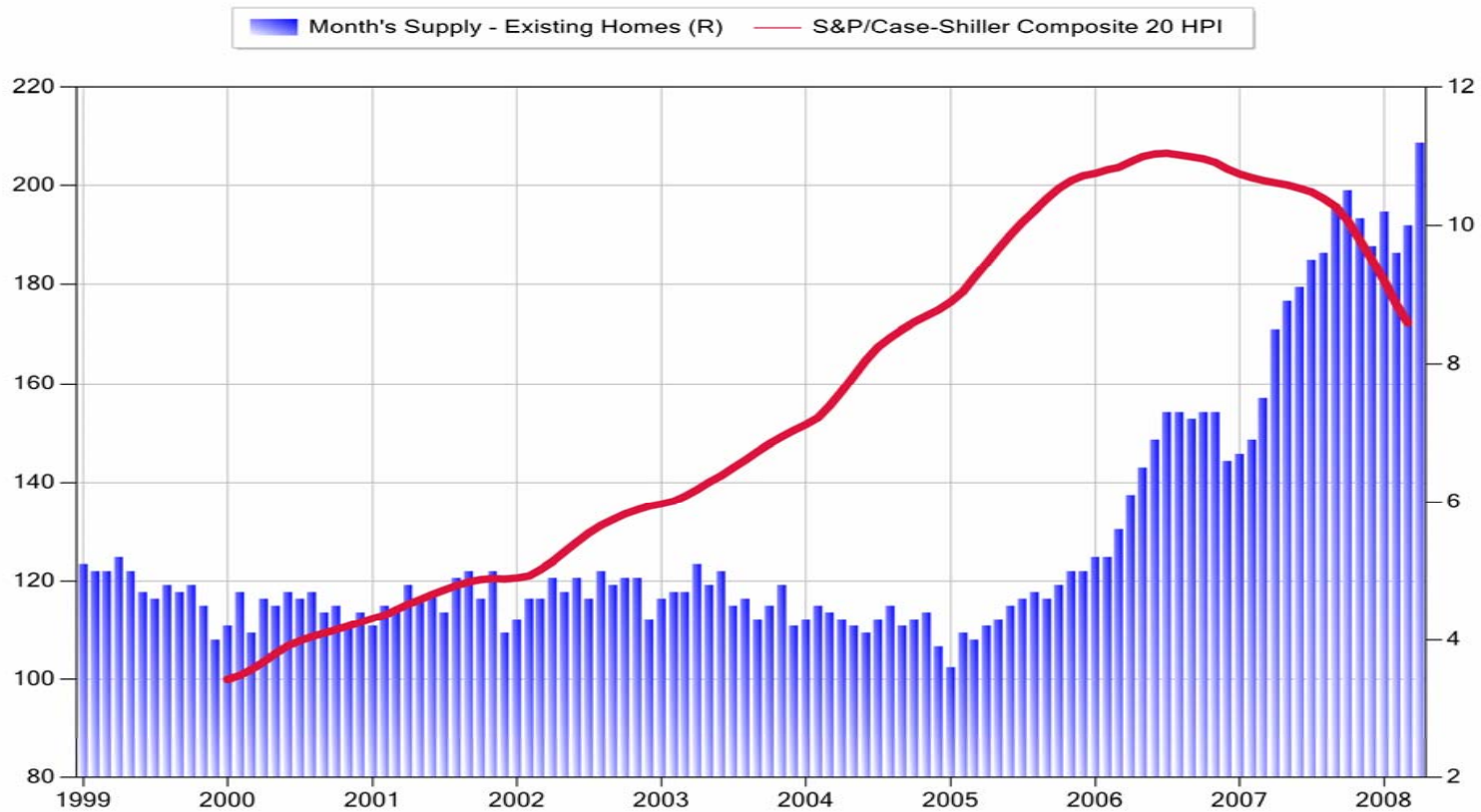
\* Through 3/31/08

# Cash Flow Projection – 10 Years

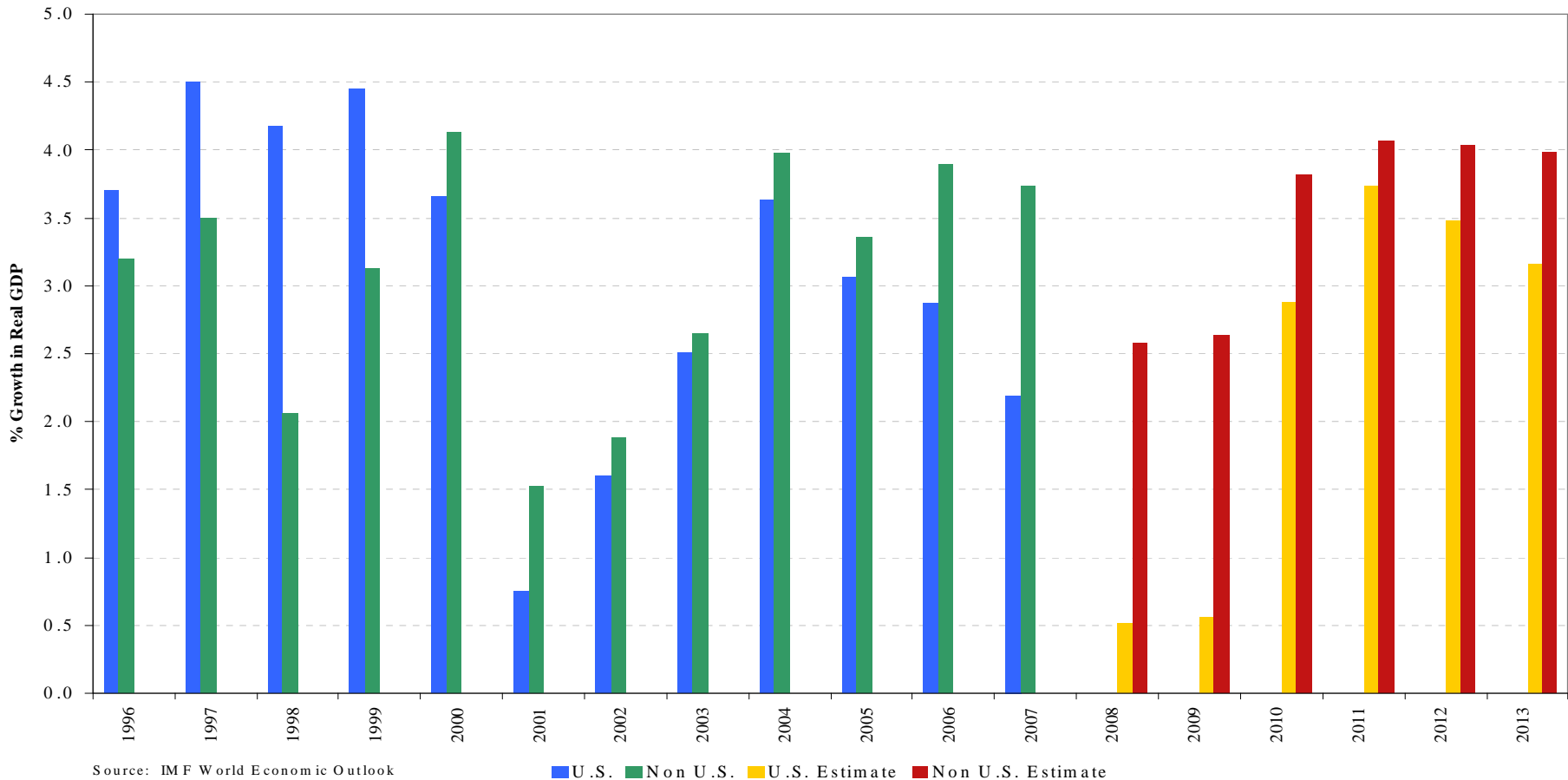


# Market Conditions: Housing Will Remain Weak

House Prices vs. Month's Supply



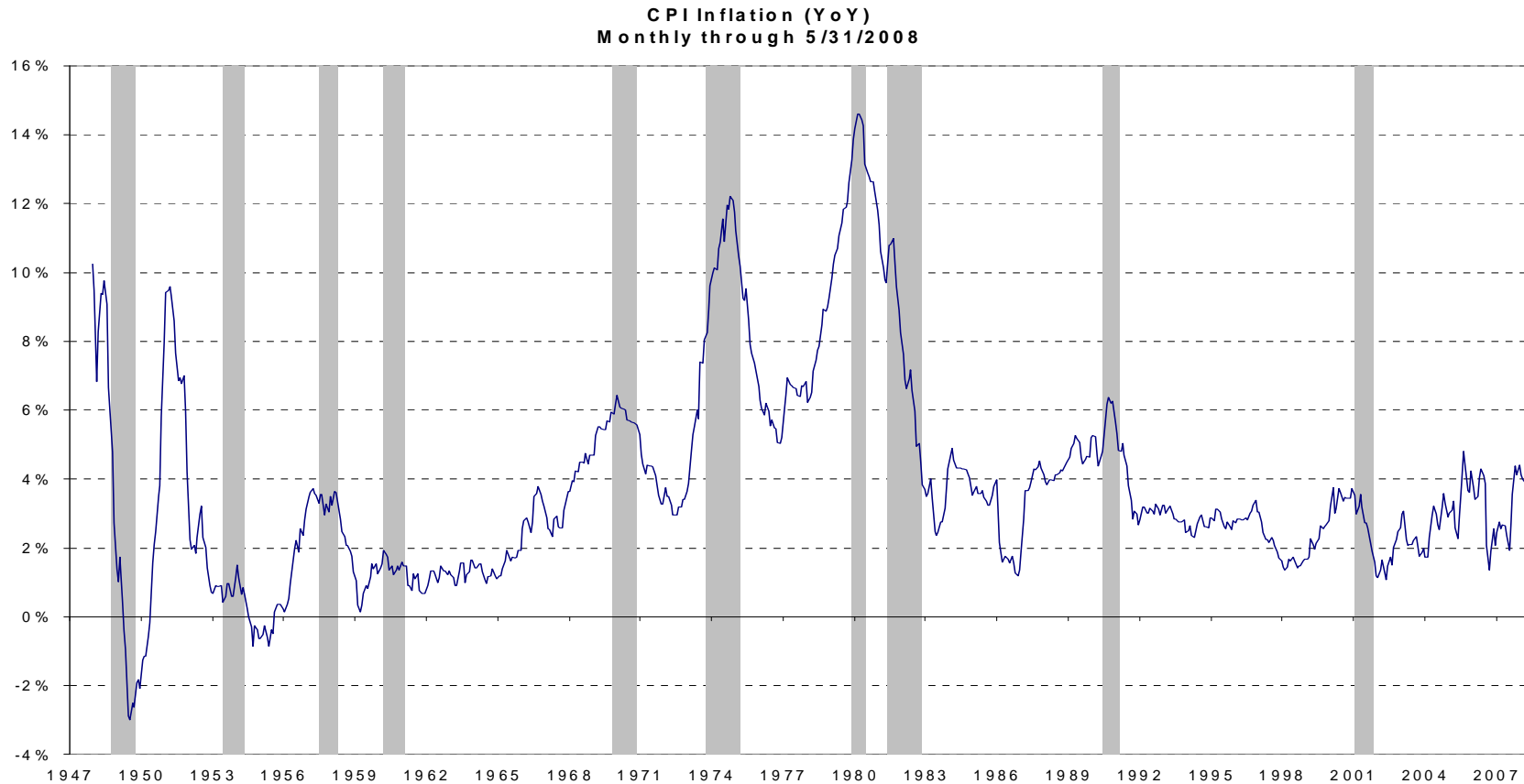
# Market Conditions: Growth Will Be Slow



Source: IMF World Economic Outlook

■ U.S. ■ Non U.S. ■ U.S. Estimate ■ Non U.S. Estimate

# Market Conditions: Inflation Is Rising



Source: Bureau of Labor Statistics. Calculations by VRS

# Looking Ahead

- Expect weaker returns near-term, moderate returns long-term
- Opportunistic investing will serve VRS well over the next few years
- We will continue to strengthen our investment process: keys are good people and good information
- Potential pension accounting changes could have important investment implications

# Administration

*Robert Schultze*  
*Director*



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# VRS Overview

- VRS is the 24<sup>th</sup> largest public or private pension system in the U.S.
- There are over 600,000 members, retirees and beneficiaries.

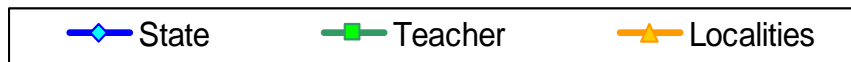
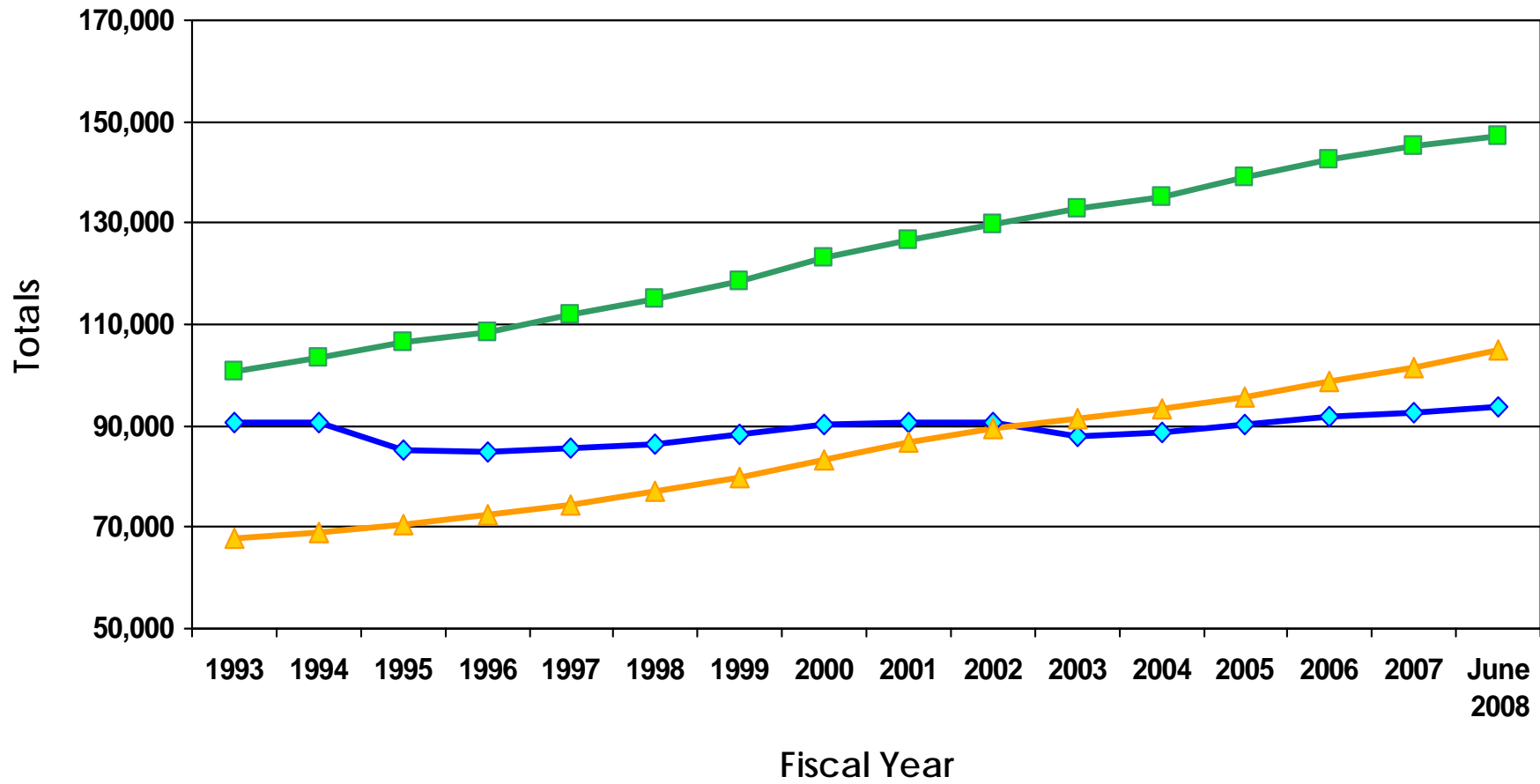
# VRS Total Membership

Teachers	147,149
Political Subdivisions	104,803
State Employees	81,206
State Police Officers' Retirement System (SPORS)	1,840
Judicial Retirement System (JRS)	409
Virginia Law Officers' Retirement System (VaLORS)	10,330
<b>Total Active Members</b>	<b>345,737</b>
Retirees/Beneficiaries	136,394
Inactive/Deferred Members	118,350
<b>VRS Overall Impact</b>	<b>600,481</b>

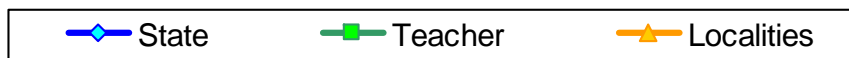
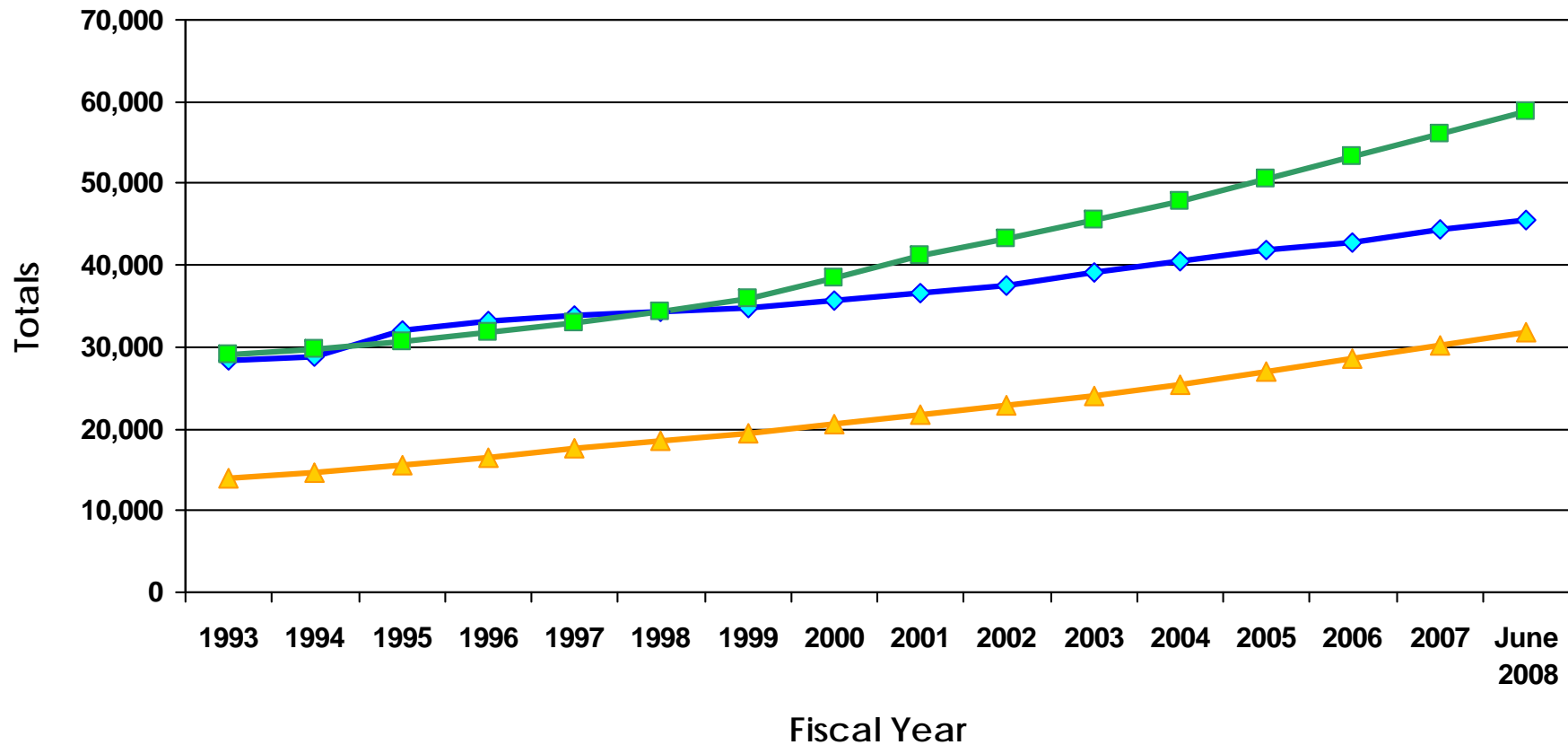
As of June 30, 2008



# Active Members



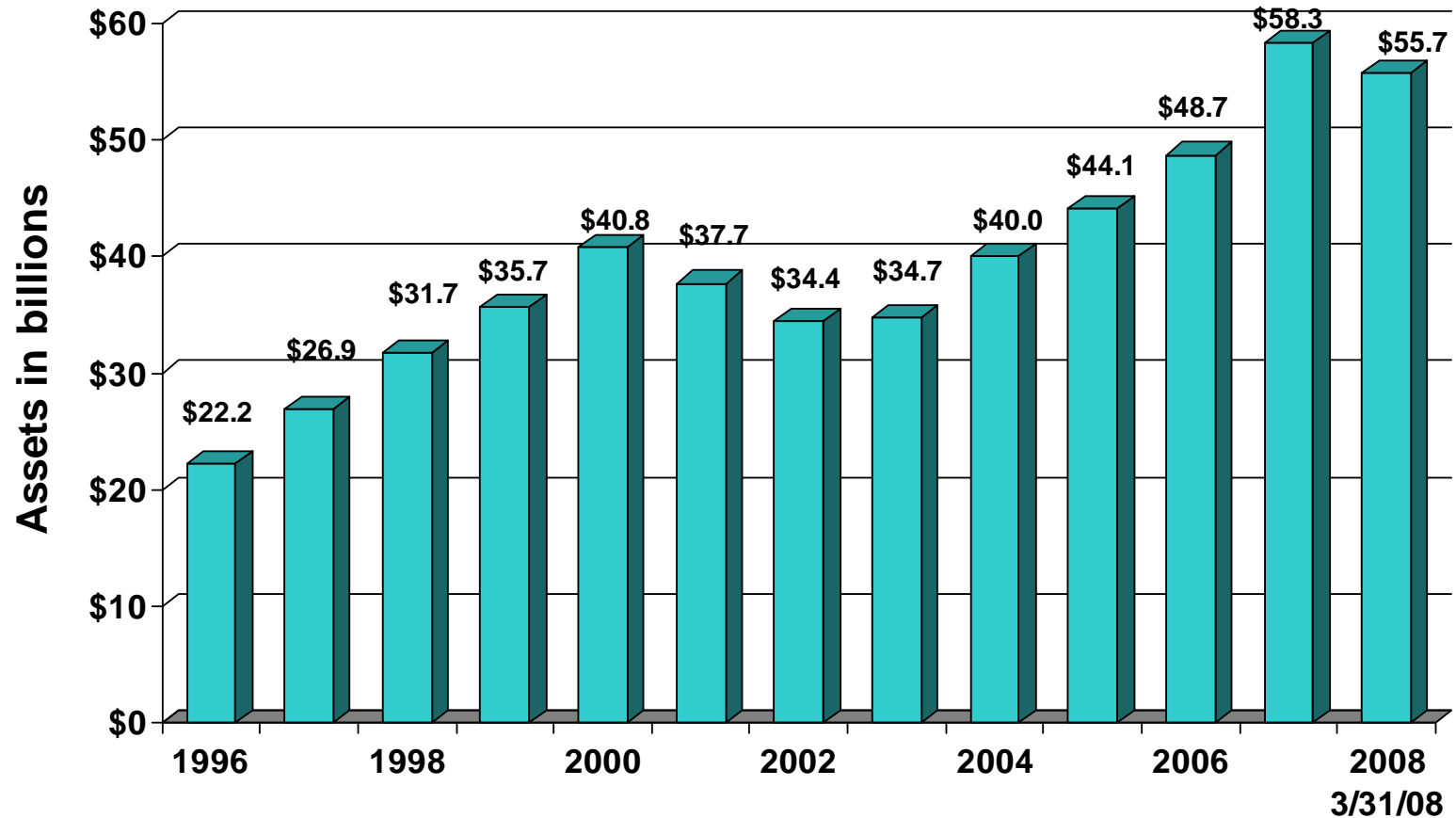
# Retirees



# Funding VRS Benefits

- 71% of benefit costs funded by investment earnings
- 29% of benefit costs funded by employee/employer contributions
- Nearly all employee contributions are “Picked up” by employers

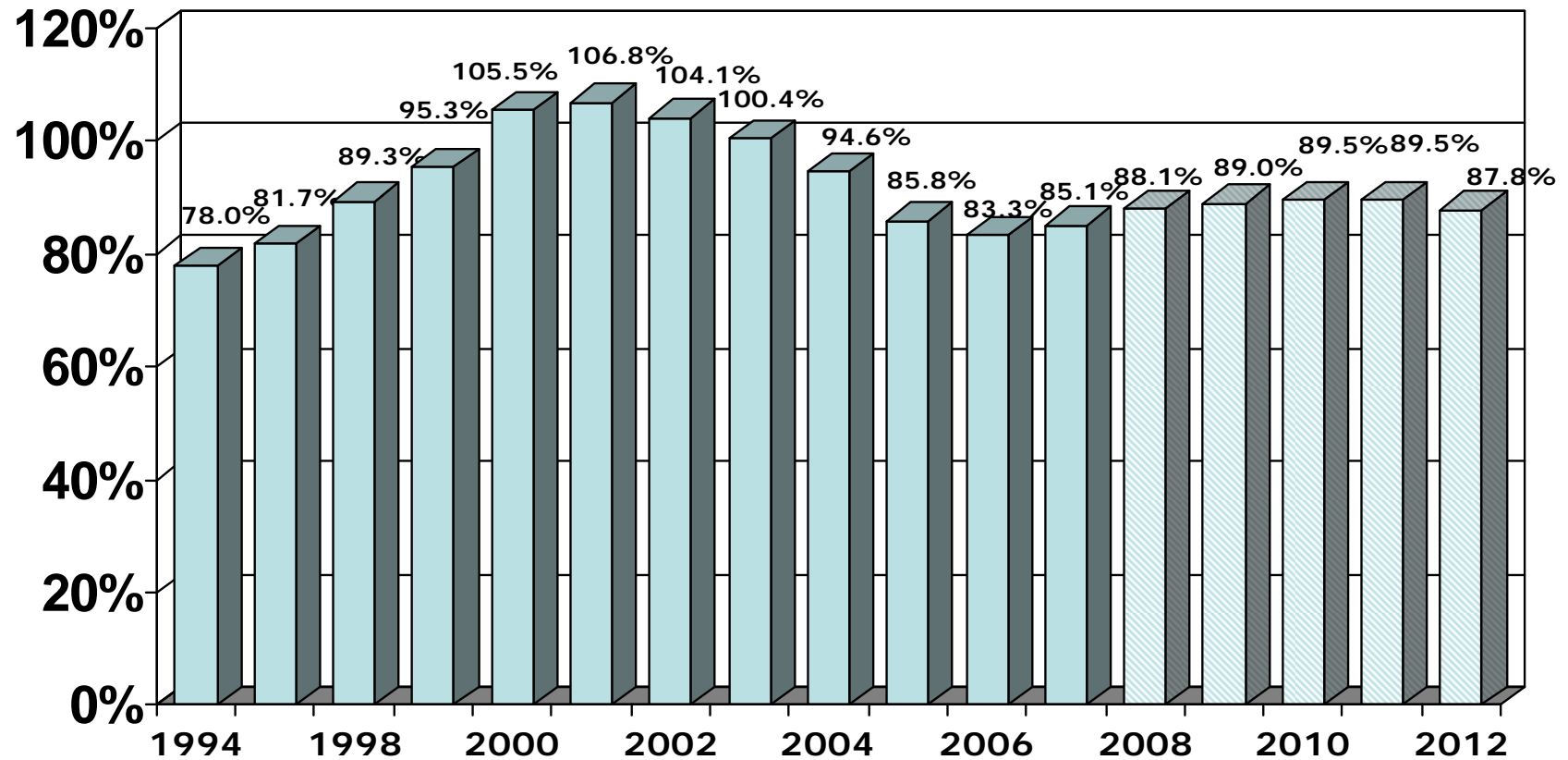
# Net Assets Available for Benefits



# Funded Status

- Compares assets available to pay benefits to present value of future liabilities
- Asset/liability ratio is typical measure
- Percentage of assets available to pay present value of all future liabilities (until the last member of the plan dies)

# Funded Status: State Employees

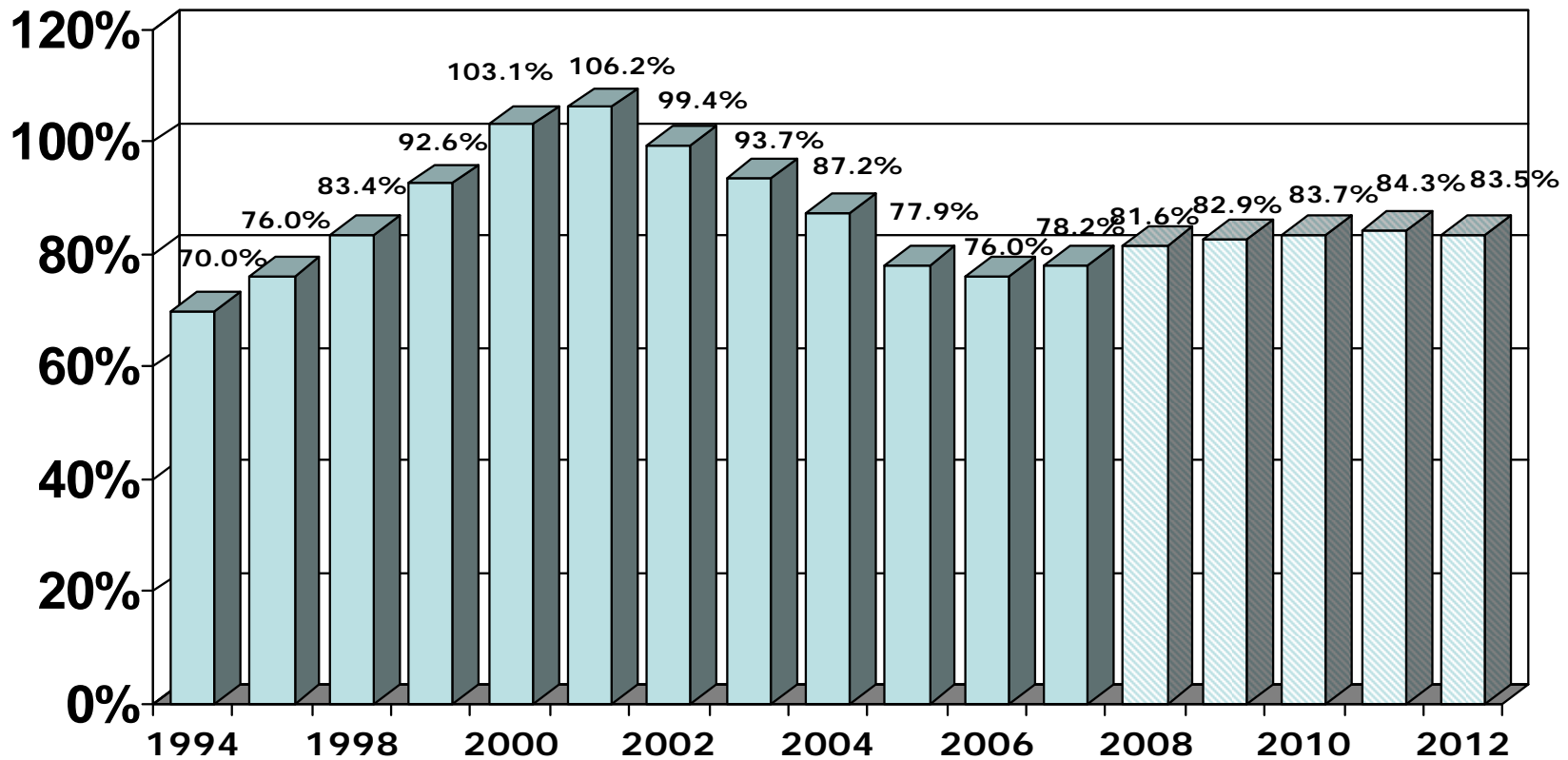


**Assumptions:**

- FY 2008 investment return estimated at -4.3%.
- All other years investment return is 7.5%.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 6.23% for state and 8.81% for teachers.
- Contribution rates after 2010 are assumed at levels recommended by the VRS Board.



# Funded Status: Teachers



**Assumptions:**

- FY 2008 investment return estimated at -4.3%.
- All other years investment return is 7.5%.
- Employer contribution rates for fiscal years 2009 and 2010 are fixed at 6.23% for state and 8.81% for teachers.
- Contribution rates after 2010 are assumed at levels recommended by the VRS Board.



# Employer Contribution Rates 2008 - 2010

	<b>Rate*</b>
State Employees	6.23%
Teachers	8.81%
State Police	20.05%
Virginia Law Officers	14.23%
Judges	34.51%

\*Does not include the 5% member contribution

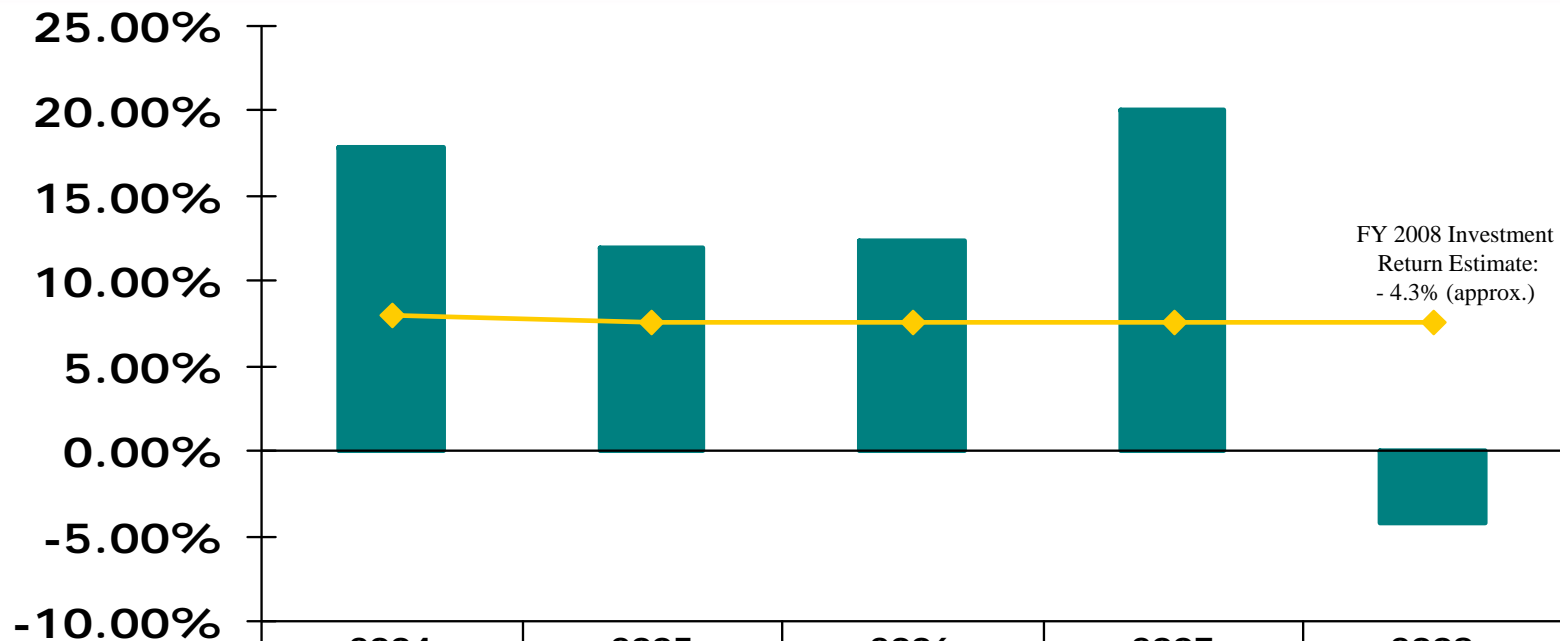


# Contribution Rates Comparison

	<b>VRS Board</b>	<b>Chapter 879 (HB 30)</b>
Amortization Period	20 years	30 years
Inflation Rate	2.5%	3.0%
Rate of Return	7.5%	8.0%
Employer Contribution		
State Employee	8.02%	6.23%
Teacher	11.84%	8.81%
Contribution Amounts	\$2.7 billion	\$2.4 billion Resulting in \$300 million difference

# Impact of Actuarial Smoothing

June 30, 2008



	2004	2005	2006	2007	2008
<b>Investment Return</b>	17.90%	12.00%	12.40%	20.00%	-4.30%
<b>Return Assumption</b>	8.00%	7.50%	7.50%	7.50%	7.50%
Excess Gain/Loss	9.9%	4.5%	4.9%	12.5%	-11.8%
Smoothing Weight	100%	80%	60%	40%	20%
Smoothing Impact	9.9%	3.6%	2.9%	5.2%	-2.4%
Remaining for Future Valuations	0%	0.9%	2.0%	7.3%	-9.4%

# OPEB Contribution Rates 2008- 2010 and Funded Ratios

	<b>Approved Contribution Rates</b>	<b>Funded Ratio</b> <i>As of 6/30/07</i>
Health Insurance Credit State Employees	1.18%	17.00%
Health Insurance Credit Teachers	1.08%	6.39%
Group Life Insurance All Employers	0.82%	58.44%
Virginia Sickness and Disability Plan (state only)	1.94%	56.71%

# Service Delivery



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# Service Delivery

- CEM Benchmarking
  - Administrative Costs
    - VRS is \$44 per active member/retiree compared to the peer median of \$76
  - Service Levels
    - VRS service scores have improved from 1st quartile in FY 2005 to the median score in FY 2007
  - VRS Long-Term Goal
    - Maintain below-median costs
    - Deliver top-quartile services

# Service Delivery



## The *myVRS* Suite

- *myVRS* for members – May 2006
- *myVRS* for Employers – February 2007
- *myVRS* for retirees – June 2008

# Service Delivery



- VRS Modernization Program
  - Replace obsolete technology
  - Reengineer business processes
  - Present consolidated view of the customer
  - Integrate third-party administrators
  - Accept online transactions
  - Streamline benefit application by “life events”

# New Programs at VRS



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# Long-term Care Program

- Long-term care moved from a commercial carrier to VRS, effective 12/1/07, as a result of a Board directed study
  - All state employees covered by VSDP
  - Coverage amount increased from \$75 per day to \$96 with same benefit structure
  - Number of participants 73,292
  - \$21 million return of reserves

# 2008 General Assembly

- Long-term Care Program authorized transfer of the voluntary program from DHRM to VRS. (SB 353 – 2008)
- DSS may file child support liens against proceeds payable under the Group Life Insurance Program. (HB 245- 2008)
- Other legislation was technical in nature.

# Enhanced Benefits

- Update on LEOs benefits (SB 1166 - 2007):
  - All state police officers and 121 sheriffs now have the 1.85% multiplier.
  - All deputy sheriffs have basic LEOs coverage with 1.7% multiplier- 1,946 newly covered deputy sheriffs in 39 localities.
  - 62 localities have elected the 1.85% multiplier as of 7/1/08 with varying effective dates.

# DCP Auto Enrollment

- Newly hired state employees automatically enrolled in the 457 Plan and Cash Match, beginning 1/1/08. (HB 1830 – 2007)
- Participants have 90 days to opt out before automatic deferrals begin; another 90 days to opt out and obtain a refund.
- \$20 deferral; \$10 cash match.
- 3,613 employees subject to auto enrollment as of 4/30/08; 10% opted out and 90% continued in the Plan.
- 39% self-enrolled prior to the beginning of the automatic deferral.

# VRSIP

- The VRS Investment Pool (VRSIP) offers DC Plan participants the opportunity to buy shares in the unitized VRS Trust Fund.
- VRSIP funds are invested on a commingled basis with the large VRS Trust Fund.
- Trading in/out of the VRSIP allowed quarterly.
- Investments are not guaranteed by VRS; subject to investment risks.
- Soft launch initiated, June 23, 2008.

Thank you!



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