Summary of Considerations and Recommendations

Note that recommendations could be effectively implemented by changes to statute, regulation, or policy and that policymakers are best situated to determine the most appropriate implementation method. In some specific cases, VRS has indicated that their existing Request for Board Action (RBA) process - whereby an item is examined by several internal VRS committees before being considered by the full Board - may be best suited. VRS has also made note that many of the following recommendations and considerations, if enacted, would require an assessment of time, cost, regulatory, and administrative requirements for implementation.

	Pew Recommendation	Current Status / Comments	Impact to the State
	Pension Funding		
1	**Adopt** a policy to regularly develop and report stress test analysis, including projections of pension costs, liabilities and debt reduction under different economic and investment. (RBA)	VRS currently performs some stress testing on an ad hoc basis. Pew's detailed recommendation is informed by the Society of Actuaries' Blue Ribbon Panel on Public Pension Funding and other state practices, tailored to Virginia. We also note that Commission members have also expressed interest in looking at the discount rate and the likelihood of meeting that assumption going forward.	Stress testing would inform policymakers on the fiscal impacts if investment returns are higher or lower than 7%, help to plan for uncertainty, and underscore the importance of fully funding pension promises.
	Benefit Plan Design		
2	**Adopt** VRS' suggested changes to the current hybrid plan, as reflected in HB 1072 (2016), modified to: (1) Provide workers with an "active choice" option to increase their contribution to the maximum level required to receive the full state match; and (2) Modify or provide an active choice to set the auto-escalation to 1% per year instead of 0.5% every 2 years.	The default savings rate of the hybrid plan is substantially lower than minimum standards and below the average for other state hybrid plans. The current auto-escalation formula extends over 20 years and is complex. Policymakers have identified increasing savings in the hybrid plan as a policy goal.	Would provide an immediate path to achieve a minimum standard level of retirement savings, maximize state match, preserve policymaker goals to raise replacement income for career workers, and make the split of employee and employer contributions in the DB plans more equitable across all tiers. Employer contribution rate (cost) would be slightly higher but more predictable.
3	**Provide** workers with access to an optional defined contribution plans based on the ORPPA plan.	There are currently optional defined contribution plans for higher education (ORPHE), political appointees (ORPPA), and school superintendents (ORPSS). Eight states have adopted optional DC plans *(see the Optional DC section for case study information on South Carolina, Indiana, and Utah)*.	Could provide added flexibility for the state in the workforce recruitment and retention context. State contribution rates would be higher than current actuarial cost, but fixed and predictable. VRS has emphasized importance of considering regulatory and implementation issues.
4	**Consider** adding a cost sharing provision that would make employee contributions - to the defined benefit (DB) component - variable within a limited range based on realized cost associated with upside and downside investment return scenarios.	Arizona, Iowa, South Carolina and Wisconsin currently have cost sharing provisions requiring employee contributions of 40%-50% of either total cost or cost increases. See also examples of contingent cost of living adjustment (COLA) increases in Maryland, Minnesota and Wisconsin.	Would provide the state with an additional "shock absorber" to manage investment risk and cost uncertainty. Could require higher employee contributions in the future in an environment where recent salary increases have been limited.

	Investment Transparency & Reporting		
5	**Adopt** a formal policy to continue providing the VRS investment policy online and including 20- and 25-year investment performance data in regular reporting. (RBA)	Investment policy statement online as of 2016 with 20- and 25-year investment performance data included in quarterly investment reports as of the June 30, 2016 report.	Provides stakeholders with increased transparency on investment strategies and performance. Although most states post an investment performance data online, few include data beyond 10 years.
6	**Adopt** a policy to regularly report performance and carried interest fees for private equity and other alternative investments. (RBA)	VRS is currently considering a reporting structure similar to the Institutional Limited Partners Association (ILPA) recommendations. VRS has narrowed the ILPA's suggested reporting template, which requires 40+ line-item disclosures for each fund, down to a manageable number of disclosures that it would then report in the aggregate.	Currently, only three states provide comprehensive fee disclosure on private equity. Improved disclosure in this area would make Virginia a national leader in this effort. VRS has also emphasized the importance of being able to work with top funds and managers.