



Virginia
Retirement
System®

**VIRGINIA RETIREMENT SYSTEM
STATE HEALTH INSURANCE CREDIT PLAN**

GASB No. 75 Schedules

With Independent Auditor's Report Thereon

For the Plan Year Ended June 30, 2025

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P.O. Box 1295
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June 30, 2026

Joint Legislative Audit
and Review Commission

Board of Trustees
Virginia Retirement System

Patricia S. Bishop
Director, Virginia Retirement System

INDEPENDENT AUDITOR'S REPORT

Report on the Schedules

Opinions

We have audited the accompanying Schedule of Employer Allocations of the Virginia Retirement System State Health Insurance Credit (HIC) Plan, as of and for the year ended June 30, 2025, and the related notes. We have also audited the total for all state employers of the columns titled Net HIC OPEB Liability, Total HIC OPEB Expense (Revenue), Total Deferred Outflows of Resources, and Total Deferred Inflows of Resources (specified column totals) included in the accompanying Schedule of Net HIC OPEB Liability and Total HIC OPEB Expense and the Schedule of Deferred Outflows and Deferred Inflows of Resources by Employer of the Virginia Retirement System State HIC Plan (schedules of OPEB amounts), as of and for the year ended June 30, 2025, and the related notes.

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations; and the net HIC OPEB liability, total HIC OPEB expense, total deferred outflows of resources, and total deferred inflows of resources for the total of all participating state employers for the Virginia Retirement System State HIC Plan as of and for the year ended June 30, 2025, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the Virginia Retirement System State HIC Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the Schedule of Employer Allocations and the specified column totals included in the schedules of OPEB amounts are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Schedule of Employer Allocations and the specified column totals included in the schedules of OPEB amounts.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Schedule of Employer Allocations and the specified column totals included in the schedules of OPEB amounts, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedule of Employer Allocations and the specified column totals included in the schedules of OPEB amounts.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Virginia Retirement System's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Schedule of Employer Allocations and the specified column totals included in the schedules of OPEB amounts.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Virginia Retirement System as of and for the year ended June 30, 2025, and our report thereon, dated December 15, 2025, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the Joint Legislative Audit and Review Commission, Virginia Retirement System management, the Virginia Retirement System Board of Trustees, and Virginia Retirement System State HIC Plan employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

EMS/vks

Virginia Retirement System
VRS State Health Insurance Credit Plan
Schedule of Employer Allocations
For the Plan Year Ended and Measurement Date of June 30, 2025

Employer Code	Employer	Employer Contributions	Employer Allocation Percentage
1XXXX	Judicial Retirement System Employees	\$ 1,054,184	0.95650 %
2XXXX	State Police Officers' Retirement System Employees	1,934,807	1.75553 %
35885	Fort Monroe Federal Area Development Authority	23,682	0.02149 %
3XXXX	All Other State Agencies	102,624,226	93.11512 %
7XXXX	Virginia Law Officers' Retirement System Employees	4,575,321	4.15136 %
	Total for all State Employers	<u>\$ 110,212,220</u>	<u>100.00000 %</u>

The accompanying notes are an integral part of the Schedule of Employer Allocations.

Virginia Retirement System
VRS State Health Insurance Credit Plan
Schedule of Net HIC OPEB Liability and Total HIC OPEB Expense
For the Plan Year Ended and Measurement Date of June 30, 2025

Employer Code	Employer	Net HIC OPEB Liability	Total HIC OPEB Expense (Revenue)
1XXXX	Judicial Retirement System Employees	\$ 5,940,567	\$ 325,425
2XXXX	State Police Officers' Retirement System Employees	10,903,130	598,795
35885	Fort Monroe Federal Area Development Authority	133,469	8,093
3XXXX	All Other State Agencies	578,313,249	40,468,881
7XXXX	Virginia Law Officers' Retirement System Employees	25,782,994	297,985
	Total for all State Employers	<u>\$ 621,073,409</u>	<u>\$ 41,699,179</u>

The accompanying notes are an integral part of the Schedule of Net HIC OPEB Liability and Total HIC OPEB Expense.

Virginia Retirement System
VRS State Health Insurance Credit Plan
Schedule of Deferred Outflows and Deferred Inflows of Resources by Employer
For the Plan Year Ended and Measurement Date of June 30, 2025

		Deferred Outflows of Resources					Deferred Inflows of Resources				
Employer Code	Employer	Net Difference		Changes in			Net Difference		Changes in		
		Difference	Between	Projected	Share and	Total	Differences	Between	Projected	Share and	Total
		Between	Investment	Earnings on	Expected and	Deferred	Between	Investment	Earnings on	Expected and	Deferred
		Expected	OPEB Plan	Change of	Actual	of	Expected	OPEB Plan	Change of	Actual	of
		and Actual	Investments	Assumptions	Contributions	Resources	and Actual	Investments	Assumptions	Contributions	Resources
		Experience					Experience				
1XXXX	Judicial Retirement System Employees	\$ —	\$ —	\$ 63,679	\$ 83,991	\$ 147,670	\$ 532,662	\$ 107,700	\$ 59,710	\$ 539,533	\$ 1,239,605
2XXXX	State Police Officers' Retirement System Employees	—	—	116,876	444,433	\$ 561,309	977,632	197,671	109,593	1,003,604	\$ 2,288,500
35885	Fort Monroe Federal Area Development Authority	—	—	1,431	8,123	\$ 9,554	11,968	2,420	1,342	8,122	\$ 23,852
3XXXX	All Other State Agencies	—	—	6,199,208	53,492,541	\$ 59,691,749	51,854,607	10,484,681	5,812,905	50,170,238	\$ 118,322,431
7XXXX	Virginia Law Officers' Retirement System Employees	—	—	276,381	2,692,488	\$ 2,968,869	2,311,837	467,437	259,159	6,247,768	\$ 9,286,201
Total for all State Employers		\$ —	\$ —	\$ 6,657,575	\$ 56,721,576	\$ 63,379,151	\$ 55,688,706	\$ 11,259,909	\$ 6,242,709	\$ 57,969,265	\$ 131,160,589

The accompanying notes are an integral part of the Schedule of Deferred Outflows and Deferred Inflows of Resources by Employer.

**Virginia Retirement System
VRS State Health Insurance Credit Plan
Notes to GASB No. 75 Schedules
For the Plan Year Ended June 30, 2025**

Note 1. Summary of Significant Accounting Policies

Description of the Entity

The Virginia Retirement System (the System) is an independent agency of the Commonwealth of Virginia. The System administers four separate pension trust funds – the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), the Virginia Law Officers' Retirement System (VaLORS), and the Judicial Retirement System (JRS) as well as several Other Post-Employment Benefit trust funds – the Group Life Insurance Program, the Retiree Health Insurance Credit Program, the Disability Insurance Program for state employees, the Line of Duty Act Program and the Virginia Local Disability Program for participating schools systems and local governments. The VRS State Health Insurance Credit Plan is part of the Retiree Health Insurance Credit Program.

Administration and Management

The Board of Trustees (the Board) is responsible for the general administration and operation of the pension plans and the other employee benefit plans. The Board has full power to invest and reinvest the trust funds of the System through the adoption of investment policies and guidelines that fulfill the Board's investment objective to maximize long-term investment returns while targeting an acceptable level of risk.

The Board consists of nine members. Five members are appointed by the Governor and four members are appointed by the Joint Rules Committee of the General Assembly subject to confirmation by the General Assembly. The Board appoints a Director to serve as the Chief Administrative Officer of the System and a Chief Investment Officer to direct, manage and administer the investment of the System's funds.

The System issues an *Annual Comprehensive Financial Report* (Annual Report) containing the financial statements and required supplementary information for all of the System's pension and other employee benefit trust funds. A copy of the 2025 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/publications/?category=annual>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500. The pension and other employee benefit trust funds administered by the VRS are classified as fiduciary funds and are included in the basic financial statements of the Commonwealth of Virginia.

Other Post-Employment Benefits (OPEB) – Health Insurance Credit (HIC)

The Virginia Retirement System (VRS) State Employee Health Insurance Credit Program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to § 51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward

the cost of health insurance coverage for retired state employees. For purposes of measuring the net HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the HIC OPEB, and HIC OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Health Insurance Credit Plan and the additions to/deductions from the VRS State Health Insurance Credit Plan's fiduciary net position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2. General Information About the HIC OPEB Plan

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Health Insurance Credit Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the State Health Insurance Credit Program OPEB, including eligibility, coverage, and benefits, is set out in the following table:

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS

Eligible Employees

The State Employee Retiree Health Insurance Credit Program was established January 1, 1990, for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit.

Eligible employees are enrolled automatically upon employment. They include:

- Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.

Benefit Amounts

The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:

- *At Retirement:* For State employees who retire, the monthly benefit is \$4.25 per year of service per month with no cap on the benefit amount.
- *Disability Retirement:* For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is \$120.00 or \$4.25 per year of service, whichever is higher.

For State police officer employees with a non-work-related disability who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP) the monthly benefit is \$120.00 or \$4.25 per year of service, whichever is higher.

For State police officer employees with a work-related disability, there is no benefit provided under the State Employee Retiree Health Insurance Credit Program if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.

Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by § 51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2025, was 1.12% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was the General Assembly approved rate which is based on an actuarially determined rate from an actuarial valuation as of June 30, 2023. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Actuarial Assumptions

The total State Employee HIC OPEB Liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2024, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2025.

Inflation	2.50%
Salary increases, including inflation –	
General state employees	3.50% – 5.35%
SPORS employees	3.50% – 4.75%
VaLORS employees	3.50% – 4.75%
JRS employees	4.00%
Investment rate of return	6.75%, net of plan investment expenses, including inflation

Mortality rates – General State Employees:

Pre-Retirement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; females set forward 2 years

Post-Retirement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 110% of rates for females

Post-Disablement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; males and females set forward 3 years

Beneficiaries and Survivors:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally, 110% of rates for males and females

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2021 Improvement Scale that is 75% of the standard rate

The actuarial assumptions used in the June 30, 2024, valuation were rolled forward to a measurement date of June 30, 2025 and were based on the results of an actuarial experience study for the period from July 1, 2020, through June 30, 2024. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Maintain PUB-2010 tables with adjustments, update to MP-2021 projection scale multiplied by 75%
Retirement Rates	Moved ~25% of the way to the observed experience, on a liability-weighted basis
Termination Rates	Moved ~25% of the way to the observed experience, on a liability-weighted basis
Disability Rates	Moved ~50% of the way to the observed experience, on a headcount-weighted basis, to maintain margin
Salary Scale	Increase Merit & Longevity 50 basis points
Benefit participation (future service retirees)	Reduced participation to 94%
Benefit participation (future disability)	Reduced participation to 92%
Benefit participation (from terminated vested)	Reduced participation to 94%
Benefit utilization (not receiving the max)	No change
Benefit utilization (not receiving the max-amount of max received)	No change
Benefit Utilization (benefit increase for those not at the max)	Removed
Percentage of deferred vested members electing to withdraw from VRS	Reduced
Terminated vested member commencement age	Adjusted slightly
Discount Rate	No change

Mortality rates – SPORS Employees:

Pre-Retirement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 95% of rates for males, and 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 110% of rates for males, and 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 95% of rates for males set back 3 years, and 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 110% of rates for males set forward 2 years, and 110% of rates for females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2021 Improvement Scale that is 75% of the standard rates

The actuarial assumptions used in the June 30, 2024, valuation were rolled forward to a measurement date of June 30, 2025 and were based on the results of an actuarial experience study for the period from July 1, 2020, through June 30, 2024. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Maintain PUB-2010 tables with adjustments, update to MP-2021 projection scale multiplied by 75%
Retirement Rates	Moved ~25% of the way to the observed experience, on a liability-weighted basis
Termination Rates	Moved ~25% of the way to the observed experience, on a liability-weighted basis
Disability Rates	Moved ~50% of the way to the observed experience, on a headcount-weighted bases, to maintain margin
Salary Scale	Increase Merit & Longevity 50 basis points
Benefit participation (future service retirees)	Reduced participation to 94%
Benefit participation (future disability)	Reduced participation to 63%
Benefit participation (from terminated vested)	Reduced participation to 94%
Benefit utilization (not receiving the max)	Reduced to 9%
Benefit utilization (not receiving the max-amount of max received)	No change
Benefit Utilization (benefit increase for those not at the max)	Removed
Percentage of deferred vested members electing to withdraw from VRS	Reduced
Terminated vested member commencement age	Adjusted slightly
Discount Rate	No change

Mortality rates – VaLORS Employees:

Pre-retirement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 95% of rates for males, and 105% of rates for females set forward 2 years

Post-retirement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 110% of rates for males, and 105% of rates for females set forward 3 years

Post-disablement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 95% of rates for males set back 3 years, and 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 110% of rates for males set forward 2 years, and 110% of rates for females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2021 Improvement Scale that is 75% of the standard rates

The actuarial assumptions used in the June 30, 2024, valuation were rolled forward to a measurement date of June 30, 2025 and were based on the results of an actuarial experience study for the period from July 1, 2020, through June 30, 2024. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Maintain PUB-2010 tables with adjustments, update to MP-2021 projection scale multiplied by 75%
Retirement Rates	Moved ~25% of the way to the observed experience, on a liability-weighted basis
Termination Rates	Moved ~25% of the way to the observed experience, on a liability-weighted basis
Disability Rates	Moved ~50% of the way to the observed experience, on a headcount-weighted basis, to maintain margin
Salary Scale	Increase Merit & Longevity 50 basis points; use of 2.50% payroll growth assumption for purposes of amortizing any unfunded actuarial accrued liabilities
Benefit participation (future service retirees)	Reduced participation to 94%
Benefit participation (future disability)	Reduced participation to 63%
Benefit participation (from terminated vested)	Reduced participation to 94%
Benefit utilization (not receiving the max)	Reduced to 9%
Benefit utilization (not receiving the max-amount of max received)	No change
Benefit Utilization (benefit increase for those not at the max)	Removed
Percentage of deferred vested members electing to withdraw from VRS	Reduced
Terminated vested member commencement age	Adjusted slightly
Discount Rate	No change

Mortality rates – JRS Employees:

Pre-Retirement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; males set forward 2 years

Post-Retirement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally; 95% of rates for males and females set back 2 years

Post-Disablement:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally

Beneficiaries and Survivors:

Pub-2010 Amount-Weighted tables, with 75% of the MP-2021 Scale projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2021 Improvement Scale that is 75% of the standard rates

The actuarial assumptions used in the June 30, 2024, valuation were rolled forward to a measurement date of June 30, 2025 and were based on the results of an actuarial experience study for the period from July 1, 2020, through June 30, 2024. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Maintain PUB-2010 tables with adjustments, update to MP-2021 projection scale multiplied by 75%
Retirement Rates	Moved ~25% of the way to the observed experience, on a liability-weighted basis
Termination Rates	No change
Disability Rates	No change
Salary Scale	No change
Benefit participation (future service retirees)	Reduced participation to 94%
Benefit participation (future disability)	Reduced participation to 92%
Benefit participation (from terminated vested)	Reduced participation to 94%
Benefit utilization (not receiving the max)	No change
Benefit utilization (not receiving the max-amount of max received)	No change
Benefit Utilization (benefit increase for those not at the max)	Removed
Percentage of deferred vested members electing to withdraw from VRS	Reduced
Terminated vested member commencement age	Adjusted slightly
Discount Rate	No change

Note 3. Net Health Insurance Credit OPEB Liability

The net Health Insurance Credit OPEB liability (NOL) is calculated separately for each plan and represents that particular plan’s total Health Insurance Credit OPEB liability determined in accordance with GASB Statement No. 74, less the System’s fiduciary net position for the plan. As of June 30, 2025, NOL amounts for the VRS State Health Insurance Credit Program are as follows (amounts expressed in thousands):

Total State HIC OPEB Liability	1,074,252
Plan Fiduciary Net Position	453,179
State HIC Net OPEB Liability (Asset)	<u>\$ 621,073</u>
Plan Fiduciary Net Position as a Percentage of the Total State HIC OPEB Liability	42.19%

The total State HIC OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net State HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

Discount Rate

The discount rate used to measure the total State HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2025, the rate contributed by each state agency for the VRS State Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 124% of the actuarially determined contribution rate. From July 1, 2025 on, state agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	32.00%	6.60%	2.11%
Fixed Income	16.00%	5.09%	0.81%
Credit Strategies	16.00%	8.21%	1.31%
Real Assets	15.00%	7.10%	1.07%
Private Equity	15.00%	8.60%	1.29%
PIP – Private Investment Partnerships	1.00%	7.95%	0.08%
Diversifying Strategies	6.00%	6.82%	0.41%
Cash	2.00%	4.07%	0.08%
Leverage	(3.00%)	4.57%	(0.14%)
Total	100.00%		7.02%
* Expected arithmetic nominal return			7.02%

* The above allocation provides a one-year expected return of 7.02% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 7.06%, including expected inflation of 2.50%.

On June 15, 2023, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Sensitivity Analysis

The following table presents the collective net State HIC OPEB liability of the participating employers in the VRS State HIC OPEB Plan using the discount rate of 6.75%, as well as what the collective net State HIC OPEB liability of the participating employers would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate (amounts expressed in thousands):

Net State HIC OPEB Liability - 1.00% Decrease (5.75%)	\$	723,239
Net State HIC OPEB Liability - Current Discount Rate (6.75%)	\$	621,073
Net State HIC OPEB Liability - 1.00% Increase (7.75%)	\$	533,284

Note 4. Deferred Outflows / (Inflows) of Resources

The following schedule reflects the amortization of the net balance of remaining deferred outflows/ (inflows) of resources at June 30, 2025. The average remaining service lives of all employees provided with health insurance credit benefits through the VRS State HIC OPEB Plan at June 30, 2025, was 5.55 years. Deferred outflows of resources related to the health insurance credit resulting from the state agency's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB

Liability in their financial statements for the year ended June 30, 2027. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the health insurance credit will be recognized in the health insurance credit expense as follows.

Measurement Period Ending June 30, 2026	\$	(18,772,903)
Measurement Period Ending June 30, 2027	\$	(20,496,234)
Measurement Period Ending June 30, 2028	\$	(15,261,091)
Measurement Period Ending June 30, 2029	\$	(10,310,514)
Measurement Period Ending June 30, 2030	\$	(2,940,696)
Thereafter	\$	—

Note 5. Employer Contributions

Employers' proportionate shares were calculated on the basis of historical employer contributions. Although GASB Statement No. 75 encourages the use of the employer's projected long-term contribution effort to the Other Post-Employment Benefit plan, allocating on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the VRS State HIC OPEB Plan that are not representative of future contribution effort are excluded in the determination of employers' proportionate shares. Examples of employer contributions not representative of future contribution effort are contributions for adjustments for prior periods.

The employer contributions used in the determination of employers' proportionate shares of collective Other Post-Employment Benefit amounts reported in the Schedule of Employer Allocations were based on the total employer contributions using the plan's contribution rates and the employer's covered payroll for FY 2025. This total was \$110,212,220. The employer contributions of \$110,801,724 reported in the VRS State HIC OPEB Program's Statement of Changes in Net Position (per the System's separately issued financial statements) reflects the calculated amount plus approximately \$589,504 in other employer contributions and adjustments that were not representative of future contribution efforts.

Note 6. Additional Financial and Actuarial Information

Information contained in the VRS State HIC OPEB Program Notes to the Schedule of Employer Allocations and Schedule of State HIC OPEB Program Amounts by Employer (Schedules) was extracted from the audited financial statements of the Virginia Retirement System for the fiscal year ended June 30, 2025. Additional financial information supporting the preparation of the VRS State HIC OPEB Program Schedules (including the financial statements and the unmodified audit opinion thereon, and required supplementary information) is presented in the separately issued VRS 2025 Annual Report. A copy of the 2025 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/publications/?category=annual>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.