



Virginia
Retirement
System®

**VIRGINIA RETIREMENT SYSTEM
STATE EMPLOYEE RETIREMENT PLAN**

GASB No. 68 Schedules

With Independent Auditor's Report Thereon

For the Plan Year Ended June 30, 2025

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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 Employee Retirement 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 Pension Liability, Total Pension Expense (Revenue), Total Deferred Outflows of Resources, and Total Deferred Inflows of Resources (specified column totals) included in the accompanying Schedule of Net Pension Liability and Total Pension Expense and the Schedule of Deferred Outflows and Deferred Inflows of Resources by Employer of the Virginia Retirement System State Employee Retirement Plan (schedules of pension 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 net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating state employers for the Virginia Retirement System State Employee Retirement 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 Employee Retirement 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 pension 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 pension 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 pension 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 pension 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 pension 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 Employee Retirement 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/clj

**Virginia Retirement System
VRS State Employee Retirement 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
30206	VCU HEALTH SYSTEM AUTHORITY	\$ 1,192,828	0.15796%
35885	FORT MONROE AUTHORITY	264,749	0.03506%
	ALL OTHER STATE AGENCIES	753,675,223	99.80698%
	Total for all State Employers	\$ 755,132,800	100.00000%

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

**Virginia Retirement System
VRS State Employee Retirement Plan
Schedule of Net Pension Liability and Total Pension Expense
As of the Measurement Date and For the Plan Year Ended June 30, 2025**

Employer Code	Employer	Net Pension Liability	Total Pension Expense (Revenue)
30206	VCU HEALTH SYSTEM AUTHORITY	\$ 6,991,330	\$ (2,532,460)
35885	FORT MONROE AUTHORITY	1,551,760	125,138
	ALL OTHER STATE AGENCIES	4,417,469,739	393,018,580
	Total for all State Employers	\$ 4,426,012,829	\$ 390,611,258

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

Virginia Retirement System
VRS State Employee Retirement Plan
Schedule of Deferred Outflows and Deferred Inflows of Resources by Employer
As of the Measurement Date of June 30, 2025

		Deferred Outflows of Resources					Deferred Inflows of Resources				
Employer Code	Employer	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Earnings on Pension Plan Investments	Change of Assumptions	Changes in Proportionate Share and Difference Between Actual and Expected Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Earnings on Pension Plan Investments	Change of Assumptions	Changes in Proportionate Share and Difference Between Actual and Expected Contributions	Total Deferred Inflows of Resources
30206	VCU HEALTH SYSTEM AUTHORITY	\$ 1,135,705	\$ —	\$ 161,440	\$ —	\$ 1,297,145	\$ —	\$ 1,296,825	\$ —	\$ 3,032,042	\$ 4,328,867
35885	FORT MONROE AUTHORITY	252,075	—	35,832	58,680	346,587	—	287,837	—	31,641	319,478
	ALL OTHER STATE AGENCIES	717,594,639	—	102,005,972	123,284,275	942,884,886	—	819,398,223	—	128,383,430	947,781,653
	Total for all State Employers	\$ 718,982,419	\$ —	\$ 102,203,244	\$ 123,342,955	\$ 944,528,618	\$ —	\$ 820,982,885	\$ —	\$ 131,447,113	\$ 952,429,998

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 Employee Retirement Plan
Notes to GASB No. 68 Schedules
For the Plan Year Ended Date of 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). The VRS State Employee Retirement Plan is part of the VRS Trust Fund.

Administration and Management

The Board of Trustees (the Board) is responsible for the general administration and operation of the defined benefit 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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the VRS State Employee Retirement Plan and the additions to/deductions from the VRS State Employee Retirement Plan's fiduciary net position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2. General Information about the Pension Plan

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the System along with plans for other employer groups in the Commonwealth of Virginia. The State Employee Retirement Plan is a single employer plan treated as a cost-sharing employer plan for financial reporting purposes. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan, and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.	About Plan 2 Same as Plan 1.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, service credit and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Members are in Plan 1 if their membership date is before July 1, 2010, they were vested as of January 1, 2013, and they have not taken a refund. Hybrid Opt-In Election VRS Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Eligible Members Members are in Plan 2 if their membership date is from July 1, 2010, to December 31, 2013, and they have not taken a refund, or their membership date is prior to July 1, 2010, and they were not vested as of January 1, 2013. Hybrid Opt-In Election Same as Plan 1.	Eligible Members Members are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Full-time permanent, salaried state employees. • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <i>* Non-Eligible Members</i> Some members are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those members eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Members, excluding state elected officials and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pretax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payments.	Retirement Contributions Same as Plan 1.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Service Credit Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Service Credit Same as Plan 1.	Service Credit <i>Defined Benefit Component:</i> Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <i>Defined Contribution Component:</i> Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	Vesting <i>Defined Benefit Component:</i> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. <i>Defined Contribution Component:</i> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distributions not required, except as governed by law.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.	Calculating the Benefit Same as Plan 1.	Calculating the Benefit <i>Defined Benefit Component:</i> Same as Plan 1. <i>Defined Contribution Component:</i> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for members is 1.70%.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. The retirement multiplier is 1.65% for service credit earned, purchased or granted on or after January 1, 2013.	Service Retirement Multiplier <i>Defined Benefit Component:</i> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. <i>Defined Contribution Component:</i> Not applicable.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Normal Retirement Age Age 65.	Normal Retirement Age Normal Social Security retirement age.	Normal Retirement Age <i>Defined Benefit Component:</i> Same as Plan 2. <i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.	Earliest Unreduced Retirement Eligibility Normal Social Security retirement age with at least five years (60 months) of service credit or when their age plus service credit equals 90.	Earliest Unreduced Retirement Eligibility <i>Defined Benefit Component:</i> Same as Plan 2. <i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.	Earliest Reduced Retirement Eligibility Age 60 with at least five years (60 months) of service credit.	Earliest Reduced Retirement Eligibility <i>Defined Benefit Component:</i> Same as Plan 2. <i>Defined Contribution Component:</i> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. <i>Eligibility:</i> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. <i>Exceptions to COLA Effective Dates:</i> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member retires on disability. • The member retires directly from short-term or long-term disability. • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. <i>Eligibility:</i> Same as Plan 1. <i>Exceptions to COLA Effective Dates:</i> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement <i>Defined Benefit Component:</i> Same as Plan 2. <i>Defined Contribution Component:</i> Not applicable. <i>Eligibility:</i> Same as Plan 1. <i>Exceptions to COLA Effective Dates:</i> Same as Plan 1.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage For members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <i>Defined Benefit Component:</i> Same as Plan 1, with the following exception: Hybrid Retirement Plan members are ineligible for ported service. <i>Defined Contribution Component:</i> Not applicable.

Contributions

The contribution requirement for active employees is governed by § 51.1-145 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. Employees are required to contribute 5.00% of their compensation toward their retirement. The employer retirement contribution rate for the VRS State Employee Retirement Plan was 12.52%. This was the approved General Assembly rate which was based on the actuarial valuation as of June 30, 2023 which set a rate of 12.52%. The actuarially determined rate, when combined with employee contributions, 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 and Methods

The total pension liability for the VRS State Employee Retirement Plan 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	3.50 – 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality rates:

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:

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
Discount Rate	No change

Note 3. Net Pension Liability

The net pension liability (NPL) is calculated separately for each plan and represents that particular plan's total pension liability determined in accordance with GASB Statement No. 67, less that plan's fiduciary net position. As of June 30, 2025, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

Total Pension Liability	\$ 31,048,959
Plan Fiduciary Net Position	\$ 26,622,947
Employers' Net Pension Liability (Asset)	<u>\$ 4,426,012</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.75%
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The total pension 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 pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions were made per the VRS Statutes and the employer contributions were made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2025, the rate contributed by the state agencies for the VRS State Employee Retirement Plan was subject to the portion of the VRS Board-certified rates that were funded by the Virginia General Assembly, which was 100% 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 pension 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 pension liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension 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 pension 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 pension liability of the participating employers in the VRS State Employee Retirement Plan using the discount rate of 6.75%, as well as what collective net pension liability of the participating employers in the VRS State Employee Retirement Plan net pension liability 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 Pension Liability - 1.00% Decrease (5.75%)	\$	8,085,000
Net Pension Liability - Current Discount Rate (6.75%)	\$	4,426,013
Net Pension Liability - 1.00% Increase (7.75%)	\$	1,357,911

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 pensions through the VRS State Employee Retirement Plan at June 30, 2025, was 3.33 years. Deferred outflows of resources related to pensions resulting from the state agency's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the financial statements for the year ended June 30, 2027. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period Ending June 30, 2026	\$	488,483,544
Measurement Period Ending June 30, 2027	\$	(49,641,952)
Measurement Period Ending June 30, 2028	\$	(259,844,664)
Measurement Period Ending June 30, 2029	\$	(186,898,316)

Note 5. Employer Contributions

Employers' proportionate shares were calculated on the basis of historical employer contributions. Although GASB Statement No. 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the VRS State Employee Retirement 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 toward the purchase of employee service, contributions for adjustments for prior periods, supplemental employer contributions from certain employers, and special payments.

The employer contributions used in the determination of employers' proportionate shares of collective pension amounts reported in the Schedule of Employer Allocations were based on the total employer contributions using the plan's contribution rate and the employer's covered payroll for fiscal year 2025. The computed total employer contribution amount was \$760,846,203. Of this amount, \$5,713,401 was paid by VRS as its contribution to the pension plan. The employer contributions of \$762,876,189 reported in the VRS State Employee's Retirement Plan's Statement of Changes in Net Position (per the System's separately issued financial statements) reflects this net retained amount plus approximately \$2,029,986 in other employer contribution adjustments that were not representative of future contribution efforts.

Note 6. Additional Financial and Actuarial Information

Information contained in the VRS State Employee Retirement Plan Notes to the Schedule of Employer Allocations and Schedule of Pension 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 Employee Retirement Plan Schedules (including the financial statements and the unmodified audit opinion thereon, and the 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.