



# Senate Finance Meeting

**October 16, 2008**

**Robert P. Schultze -Director**

**Charles W. Grant - Chief Investment Officer**

**Administration**  
*Robert Schultze*  
*Director*



# VRS Total Membership

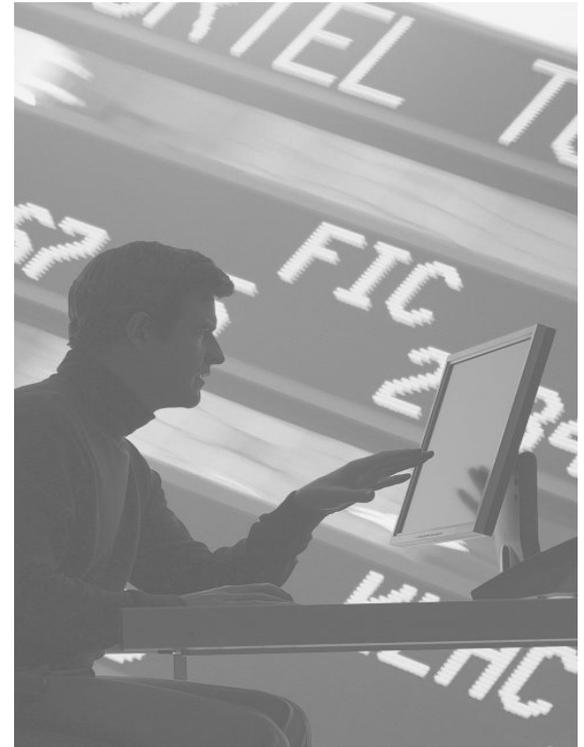
Teachers	146,229
Political Subdivisions	104,786
State Employees	81,116
State Police Officers' Retirement System (SPORS)	1,830
Judicial Retirement System (JRS)	409
Virginia Law Officers' Retirement System (VaLORS)	10,359
<b>Total Active Members</b>	<b>344,729</b>
Retirees/Beneficiaries	139,657
Inactive/Deferred Members	119,357
<b>VRS Overall Membership</b>	<b>603,743</b>

As of August 2008

# 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

**Investments  
Update  
*Charles Grant*  
*Chief Investment Officer***

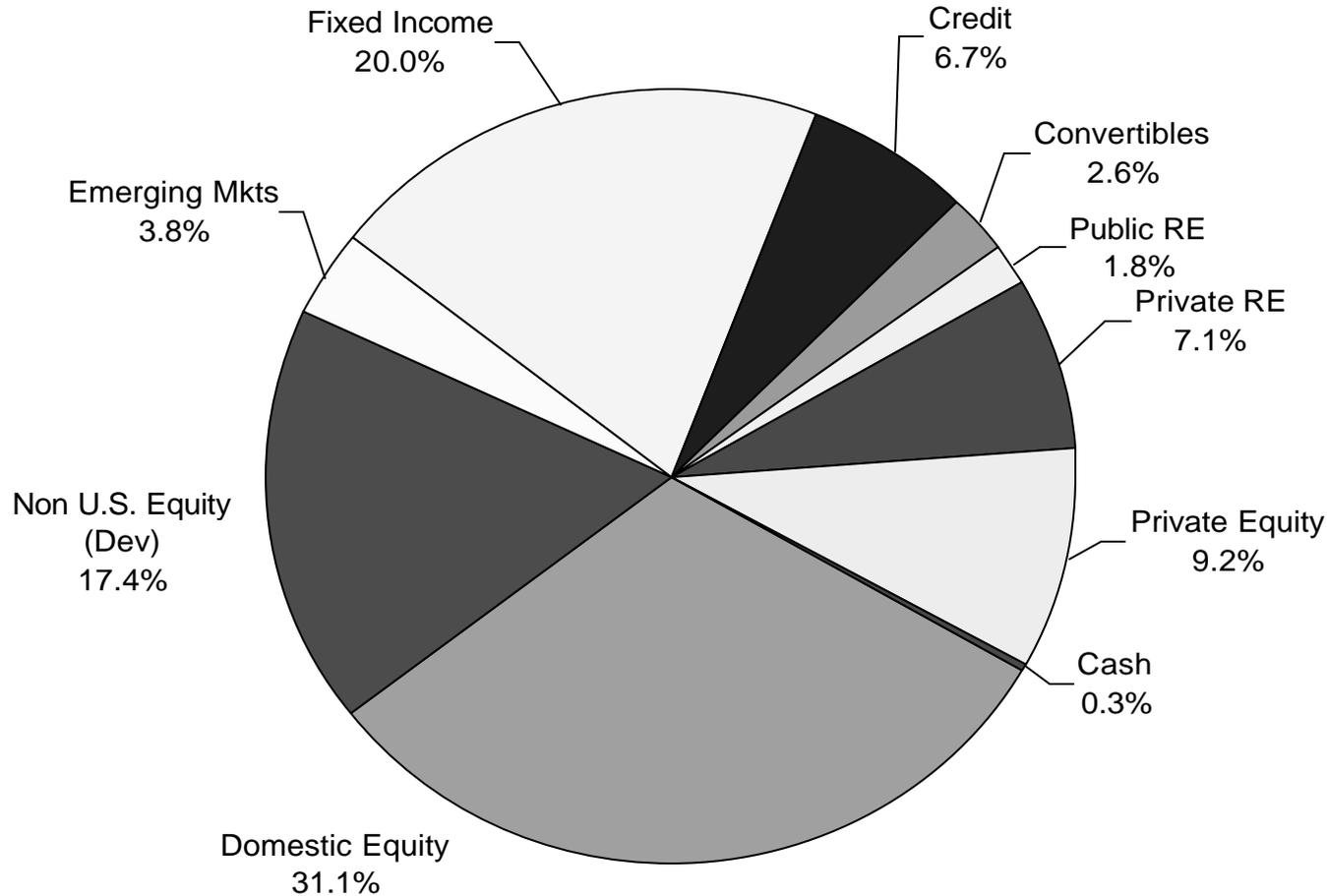


# VRS Investment Objectives

- Our objective is to manage risk and maximize returns.
- Risk tolerance is established by The Board of Trustees using asset-liability analysis.
- VRS liabilities are “long term”. We can be patient and accept market volatility.
- We expect to earn 7-8% over the long run by investing in a diversified portfolio of stocks, bonds, and real estate.
- We expect significant volatility and periods of mark-to-market declines.

# Asset Allocation

## As of September 30, 2008



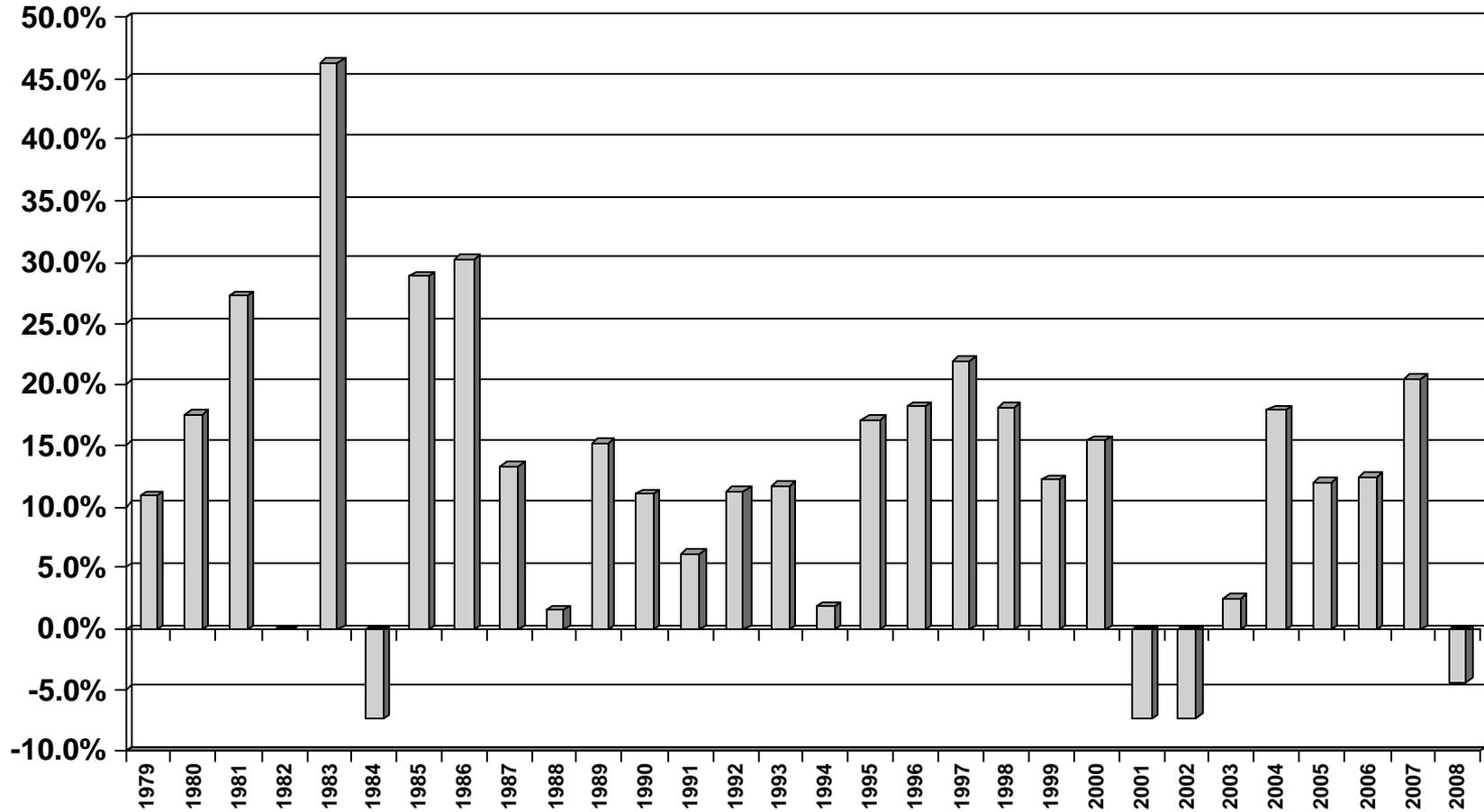
Total Fund: \$49.5 billion

# Total Performance Ending 6/30/08

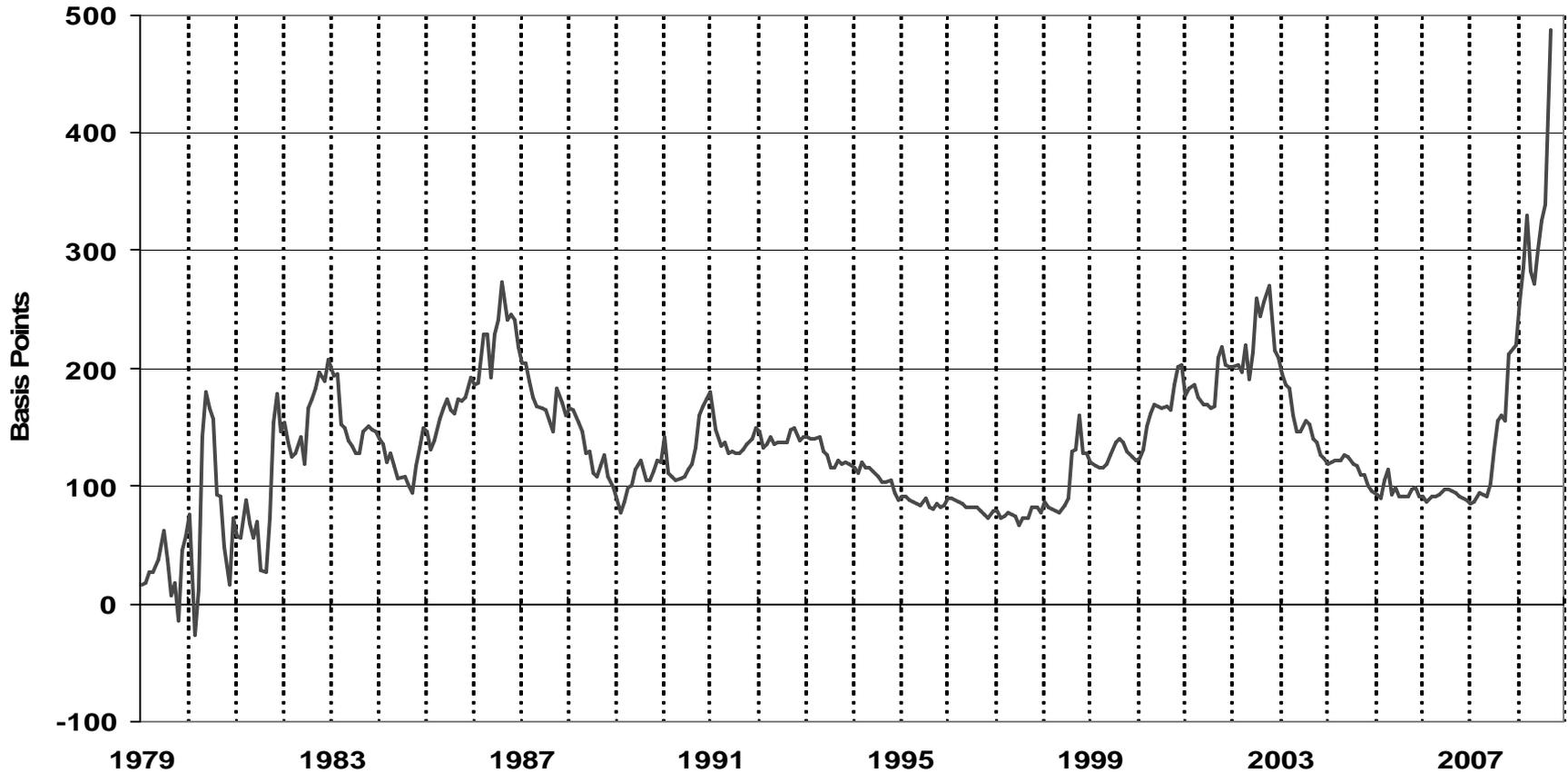
	VRS (%)	Benchmark (%)	Difference (%)
1 Yr	-4.40	-5.30	0.90
3 Yr	8.90	7.90	1.00
5 Yr	11.30	10.40	0.90
10 Yr	6.90	6.10	0.80
15 Yr	9.57	8.94	0.63
20 Yr	9.93	9.60	0.33

Performance is net of fees

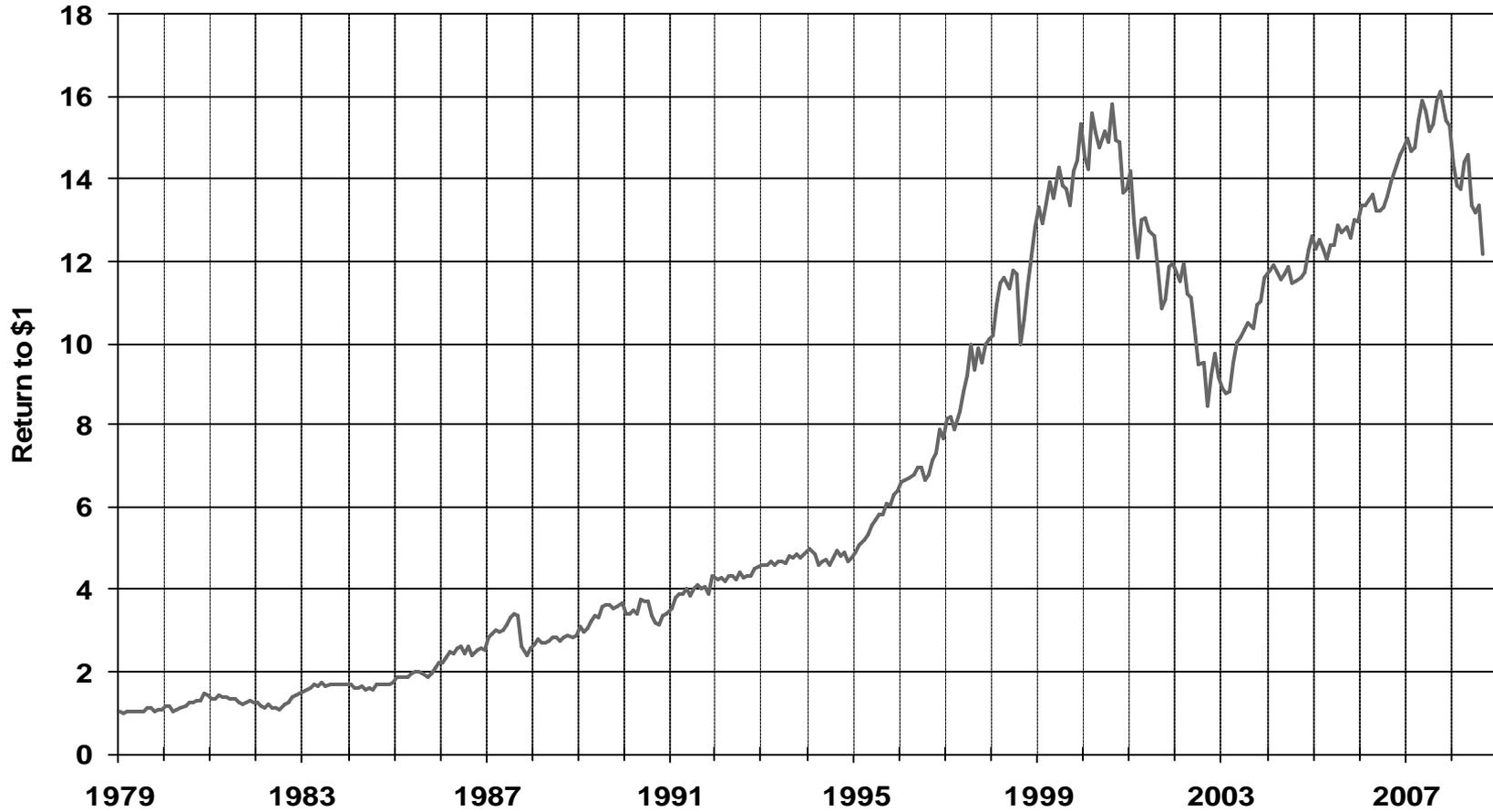
# VRS Fiscal Year Returns Last 30 Years



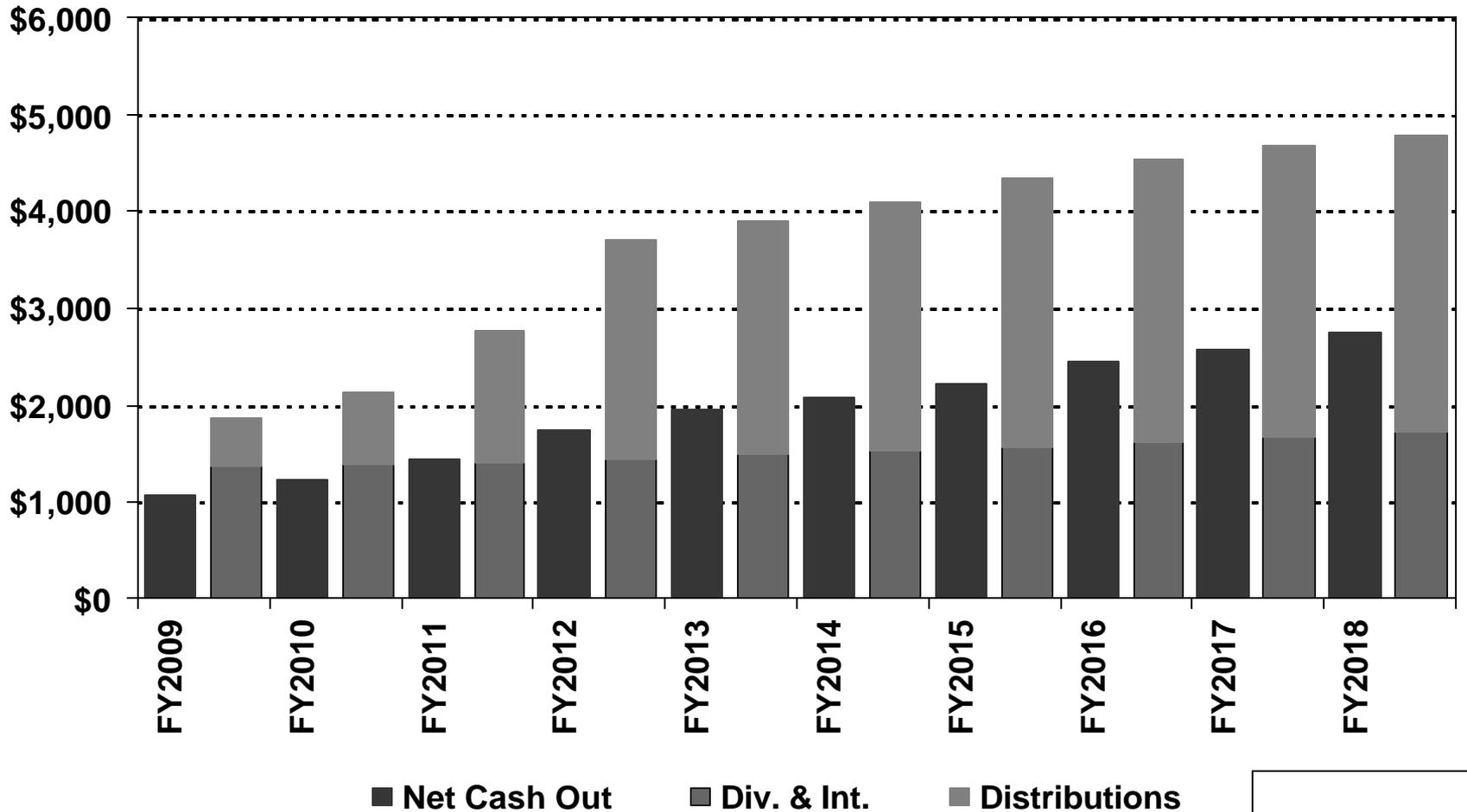
# Investment Grade Corporate Bond Yield Spread vs U.S. Treasury



# S&P 500 Stock Index



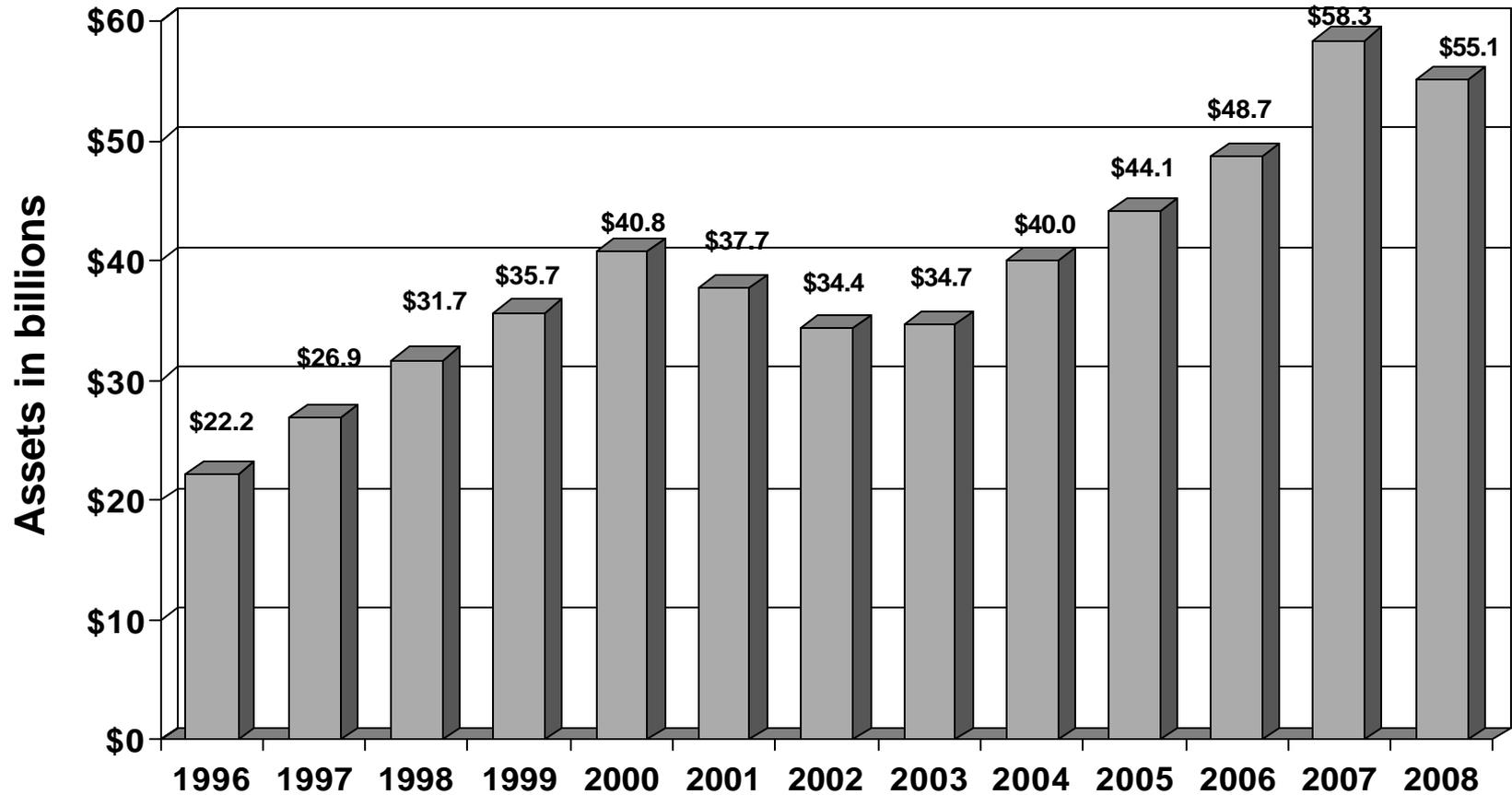
# Portfolio Cash Flow Is Strong



# Looking Ahead

- Short-term market direction is unpredictable.
- Economy will be weak and slow to recover. Policy making will be challenging.
- Despite lower growth expectations, current market valuations will produce attractive long-term returns.
- Distressed market conditions are presenting good investment opportunities for VRS.

# Net Assets Available for Benefits



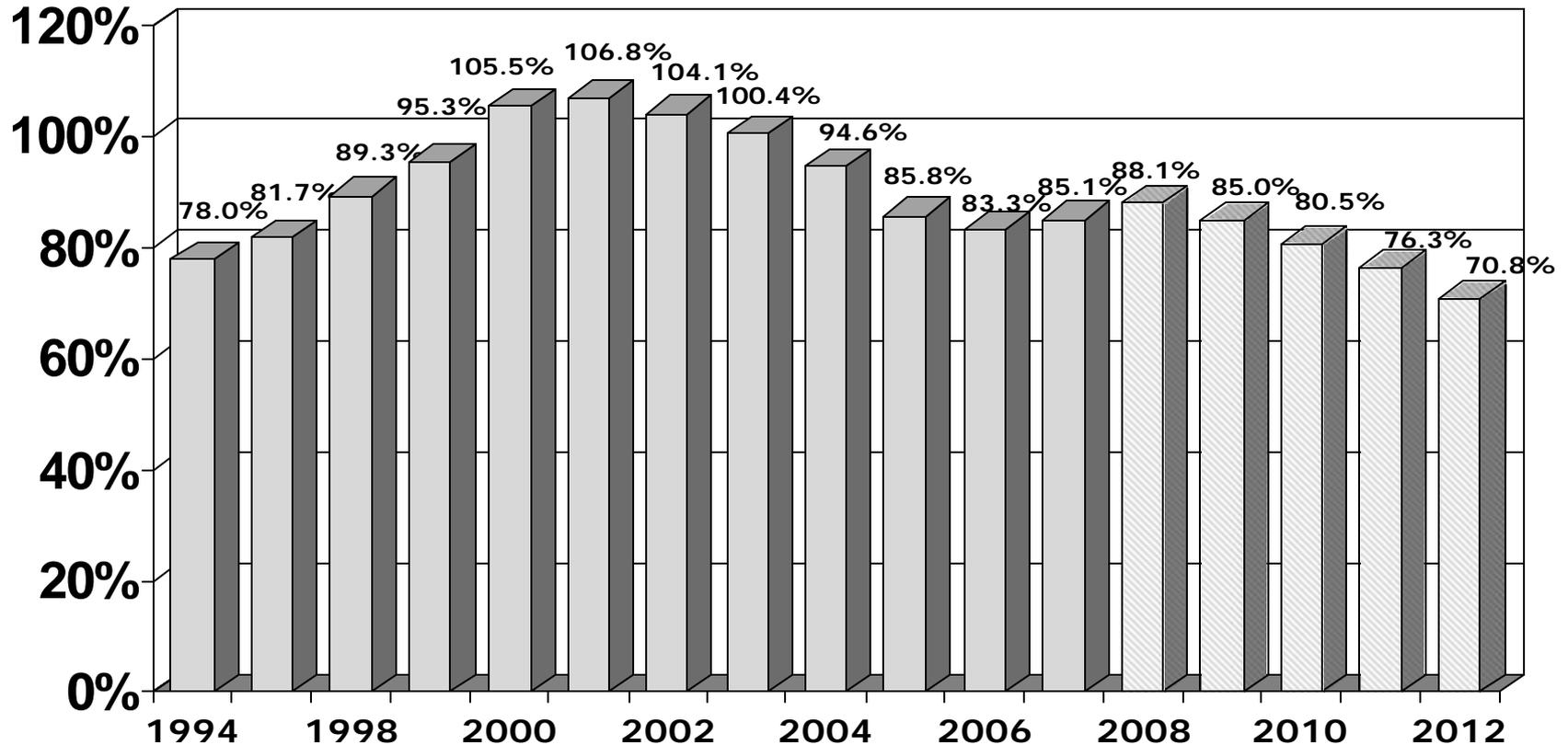
# Valuations, Rates and Funded Status



# 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)

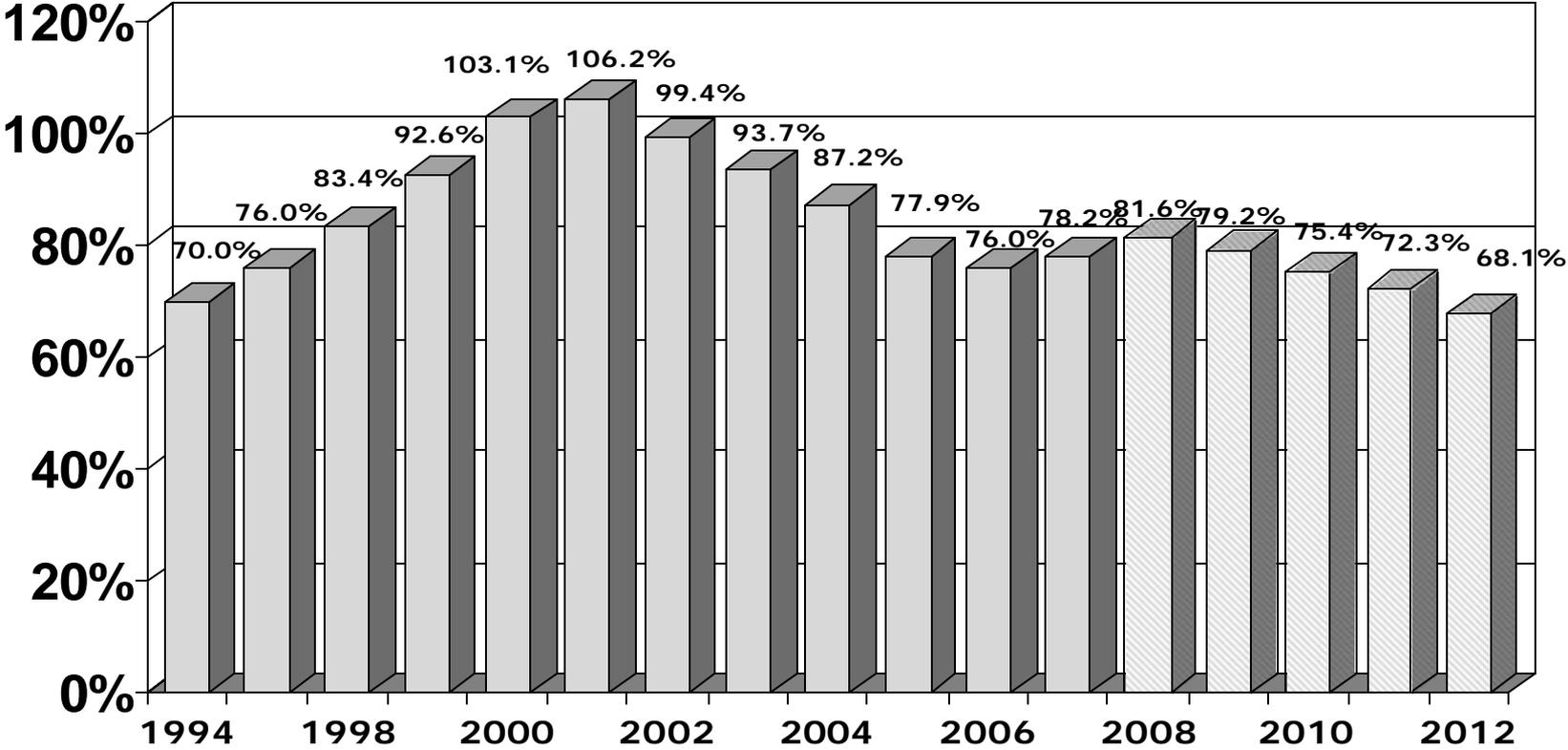
# Funded Status: State Employees



**Assumptions:**

- FY 2009 investment return estimated at -16.6%.
- 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



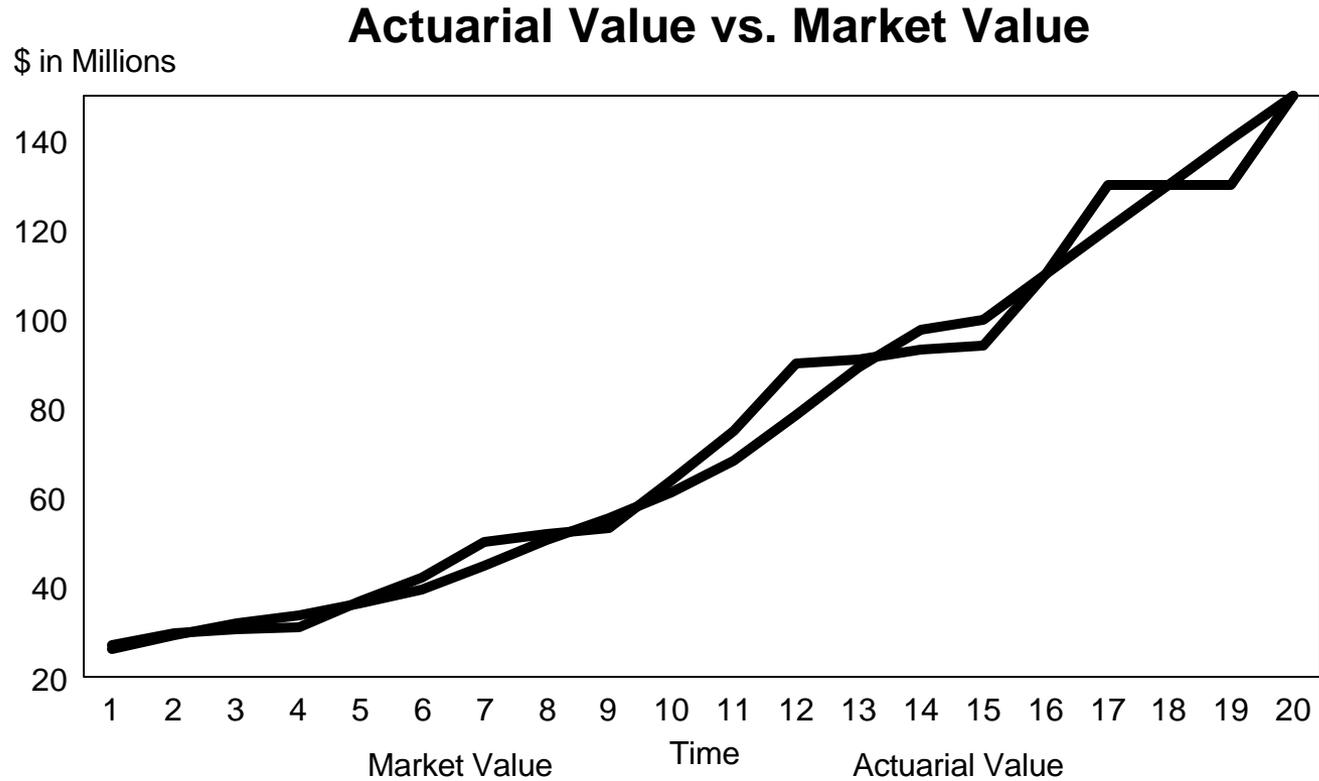
- Assumptions:
- FY 2009 investment return estimated at -16.6%.
  - All other years investment return is 7.5%.
  - Employer contribution rates for fiscal years 2009 and 2010 are fixed at 6.23% for state and 8.81% for teachers.
  - Contribution rates after 2010 are assumed at levels recommended by the VRS Board.

# Employer Contribution Rates

	<b>2008-2010 Rate*</b>	2010-2012 Estimated Rate Using Board Assumptions*	2010-2012 Estimated Rates Using General Assembly Assumptions*
State Employees	6.23%	8.35%	6.26%
Teachers	8.81%	11.95%	8.96%

\*Does not include the 5% member contribution

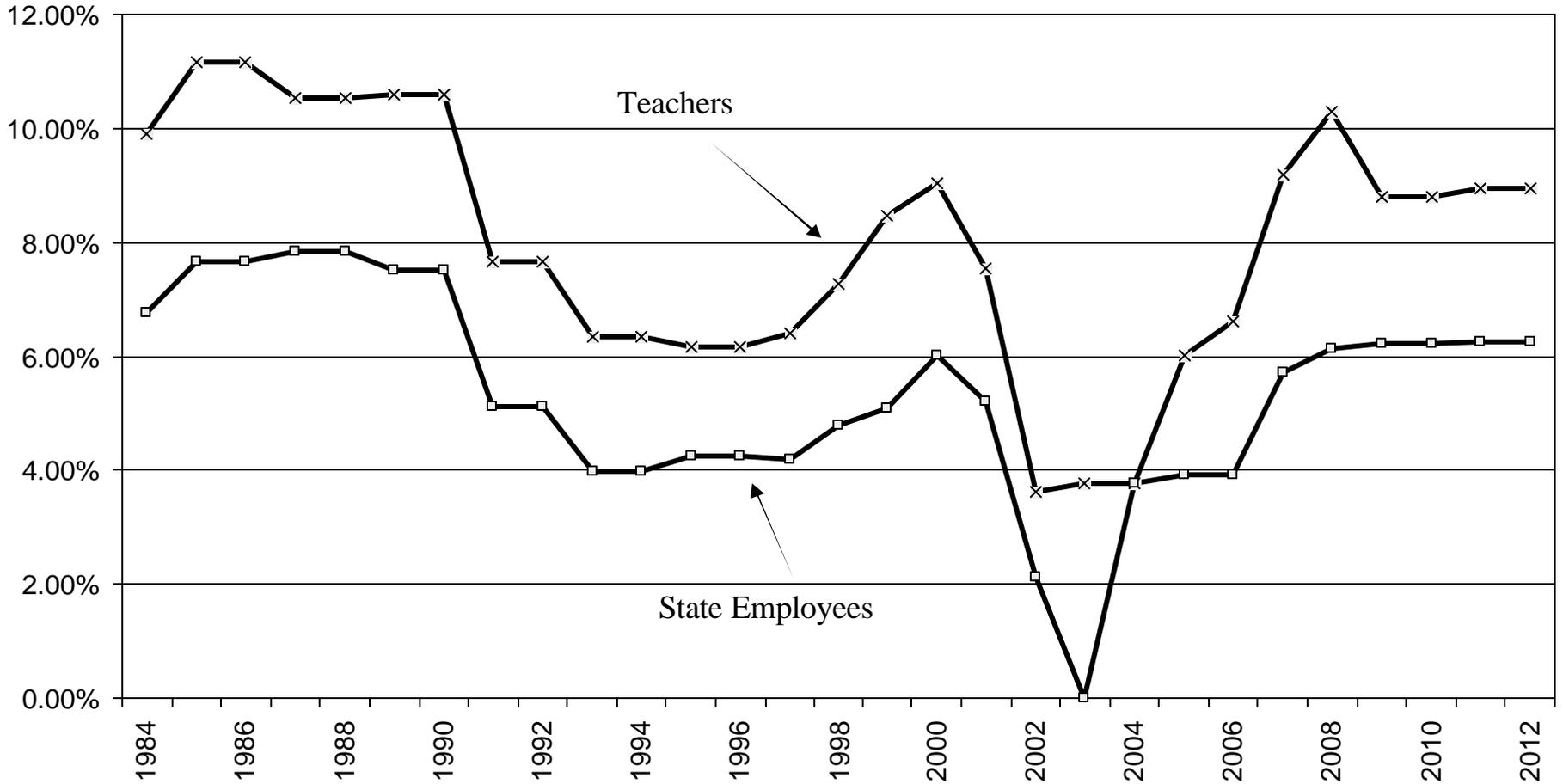
# Asset Smoothing – 5-Year Period



Actuarial Value is expected to be:

- ◆ Below Market when market is doing well
- ◆ Above Market when market is doing poorly

# Teacher and State Contribution Rates FY '84 - '10



**Thank you!**

