Virginia Retirement System
2017 Fiscal Impact Statement

1. **Bill Number:** HB 1768

House of Origin	☒	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☐	Substitute	☐	Enrolled

2. **Patron:** Garrett

3. **Committee:** Appropriations

4. **Title:** VRS; stress testing and reporting policies

5. **Summary:** Requires the Virginia Retirement System (VRS) to formally adopt stress testing and additional reporting policies. The bill requires VRS to analyze and regularly report on projections of benefit levels, pension costs, liabilities, and debt reduction under various scenarios; to provide a detailed online statement of investment policy and include investment performance data in certain timeframes up to 25 years; and to report investment performance and expenses such as carried interest fees.

6. **Budget Amendment Necessary**: No

7. **Fiscal Impact Estimates:** None.

8. **Fiscal Implications:** None.

9. **Specific Agency or Political Subdivisions Affected:** VRS.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** VRS already performs many of the activities covered in HB 1768 as outlined below per industry standard or Board policy. The VRS Board of Trustees is in the process of formalizing applicable requirements through its Request for Board Action process.

- The bill requires VRS to do the following:
  - Regularly conduct and report stress tests and sensitivity analyses
    - VRS already regularly conducts stress tests and sensitivity analyses per industry standard.
  - Provide online a clear and detailed statement of investment policy
    - VRS already posts its investment policy online.
  - Include 20- and 25-year returns in quarterly return reports
    - VRS already includes 1-, 3-, 5-, and 10-year returns in its quarterly reports.

    - In addition, VRS also already reports its 15-, 20-, and 25-year returns on its web site as of fiscal year end, and in its Comprehensive Annual Financial Report.
    - Providing 20- and 25- year investment returns on a quarterly basis would require significant additional staff time. As these are long-term returns, we would request consideration of providing this information on an annual basis, which is consistent with current practice.
- § Report quarterly investment returns both gross and net of fees
    - VRS already reports its returns net of fees, which is generally considered to be a best practice.
    - This bill requires reporting investment returns gross of fees as well. As doing so would require considerable additional effort to achieve, we would request gross of fee reporting to be on an annual basis.
- § Report quarterly returns by asset class
    - VRS already does this on a quarterly basis and posts this information online.
- § Regularly report investment performance and expenses for all asset classes
    - VRS already provides performance and expense reporting for all asset classes. As discussed at the Retirement Working Group, VRS will continue to explore the best method for reporting carried interest fees, likely using a method modeled largely upon a template developed by the Institutional Limited Partners' Association (ILPA).

Date: 01-20-2017
Document: HB1768.DOC/VRS