

Virginia Retirement System

2024 Fiscal Impact Statement

1. **Bill Number:** HB 162

House of Origin Introduced Substitute Engrossed

Second House In Committee Substitute Enrolled

2. **Patron:** Reid

3. **Committee:** Appropriations

4. **Title:** Financial reports by retirement systems; annual disclosures.

5. **Summary:** Requires retirement systems to provide disclosures describing the process and criteria used for selecting third-party fund managers, advisers, or consultants and other persons providing services to the retirement system. Such information shall be included in a retirement system's annual report.

6. **Budget Amendment Necessary:** Yes, as written. Item 484. Approximately \$250,000 in FY 2025 and in ongoing years. The bill could double the length of the VRS Annual Comprehensive Financial Report (ACFR), currently approximately 300 pages, which will increase the cost of producing the ACFR, including review by the Auditor of Public Accounts. Additionally, VRS may need an FTE to manage the additional reporting.

7. **Fiscal Impact Estimates:** More detail on the fiscal impact is explained in Item 8 below.

8. **Fiscal Implications:** While the language of the bill is somewhat unclear, the most reasonable interpretation is that the bill requires that VRS and the 12 independent retirement systems' annual reports list the identity of their third-party fund managers and their investment advisers or consultants. In addition, the bill requires that each annual report set out the criteria and process used to select such third-party fund managers, advisers, or consultants.

Operating on the assumption that this interpretation is correct, the bill would have a minimal fiscal impact on VRS. VRS' annual report already lists the identity of many of its third-party fund managers, typically the top 10 by investment program. Disclosing the ones not currently included in the annual report would not pose a significant cost to VRS, but would increase the length of the annual report by up to double the current length. Furthermore, the criteria and process used by VRS for selecting fund managers and advisers is available on the VRS website in the form of the VRS Defined Benefit Plan Investment Belief Statements and the VRS Defined Benefit Plan Investment Policy Statements. Including these policies in the annual report would likewise not impose a significant cost on VRS.

However, if any of the assumptions stated above are incorrect, there would be a fiscal impact in addition to the costs associated with the increased length of the annual report. If the bill requires an explanation of the criteria and process used to select each individual third-party fund manager, adviser, or consultant, or if the bill required a listing of persons providing

services outside of investment services, that would entail a significant amount of work and would require at least one full-time position.

9. Specific Agency or Political Subdivisions Affected: VRS and independent retirement systems administered by political subdivisions in the Commonwealth. The bill does not impact political subdivisions, such as local school boards, that offer certain 403(b) or 457 plans but do not administer their own retirement systems.

10. Technical Amendment Necessary: No.

11. Other Comments: The bill requires that VRS and the 12 independent retirement systems in the Commonwealth list in their annual reports the identity of their third-party fund managers and their investment advisers or consultants, and others who provide investment services to the retirement system. In addition, the bill requires that each annual report set out the criteria and process used to select such third-party fund managers, advisers, or consultants. Political subdivisions that do not administer their own retirement systems are not affected, such as local school boards that offer 403(b) plans or localities that offer separate 457 plans for their employees in addition to benefits administered by VRS or independent retirement systems.

Political subdivisions that do not administer their own retirement systems, such as local school boards that offer 403(b) plans for their employees, do not publish annual reports under Title 51.1.

Generally, procurement records, including evaluation criteria and scoring, are available under the Virginia Freedom of Information Act (Va. Code § 2.2-3700 et seq.) or the Virginia Public Procurement Act (Va. Code § 2.2-4300 et seq.) unless an exemption applies. Additionally, the VRS annual report is published in accordance with General Accounting Standards Board (GASB) requirements, and the draft report is reviewed by the Virginia Auditor of Public Accounts.

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Document: HB162.DOC/VRS