



Virginia
Retirement
System®

**VIRGINIA RETIREMENT SYSTEM
DISABILITY INSURANCE PROGRAM
(Virginia Sickness and Disability Program)**

GASB No. 75 Schedules

With Independent Auditor's Report Thereon

For the Plan Year Ended June 30, 2025

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August 20, 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 Disability Insurance Program (VSDP), 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 VSDP OPEB Liability (Asset), Total VSDP OPEB Expense (Revenue), Total Deferred Outflows of Resources, and Total Deferred Inflows of Resources (specified column totals) included in the accompanying Schedule of Net VSDP OPEB Liability (Asset) and Total VSDP OPEB Expense and the Schedule of Deferred Outflows and Deferred Inflows of Resources by Employer of the VSDP (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 VSDP OPEB asset, total VSDP 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 VSDP as of and for the year ended June 30, 2025, in accordance with accounting principles generally accepted in the United States of America.

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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 VSDP, 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 VSDP 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

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Virginia Retirement System
VRS Disability Insurance Program (VSDP)
Schedule of Employer Allocations
For the Plan Year Ended and Measurement Date of June 30, 2025

Employer Code	Employer	Employer Contributions	Employer Allocation Percentage
2XXXX	State Police Officers' Retirement System Employees	\$ 720,977	2.35280 %
35885	Fort Monroe Area Development Authority	\$ 10,572	0.03450 %
3XXXX	All Other State Employees	\$ 27,924,883	91.12848 %
7XXXX	Virginia Law Officers' Retirement System Employees	\$ 1,986,987	6.48422 %
	Total for all State Employers ⁽¹⁾	30,643,419	100.00000 %

⁽¹⁾ Employer-level results may not add to State system-wide results due to rounding.

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

Virginia Retirement System
VRS Disability Insurance Program (VSDP)
Schedule of Net VSDP OPEB Liability (Asset) and Total VSDP OPEB Expense
For the Plan Year Ended and Measurement Date of June 30, 2025

Employer Code	Employer	Net VSDP OPEB Liability (Asset) June 30, 2025	Total VSDP OPEB Expense (Revenue) 2025
2XXXX	State Police Officers' Retirement System Employees	\$ (10,240,141)	\$ (232,551)
35885	Fort Monroe Area Development Authority	(150,155)	(1,227)
3XXXX	All Other State Employees	(396,620,485)	(7,223,034)
7XXXX	Virginia Law Officers' Retirement System Employees	(28,221,318)	(12,176)
	Total for all State Employers	\$ (435,232,099)	\$ (7,468,988)

The accompanying notes are an integral part of the Schedule of Net VSDP OPEB Liability (Asset) and Total VSDP OPEB Expense.

Virginia Retirement System
VRS Disability Insurance Program (VSDP)
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				
		Net Difference					Net Difference				
		Between	Change in				Between	Change in			
		Projected	Proportionate				Projected	Proportionate			
		Difference	and Actual	Share and	Total		Differences	and Actual	Share and	Total	
		Between	Investment	Difference	Deferred		Between	Investment	Difference	Deferred	
		Expected	Earnings on	in Expected	Outflows		Expected	Earnings on	in Expected	Inflows	
Employer		and Actual	OPEB Plan	Change of	and Actual	of	and Actual	OPEB Plan	Change of	and Actual	of
Code	Employer	Experience	Investments	Assumptions	Contributions	Resources	Experience	Investments	Assumptions	Contributions	Resources
2XXXX	State Police Officers' Retirement System Employees	\$ 234,561	\$ —	\$ —	\$ 273,461	\$ 508,022	\$ 837,533	\$ 535,469	\$ 833,820	\$ 332,415	\$ 2,539,237
35885	Fort Monroe Area Development Authority	3,439	—	—	7,095	10,534	12,281	7,852	12,227	5,181	\$ 37,541
3XXXX	All Other State Employees	9,084,994	—	—	24,299,531	33,384,525	32,439,272	20,739,739	32,295,472	26,862,839	\$112,337,322
7XXXX	Virginia Law Officers' Retirement System Employees	646,438	—	—	3,911,917	4,558,355	2,308,206	1,475,724	2,297,966	1,821,985	\$ 7,903,881
	Total for all State Employers	\$ 9,969,432	\$ —	\$ —	\$ 28,492,004	\$ 38,461,436	\$35,597,292	\$ 22,758,784	\$ 35,439,485	\$ 29,022,420	\$122,817,981

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

**Virginia Retirement System
VRS Disability Insurance Program (VSDP)
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 Virginia Sickness and Disability Plan (VSDP) is the working name of the Disability Insurance Program for state employees.

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 System are classified as fiduciary funds and are included in the basic financial statements of the Commonwealth of Virginia.

Other Post-Employment Benefits (OPEB) – VSDP

The VSDP is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The VSDP was established pursuant to § 51.1-1100 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 VSDP is a managed care program that provides sick, family and personal leave and short-term and long-term disability benefits for State Police Officers, state employees and VaLORS employees. For purposes of measuring the net VSDP

OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB; and VSDP OPEB expense; information about the fiduciary net position of the VSDP; and the additions to/deductions from the VSDP’s net fiduciary position have been determined on the same basis as they were reported by the System. 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 VSDP OPEB Plan

Plan Description

All full-time and part-time permanent salaried state employees who are covered under the Virginia Retirement System (VRS), the State Police Officers’ Retirement System (SPORS), or the Virginia Law Officers’ Retirement System (VaLORS) hired on or after January 1, 1999, are automatically covered by the VSDP upon employment. The VSDP also covers state employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for disability retirement. This plan is administered by the System, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

The specific information for the VSDP OPEB, including eligibility, coverage and benefits is set out in the following table:

VSDP PLAN PROVISIONS
Eligible Employees The VSDP was established January 1, 1999, to provide short-term and long-term disability benefits for non-work-related and work-related disabilities. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS, SPORS and VaLORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP). • State employees hired before January 1, 1999, who elected to transfer to the VSDP rather than retain their eligibility to be considered for their pension plan’s disability retirement provisions. • Public college and university faculty members who elect the VRS defined benefit plan. They may participate in the VSDP or their institution’s disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in the VSDP.

VSDP PLAN PROVISIONS

Benefit Amounts

The VSDP provides the following benefits for eligible employees:

- **Leave:** Sick, family and personal leave. Eligible leave benefits are paid by the employer.
- **Short-Term Disability:** The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer.
- **Long-Term Disability (LTD):** The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches their normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of their normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the VSDP OPEB Plan.
- **Income Replacement Adjustment:** The program provides for an income replacement adjustment to 80% for catastrophic conditions.
- **VSDP Long-Term Care Plan:** The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

VSDP Plan Notes:

- Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels.
- A state employee who is approved for VSDP benefits on or after the date that is five years prior to their normal retirement date is eligible for up to five years of VSDP benefits.
- Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.

Cost-of-Living Adjustment (COLA)

- During periods an employee receives long-term disability benefits, the LTD benefit payment may be increased annually by an amount recommended by the actuary and approved by the Board.
 - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (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%).
 - Plan 1 employees non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%).
- For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
 - 100% of the increase in the pay over the previous plan year for continuing active VSDP members in the State, SPORS and VaLORS plans, with a maximum COLA of 4.00%.
- For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
 - 100% of the increase in the pay over the previous plan year for continuing active VSDP members in the State, SPORS and VaLORS plans, with a maximum COLA of 4.00%.

Contributions

The contribution requirements for the VSDP are governed by § 51.1-1140 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 employer's contractually required employer contribution rate for the VSDP for the year ended June 30, 2025, was 0.50% of covered employee compensation. This rate was the General Assembly approved rate which was 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 payable during the year, with an actuarial adjustment to amortize the accrued asset.

Actuarial Assumptions and Methods

The total VSDP OPEB liability 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	3.5% – 5.35%
SPORS employees	3.5% – 4.75%
VaLORS employees	3.5% – 4.75%
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

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
Discount Rate	No change
Rates of disability claim incidence	Same disability incidence as pension
Rates of disability claim termination	Lower termination in early years, higher in later years
Benefit offsets	Adjusted slightly
Catastrophic claims	No Change
Percentage eligible for additional 1% defined contribution	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 basis, to maintain margin
Salary Scale	Increase Merit & Longevity 50 basis points
Discount Rate	No change
Rates of disability claim incidence	Same disability incidence as pension
Rates of disability claim termination	Lower termination in early years, higher in later years
Benefit offsets	Adjusted slightly
Catastrophic claims	No Change
Percentage eligible for additional 1% defined contribution	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 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 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
Discount Rate	No change
Rates of disability claim incidence	Same disability incidence as pension
Rates of disability claim termination	Lower termination in early years, higher in later years
Benefit offsets	Adjusted slightly
Catastrophic claims	No Change
Percentage eligible for additional 1% defined contribution	No Change

Note 3. Net VSDP OPEB Liability (Asset)

The net VSDP OPEB asset (NOA) represents the total VSDP OPEB liability determined in accordance with GASB Statement No. 74, less its fiduciary net position. As of the measurement date of June 30, 2025, NOA amounts for the VSDP OPEB liability (asset) are as follows (amounts expressed in thousands):

Total VSDP OPEB Liability	\$ 323,479
Plan Fiduciary Net Position	758,711
VSDP Net OPEB Liability (Asset)	<u>\$ (435,232)</u>

Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	234.55%
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The total VSDP 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 VSDP OPEB asset 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 VSDP 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 System's 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 the state agency for the VSDP OPEB Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined 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 VSDP OPEB 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 VSDP OPEB liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's 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 the System's 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)	Arithmetic		Weighted Average
	Long-Term Target	Long-Term Expected	Long-Term Expected
	Asset Allocation	Rate of Return	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 VSDP OPEB liability (asset) of the participating employers in the VSDP OPEB Plan using the discount rate of 6.75%, as well as what the collective net VSDP OPEB liability (asset) 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 VSDP OPEB Liability (Asset) - 1.00% Decrease (5.75%)	\$	(413,131)
Net VSDP OPEB Liability (Asset) - Current Discount Rate (6.75%)	\$	(435,232)
Net VSDP OPEB Liability (Asset) - 1.00% Increase (7.75%)	\$	(454,932)

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 benefits through the VSDP OPEB Plan at June 30, 2025, was 8.22 years. Deferred outflows of resources related to the VSDP resulting from state agency contributions subsequent to the measurement date will be recognized as an increase of the Net VSDP OPEB Asset 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 the VSDP will be recognized in the VSDP expense as follows:

Measurement Period Ending June 30, 2026	\$	(15,587,290)
Measurement Period Ending June 30, 2027	\$	(17,125,111)
Measurement Period Ending June 30, 2028	\$	(15,559,611)
Measurement Period Ending June 30, 2029	\$	(12,223,062)
Measurement Period Ending June 30, 2030	\$	(8,970,279)
Thereafter	\$	(14,891,185)

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 VSDP 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 OPEB 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 \$30,643,417. The employer contributions of \$30,832,585 reported in the VSDP OPEB's Statement of Changes in Net Position (per the System's separately issued financial statements) reflects the calculated amount plus approximately \$189,168 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 VSDP OPEB's Notes to the Schedule of Employer Allocations and Schedule of the VSDP OPEB's Amounts by Employer (Schedules) was extracted from the audited financial statements of the System for the fiscal year ended June 30, 2025. Additional financial information supporting the preparation of the VSDP 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 is publicly available through the About VRS link on the System's website at <https://www.varetire.org/publications/?category=annual>, or a copy may be obtained by submitting a request to the VRS Chief Financial Officer, PO Box 2500, Richmond, VA 23218-2500.