

Glossary of Terms and Acronyms

accrued benefit

The amount of an individual's benefit determined in accordance with the terms of the pension plan and based on compensation and service to that date

active management

The management of an investment portfolio that involves active trading of securities in an attempt to produce above-average returns on a risk-adjusted basis.

active member

A participant of a pension plan who continues active employment in a covered position.

actuarial accrued liability

That portion, as determined by a particular actuarial cost method, of the actuarial present value of pension plan benefits and expenses that is not provided for by future normal costs.

actuarial assumptions

The assumptions about uncertain future events or experiences used in actuarial calculations, such as future claim rates, expenses, and investment earnings. It is also a prediction of future conditions affecting pension costs, such as mortality rates, employee turnover, compensation levels and growth rates, and inflation.

actuarial cost method

A procedure for determining the actuarial present value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of normal costs.

actuarial gain (or loss)

the effect on VRS pension costs resulting from differences between actuarial assumptions and actual experience

actuarial report

A document prepared as a formal means of conveying an actuary's professional conclusions and recommendations; recording and communicating the methods, procedures, and assumptions; and ensuring that the parties addressed are aware of the significance of the actuary's opinion or findings.

actuarial valuation

The determination, as of a valuation date, of the normal cost, actuarial accrued liability, actuarial value of assets, and related actuarial present values for a pension plan.

actuarial value of assets

The value of cash, investments and other property belonging to a pension plan as used by the actuary for the purpose of an actuarial valuation.

AFC

A member's average final compensation, which is the average of the highest consecutive 36 months of creditable compensation, used by VRS to determine the retirement benefit amount.

alternative investments

Investments other than public equity or fixed income intended to improve the risk/return profile of the total portfolio, such as private equity, real estate, and hedge funds.

amortization

The gradual elimination of a liability in regular payments over a specified period of time.

APA

The State Auditor of Public Accounts, responsible for financial audits of the Virginia Retirement System.

asset allocation

The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate, and cash, to optimize the risk/reward tradeoff based on specific goals.

basis point

One hundredth of a percentage point (0.01%).

benchmark

an established standard of performance against which VRS investment performance can be measured

beneficiary

The person designated to receive benefits under an employee benefit plan in the event of the death of the person covered by the plan.

capitalization

The market price of an entire company, calculated by multiplying the number of shares outstanding by the price per share; referred to as 'cap' as in 'small cap' or 'large cap.'

CIO

The VRS chief investment officer, responsible for managing the investment program.

COLA

Cost of living adjustment, which is an increase in the retirement benefit that is intended to reflect the change in living costs since the last adjustment.

credit strategies

An investment program focused on strategies where one of the primary risks associated with the investment is credit risk.

deferred compensation

A voluntary supplemental retirement savings program which allows an employee to defer paying taxes on a portion of their compensation while saving for retirement. The deferred amount and any earnings that may result are not taxed until they are withdrawn.

defined benefit plan

In a defined benefit plan, such as VRS, each employee's future benefit is determined by a specific formula, and the plan provides a guaranteed level of benefits on retirement. Usually, the promised benefit is tied to the employee's earnings, length of service, or both.

defined contribution plan

A pension plan that provides for an individual account for each member, and for benefits based solely on amounts contributed to the participant's account and any investment income.

domestic equity

Publicly-traded U.S. stocks

entry age normal method

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s).

equity

1. Ownership interest in a corporation in the form of common stock or preferred stock.
2. Total assets minus total liabilities, in which case it is also referred to as shareholder's equity, or net worth or book value.

fiscal year (FY)

The 12-month period from July 1 to June 30.

fixed income

A security that pays a specific interest rate, such as a bond, money market instrument, or preferred stock.

funded ratio

The ratio of the value of benefits members have earned to the value of the retirement systems' assets. There are several acceptable methods of measuring assets and liabilities. Using the Government Accounting Standards Board (GASB) definition, the funded ratio of a system is the actuarial value of assets over its actuarial accrued liability.

GAAP

Generally accepted accounting principles.

GASB

The Governmental Accounting Standards Board, which establishes the standards for accounting in public employee pension funds (and other government entities).

global equity

Publicly-traded stocks around the world (U.S. and non-U.S.).

hedge fund

An investment fund that uses aggressive strategies including selling short, leverage, program trading, swaps, arbitrage, and derivatives.

IAC

The VRS investment advisory committee.

JLARC

The Joint Legislative Audit and Review Commission, responsible for the general oversight of the Virginia Retirement System.

JRS

The Judicial Retirement System, which provides retirement benefits to judges.

large cap

Capitalization of more than \$5 billion.

LEOS

Local Enforcement Officers Retirement benefits, which are enhanced retirement benefits provided by political subdivisions to police officers, sheriffs, deputy sheriffs, and professional fire fighters. LEOS is not a separate retirement fund.

mid cap

Capitalization of \$1 billion to \$5 billion.

non-US equity

Publicly-traded international stocks (developed and emerging markets)

normal cost

That portion of the actuarial present value of pension plan benefits and expenses which is allocated to a valuation year by the actuarial cost method, excluding any payment in respect of an unfunded actuarial accrued liability.

ORP

Optional retirement plan, such as those for political appointees, school superintendents, or volunteer firefighters.

passive management

A money management strategy that seeks to match the return and risk characteristics of a market segment or index, by mirroring its composition.

pension

A series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance financed by employer contributions.

PLOP

Partial Lump-sum Option Payment, in which a retiree receives a lump-sum distribution if they have worked past the date of eligibility for unreduced retirement.

political subdivision

Local or regional governmental entities, including counties, cities, towns, school divisions, planning district commissions, local and regional authorities, community service boards, transportation districts and authorities, soil and water conservation districts, regional jails, and local and regional commissions

private equity

Equity capital invested in a privately-held company.

public equity

Equity capital invested in a public company.

retiree

A participant of a pension plan who has terminated active employment and who has begun to receive retirement benefits.

small cap

Capitalization of less than \$1 billion. The term 'micro cap' is sometimes used for companies with less than \$250 million in capitalization.

SPORS

The State Police Officers Retirement System, which provides retirement benefits to law enforcement officers of the Department of State Police.

unfunded actuarial accrued liability

The excess of the actuarial accrued liability over the actuarial value of assets.

VaLORS

The Virginia Law Officers Retirement System, which provides retirement benefits to State law enforcement officers, including: Capitol police or campus police officers, game wardens, ABC special agents, marine patrol officers, correctional officers, juvenile correctional officers, parole officers, and commercial vehicle enforcement officers employed by the Department of State Police.

vested

Having established, by active employment for the required period, a right to pension benefits upon retirement. VRS active members are vested after five years of service.

VRS

The Virginia Retirement System, which provides retirement benefits to public employees at the State and local levels in Virginia.

VSDP

The Virginia Sickness and Disability Program. The program under which State employees receive sick leave, family sick leave, and short- and long-term disability benefits.