**VERMONT STATE TEACHERS' RETIREMENT SYSTEM**
Meeting of the Board of Trustees – Pavilion Auditorium
**October 25, 2018 – 2:00 p.m.**

**Members present**:
JON HARRIS, Chairperson, Active Member Representative, term expiring– July 1, 2019
JOSEPH MACKEY, Vice-Chairperson, VRTA representative, term expiring July 1, 2020 – via telephone
JUSTIN NORRIS, Active Member Representative, term expiring July 1,
LINDA DELIDUKA, VRTA Alternate Representative, term expiring July 1, 2020 (voting member)
DEBORA PRICE, representing Secretary of Agency of Education
DANIEL RADDOCK, Financial Regulation Representative
BETH PEARCE, VT State Treasurer

**Members absent:**
PERRY LESSING, Active Member Alternate Representative, term expiring July 1, 2021

**Also attending**:
Eric Henry, Director of Investments
Katie Green, Investments Manager
Andy Cook, Investments Analyst
Laurie Lanphear, Director of Retirement Operations
Tim Duggan, Assistant Attorney General
Erika Wolffing, Retirement Office
Matthew Strom, Segal Consulting

The Chair, Jon Harris, called the Thursday, October 25, 2018 meeting to order at 2:18 p.m., which was held in the Auditorium, Pavilion Building, 109 State Street, Montpelier, VT.

**ITEM 1: Agenda approval and announcements**

There were no changes made to the agenda. Ms. Pearce announced that the Symposium on Public Pensions has been postponed until November and asked the Board members to help notify individuals who were planning to attend.

**ITEM 2: Approve the Minutes of:**

- October 11, 2018

**On a motion by Mr. Norris, seconded by Ms. Price, the Board voted unanimously to approve the minutes of October 11, 2018 as submitted.**

**ITEM 3: FY2018 Actuarial Valuation**

Mr. Strom presented background information to the Board about actuarial valuations and explained important terms that will appear throughout the report. Mr. Strom presented the FY18

Actuarial Valuation compiled by Segal Consulting. Mr. Strom went over the valuation highlights explaining that Segal recommends an actuarial funding policy that targets 100% funding of the actuarial accrued liability. Mr. Strom explained the unfunded actuarial accrued liability is paid over a closed period ending in 2038. Between July 1, 2009 to June 30, 2019 the amortization amount increased at a rate of 5%, beginning on July 1, 2018 and annually thereafter, the amortization amount will increase annually at a rate of 3%. The actual contributions made for FY18 were $114.6 million or 129.6% of the actuarially determined contribution amount of $88.4 million. The 129.6% includes the additional one-time contribution of $29.4 million. The investment return for the year on a market value basis was 7.6% compared to the assumed rate of return of 7.5%, the gain is smoothed out so that the actuarial value of assets was 7.0% resulting in an investment loss.

The actuarially determined employer contribution (ADEC) for FY19 was $105,640,777, the ADEC for FY20 is $126,197,389 showing the difference in calculating the payment based on 5% versus 3%. The funded percentage on a market value of assets (MVA) basis improved from 52.97% to 54.22%, and on an actuarial value of assets (AVA) basis from 54.22% to 55.22%. Mr. Strom highlighted the membership data as of July 1, 2018, there were 9,892 active members to 10,056 non-actives, yielding a ratio of non-active to actives of 1.02. The average amount of monthly benefit for retirees and beneficiaries was approximately $1,700 with an average age of 72 years. The active number of members has decreased between 2009 and 2019, as has the average age and average years of service, indicating the plan is moving toward a younger active population. Mr. Strom explained the chart of comparison between contributions and benefits paid, the plan is in a negative cash flow situation which is offset by investment returns.

Mr. Strom explained the gain/loss analysis. On investments there was a net loss of just over $8 million and other experience loss of $43 million, for a total of $51 million. The investment return was a gain of almost $2 million dollars, but the smoothed value led to a loss of $8 million. Mr. Strom went over the gain/loss from all other experience including a loss of $29 million from net turnover, a loss of $15 million from retirement, a small gain on mortality of $750,000, a gain of $10 million on salary increases, a loss of $1 million on COLA experience, and an additional $8 million loss from liability on terminated individuals within the time frame to return to service. Mr. Strom explained that terminated individuals within the timeframe to return to service will be valued at 250% of accumulated contributions a change from 332.5% under the prior actuary. The total loss from other experience was almost $43 million.

Mr. Strom highlighted that the normal cost for the year is $41,238,252 or 6.43% of payroll. The unfunded actuarial accrued liability is $1,513,433,335. For FY20 the recommended ADEC is a combination of the employer normal cost and the payment on the unfunded liability for total of $126,197,389. Ms. Pearce explained that when the unfunded liability is paid off, the plan will almost completely be funded by the employee contribution, currently at 5.35% of payroll (blend of those members paying 5% and those paying 6%). Mr. Strom explained the risk section of the report evaluating how different factors will impact the unfunded liability. The Board has already decided to early implement Actuarial Standard of Practice (ASOP) 51 to evaluate risks on the pension fund using stochastic modeling.

Mr. Strom presented 'actuarial hot topics' that members may hear about in the media, including a study for public sector mortality tables, ASOP 4 and ASOP 51. The mortality for public sector plans were being overstated, or the liabilities were being understated. The new tables and study will have less impact on the VSTRS pension system due to the mortality assumptions adopted last year. ASOP 4 will now require plans to calculate and disclose an actuarially determined employer contribution (Vermont systems already do this) and disclose an investment risk defeasement measure. Mr. Strom further explained ASOP 51 and potentially developing a plan management policy in future years.

Ms. Pearce explained that the ADEC in the current draft of the report is based on the current formula in the statute. Ms. Pearce suggested that the additional funding from the past legislative session ($29.4 million) should not be used to reduce future employer contributions but instead be held aside and allowed to accrue interest and used at the end of the amortization schedule in 2038. This proposal would result in paying a higher ADEC in FY20. Ms. Pearce stated that staff will work with the actuaries to present a memo outlining this proposal at a conference call Board meeting at the end of the month.

**On a motion made by Ms. Pearce, seconded by Mr. Norris, the Board voted unanimously to approve the FY18 Actuarial Valuation as presented by Segal Consulting including all assumptions and benefit changes.**

**On a motion made by Ms. Pearce, seconded by Ms. Deliduka, the Board voted unanimously to identify the ADEC as created by statute but given the intent to put more dollars into the system in FY19, an additional amount to be determined in a subsequent meeting before November 1 to maximum the benefit to the fund.**

**<u>ITEM 4:</u> Other Business**

None.

**<u>ITEM 5:</u> Adjournment**

**On a motion made by Ms. Deliduka, seconded by Mr. Norris, the Board voted unanimously to adjourn at 3:56 p.m.**

**<u>Next Meeting Date</u>:**

The next VSTRS Board meeting is a Conference Call Meeting on October 30, 2018 at 4:00 p.m.

Respectfully submitted,

Erika Wolffing

Erika Wolffing
Retirement Office