

VERMONT STATE TEACHERS' RETIREMENT SYSTEM
Meeting of the Board of Trustees – Conference Call Only
October 28, 2020 – 2:00 p.m.

Please note all members participated via telephone, video, or teleconference:

Members present:

JON HARRIS, Chairperson, VRTA representative, term expiring July 1, 2024
JUSTIN NORRIS, Vice-Chair, Active Member Representative, term expiring July 1, 2021
ERIN CARTER, Active Member Representative, term expiring July 1, 2023
EMILY SIMMONS, representing Secretary of Agency of Education
DANIEL RADDOCK, Financial Regulation Representative
BETH PEARCE, VT State Treasurer
LINDA DELIDUKA, VRTA Alternate Representative, term expiring July 1, 2024

Members absent:

Vacant, Active Member Alternate Representative, term expiring July 1, 2021

Also attending:

Michael Clasen, Deputy State Treasurer
Tim Duggan, Assistant Attorney General
Erika Wolffing, Director Retirement Operations
Lesley Campbell, Retirement Administrative Coordinator
Ashlynn Doyon, Executive Assistant to the Treasurer
Will Kriewald, Chief Financial officer
Matthew Strom, Segal Consulting
Kathy Riley, Segal Consulting
Patryk Tabernacki, Segal Consulting

The Chair, Jon Harris, called the Wednesday October 28, 2020 Board meeting to order at 2:04 p.m., which was held by conference call only.

ITEM 1: **Agenda approval and announcements**

On a motion made by Ms. Pearce, seconded by Mr. Norris, the Board voted unanimously to approve the agenda.

There were no announcements.

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

- October 16, 2020

On a motion made by Mr. Norris, seconded by Ms. Pearce, the Board voted unanimously to approve the minutes of the October 16, 2020 as presented.

ITEM 3: VSTRS Actuarial Valuation 2020

Mr. Strom presented the 2020 VSTRS Actuarial Valuation. Mr. Strom explained the member data as of June 30, 2020. There were 9,996 active members and 10,730 non-actives resulting in a ratio of non-active to actives of 1.07. Plans with a ratio higher than 1.00 indicates a more mature plan. The active members had an average age of 45.5 years, 12.4 average years of service, and average payroll of \$64,616. As of the end of the fiscal year, there were 2,710 inactive members (terminated within the past 6 years) and 887 deferred members. There were 9,340 retired members and 503 beneficiaries receiving total monthly benefits of \$17,690,605, with an average monthly retirement benefit of \$1,797.

Mr. Strom explained the financial information for the plan. Benefits have exceeded employer and member contributions for the past few years. The actuarial valuation of assets as of June 30, 2020 was \$2,035,713,611. Mr. Strom explained the derivation of the actuarial valuation of assets and that this method smooths out any gains and losses. The actuarial experience of the assumptions made resulted in a net loss from investments of \$21 million, and a loss from all other experience on the demographic side of \$37 million for a total loss of \$58 million. The investment rate of return assumption was 7.50%, the market value rate of return was 4.55%, and the actuarial value rate of return was 6.40%. Mr. Strom explained the other experience assumptions, there was a loss of \$21.7 million from net turnover, a loss of \$24.9 million from retirement, a loss of \$3.3 million from mortality, a gain of \$10.4 million from salary increases, and a gain of \$8.8 million from COLA experience.

The unfunded liability as of the end of the year was \$1.933 billion. For measurement and reconciliations purposes, Mr. Strom explained the calculation of the preliminary contribution including the employer normal cost of \$37,768,479 or 5.58% of payroll. Mr. Strom presented the derivation of the actuarially determined employer contribution (ADEC) for FY22. The amortization payment on the unfunded liability is \$157,304,971 and the normal cost based on projected payroll (assumed to increase 3% each year) and 5.58% is \$38,901,533 yielding a FY22 ADEC of \$196,206,504.

Ms. Riley presented the history of the actuarial determined contributions and the actual contributions made; they have exceeded 100% in recent years. The funded ratio has been fairly flat over the past few years, and between 2019 and 2020 due to changes made to the assumptions the funded ratio has decreased from 55.6% to 51.3% on an actuarial basis. Ms. Riley outlined the actuarial balance sheet and as of June 30, 2020 the total current and future assets was \$4.7 billion. Ms. Riley explained the risk sections of the report.

On a motion made by Mr. Norris, seconded by Ms. Pearce, the Board voted unanimously to accept the 2020 VSTRS Actuarial Valuation Report as presented by Segal Consulting.

On a motion made by Mr. Norris, seconded by Ms. Pearce, the Board voted unanimously to recommend to the Governor and General Assembly that the FY22 actuarially determined employer contribution (ADEC) of \$196,206,504 be fully funded and appropriated in the next fiscal year in order to achieve and preserve the financial integrity of the fund.

The Board discussed an additional motion, recognizing the large increase to the ADEC over the prior year, Ms. Pearce asked that the Board consider directing the Treasurer to work with stakeholder groups to discuss potential cost saving changes to the plan. Ms. Pearce reminded the Board that conversations took place last fall and winter during the risk assessment but felt the group might have been too large as it consisted of representatives from all three plans. Ms. Pearce stated that Treasurer's office staff would update the Board on any progress made during these cost savings discussions in the next two months.

On a motion made by Mr. Harris, seconded by Ms. Pearce, the Board voted unanimously to direct the Treasurer to work with stakeholder groups to identify and review recommendations to lower the unfunded liability and the actuarially determined employer contribution (ADEC) to at least the previous 2021 projections, and to present those recommendations to the Governor and the Vermont General Assembly by January 15, 2021.

ITEM 4: VEHI FY22 Rate Filing Update

Mr. Duggan updated the Board on the ongoing FY22 rate filing undertaken by VEHI on behalf of VSTRS. The Board voted at the previous meeting to recommend splitting the overall rate increase between the under 65 and over 65 populations at 17.0% and 6.26% respectively. VEHI recently notified staff that it updated its enrollment numbers for the plan as of September 30, 2020 resulting in an additional revenue need of approximately \$300,000. VEHI will be recommending an increase of 17.0% for the under 65 population and 7.00% for the over 65 population. Mr. Duggan stated that staff intends to respond to DFR directly on VEHI's rate filing advocating for the Board's previous recommended rate increase of 17.0% and 6.26%.

ITEM 5: Other Business

None.

ITEM 6: Adjournment

On a motion made by Mr. Norris, seconded by Mr. Raddock, the Board voted unanimously to adjourn at 3:49 p.m.

Next Meeting Date:

The next VSTRS Board meeting is on November 10, 2020 at 9:00 a.m.

Respectfully submitted,



Erika Wolffing
Director of Retirement Operations