

VERMONT STATE TEACHERS' RETIREMENT SYSTEM
Meeting of the Board of Trustees – Conference Call, Treasurer's Conference Room
November 8, 2023 – 9:00 a.m.

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

Members present:

JON HARRIS, Chairperson, VREA representative, term expiring July 1, 2024
ERIN CARTER, Vice-Chairperson, Active Member Representative, term expiring July 1, 2027
MIKE PIECIAK, VT State Treasurer
GENEVIEVE HAMBY, Active Member Alternate Representative, term expiring July 1, 2025
PERRY LESSING, VREA Alternate Representative, term expiring July 1, 2024
DANIEL RADDOCK, Financial Regulation Representative
EMILY SIMMONS, representing Secretary of Agency of Education
SANDRA MINGS-LAMAR, Active Member Representative, term expiring July 1, 2025

Also attending:

Gavin Boyles, Deputy Treasurer, (*designated voting member on behalf of Treasurer Pieciak)
Tim Duggan, Director of Retirement, Office of the State Treasurer
Nicole Weidman, Director of Retirement Operations and Policy, Retirement Division
Justin St. James, General Counsel, Office of the State Treasurer
Scott Baker, Director of Financial Reporting, Office of the State Treasurer
Stephen Barry, Administrative Services Manager, Retirement Division
Steve May, Hickok & Boardman
Colin Robinson, Political Director, Vermont NEA
Yori Rubinson, Segal Consulting
Brian Madigan, Segal Consulting
Gabe D'Ulisse, Empower Retirement
Ronald Sanville, Empower Retirement
Brian Ficek, Empower Retirement
Kristin Green, Empower Retirement
Joseph Fein, Empower Retirement

The Chair, Jon Harris, called the Wednesday, November 8, 2023, Board meeting to order at 9:01 a.m. which was held by conference call.

ITEM 1: Agenda approval and announcements

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

ITEM 2: Approve the Minutes of:

- October 19, 2023

On a motion made by Mr. Boyles, seconded by Ms. Carter, the Board voted unanimously to approve the minutes of October 19, 2023 as presented.

Mr. Pieciak joined the meeting at 9:15 a.m.

ITEM 3: VSTRS Other Post-Employment Benefits Report – Segal Consulting

Segal Consulting presented the 2023 Other Post-Employment Benefits Report for the Vermont State Teachers' Retirement System. The slide deck used is appended to these minutes and the link to the valuation can be found below.

Link: [2023 VSTRS OPEB Report](#)

On a motion made by Mr. Pieciak, seconded by Mr. Raddock, the Board voted unanimously to accept the 2023 VSTRS GASB 74 (OPEB) Actuarial Report as presented by Segal Consulting.

On a motion made by Mr. Pieciak, seconded by Ms. Carter, the Board voted unanimously to recommend to the Governor and General Assembly that the FY25 actuarially determined employer contribution (ADEC) to the Benefits Fund of \$70,482,644 be fully funded and appropriated in the next fiscal year in order to achieve and preserve the financial integrity of the fund.

ITEM 4: Empower Quarterly Presentation – 403(b) & SDIA 3rd Quarter Report

Mr. D'Ulisse and the team from Empower provided an update to the Board regarding the plan participation rates, macroeconomic observations, and the Quarterly Presentation for the 457(b) and the SDIA for the 3rd quarter of 2023.

Link: [Plan Review for July 1-September 30, 2023](#)

Mr. Pieciak left the meeting at 10:31 a.m.

ITEM 5: Empower Contract

Mr. St. James presented his summary memo of the current state of negotiations with Empower regarding the transition from Prudential. He emphasized that he has and will continue to ensure that there are no substantive changes to the member experience throughout the process.

He highlighted that important features such as fee structure, investment lineups, and custodial agreements are governed by the same terms and conditions of the agreement using the State's terms. Mr. St. James also informed the Board that his memo can be used to understand the larger contract when he presents it to the Board at a future meeting.

ITEM 6: New Teacher Assessment

Mr. Duggan presented a memo explaining the New Teacher Assessment revenue source as well as the method of using CPI to adjust it. He explained that this year's New Teacher Assessment was

calculated to be \$1,542.

On a motion made by Ms. Carter, seconded by Mr. Boyles, the Board voted unanimously to approve a FY25 New Teacher Assessment of \$1,542.

ITEM 7: Joint Pension Oversight Committee Recap

Mr. Boyles and Mr. Duggan spoke about the presentation by the Treasurer's Office on the State of the Pension Systems in Vermont to the Joint Pension Oversight Committee. They explained that presentations focused on the most recent Experience Studies and Valuations. They emphasized that the Committee was happy to see the work on pension reform that has been going on for the last few years is starting to materialize.

ITEM 8: Any other business and adjournment

Mr. Duggan informed the Board that the final ADEC letter for the Legislature had been included in the meeting materials.

Mr. Duggan also informed the Board that no action is needed on the proposal to engage an outside consultant for review of the supplemental plan fees and investment lineups. He told them that he originally thought he would need to Board to vote to authorize the ask, however he realized that the contract is under the Treasurer's Office, so no vote is needed.

On a motion made by Ms. Mings-Lamar seconded by Mr. Boyles, the Board voted unanimously to adjourn at 10:54 a.m.

Next Meeting Date:

The next VSTRS Board meeting is on December 14, 2023 at 3:30 p.m.

Respectfully submitted,



Stephen Barry
Secretary to the Board



Vermont State Teachers' Retirement System

GASB 74 Actuarial Valuation Measured as of June 30, 2023

November 2023

**Yori Rubinson, FSA MAAA
Brian Madigan, ASA MAAA**



Discussion Topics

Agenda

- Valuation Highlights
- Assumptions and Methods
 - Summary
 - Experience Study
 - Plan Participation Rates
 - Per Capita Claims Costs
 - Trend Rates
- Market Value of Assets
- Valuation Results
- Reconciliation of the Total OPEB Liability
- Actuarially Determined Contribution
- Member Demographics

Valuation Highlights

June 30, 2023 GASB 74 OPEB Actuarial Valuation

➤ Actuarial Determined Contribution (ADC)

- ADC for FYE25 increased from \$61 million to \$70 million
- Expected \$2 million increase from annual payroll growth
- Additional \$7 million increase from demographic and assumption changes

\$ in millions	Year Ending June 30, 2025	Year Ending June 30, 2024	Year Ending June 30, 2023
Long-term investment return rate	7.00%	7.00%	7.00%
ADC	\$70	\$61	\$55

➤ Total OPEB Liability (TOL) increased by 12.4% over prior year

- Expected 4.6% increase from normal plan operations
- TOL increased relative to expected by 7.4%

Assumptions and Methods

Summary

Assumption or Method	Description	Same as Pension?	Updated for 2023?
Funding Method	Entry Age Normal Funding Method	Yes	No
Asset Valuation Method	Market value	No	No
Discount Rate	A blend of long-term (pension valuation) and short-term rates	Yes	No
Salary Growth	Varies by age	Yes	Yes*
Mortality Rates	How long members live after retirement, and how many members die prior to retirement	Yes	Yes*
Termination Rates	How many members will leave the System prior to retirement	Yes	Yes*
Retirement Rates	When members will retire	Yes	Yes*
Plan Participation Rates	How many members will elect coverage upon retirement	N/A	Yes*
Spousal Participation Rates	How many spouses of members will elect coverage upon retirement	N/A	No
Spousal Age Difference	How much older are spouses of members	N/A	No
Per Capita Claims Costs (Premium Rates)	Monthly cost of health care	N/A	Yes*
Trend Rates	How health care costs will increase in the future	N/A	Yes*

* Further discussion on following pages

Assumptions and Methods

Experience Study

- The salary scale, mortality, termination, disability, and retirement rates were updated in accordance with the Actuarial Experience Review prepared by Segal adopted by the Vermont Pension Investment Commission during their meeting on July 25, 2023.

Plan Participation Rates

- The percentage of active employees eligible for a subsidy at retirement assumed to elect health coverage was increased from 75% to 85%. Based on experience, 60% immediately elect coverage. Of the other 40%, 65% subsequently elect coverage the following year, totaling 86%.

Assumptions and Methods

Per Capita Claims Costs

- Monthly cost of health care (i.e. premium rates)
- Varies by recipient type, plan elected, and Medicare status.
- 2024 non-Medicare costs based on margin-free pro forma premiums developed by BCBS of Vermont
- 2024 Medicare costs based on premiums developed by BCBS of Vermont and VBA
- The actuarial factors used to estimate individual per capita claims by age and gender were updated

Trend Rates

- Trend rates were updated, based on most recent Segal Trend Survey, other published surveys and the composition of health care elected by participants
- The long-term trend rate of 4.50% is consistent with industry standards

Market Value of Assets (\$ in millions)

	Fiscal Year Ending June 30, 2023	Fiscal Year Ending June 30, 2022
Beginning of Year	\$40.5	\$14.6
Employer Contributions	57.2	54.2
Benefit Payouts	(34.5)	(28.1)
Administrative Expenses	(0.0)	(0.0)
Investment Income (net)	<u>9.0</u>	<u>(0.2)</u>
End of Year	\$72.2	\$40.5
Rate of Return	11.9%	-3.3%

Valuation Results (\$ in millions)

	June 30, 2023	June 30, 2022
Discount Rate	7.00%	7.00%
Total OPEB Liability (TOL):		
• Active Members	\$396	\$330
• Inactive Members	43	46
• Retirees and Beneficiaries Enrolled in Health Care	<u>413</u>	<u>382</u>
Total	\$852	\$758
Plan Fiduciary Net Position	<u>72</u>	<u>40</u>
Net OPEB Liability (NOL)	\$780	\$718
Plan Fiduciary Net Position as a percentage of TOL	8.48%	5.34%

Reconciliation of Total OPEB Liability (\$ in millions)

	Liability	% Change
Total OPEB Liability (TOL) as of June 30, 2022	\$758	
Expected Liability	\$793	
Changes		
Demographic Experience	\$11	1.4%
Per Capita Claims and Claims Curve	(21)	-2.6%
Contribution Rates	10	1.3%
Trend Rates	25	3.2%
Pension Experience Study Updates	(13)	-1.6%
Increased Retiree Participation	<u>47</u>	5.8%
Total Change	\$59	
Total OPEB Liability (TOL) as of June 30, 2023	\$852	12.4%

Actuarially Determined Contributions (ADC)

- The ADC for the fiscal year ending June 30, 2025 uses the Projected Unit Credit actuarial method
 - Assets are projected forward from June 30, 2023 assuming contributions equal the ADC for the year ending June 30, 2024 (\$61 million)
 - The Unfunded Actuarial Accrued Liability was amortized over 24 years calculated as a level percent of projected payroll (3.00% annual payroll growth)

\$ in millions	Year Ending June 30, 2025	Year Ending June 30, 2024	Year Ending June 30, 2023
Long-term investment return rate	7.00%	7.00%	7.00%
Actuarial Accrued Liability	\$885	\$782	\$683
Health Care Fund Assets	<u>(102)</u>	<u>(64)</u>	<u>(15)</u>
Unfunded Liability	\$783	\$718	\$668
Normal Cost	\$21	\$17	\$15
Amortization of the Unfunded Liability	<u>49</u>	<u>44</u>	<u>40</u>
Total ADC	\$70	\$61	\$55

Member Demographics

	June 30, 2022*	June 30, 2021*
Active Members	10,387	9,955
Average Age	45.2	45.3
Average Years of Service	12.1	12.3
Terminated Members Entitled but Not Yet Eligible	1,816	2,001
Retirees and Beneficiaries Not Enrolled in Health Care	2,813	2,656
Retirees Enrolled in Health Care		
Retirees	7,208	7,176
Average Age of Retirees	73.4	72.9
Spouses and Dependents (excluding children)	1,440	1,324
Average Age of Spouses	70.9	70.8
Surviving Spouses	105	104
Average Age of Surviving Spouses	80.3	80.4
Total Retirees, Spouses, and Surviving Spouses Enrolled in Health Care	8,753	8,604

*Total OPEB Liability was measured as of June 30, 2023 and 2022 determined from actuarial valuations using data as of June 30, 2022 and 2021 respectively.

Caveats

The assumptions, plan provisions and data used are described in the Vermont State Teachers' Retirement System Governmental Accounting Standards Board (GASB) Statement 74 Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) Measured at June 30, 2023.

This presentation is based on the results of the June 30, 2023, actuarial valuation performed for the Board of Trustees of the Vermont State Teachers' Retirement System. The actuarial valuation report has information on the plan provisions, data, methods and assumptions used in the valuation. Use of the information in this presentation is subject to the caveats described in that document. The measurements in this presentation may not be appropriate for purposes other than those described in the actuarial valuation report.

Segal accounting results are based on proprietary actuarial modeling software. The accounting valuation models generate a comprehensive set of liability and cost calculations that are presented to meet accounting standards and client requirements. Our Actuarial Technology and Systems unit, comprising both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

The results are also based on models for cost projections developed by Segal actuaries and programmers. The client team customizes and validates the models, and reviews the results, under the supervision of the responsible actuary.

The blended discount rate used for calculating Total OPEB Liability is based on a model developed by our Actuarial Technology and Systems unit, comprised of both actuaries and programmers. The model allows the client team, under the supervision of the responsible actuary, control over the entry of future expected contribution income, benefit payments and administrative expenses. The projection of fiduciary net position and the discounting of benefits is part of the model.

Our claims costs assumptions are based on proprietary modeling software as well as models that were developed by others. These models generate per capita claims cost calculations that are used in our valuation software. Our Health Technical Services Unit, comprised of actuaries and programmers, is responsible for the initial development and maintenance of our health models. They are also responsible for testing models that we purchase from other vendors for reasonableness. The client team inputs the paid claims, enrollments, plan provisions and assumptions into these models and reviews the results for reasonableness, under the supervision of the responsible actuary.