VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
Meeting of the Board of Trustees
October 15, 2019 – 11:00 a.m.

<u>VMERS Members present</u>:
MAURA CARROLL, Chairperson, Employer Representative (term expiring July 1, 2022)
KIMBERLY GLEASON, Employer Representative (term expiring July 1, 2020) – via telephone
MORGAN DAYBELL, Employee Representative (term expiring July 1, 2020) – via telephone
CHRISTOPHER DUBE, Employee Representative (term expiring July 1, 2022)
BETH PEARCE, Vermont State Treasurer

<u>Members absent:</u>

<u>Also attending</u>:
Tim Duggan, Assistant Attorney General
Will Kriewald, Chief Financial Officer
Matthew Strom, Segal Consulting – via telephone

The Chair, Ms. Carroll called the Tuesday, October 15, 2019 Board Meeting to order at 11:00 a.m. which was held in the Treasurer's Conference Room, Pavilion Building, 4th Floor, 109 State Street, Montpelier, VT.

<u>ITEM 1:</u> **Agenda approval and announcements**

On a motion made by Ms. Gleason, seconded by Ms. Pearce, the Board voted unanimously to approve the agenda with swapping agenda items 3 and 4.

<u>ITEM 2</u>: **Approve the minutes of:**

- **September 17, 2019**

On a motion made by Mr. Dube, seconded by Ms. Gleason, the Board voted unanimously to approve the minutes of September 17, 2019 as submitted.

<u>ITEM 4:</u> **VPIC Member & Alternate (term expiring 6/30/2022)**

Ms. Carroll recapped the discussion from the prior Board meeting, stating that Ms. Gleason and Mr. Amons were interested in switching rolls on VPIC with Ms. Gleason becoming the voting member and Mr. Amons becoming alternate. Ms. Carroll stated that she felt it was good practice to have the sitting VMERS Board member be the voting member on VPIC.

On a motion made by Mr. Dube, seconded by Ms. Carroll, the Board voted by roll call to appoint Ms. Gleason as the VPIC member and Mr. Amons as the alternate VPIC member for the term expiring June 30, 2022. Ms. Carroll, Mr. Dube, Mr. Daybell and Ms. Gleason voted in the affirmative. Ms. Pearce abstained.

<u>ITEM 3:</u> **Risk Assessment Presentation**

Ms. Pearce explained the rationale behind why the Trustee Boards decided to initiate a risk assessment using a stochastic approach. The risk assessment was completed in September and presented to the Board chairs and interested stakeholder groups.

Mr. Strom explained the difference between a deterministic and stochastic approach in the risk assessment. Deterministic projections convey expectation and do not give a sense of possible volatility. Stochastic projections produce distribution of results so expectation and volatility around expected results can be calculated. Segal grouped each years' results into percentiles and drew attention to the 25^{th} -75^{th} percentile range reflecting where 50% of the outcomes fall.

The report looked at the investment return assumption that was lowered from 7.95% to 7.5% in 2017 for reasonableness. The assessment then looked at the impact to the plan if the investment return were lowered to 7.3%. This does not have an impact on the VMERS employer contribution rates as the employer contribution rates are set by the Board but would have an impact on funding percentage of the plan. Mr. Strom explained the investment simulations run and that the volatility of the simulations decrease as you move out toward the end of the amortization schedule because gains and losses are smoothed out over time.

Mr. Strom explained the VMERS baseline projections. In 2018, the Group A contribution rate exceeded the actuarially determined contribution rate, while the employer rates for Groups B, C, and D were less than the actuarially determined rate. For FY20, based on 3% amortization payments, the current employer rates for all groups will be less than the actuarially determined contribution rate. Mr. Strom explained that at the current contribution rates, on a deterministic basis, the rates are insufficient to fund the liabilities by June 30, 2038. On a stochastic basis, there is a 34% chance of the liabilities being fully funded by June 30, 2038. Mr. Strom explained the rate schedule increases through FY22 for the employee and the employer. The projected funded percentage for VMERS shows a decline in funding percentage starting in 2025 assuming an investment return of 7.5%.

The report modeled two alternative contribution schedules. Mr. Strom explained 'schedule A', an additional 0.25% employer contribution increase for 4 years beyond 2022 (all groups end up contributing 1% more at the end of the 4-year period). This did not impact funding significantly, and they instead modeled higher increases to the employer contribution rates for Groups B, C and D for a consistent 1.5% difference. This resulted in 91% funding in 2038 at the 50^{th} percentile. Alternative schedule B used a ratio of member to employer contribution rates at a fixed amount with both rates increasing to keep the ratio consistent over the 4-year period between FY22 and FY26. This resulted in 96% funding in 2038 at the 50^{th} percentile.

Ms. Gleason left the meeting during the risk assessment presentation.

Mr. Strom explained the impact by group of the alternative B contribution rate schedule. Group A would be 101% funded by 2038, Group B would be at 95%, Group C would be at 101%, and Group D would be at 82% (all at the 50^{th} percentile).

Mr. Strom explained that the current VMERS actuarially determined contribution rate is based on a hybrid funding method prioritizing stable costs and defers recognizing gains and losses. The risk assessment considered a comparison of alternative schedule B to an ADC that is determined on a basis similar to VSERS and VSTRS, utilizing entry age normal and a closed amortization period of the unfunded liability ending in 2038 with payments increasing at 3% per year. Under this scenario the projected ADC using EAN by 2025 the contribution amount would exceed the ADC, or through 2024 the plan is running a deficit. Mr. Strom then explained when the employer contribution would exceed the ADC by Group, for Group A it would be in 2022, for Group B it would be in 2026, Group C would be in 2024, and Group D would be close through 2030 but beyond the deficit would increase.

Mr. Strom explained the last scenario modeled where instead of fixed employer contribution rates, the employer contribution was based on an actuarially determined contribution rate. In aggregate the employer rate would start out at 5.7% and end up at 10.5% by 2038 (at the 50^{th} percentile). Mr. Strom also outlined what the employer contribution rates would become by Group. Finally, the report modeled the impact of a cash infusion on the funding status of Group D. An extra $5 million over 5 years would be enough to get Group D fully funded by 2033.

Ms. Pearce stated that the Board has done good work to improve the funding of the VMERS Plan through the 4-year incremental increase, but more work will be needed. The actuarial valuation will be completed at the end of October with an experience study to follow in the spring.

ITEM 5: **Other Business**

None.

ITEM 6: **Adjournment**

On a motion made by Ms. Pearce, seconded by Mr. Dube, the Board voted unanimously to adjourn at 12:33 p.m.

Next Meeting Date:
The next scheduled VMERS meeting is October 29, 2019 at 11:00 AM.

Respectfully submitted,

Erika Wolffing

Erika Wolffing
Director Retirement Operations