

## VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Conference Call Meeting of the Board of Trustees

January 12, 2018 – 1:00 p.m.

### **VMERS Members present:**

PETER AMONS, Chairperson, Employee Representative (term expiring July 1, 2020)  
KIMBERLY GLEASON, Employer Representative (term expiring July 1, 2020) – via telephone  
DAVID ROWLEE, Employee Representative (term expiring July 1, 2018) – via telephone  
MEL HAWLEY, Employer Representative (term expiring July 1, 2018) – via telephone  
BETH PEARCE, Vermont State Treasurer

### **Also attending:**

Katie Green, Investments Manager  
Andy Cook, Investment Analyst  
Tim Duggan, Assistant Attorney General  
Laurie Lanphear, Director of Retirement Operations  
Erika Wolffing, Retirement Office  
Christine McHugh, Prudential Retirement – via telephone  
Bill Brennan, Prudential Retirement – via telephone  
Jim Cutinello, Prudential Retirement – via telephone

Mr. Amons called the Friday, January 12, 2018 Conference Call meeting to order at 1:02 p.m. which was held in the Treasurer's Conference Room, Pavilion Building, 4th Floor, 109 State Street, Montpelier, VT.

### **ITEM 1:      **Approve the minutes of:****

- December 15, 2017

**On a motion by Ms. Pearce, seconded by Mr. Rowlee, the Board voted by roll call to approve the minutes of December 15, 2017 as submitted with Ms. Pearce and Mr. Rowlee, voting in the affirmative, Mr. Hawley abstained.**

Ms. Gleason joined the meeting at 1:05 p.m.

### **ITEM 2:      **Prudential Transition Plan Design Review & Discussion****

Mr. Cook introduced the members from Prudential Retirement and explained that revisions to the plan designs for the Municipal Defined Contribution Plan and the Municipal Retiree Health Savings Plan reflect current best practices and industry standards.

Ms. McHugh presented the summary of changes proposed to the plan design for the Municipal Defined Contribution Plan. Prudential proposed changing the plan year end to 12/31, bringing the plan in line with the rest of the supplemental retirement plans. The employer non-elective contributions were updated in the plan document to reflect that those contributions are computed on a biweekly basis. For rehire paybacks, Prudential recommended changing the provision to be

required for employer contributions only. Forms of payment were updated to allow ad-hoc payments. Required distributions were updated to reflect the later of the calendar year following the calendar year in which the participant attains age 70½ or retirement, this would bring the plan in line with the State DC plan. The beneficiary hierarchy was updated to reflect spouse, children, parents, and estate. Rollover types were updated to clarify that after-tax rollovers are not allowed.

Mr. Hawley inquired as to why the employer contributions changed to a biweekly computation period as his town submits payroll on a monthly basis. Ms. McHugh stated Prudential could update the plan to make the language more general, so the computation period reflects the payroll period for the individual municipality.

Mr. Hawley stated the importance of trying to get participants to designate a beneficiary for their supplemental retirement plans. Ms. McHugh informed the Board that Prudential intends to do targeted campaigns after the transition to encourage participants to designate a beneficiary.

Ms. Pearce questioned why the rehire paybacks were changed to require employer contributions only, as this is different from current administrative practice. Ms. McHugh explained that this provision applies to participants who leave service before they are vested and take their contributions out of the plan. Mr. Cutinello stated this provision was incorrectly presented as a change over the prior document and should be removed.

The Board discussed the forfeiture break in service rules currently stated in the plan document as a three-year period based on the defined benefit statute. Mr. Cutinello stated the three-year provision was included based on current administrative practice provided by the retirement office, if in fact that provision does not exist in state statute, the provision should be updated to reflect an immediate forfeiture on break in service for non-vested participants in the Municipal DC Plan. Ms. Pearce requested Ms. Lanphear and Mr. Duggan research this issue and that the Board defer action on the Muni DC plan pending clarification.

Ms. Lanphear and Mr. Duggan left the meeting at this time.

Ms. McHugh presented the updated Municipal Retiree Health Savings Plan (MRHSP) plan design document. The proposed plan design did not incorporate any changes over the prior document. Ms. Green gave a summary of the plan, it was established in July 2007 as a vehicle to put aside additional money for municipal participants to access in retirement for qualified health and medical expenses. It was last contributed to in February 2009.

**On a motion by Ms. Pearce, seconded by Mr. Hawley, the Board voted by roll call to accept the plan design for the Municipal Retiree Health Savings Plan to be transferred to Prudential Retirement. Ms. Pearce, Ms. Gleason, Mr. Hawley, Mr. Rowlee voted in the affirmative.**

**ITEM 3: Investment Line-Up Discussion - MRHSP**

Mr. Cook presented the VMERS RHSP Fund Line-up report. Staff recently found out that the current ICMA target date funds transitioned to collective investment trusts (CITs) from mutual funds, and the subcontractor Prudential works with cannot support CITs on their platform requiring the Board to change funds for the MRHSP. Staff worked with Cammack to analyze a number of target date funds and recommended the Board adopt the American Funds Target Date Retirement fund line up.

**On a motion by Ms. Pearce, seconded by Ms. Gleason, the Board voted by roll call to adopt the American Funds Target Date Retirement fund lineup effective with the transition to Prudential Retirement for Recordkeeping Services on February 1, 2018 for the VMERS Retiree Health Savings Plan. Ms. Pearce, Ms. Gleason, Mr. Rowlee, and Mr. Hawley voted in the affirmative.**

Ms. Lanphear and Mr. Duggan rejoined the meeting at this time.

**ITEM 2: Prudential Transition Plan Design Review & Discussion**

Ms. Lanphear stated that in the Municipal Defined Contribution Plan, the office has never had a participant who has left service (vested or non-vested) and then come back and tried to get their prior service credit restored. Ms. Lanphear suggested it is up to the Board to decide how they would like to treat a participant in this situation. Ms. Pearce recommended removing this provision in the plan design document and make it consistent with existing practice.

**On a motion by Ms. Pearce, seconded by Mr. Hawley, the Board voted by roll call to accept the plan design document for the Municipal Defined Contribution Plan changing the rehire paybacks provision to be consistent with existing practice and updating the computation period to reflect the payroll period of the individual municipality. Ms. Pearce, Mr. Hawley, Mr. Rowlee, and Ms. Gleason voted in the affirmative.**

**ITEM 4: Act on the following request to join VMERS effective 1/1/2018**

- Spaulding High School/Central Vermont Career Center
- Barre City Elementary and Middle School

Ms. Lanphear presented the two requests to join VMERS and notified the Board that ballots were sent out prior to January 1 and the office is currently hearing back from employees.

**On a motion by Ms. Pearce, seconded by Ms. Gleason, the Board voted by roll call to approve Spaulding High School/Central Vermont Career Center and Barre City Elementary and Middle School as VMERS members effective January 1, 2018. Ms. Pearce, Ms. Gleason, Mr. Rowlee, and Mr. Hawley voted in the affirmative.**

**ITEM 5:      Discuss/Act on Disability Retirement Recommendation for:**

- James Cantor

**On a motion made by Ms. Pearce, seconded by Ms. Gleason, the board voted by roll call to accept the recommendation of the MRB to allow disability retirement for James Cantor with a one-year review. Ms. Pearce, Mr. Rowlee, Ms. Gleason, and Mr. Hawley voted in the affirmative.**

**ITEM 6:      Review/Discuss Employee & Employer Contribution Rates**

Mr. Hawley referred to the FY17 actuarial report and the summary of the funding status of the plan by Group. He stated he is not trying to force a reconsideration of the vote on employer rates, but is concerned about the action taken at the last Board meeting. Mr. Hawley inquired as to whether changing the amortization schedule from 5% to 3% resulted in an increase in the required contribution rates. Ms. Pearce stated it requires an increase in the earlier years, but overtime will result in lower employer contribution rates in the out years. The state and teacher systems adopted a 3% amortization schedule a few years ago resulting in a reduction of \$165 million in interest payments.

Mr. Hawley stated the Board made a motion that impacts rates for 4 years and is concerned that the increase in year 1 was not absolutely necessary based on the actuarial report. Mr. Amons explained that the VMERS system does not use entry age normal (EAN), the VMERS utilizes a hybrid system and it makes the funding numbers look better than they are in reality. Ms. Pearce explained that under EAN the only group with a surplus is Group D (due to their size and relative volatility), necessitating a perceived need by the Board to gradually raise both employer and employee rates across all groups. Mr. Hawley stressed his belief that groups should not see an increase unless it is absolutely warranted and is concerned that the Board locked itself in for a four year period. Mr. Amons stated he believed it was absolutely necessary to increase rates and the sufficiency numbers for each group.

**ITEM 7:      Any other business to come before the Board**

Ms. Pearce stated the office is submitting the miscellaneous retirement bill on Tuesday with the incorporated employee rates.

**ITEM 8:      Adjournment**

**On motion by Ms. Pearce, seconded by Ms. Gleason, the Board voted by roll call to adjourn at 2:25 p.m. Ms. Pearce, Mr. Rowlee, Ms. Gleason and Mr. Hawley voted in the affirmative.**

**Next Meeting Date:**

The next scheduled VMERS meeting TBD.

Respectfully submitted,

A handwritten signature in black ink that reads "Erika Wolff". The signature is written in a cursive, flowing style.

Erika Wolff  
Director Retirement Outreach & Policy