

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
Conference Call Meeting of the Board of Trustees
December 15, 2017 – 11:00 a.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
BETH PEARCE, Vermont State Treasurer

Members absent:

MEL HAWLEY, Employer Representative (term expiring July 1, 2018)

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

Mr. Amons called the Friday, December 15, 2017 Conference Call meeting to order at 11:03 a.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:**

- November 14, 2017

On a motion by Ms. Gleason, seconded by Mr. Rowlee, the Board voted unanimously to approve the minutes of November 14, 2017 as submitted.

ITEM 2: **Review/Discuss Employee & Employer Contribution Rates**

Ms. Pearce informed the Board of the outcome of the meetings with the VMERS stakeholder groups. Two meetings were held with the Chair and representatives from VtNEA, PFFV, AFSCME, and the USW to discuss increases to the employee contribution rates. VMERS employee rates are set by the Legislature, the employer rates are set by the Board of Trustees. The stakeholders agreed to support a four-year proposal to increase employee rates incrementally by 1/8th in year 1, 1/8th in year 2, 1/4th in year 3, and a 1/4th in year 4, across all groups, assuming the employer rates increase at the same rate over 4 years. Ms. Pearce stated that these agreed to rates will be incorporated into the miscellaneous retirement bill.

On a motion made by Ms. Pearce, seconded by Mr. Rowlee, the Board voted unanimously to increase the employer contributions across all Groups by 1/8th in year 1, 1/8th in year 2,

1/4th in year 3, and a 1/4th in year 4, and to recommend the same increases to the employee rates to the Legislature.

ITEM 3: Director of Investments Report – Prudential Fee Discussion

Ms. Green presented staff recommendations to the fee structures related to the third-party administrator transition for the supplemental retirement plans. Staff requested the VMERS Board vote whether to:

1. move to zero revenue share classes where available in the VMERS DC plan's line-up
2. standardize the recordkeeping participant fee process in the VMERS DC plan
3. add the VMERS DC plan's investment line-up the ICMA-RC Plus Fund

Ms. Green explained the different type of plan fees for the supplemental retirement plans, starting with the investment management fees. In advance of the transition to Prudential, Fidelity is no longer allowing the state to offer the Fidelity K Shares on the Prudential platform. As a result, staff is recommending moving to a zero-revenue share. This lowest cost scenario has total direct aggregate savings to participants in the VMERS DC fund of \$13,791 annually. The current fee is approximately 0.60%, the proposed lowest cost fee (largely zero-revenue) would be 0.53% for the VMERS DC plan. The current fee for the VMERS RHA is 1.01%, the proposed lowest cost fee would be 0.56%.

On a motion made by Ms. Pearce, seconded by Ms. Gleason, the Board voted unanimously to adopt the lowest cost option for each share class in the VMERS DC plan and VMERS RHA Plan such that each is in a zero-revenue share where available.

Ms. Green explained the two types of recordkeeping fees available under Prudential, an asset-based fee or a per-participant fee. Under an asset-based fee, each participant is assessed a basis point fee annually, small plan balances are not eroded by fees, but higher balances pay a larger percentage. Under a per participant fee, each participant pays a flat dollar amount annually, a set fee represents a smaller portion as balances compound over time, but it may seem expensive for those with a small balance. Prudential negotiated a 0.07% asset base fee for VMERS DC, or a \$28.50 per participant fee per year. Ms. Pearce informed the Board that the State and Teachers Boards adopted a per participant fee, and recommended the VMERS Board also adopt this fee structure to provide consistency across the Plans.

On a motion by Ms. Pearce, seconded by Ms. Gleason, the Board voted unanimously to adopt a per participant fee of \$28.50 for the VMERS DC Plan and a \$3.60 per participant fee for the VMERS RHA Plan.

Ms. Green informed the Board that Fidelity will no longer allow their Stable value fund on the Prudential platform. Staff is recommending the VMERS Board elect to replace the stable value fund for the DC plans' investment line-up with the ICMA RC PLUS Fund.

On a motion by Ms. Pearce, seconded by Ms. Gleason, the Board voted unanimously to add the ICMA RC PLUS Fund to the VMERS DC plan's line-up.

Ms. Green and Mr. Cook left the meeting at this time.

ITEM 4: Discuss/Act on Disability Retirement Recommendation for:

- Robert Paradise

On a motion made by Ms. Pearce, seconded by Ms. Gleason, the board voted unanimously to accept the recommendation of the MRB to allow disability retirement for Robert Paradise without review.

ITEM 5: Any other business to come before the board

Mr. Amons brought up the amortization issue discussed at previous Board meetings. Currently the State and Teachers systems have moved to a 3% amortization schedule to pay back the unfunded liability, while VMERS has a 5% amortization schedule. Ms. Pearce stated the Board has the ability to vote to move to a 3% amortization schedule in FY 20 bringing the VMERS system in line with the other two systems, resulting in lower interest payments on the unfunded liability over time.

On a motion made by Ms. Pearce, seconded by Mr. Rowlee, the Board voted unanimously to change the amortization schedule for the FY18 valuation and FY20 funding recommendation on the VMERS unfunded liability from 5% to 3%.

Mr. Duggan presented proposed changes to Title 24, brought about by a review of teacher's retirement statutes. These changes would bring the municipal system into parity with the recommended changes to the teacher's system. Ms. Pearce explained that the language changes surrounding non-vested withdrawals are required by the IRS.

On a motion made by Ms. Pearce, seconded by Ms. Gleason, the Board voted unanimously to adopt the proposed changes to Title 24 to be included in the miscellaneous retirement bill.

Mr. Duggan informed the Board that the office received two responses to its RFQ for a hearing officer. Staff is recommending executing a contract with Michael Zimmerman, Esq. at a rate of \$75 per hour for one year to hear Type II disability retirement appeals.

On a motion by Ms. Pearce, seconded by Mr. Rowlee, the Board voted unanimously to execute a contract with Mr. Zimmerman to hear type 2 disability appeals at a rate of \$75 per hour for one year.

ITEM 6: Adjournment

On motion by Ms. Pearce, seconded by Ms. Gleason, the Board voted unanimously to adjourn at 12:02 p.m.

Next Meeting Date:

The next scheduled VMERS meeting TBD.

Respectfully submitted,

A handwritten signature in cursive script that reads "Erika Wolff". The signature is written in black ink and is positioned below the text "Respectfully submitted,".

Erika Wolff
Director Retirement Outreach & Policy