

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees
December 20, 2022 at 10:00 a.m.

DRAFT COPY – NOT YET APPROVED BY BOARD

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

Members present:

CHRISTOPHER DUBE, Chairperson, Employer Representative (term expiring July 1, 2026)
MORGAN DAYBELL, Employee Representative (term expiring July 1, 2024)
KATHLEEN RAMSAY, Employer Representative (term expiring July 1, 2026)
BETH PEARCE, Vermont State Treasurer
KIMBERLY GLEASON, Vice-Chair, Employer Representative (term expiring July 1, 2023)

Also attending:

Tim Duggan, Director, Vermont Retirement System
Justin St. James, Staff Attorney, Office of the State Treasurer
Stephen Barry, Financial Administrator, Retirement Division
Owen Doherty, Executive Assistant to the Treasurer
Will Kriewald, Chief Risk Officer
Jeremiah Breer, Chief Financial Officer
Tom Golonka, Chair, VPIC Board of Trustees
Eric Henry, Chief Investment Officer, VPIC
Katie Green, Deputy Chief Investment Officer, VPIC

Mr. Dube called the Tuesday, December 20, 2022 Board Meeting to order at 10:01 a.m. which was held by conference call

ITEM 1: Agenda approval and announcements

Ms. Pearce amended the agenda to move the Municipal Defined Contribution Discussion and Actuarial Crossover Testing to the beginning of the meeting.

Ms. Gleason joined the meeting at 10:04 a.m.

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

Mr. Duggan and Mr. Dube presented a Resolution recognizing Treasurer Pearce for her many years of service to the State of Vermont.

On a motion made by Mr. Dube, seconded by Mr. Ramsay, the Board voted unanimously to approve the Resolution.

ITEM 2: Approve the minutes of:

- **November 15, 2022**

On a motion made by Ms. Pearce, seconded by Ms. Gleason, the Board voted unanimously to approve the minutes of the November 15, 2022, as presented.

ITEM 3: Municipal Defined Contribution Discussion

Mr. Duggan and Ms. Pearce presented on the VMERS DC Plan issue of underfunding. The slide deck used is appended to these minutes and the link to the valuation can be found below.

Ms. Pearce explained the issue of underfunding and proposed the solution of increasing the employer cost from 5.125% to 6%. She explained that this has been discussed with employers.

On a motion made by Ms. Gleason, seconded by Mr. Daybell, the Board voted unanimously to accept the recommendation by staff to increase the employer cost from 5.125% to 6.00%.

ITEM 4: Actuarial Crossover Testing

Ms. Pearce presented on the actuarial crossover for VMERS. She explained that because of the increasing normal cost and the current funding rates, the Fund has been getting closer to the crossover event.

The Treasurer recommended a crossover test with the actuaries in February 2023, ahead of the experience study.

Ms. Pearce left the meeting at 10:35 a.m.

ITEM 5: VPIC Presentation

Mr. Golonka thanked Ms. Pearce for her service on behalf of VPIC and Mr. Henry presented an overview of VPIC's current position and operational strategies. He discussed the historical relationship between evolving capital markets and expected risk and how that relationship affects decision-making in the short and long term. Mr. Henry updated the Board on management fees as well as ESG factors that VPIC uses when evaluating investments.

Mr. Booth entered the meeting at 10:50 a.m.

Mr. Henry and Mr. Golonka left the meeting at 10:56 a.m.

ITEM 6: VMERS FY 2024 Budget Overview

Mr. Duggan highlighted some of the key changes to the proposed budget for FY 2024 which included a request for more positions in the Retirement Division and requesting funds for training for Board members and staff.

On a motion made by Ms. Gleason, seconded by Mr. Daybell, the Board voted unanimously to approve the FY 2024 VMERS Budget as presented.

ITEM 7: Board Calendar

On a motion made by Ms. Gleason, seconded by Mr. Daybell, the Board voted unanimously to approve the 2023 Board Calendar.

ITEM 8: Any other business to come before the Board

On a motion made by Ms. Gleason, seconded by Mr. Daybell, the Board voted unanimously to adjourn at 11:07 p.m.

Next Meeting Date:

The next scheduled VMERS meeting is January 17, 2023 at 11:00 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'S B O', is written over a faint circular stamp.

Stephen Barry
Secretary of the Board
Financial Administrator I

MUNICIPAL DC PLAN – ADMIN FEES

Vermont State Treasurer's Office
December 20, 2022



CURRENT FUNDING IS INSUFFICIENT

The 0.125% Admin Fee is not generating enough revenue to cover the cost of administering the Municipal DC Plan

- Historically, expenses have remained generally constant, within a sizeable band, while revenues have been more sporadic
 - Through FY17, revenues and expenses generally evened out every year or so
 - From FY18, a deficit has been growing as revenue sources besides the admin fee have dried up, likely resulting from the switch to Prudential/Empower
- Expense/Revenue Imbalance
 - Expenses have ranged from approx. \$50,000 - \$90,000 / year
 - Revenues have included:
 - Admin Fee – ranging from \$10,000 - \$15,000 / year
 - Forfeitures – ranging from 0 - \$72,000 / year
 - Fees/Credits – ranging from 0 - \$50,000 / year
- Covered payroll in the DC Plan has declined in recent years, generating less revenue through the Admin Fee
- As of the end of FY22, the deficit stands at approx. \$250,000

HOW THE PLAN IS CURRENTLY FUNDED

■ Current Contribution Rates

- Employee Contribution Rate – 5.0% of covered payroll
- Employer Contribution Rate – 5.0% of covered payroll

■ Current Fees

- Employees pay an annual fee of 0.14% of their asset-value
 - This pays for Empower's third-party administration services
- Employers pay an Admin Fee of 0.125% of covered payroll
 - This is intended to pay for the Retirement Division's costs of administering the program (mostly payroll and some bank fees)
- The plan also received forfeitures/credits that are applied towards the costs of operating the plan.

OUR PROPOSED SOLUTION

The Admin Fee should be increased from 0.125 to 1.0% of covered payroll, effective July 1, 2023

- The Admin Fee needs to increase to generate sufficient revenue to cover ongoing costs plus recover the deficit over time.
 - Employers currently pay a total of 5.125% of covered payroll (employer contribution plus admin fee)
 - This will result in a total Employer cost increase of 5.125% to 6.0% of covered payroll, effective July 1, 2023
 - The 6.0% recommendation is based on the need to fund current expenses plus retire the deficit in approximately 10 years
- While these increases are significant, they are comparable to the VMERS Defined Benefit rates

VMERS DB RATES

- Fiscal Year 2023, Effective the first reported payroll, July 1, 2022

	EMPLOYEE	EMPLOYER
GROUP A	3.500%	5.000%
GROUP B	5.875%	6.500%
GROUP C	11.000%	8.250%
GROUP D	12.35%	10.850%

- Fiscal Year 2024, Effective the first reported payroll, July 1, 2023

	EMPLOYEE	EMPLOYER
GROUP A	3.750%	5.250%
GROUP B	6.125%	6.750%
GROUP C	11.250%	8.500%
GROUP D	12.600%	11.100%

THE EFFECT ON EMPLOYERS

- The below table illustrates how this will affect some larger Employers payments into the system

	Entity #1	Entity #2	Entity #3	Entity #4	Entity #5
Salary	\$ 433,052.33	\$ 935,718.82	\$ 575,190.79	\$ 835,610.63	\$ 616,584.68
Current Admin (0.125%)	\$ 541.20	\$ 1,168.32	\$ 719.08	\$ 1,044.83	\$ 770.67
On-Going Additional (0.875%)	\$ 3,789.21	\$ 8,187.54	\$ 5,032.92	\$ 7,311.59	\$ 5,395.12
Total On-Going (1.00%)	\$ 4,330.41	\$ 9,355.86	\$ 5,752.00	\$ 8,356.42	\$ 6,165.79

THE PLAN NEEDS TO BE SUSTAINABLE

- Employer cost (contribution plus admin fee) to increase from 5.125% to 6.00%
 - Staff will revisit fees annually to monitor progress and ensure the deficit is retired in 10 years.
- Move to Empower saved significant fees, but we also lost some revenue sources that offset employer costs
- Muni DC still very much within the range of VMERS DB Plans

MUNICIPAL DC PLAN

Questions / Discussion