VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM
Meeting of the Board of Trustees – Conference Call Meeting
December 14, 2017 – 9:00 a.m.

VSERS Members present:
ROGER DUMAS, Chair, VRSEA Representative (term expiring October 31, 2018)
THOMAS HANGO, Vice-Chair, VSEA Representative (term expiring September 30, 2018) – via telephone
JEFF BRIGGS, VSEA Representative (term expiring September 30, 2018) – via telephone
ERIC DAVIS, VSEA Representative (term expiring September 30, 2019) – via telephone
ALLEN BLAKE, VRSEA Alternate Representative (term expiring October 31, 2018) – via telephone
JEAN-PAUL ISABELLE, VSEA Alternate Representative (term expiring September 30, 2019) – via telephone
JAY WISNER, Governor's Delegate position – via telephone
ADAM GRESHIN, Commissioner of Finance & Management (ex-officio)
DAN POULIOT, Deputy Commissioner of Department of Human Resources
BETH PEARCE, Vermont State Treasurer

Members absent:
BETH FASTIGGI, Commissioner of Department of Human Resources (ex-officio)

Also attending:
Matt Considine, Director of Investments
Katie Green, Investments Manager
Andy Cook, Investment Analyst
Laurie Lanphear, Director of Retirement Operations
Scott Baker, Director of Financial Reporting
Tim Duggan, Assistant Attorney General
Erika Wolffing, Retirement Division
Daniel Levin, Segal Consulting – via telephone

The Chairperson, Roger Dumas, called the Thursday, December 14, 2017, Conference Call Board meeting to order at 9:02 a.m., which was held in the Treasurer's Conference Room, Pavilion Building, 4th Floor, 109 State Street, Montpelier, VT.

ITEM 2: Review/Act on Other Post-Employment Benefits (OPEB) Report

Ms. Pearce provided introductory remarks in advance of Mr. Levin's presentation, explaining the 2017 OPEB report resulted in a 40% increase in liability over the prior year. This increase was largely due to changes in health care trend rates.

Mr. Levin presented the reconciliation of actuarial accrued liability for other post-employment benefits in the state system. The June 30, 2016 number for actuaria1 accrued liability was $1.166

billion as calculated by the prior actuary Buck Consulting. Changes to this year's report included projecting liability 2 years forward resulting in an 8.1% increase or $95 million. The Board adopted new mortality rate assumptions resulting in 1.6% increase or $20 million. This year's OPEB Report considered per capita claims, looking at the experience of Medicare and pre-Medicare groups separately resulting in a 4.1% increase or $53 million. The health care trend rate increase driven by post-Medicare drug trends resulted in a 11.3% increase or $151 million reflecting national trends in health care. The excise tax or Cadillac tax increased with the per capita claims resulting in a 1.1% increase or $16 million. The defined benefit participants continue to have life insurance after retirement, and this benefit was previously not considered in prior valuations, the life insurance was included this year and resulted in a 1.9% increase or $29 million. The discount rate was reduced from 4.00% to 3.58% due to GASB requirements resulting in an increase of 6.8% or $103 million. These changes resulted in an overall increase of 40.1% over the prior valuation or a total accrued liability of $1.633 billion.

Mr. Levin presented the report executive summary stressing that if the Board were able to prefund the plan and not fund on a pay as you go basis, the actuarial accrued lability would be reduced from $1.633 billion to $905 million.

Mr. Levin explained the calculation of the actuarially determined contribution (ADC) for the year ending June 30, 2019, previously referred to as the actuarially required contribution (ARC). The ADC is a funding number only and includes funding the normal cost and amortization to pay off past accrued liability. The FY19 total actuarially determined contribution for other post-employment benefits is $100,187,896 or 18.81% of projected payroll.

On a motion by Ms. Pearce, seconded by Mr. Wisner, the Board voted unanimously to accept the OPEB Report as presented by Dan Levin from Segal Consulting, and convey the results to the Administration. The Board further directed that the Treasurer point out a need to address larger national health care trends.

Mr. Wisner expressed the need to prefund the other post-employment benefits for state employees and inquired if it would be helpful if the Board were to convey this need. Ms. Pearce stated she would include a recommendation to pre-fund in the report presented to the Administration.

Ms. Pearce on behalf of the Board thanked Mr. Levin and Segal Consulting for their work on the report. Mr. Levin left the meeting at this time.

ITEM 1: **Approve the Minutes of:**

- November 13, 2017

At the suggestion of Ms. Pearce, the Board deferred approval of the minutes from the November 13, 2017 meeting, pending the addition of information from Mr. Kroner about the 457 plans.

ITEM 3: **Director of Investments Report – Prudential Fee Discussion**

Ms. Green presented the fee action items required for decision by the Board in transitioning the State Defined Contribution Plan and the 457 plans to Prudential. The first action item for VSERS was whether to move to zero revenue share classes, where available, in the Supplemental Retirement Plans' line-ups. The second action item discussed was whether to standardize the recordkeeping participant fees across all supplemental retirement plans. The third item discussed was the Treasurer's decision to add the ICMA-RC Plus Fund to the VSERS DC plan's investment line-up. The Treasurer is the trustee of the VSERS DC plan and this action item was informational only.

Ms. Green explained in further detail the types of plan fees that apply to the supplemental retirement plans, including investment management fees, recordkeeping fees, and participant fees for optional services.

Ms. Green explained the definitions of revenue share and the concerns associated with revenue share including limited transparency, inequity, investment selections, proprietary products and current litigation. Ms. Green presented the actions taken by Vermont to increase transparency in revenue share. The State of Vermont negotiated with the existing TPAs that revenue share be passed back to participants to offset the plan cost. Over the past decade, the VSERS 457 plan has lowered its recordkeeping fee from 25 basis points to 7 basis points per participant asset base.

Mr. Briggs left the meeting 9:55 a.m.

The Investments Staff working with Cammack requested a lowest cost scenario replacing all supplemental retirement plans' fund line-up share classes with the lowest cost share class (zero revenue). This resulted in an aggregate annual investment management fee across all plans of 0.40% or a savings of 0.07% or $431,897 across all plans. The lowest cost scenario has an aggregate savings to participants in the VSERS 457 Plan of $266,969.

Mr. Wisner left the meeting at 10:06 a.m.

On a motion by Mr. Greshin, seconded by Mr. Pouliot, the Board voted unanimously to adopt the lowest cost share class across their fund line-ups, such that each is a zero-revenue share class for all funds where available.

Ms. Green presented the second action item on recordkeeping fees. There are two ways to administer recordkeeping fees, asset-based and per-participant. Asset-based fees are assessed to participants on a percentage of balance basis, small plan balances are not eroded, but those with high balances pay a larger amount. Per-participant fees assess a set fee per participant, as balances compound over time the fee will represent a smaller portion of a participant's balance, but it may seem expensive to participants with lower balances. Staff did not make a recommendation on what type of fee the Board should elect for the supplemental retirement plans.

Mr. Briggs rejoined the meeting at this time.

The Board discussed the potential to implement a hybrid system, assessing an asset based fee on those participants with a lower balance and a per participant fee for those participants with a higher balance. The recordkeeper informed staff that a hybrid system would have to be available to all participants, the Board could not set a threshold balance amount, and a hybrid system would be more expensive to implement.

Mr. Considine explained the recordkeeping fee options available (asset based versus per participant) and the projected impacts of each type under Prudential and the current fee structure. Mr. Briggs stated that one of the reasons for selecting Prudential to administer all the supplemental retirement plans was to provide transparency and simplicity for participants. Mr. Briggs stated that a per participant fee would be the most transparent and clear for plan participants. Mr. Davis expressed concern that a per participant fee would more heavily impact lower balance participants starting to save, potentially discouraging enrollment in the plans.

On a motion by Mr. Briggs, seconded by Mr. Hango, the Board voted by roll call to adopt a per-participant fee of $28.50 annually for participants in the 457 Plans. The motion carried with Mr. Dumas, Mr. Hango, Ms. Pearce, Mr. Briggs, Mr. Pouliot, Mr. Greshin and Mr. Isabelle voting in favor of the motion. Mr. Davis voted against the motion.

Ms. Green informed the Board that Fidelity will not be offering the Fidelity MIP (stable value) product on the Prudential recordkeeping platform. The Treasurer has elected to add ICMA-RC PLUS Fund (Stable Value fund) to the VSERS DC plan's investment line-up.

ITEM 4: **Review/Act on Disability Retirement Recommendations from the November 9, 2017 Medical Review Board Meeting for:**

- Coleen McGinnis

On a motion by Ms. Pearce, seconded by Mr. Greshin, the Board voted unanimously to enter Executive Session at 10:46 a.m. pursuant to Title 1, §313 for the purpose of discussing personnel issues.

The Board came out of executive session at 10:51 a.m.

On motion by Mr. Wisner, seconded by Mr. Briggs, the Board voted unanimously to approve the recommendation of the MRB to allow Coleen McGinnis' disability retirement with a one-year review.

ITEM 5: **Other Business**

Mr. Duggan presented proposed changes to Title 3, brought about by a review of the teacher's retirement statute. These changes would bring the state system into parity with the recommended changes to the teacher's system, including clarifying the calculation of average final compensation, adjusting the income verification process for disability retirees with inflation, and federal compliance language surrounding non-vested withdrawals.

On a motion made by Ms. Pearce, seconded by Mr. Greshin, the Board voted unanimously to incorporate the proposed Title 3 changes into the miscellaneous retirement bill for presentation before the General Assembly.

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

On a motion made by Ms. Pearce, seconded by Mr. Briggs, the board voted unanimously to execute a contract with the current hearing officer, Michael Zimmerman, Esq., at a rate of $75 per hour to hear disability retirement appeals.

ITEM 6: **Adjournment**

On motion by Mr. Briggs, seconded by Ms. Pearce, the Board voted unanimously to adjourn at 11:05 a.m.

Next Meeting Date:
The next scheduled VSERS meeting is a Conference Call Meeting on Thursday, January 11th, 2018 at 9:00 a.m.

Respectfully submitted,

Erika Wolffing

Erika Wolffing
Director Retirement Outreach & Policy