VERMONT STATE TEACHERS' RETIREMENT SYSTEM
Meeting of the Board of Trustees – BGS-MTPL Conference Room
November 12, 2019 – 9:00 a.m.

Members present:
JON HARRIS, Chairperson, Active Member Representative, term expiring July 1, 2023 – via telephone
JUSTIN NORRIS, Active Member Representative, term expiring July 1, 2021- via telephone
EMILY SIMMONS, representing Secretary of Agency of Education – via telephone
BETH PEARCE, VT State Treasurer
DANIEL RADDOCK, Financial Regulation Representative – via telephone
JOSEPH MACKEY, Vice-Chairperson, VRTA representative, term expiring July 1, 2020 – via telephone
LINDA DELIDUKA, VRTA Alternate Representative, term expiring July 1, 2020 – via telephone
PERRY LESSING, Active Member Alternate Representative, term expiring July 1, 2021

Also attending:
Michael Clasen, Deputy State Treasurer
Tim Duggan, Assistant Attorney General
Eric Henry, Chief Investment Officer
Erika Wolffing, Director Retirement Operations
Lesley Campbell, Administrative Services Coordinator IV
Will Kriewald, Chief Financial Officer
John Booth, Director of Treasury Operations
Matthew Strom, Segal Consulting – via telephone
Gabe D'Ulisse, Prudential Retirement
Joe Fein, Prudential Retirement
Ronald "Chip" Sanville, Prudential Retirement
Gilles Owen, Prudential Retirement

The Chair, Jon Harris, called the Tuesday, November 12, 2019 Board meeting to order at 9:01 a.m., which was held in the BGS-MTPL Conference Room at 109 State Street, 4th Floor, Montpelier, VT.

ITEM 1: **Agenda approval and announcements**

On a motion made by Ms. Pearce, seconded by Mr. Norris, the Board voted unanimously to approve the agenda as presented.

ITEM 2: **Approve the Minutes of:**

- October 29, 2019

On a motion made by Ms. Deliduka, seconded by Ms. Pearce, the Board voted unanimously to approve the minutes of October 29, 2019 as submitted.

ITEM 3: Risk Assessment Presentation

Ms. Pearce explained the rationale behind the risk assessment and explained the process to date including all stakeholders.

Mr. Strom presented the risk assessment and explained the difference between a stochastic and deterministic approach. The report identifies investment volatility as the largest risk to the fund. The deterministic approach outlines 'what if' scenarios and a stochastic analysis projects likelihood or probability of a range of certain outcomes. The results present outcomes in a graph outlining that 50% of outcomes will fall between the 25th and 75th percentiles. The report models what the system would look like if the investment assumption were lowered from 7.5% to 7.3%, under this scenario the accrued liability would increase by $75.2 million, the funded percentage would drop to 54.3%, and the employer contribution would increase by approximately $6 million.

Mr. Strom explained the basis for projections where active participants remain level and new entrants have the same demographics as new entrants over the past three years and no changes to plan benefits, employee contribution rates or assumptions. Mr. Strom explained that projected contributions can be adjusted for inflation using the table provided in the report. For example, a projected contribution in 2038 of $220 million can be adjusted by 0.63 to estimate a contribution in today's dollars of $139 million. Mr. Strom presented the baseline projected funded percentage and the baseline projected state contributions and explained how to interpret the charts. The green line represented the baseline projection where the 7.5% investment return is realized and the bars show potential outcomes. In 2029 the baseline projected state contribution is $172 million and the employer contribution range at the 25th and 75th percentiles are at $126 million and $211 million respectively.

Mr. Strom explained the volatility in employer contribution as the plan approaches 2038 and presented the models for employer contributions using a rolling amortization period for gains and losses for 5-10 years. This approach would smooth out the volatility at the end of the closed amortization period over a longer period of time. The five-year rolling amortizations are implemented beginning in FY35 and the 10-year rolling amortizations are implemented in FY30. The five-year rolling period compares back to the baseline projection. For example, in 2038 the 75th percentile employer contribution for the baseline was $422 million versus $364 million under the 5-year rolling amortization scenario. Under the 10-year rolling amortization period, the impact in 2038 at the 75th percentile for the baseline was $422 million versus $326 million under the 10-year rolling amortization period.

Mr. Strom presented the models for increasing the employee contribution rate to 6% and to 6.65%. With all members in Group C contributing 6%, the employer contribution would drop from $130.6 million to $126.6 million in FY21 and resulting in accumulated employer savings of $40 million at the end of the closed amortization period. If all members were to start contributing at 6.65%, the accumulated employer contribution by 2039 would be $149 million.

Mr. Strom explained the investment return scenarios that were modeled including stagflation, recession, overextension and expansion and the impact on the fund. For example, in 2025, the baseline employer contribution was $150 million and under a stagflation scenario the employer contribution would be $212 million. The report also modeled recreations of recent downturns. In addition, the report modeled the impact on the plan if the average return in the short term were on average 6.4% over the first 5 years and then meeting and exceeding the assumption of 7.5%. The employer contribution at the 50th percentile the baseline contribution in 2025 at $149 million and with the lower return, the contribution would be $155 million. The impact is more funding going into the system earlier and once the plan is closer to 2038, the employer contribution becomes $207 million versus $220 million at the baseline.

Mr. Strom explained the last scenario modeled, cash infusions. This modeled an additional $15 million in funding per year for five years. The breakeven point when savings starts to accumulate is FY2032 and by the time the plan is at 2039 there would be accumulated savings of $68.2 million.

Mr. Booth joined the meeting at 10:26 a.m. Mr. Kriewald left the meeting at 10:29 a.m. Mr. Strom left the meeting at 10:30 a.m.

The Board recessed at 10:31 a.m., the Board reconvened at 10:37 a.m.

Representatives from Prudential Retirement joined the meeting at 10:37 a.m.

<u>ITEM 4:</u> Prudential Quarterly Presentation – 403(b) & SDIA 3rd Quarter Report

Mr. D'Ulisse presented the 3rd quarter report for the 403(b) Plan. As of the end of the quarter there were 2,705 participants with total contributions of $9,506,264 and total participant balances of $116,729,137. There were 210 new enrollments into the plan, 12 contribution rate increases, and $7.7 million in GoalMaker up to a 15% participation rate. As of the end of the quarter the plan had a cash positive balance of $4,393,397 with an average account balance of $42,994. There were $5,112,867 in distributions and 383 participants in Roth representing $3,511,811 in assets.

The Board discussed the non-exclusive versus exclusive plans and strategies for increasing participation in the Prudential 403(b) plan. Ms. Pearce suggested potentially sending out a communication about the Prudential Plan as the plan sponsor (VSTRS Board).

Mr. D'Ulisse explained the asset allocation for the plan with 10% of assets in Stable Value. Ms. Pearce inquired if the ESG funds were part of the GoalMaker tool. Mr. Fein clarified that the ESG funds are not included in GoalMaker at this time.

Mr. Sanville presented an update from the field. Mr. Harris explained that his school district bargained contract language adding automatic enrollment for new hires into the 403(b) Plan with an opt out. Mr. Sanville explained there were 6 group presentations, 101 individual participant meetings, 63 new enrollments, 25 contribution rate increases, and 5 rollovers representing $636,623.

Mr. D'Ulisse presented the 3rd quarter report for the SDIA Plan. As of the end of the quarter there were 984 total participants, only 38 active, average participant balance of $36,652, total distributions of $3,718,043, and total participant balances of $36,065,620. The Stable Value is earning about 2.6%.

Mr. Fein presented the investment review for the 403(b) Plan and provided an overview of the economic outlook. All funds were meeting the performance criteria except for the T. Rowe Price Retirement Balanced Fund, however Mr. Fein clarified that the fund is being measured against a more aggressive peer group. The Board discussed ways to highlight the ESG funds for participants on the website. Mr. Harris stated that prior reports had a break out of ESG funds in the investment review section and requested that future reports highlight these funds.

Representatives from Prudential left the meeting at 11:43 a.m. Mr. Clasen and Mr. Duggan joined the meeting at 11:43 a.m.

ITEM 5: **VSTRS FY21 Budget Overview**

Mr. Kriewald presented the FY21 VSTRS Budget Overview. The budget request includes a decrease in investment management services of $1,023,019 or 22.52%. There was also a decrease in Retirement System Software maintenance of $21,785 or 21.43%. Mr. Kriewald clarified that the OPEB numbers are based on projections and that there might be an adjustment pending the completion of the OPEB reports expected today. Mr. Clasen reminded the Board that there is a 5% reduction to the premium for the over-65 population, and no change to the premium rates for the under-65 population. The overall budget request resulted in an overall budget decrease for VSTRS of $1,691,607.

On a motion made by Ms. Pearce, seconded by Mr. Norris, the Board voted unanimously to approve the proposed VSTRS FY21 Budget request as presented.

Mr. Booth, Mr. Kriewald, and Mr. Henry left the meeting at 11:55 a.m.

ITEM 6: **Delta Dental Contract Extension**

Mr. Clasen explained the renewal proposal from Delta Dental. The contract with Delta Dental is a joint contract with the three retirement systems. Premiums are paid 100% by the retirees. The prior contract was agreed to 3 years ago with the option for 2 year contract extension.

On a motion made by Ms. Pearce, seconded by Mr. Mackey the Board voted to enter Executive Session at 11:57 a.m. pursuant to 1 V.S.A. § 313 to discuss contract negotiations.

The Board came out of Executive Session at 12:10 p.m.

On a motion made by Ms. Pearce, seconded by Ms. Simmons, the Board voted by roll call to approve extending the Delta Dental contract for either a 1-year term (reflecting an 8.97% increase in premiums) or a 3-year term (reflecting with a 11.77% increase in year 1 and 0% increase in years 2 and 3), with a preference for the 3-year term. Notwithstanding this preference, the motion approves either option due to the need for consistency among the three retirement systems.

ITEM 7: Disability Hearing Officer Selection

Ms. Wolffing informed the Board that the current disability hearing officer Michael Zimmerman is retiring. The Retirement Office conducted a simplified bid and sought bids from 4-5 individuals identified as conducting hearings for other state agencies/departments. The responses returned were comparable with the same hourly rate quoted. The Retirement office expressed a preference for Mr. Adam Powers as he came recommended by the Agency of Education.

On a motion made by Mr. Norris, seconded by Mr. Mackey, the Board voted unanimously to select Adam Powers as the hearing officer for disability retirement appeals and authorize the Retirement Office to enter into a one-year contract with Mr. Powers.

ITEM 8: Other Business

None.

ITEM 9: Adjournment

On a motion made by Ms. Simmons, seconded by Mr. Norris the Board voted unanimously to adjourn at 12:15 p.m.

Next Meeting Date:
The next VSTRS Board meeting is the Quarterly In-House on December 12, 2019 at 3:30 p.m.

Respectfully submitted,

Erika Wolffing

Erika Wolffing
Director of Retirement Operations