

VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

May 31, 2011

VMERS Members present:

STEVEN JEFFREY, Chairperson, Employee Representative (term expiring July 1, 2014)

PETER AMONS, Employee Representative (term expiring July 1, 2012)

THOMAS GOLONKA, Governor's Appointee

ELIZABETH PEARCE, Vermont State Treasurer

Board members absent:

JAMES QUINN, Employer Representative (term expiring July 1, 2012)

Also attending:

Stephen Wisloski, Vermont State Deputy Treasurer

Cynthia Webster, Director of Retirement Policy and Outreach & Secretary to the Board

Laurie Lanphear, Deputy Director of Retirement Operations

David Driscoll, Buck Consultants

Kai Petersen, Buck Consultants

Monica Chiren, Assistant to Cynthia Webster

The Chairperson, Steven Jeffrey, called the Tuesday, May 31, 2011 meeting to order at 1:00 p.m., which was held in the Treasurer's Conference Room, fourth floor, 109 State Street, Montpelier, VT.

ITEM 1: **Approve the minutes of March 24, 2011**

On motion by Mr. Golonka, seconded by Mr. Amons, the Board unanimously voted to approve the minutes of March 24, 2011, as submitted.

Ms. Webster indicated Ms. Lanphear had a report concerning the members that elect the DC plan that can be discussed during other business, and also advised the Board once she obtained the information concerning the Defined Contribution expenses and fees she would present that to the Board for discussion.

ITEM 2: **Experience Study review by Buck Consultants**

Mr. Driscoll provided the Board members an explanation for the reasoning behind an Experience Study. Mr. Driscoll explained the main reason for this Experience Study being conducted early was to review the rate of return assumption. Mr. Driscoll indicated both the State and Teacher systems have received their experience studies, which have been accepted by them. Mr. Driscoll introduced Mr. Petersen and his role in the Experience Study. Mr. Driscoll reviewed the Experience Study.

Mr. Driscoll reviewed the active service demographic assumptions. Mr. Driscoll advised the Board the four categories for this section included termination, disability, death before retirement

and retirement. Mr. Driscoll indicated they did not make a separate examination for Group D, but that Group D was included in the aggregate. Mr. Driscoll indicated no changes are recommended to the current assumed rates relative to termination. There was a discussion about terminated vested members.

Mr. Driscoll indicated the present assumed rates of disability produce expected number of disabilities that are not substantially different than the actual number for male members. However, the actual number of disabilities among female members were notably lower than the expected numbers. Therefore, there is a recommendation to decrease the disability rates for females.

Mr. Driscoll explained the reasoning for the lowering of the rate for deaths among active members. Mr. Driscoll explained they recommend a change in the pre-retirement mortality assumption from 70% of the rates contained in the 1995 Buck Tables for Males and Females to 50% of these rates. Mr. Driscoll indicated the financial impact on the funding of the System of this experience is relatively minor.

The Board discussed the service retirement assumption. Mr. Driscoll indicated there was a recommendation that no changes be done to the current rates for Group A and Group B. Mr. Driscoll indicated that the overall actual number of retirements among members of Group C aged 55 through 64 over the past five years have been lower than expected, and members among ages 65 through 69 were substantially lower than the expected retirements. Mr. Driscoll indicated they recommend decreasing the assumed probabilities of retirement for members between 65 and 69 from 100% to 35%. There was a discussion concerning Group C members being able to obtain more than 50%. There was a discussion about members working longer.

There was a discussion about post-retirement mortality. Mr. Driscoll indicated the graphs reveal that actual deaths among female retired members were only slightly higher than expected, but the current mortality experience among male retired members shows a margin over expected levels that is consistent with the need to reflect future anticipated improvements in longevity. Mr. Driscoll indicated they recommend changing the post-retirement mortality tables from the unrated 1995 Buck Mortality Table for males and females to 1995 Buck Mortality Table with no setback for males and a one-year setback for females. Buck also proposes that the mortality rates presently used for disability retirees and beneficiaries remain unchanged.

There was a discussion about members in an inactive status. Mr. Driscoll indicated that their recommendation is that the percentage of contributions with interest used to estimate the liability for members in an inactive status remain at 200%.

The economic assumptions were addressed. Mr. Driscoll indicated they recommend retention of the current assumptions for COLA's. There was a further discussion concerning COLA's and the change from the CPI-US to the CPI-NE.

There was a discussion about salary increases. Mr. Driscoll indicated they recommend the retention of the current assumption for salary increases.

There was a discussion about the rate of return assumption. Mr. Driscoll indicated the extra paragraph from page 19 will be deleted from the report before the final Experience Study is provided. There was a discussion about the rate of return based on market asset value. Mr. Petersen discussed the capital market model used to obtain the rate of return. There was a discussion who in the industry use this model. There was a discussion about the select-and-ultimate approach.

Ms. Pearce indicated the information that was provided to Buck Consultants was also provided to NEPC. Ms. Pearce indicated both did their own process, but they both came up with very similar results. There was a discussion about the rating agencies. There was a discussion about the stock market volatility and inflation. There was a discussion about the use of the single equivalent rate with the select-and-ultimate approach.

There was a discussion how the Municipal system is funded. There was a discussion about the contribution rates and how the changes to demographics would affect the contribution rates. Mr. Driscoll indicated he would include a sentence indicating the single equivalent rate of 8.1% in the final of the Experience Study. There was a discussion about the single equivalent rate for the State and Teacher systems, and the reasons for the differences. There was a discussion about the amortization period. Mr. Amons indicated he would like to see the results of what would happen if the amortization period changed. There was a discussion about the scale used with the select-and-ultimate approach. The Board members shared their views of the select-and-ultimate approach. There was a discussion concerning changing the interest rate and the funding of the system. There was a discussion how often the interest rate could be changed.

Ms. Pearce indicated some of the reasons she was urging the Board to adopt the select-and-ultimate approach was to be consistent among the three Boards, that it is a thoughtful approach, that this has gotten the rating agencies' attention in a positive way, and that there is not a lot of difference in the dollar amount.

There was a further discussion about the funding of the Municipal system. There was a discussion whether the rate for Bennington would need to be recalculated if the Board adopted the select-and-ultimate approach and the interest rate changed.

(Ms. Webster left the meeting shortly to obtain the contract with Bennington.)

Mr. Amons indicated he was not comfortable with the select-and-ultimate approach at this time. Mr. Golonka indicated he would like to know what would happen to Bennington if the rate was to change. There was a discussion how the demographic changes would affect the rate of return. The Board discussed when they needed to have a decision on the rate of return. It was discussed it needed to also be approved in conjunction with VPIC. The Board discussed needing a rate for the valuations. The Board discussed whether to wait a year, and just approve the demographic changes in the Experience Study at this time.

On motion by Mr. Golonka, seconded by Mr. Amons, the Board unanimously voted to accept the demographic recommendations of the actuarial consultants in the Experience

Study as presented in the *Report on the Results of an Experience Study of the Vermont Municipal Employees' Retirement System Covering the Period July 1, 2005 through June 30, 2010, excluding the rate of return assumption.*

Ms. Pearce indicated again why she thought the Board should adopt the select-and-ultimate approach. The Board decided it will meet again in late June to discuss the impact on Bennington and the other issues brought up by the Board members, and once they receive the information requested.

Mr. Driscoll discussed GASB. The Board discussed the actuarial method currently used by VMERS. Mr. Driscoll requested they may need to move to the entry age normal method that is used by the other two systems. Ms. Pearce indicated she would provide a summary to the Board members of what goes into a funding method.

Ms. Webster indicated she would contact the Attorney General's Office concerning the Bennington contract. There was a discussion about the unfunded liability.

ITEM 3: Any other business to come before the Board

Ms. Webster indicated the first meeting after July 1st the Board would need to elect a Chairperson and Vice-Chairperson.

The Board briefly discussed Kellogg-Hubbard's request to join VMERS. The Board discussed the 50% funding and whether they should only be permitted to join the DC plan.

Ms. Webster indicated Ms. Lanphear has a report on the new members electing the DC plan that she will present at the next meeting. Ms. Webster indicated they do have a psychiatrist that also needs to be approved by the Board.

(Mr. Amons left the meeting during this item.)

ITEM 4: Adjournment

On motion by Mr. Golonka, seconded by Ms. Pearce, the Board unanimously voted to adjourn at 3:50 p.m.

Next Meeting Date:

There is no VMERS meeting currently scheduled.

Respectfully submitted,

Cynthia L. Webster, Secretary to the Board