VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
Meeting of the Board of Trustees
September 20, 2004

Board members present:
STEVEN JEFFREY, Chairperson, Employee Representative (term expiring July 1, 2007)
MARIE DUQUETTE, Governor's delegate
JEB SPAULDING, Vermont State Treasurer

Board members absent:
DAVID LEWIS, Employer Representative (term expiring July 1, 2006)
W. JOHN MITCHELL, II, Vice-Chairperson, Employee Representative (term expiring July 1, 2005)

Also attending:
Cynthia Webster, Director of Retirement Operations
David Driscoll, Mellon Consultants
Michael McShane, Assistant Attorney General
Michael Clasen, Deputy Director of Retirement Operations

The Chairperson, Steve Jeffrey, called the meeting to order at 1:05 p.m. on Monday, September 20, 2004, in the Ethan Allen Room at the Vermont State House, Montpelier, Vermont.

<u>ITEM 1:</u> **Approve the Minutes of August 17, 2004**

On a motion by Mr. Spaulding seconded by Ms. Duquette, the Board unanimously voted to approve the minutes of August 17, 2004, with a correction to the following:

> The Chairperson, Steve Jeffrey, called the meeting to order at 9:29 a.m. on ~~Wednesday,~~ *Tuesday*, August 17, 2004, in Room 10 at the Vermont State House, Montpelier, Vermont.

Mr. Spaulding advised the Board as a result of votes taken by the Vermont State Employees' and Vermont State Teachers' at meetings on August 18^{th} and 19^{th}, the Investment Consultant, NEPC, has initiated two RFPs with respect to the proposed move to index management for the large cap domestic sector of the portfolios. The first RFP is for an Equal Weighted product, and the second RFP is for an Enhanced Index product, which also includes a request for those respondents to supply information regarding their Cap Weighted products, if applicable.

<u>ITEM 2:</u> **Actuarial Experience Study Review**

David Driscoll reviewed the report on the results of an experience study of the Vermont Municipal Employees' Retirement System covering the period July 1, 1998 - June 30, 2003.

The following recommendations were made based on a comparison of the actual experience of the System with that projected by current actuarial assumptions in the period covered by the study. The recommendations relate to the demographic and economic assumptions:

Terminations: Raise assumed rates of termination at ages over 25 for males and at ages over 30 for females.

Disability: Reduce assumed probabilities of disability at all ages; eliminate assumed "spike" for females at 50.

Mr. Driscoll added the possibility of the Board adopting and applying a "disability mortality table" specifically for the calculation of actuarial liabilities for disability benefits paid by the System.

Death (in active service): Reduce assumed probabilities of death in active service at all ages via replacement of present active service mortality table (1983 Group Annuity Mortality Table) with the 1995 Buck Mortality Table.

Retirement: Lower assumed probabilities of retirement at ages 65 - 69 for Group A, at ages 66 - 69 for Group B and at ages 62 - 64 for Group C.

Deaths (post-retirement): Replace current retired life mortality table with the 1995 Buck Mortality Table.

Salary Increases: Retain the present 5.6% assumed annual rate of increase in salaries for active members.

Interest Rate: Retain the present annual assumed rate of return of 8%.

COLAs: Lower the assumed annual adjustment for cost-of-living increases to 1.5% for Group A benefits and 1.8% for benefits paid to members of all other groups

Cost Impact: Some of the proposed changes would have the impact of raising costs (e.g., updated mortality assumption). Others would have the effect of lowering costs (e.g., raised termination probabilities, lowered assumed COLAs). On net, adoption of the proposed changes in assumptions would lower costs.

Discussion ensued regarding the potential increased funding impact to the system with the adoption of the new assumptions.

The Board discussed an option to restart the 5-year rolling or "smoothing process" used to defer recognition of differences in asset returns from their 8% assumed level. This option would initially reduce the over-funding, and better position the system for future poor performance years. A variation of this option discussed was to absorb as much of the present excess of the actuarial value of assets over market value as possible without lowering the ratio of the actuarial value to the System's liabilities below its July 1, 2003, level of 102%.

Other issues discussed were the June 30, 2005 sunset provision of the current legislatively reduced employee rates, the impact of assuming the $30/month retiree insurance stipend as a liability of the system, and the potential GASB 43 & 45 ramifications.

On a motion by Ms. Duquette seconded by Mr. Spaulding, the Board unanimously voted to adopt the recommendations as presented in the *Report on the Results of an Experience Study of the Vermont Municipal Employees' Retirement System, covering the period July 1, 1998 - June 30, 2003* and to include the implementation of a disability mortality table.

The Board requested Mr. Driscoll prepare preliminary results of the July 1, 2004, actuarial valuation under the following scenarios:

1. New assumptions with current reduced employee contribution rates continued past 2005, continuation of current asset valuation method.
2. New assumptions with current reduced employee contribution rates continuing past 2005, restart or revision of asset valuation method.
3. New assumptions with reversion of employee contribution rates to their prior levels, continuation of current asset smoothing method.
4. New assumptions with reversion of employee contribution rates to their prior levels, new smoothing formula, restart or revision of asset valuation method.
5. New assumptions, current reduced employee contribution rates continued past 2005, continuation of current asset valuation method, and inclusion of liability for permanent continuation of $30 monthly stipend.
6. New assumptions, current reduced employee contribution rates continued past 2005, restart or revision of asset valuation method, inclusion of liability for permanent continuation of $30 monthly stipend.
7. New assumptions, reversion of employee contribution rates to their prior levels, continuation of current asset valuation method, stipend liability
8. New assumptions, reversion of employee contribution rates to their prior levels, restart or revision of asset valuation method, inclusion of liability for permanent continuation of $30 monthly stipend.

The Board agreed their final annual valuation report would be completed once the above results were presented and discussed.

<u>ITEM 3:</u> **Any other business to be brought before the Board**

None

On a motion by Ms. Duquette seconded by Mr. Spaulding, the Board unanimously voted to adjourn at 2:27 p.m.

<u>Next Meeting Dates:</u>

The next meeting is scheduled for Monday, October 25, 2004 at 1:00 PM.
The next quarterly investment meeting is scheduled for Tuesday, November 16, 2004.

Respectfully submitted,

Cynthia Webster, Board Secretary