

# VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

October 25, 2004

## **Board Members Present:**

JOSEPH MACKEY, Chairperson (Active No. 29334), term expiring July 1, 2005  
JAY KAPLAN, Association of Retired Teachers of Vermont, term expiring July 1, 2008  
THOMAS CANDON, representing Commissioner of BISHCA  
VAUGHN ALTEMUS, representing Commissioner of Education  
JEB SPAULDING, Vermont State Treasurer

## **Board Member Absent:**

JON HARRIS, Vice-Chairperson (Active No. 25669), term expiring July 1, 2007

## **Also Attending:**

David Driscoll and Daniel Sherman, Mellon  
Mark Hage and Angelo Dorta, VT-NEA  
Rita Rinehart and June Atwood, VRTA  
Steve Klein, Joint Fiscal Office  
Michael DeWeese, Superintendent  
Cynthia Webster, Director of Retirement Operations

The Chairperson, Joe Mackey, called the meeting to order at 8:46 a.m. on Monday, October 25, 2004, in Room 10 at the Vermont State House, Montpelier, Vermont.

## **ITEM 1 – Approval of Minutes**

**On motion of Mr. Kaplan seconded by Mr. Altemus, it was unanimously voted to approve the minutes of the August 18, 2004, meeting with the following comments:**

- ▶ Clarify Mr. Charleton's statement in the first sentence of the first paragraph on page 4 relating to the annual outlay for plan expenses.
- ▶ Correct the spelling of Mr. Minoŧ's name in the second paragraph on page 2.

## **ITEM 2 – Ratify the Disability Retirement for *Charlotte Young***

**On motion of Mr. Kaplan seconded by Mr. Candon, it was unanimously voted to accept the Medical Review Board's recommendation to approve the disability retirement application of Charlotte Young.**

### **ITEM 3 – Ratify Approval for Actuary to Provide GASB 43 and 45 Report**

**On motion of Mr. Altemus seconded by Mr. Mackey, it was unanimously voted to approve the request for the actuary to provide a report on the impact of the new GASB 43 and 45 requirements to reflect the liability for medical coverage for retirees.**

Richard Cate, Commissioner of Education, arrived at the meeting and replaced his representative, Vaughn Altemus, as a voting member of the board.

The board asked Mr. Driscoll how to obtain certification (from the actuary) of the retiree prescription coverage in order to receive a rebate from Medicare. Mr. Driscoll will check with his industry experts and report back to the board at the November 17<sup>th</sup> meeting.

Mr. Kaplan wanted the minutes to reflect what an outstanding actuary Mr. Driscoll has been to the system.

### **ITEM 4a– Discuss/Act on FY 2004 Actuarial Valuation Report**

Mr. Mackey provided an overview of the Teachers' Retirement System, stating that a primary goal of the system was to "attract and retain teachers". Health care is a major feature of the benefits package available through the system. The system is funded from three sources: member contributions, which are 100% funded, state contributions, which have been significantly under-funded over the past several years, and investment earnings, which have performed quite well. Mr. Kaplan displayed a chart that reflected the direction the system is heading due to the continual under-funding by the state. Mr. Kaplan also compared the funding levels of the Teachers' System and the State System.

Rob Hofmann, Commissioner of Finance and Management, arrived at the meeting.

Mr. Driscoll reviewed the results of the Actuarial Valuation for the period ending June 30, 2004. Board members and guests reviewed the data used in the valuation, and the meaning and impact of each contributing factor.

It was clarified that the continual under-funding is reflected in the normal cost to the system, not the unfunded liability. The board discussed what the most appropriate method should be to accurately reflect the funding status/health of the system. Mr. Driscoll re-stated it was his opinion that the system would not run out of money in the foreseeable future, but if the under-funding continues, at some point the state's required contribution will become so large it will be impossible to meet. Mr. Kaplan pointed out

that the Teachers' System's expenses are paid for out of the assets of the system, while the State System's expenses are reimbursed by the State.

Elizabeth Pearce, Deputy State Treasurer, arrived at the meeting.

Mr. Mackey stated he had invited approximately ten legislators from key legislative committees to the meeting, and expressed his disappointment that no one from the legislature was in attendance.

**Mr. Cate moved and Mr. Mackey seconded a motion to recommend to the Governor an appropriation of \$49,923,599 (reflecting a 7.79% normal cost and \$13,004,599 towards accrued liability) for FY 2006 and \$52,234,829 (reflecting a 7.79% normal cost and \$13,654,829 towards accrued liability) for FY 2007. The motion also stated the cover letter to the Governor should include the change in the actuary's FY 2005 recommended contribution. Mr. Mackey, Mr. Altemus, Mr. Candon and Mr. Spaulding voted aye; Mr. Kaplan abstained as he had not received the valuation report in a timely enough manner to be prepared to act on it's approval. The motion carried.**

#### **ITEM 4b -GASB 42 & 45 Report**

Mr. Sherman reported on the results of the report outlining the impact of the new GASB 43 and 45 requirements. Using the current demographics of active and retired members, the premiums for the existing health plans available to retirees, and the system's assumed rate of return of 8%, Mr. Sherman reported that an annual contribution of \$41,230,147 would need to be made in order to work towards full funding of the liability of the retiree medical plans. The total liability would need to be reflected at \$131,023,707 if the system did not elect to move towards full funding. The report included several recommendations on what the "next steps" might be for the board's consideration.

State Treasurer Jeb Spaulding left the meeting, and Deputy Treasurer Beth Pearce assumed his position as a voting member of the board.

#### **ITEM 5 – Retirement IT Re-engineering Update**

Ms. Pearce presented an update on the research she has completed regarding comments from other retirement systems who have recently replaced their IT systems. Only two systems looked into administration outsourcing, and none have actually gone that route. Ms. Pearce talked with several system representatives regarding their experiences with

their system upgrades. A full written report of Ms. Pearce's findings was presented to the board.

**ITEM 6 – Other Business**

**On motion of Mr. Kaplan seconded by Mr. Mackey, it was unanimously voted to authorize the Chairperson to form a subcommittee to work with staff to prepare a four page report on the under-funding of the system to be distributed to legislators prior to the 2005 session.**

**On motion of Mr. Kaplan seconded by Mr. Mackey, it was unanimously voted to authorize the Chairperson to write a letter to Thomas Cavanagh of Mellon to express appreciation for David Driscoll's excellent service to the board.**

**On motion of Mr. Candon seconded by Mr. Kaplan, it was unanimously voted to adjourn the meeting at 12:45 p.m.**

Respectfully submitted,

Cynthia L. Webster  
Executive Secretary to the Board