

**COMMISSION ON THE DESIGN AND FUNDING OF RETIREMENT AND HEALTH
BENEFIT PLANS FOR STATE EMPLOYEES AND TEACHERS**

Meeting of the Commission Members

October 8, 2009

Commission Members present:

Jeb Spaulding, VT State Treasurer, Chairperson

Terry Macaig, member of the House of Representatives

Jeanette White, member of the Senate

James Reardon representing Neale Lunderville, Secretary of Administration

Doug Wacek, member of the public appointed by the Governor

David Coates, member of the public -

Appointed by the Speaker of the House and President Pro Tempore of the Senate

Vaughn Altemus representing Bill Talbott representing the Commissioner of Education

Members absent:

None

Also attending:

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

Beth Pearce, Deputy Treasurer

Monica Chiren, State Treasurer's Office

Staff members of VT-NEA and VSEA

Staff member of Joint Fiscal Office

Members of the VSTRS and VSERS Boards

Members of the Vermont State Police

Retired members of VSTRS and VSERS

Members of the public

Reporters

The Chairperson, Jeb Spaulding, called the Thursday, October 8, 2009, meeting to order at 1:00 p.m., which was held in Room 11 in the State House, 115 State Street, Montpelier, VT.

Mr. Spaulding welcomed the members of the public to the meeting, briefly reviewed the agenda and indicated what the primary purpose of the meeting was. Commission members introduced themselves.

Mr. Spaulding noted that it appeared there was a large group of retired state employees and teachers present and noted there seemed to be a misunderstanding about the intentions of the Commission relative to possible changes in benefits for those already retired. He explained the reasoning for having the "Public Comments" section of the agenda at the end of the meeting, but asked if Commission members would be willing to take up the question of whether or not there was interest in possibly recommending a reduction of benefits for current retirees as a first order of business. There was no objection and, by a show of no hands in favor, **the Commission confirmed it has no plans to recommend a reduction in either pension or health benefits for those already retired.** Ms. White restated her interest in pursuing a large insurance pool for Vermonters, including public employees, but indicated considering such a change was beyond the scope of this Committee. The Commission then returned to the agenda.

ITEM 1: Approve minutes of August 20, 2009

On motion by Mr. Coates, seconded by Mr. Wacek, the Commission voted to approve the minutes of August 20, 2009 as submitted. Mr. Reardon and Mr. Altemus abstained from the vote. The motion passed.

ITEM 2: Review outstanding items from previous meeting

Guiding Principles for a Retirement Plan
Federal retirement plan provisions
States with normal retirement based on years of service
Average pension for Vermont State and Teacher retirees
Governance/decision making authority for plan features and other benefits
Comparative information matrix

The Commission reviewed the information that was provided concerning the above items. Mr. Macaig requested an addition to the *Guiding Principles for a Retirement Plan*. He indicated he would like to add the word “other” before taxpayers under the Affordability and Fairness section. The Commission members had no objection to the addition. Mr. Coates indicated he will continue to work with Ms. Pearce concerning comparative information for the private sector. Mr. Wacek agreed to work with Ms. Pearce on the comparative information matrix.

ITEM 3: Review and discuss Report of Ice Miller, legal consultant

The Commission discussed their interpretation of the Ice Miller report. Some members of the Commission noted that there appears to be more flexibility in possibly revising health benefits than certain pension benefits, and that certain reductions in pension benefits or contribution rates may need to see as necessary for the sustainability and integrity of the retirement systems. In addition, any changes in benefits would be more difficult to defend for those who have already reached, or are near, retirement eligibility. Mr. Wacek suggested and there was general agreement that trying to collectively interpret the legal implications of this report are difficult, and that perhaps its best use might be to refer to it as the Committee considers various options and to provide it to the Legislature for their use.

The consensus of the Commission was to address Agenda Items 3, 4 and 5 at the same time.

ITEM 4: Review and discuss preliminary results of questions posed to Buck Consultants, actuary

ITEM 5: Review and narrow the list of issues/potential revisions for consideration – *The Chair plans to utilize a process whereby it will take three affirmative Commission member votes to keep an issue or potential revision on the list for consideration*

The Commission referred to the Legal Advisory Report of Ice Miller and the draft document entitled *Possible Actuarial Review Areas Based on Preliminary Areas of Review Under Consideration by the Benefit Study Commission* while addressing Items 3, 4 and 5.

The Commission started the discussion with the Pension Benefits section. The consensus of the Commission was to further consider the issue of raising the retirement age. Ms. Pearce was to obtain further information relative to the financial impact of this item. The Commission discussed who should be considered for this item. The group of people who would not be considered in this analysis would be people who have reached retirement age, or were within five years of early retirement or within five years of 30 years of service. The Rule of 90 and Rule of 87 was to be further researched.

Mr. Macaig indicated it would be interesting to obtain information concerning the turnover rate within the first five to ten years of service for both state employees and teachers. Ms. Pearce indicated she would be able to obtain that information.

The consensus of the Commission was to further consider raising the early retirement age and possibly revising the early retirement penalty to be more actuarially based and reflective of length of service.

The consensus of the Commission was to further consider contribution rates. The Commission discussed whether rates would be increased in tandem for employees and employers or whether the percentage of contributions should be changed. There was considerable interest in some kind of linkage between the employer and employee contribution rates. The Commission discussed who should be affected by these possible changes. It was decided further research will be done concerning this item.

After a discussion the consensus of the Commission was to consider types of income eligible for calculation of average final compensation, and to keep this item on the table.

The Commission discussed going from a three-year to five-year salary calculation for AFC and decided it would like to see what the financial impact would be.

The Commission discussed COLA changes. The Commission decided not to pursue this item. It did agree that to do further research and should Congress or some other official body develop an inflation indicator more aligned with retirement, it may make sense to consider adopting that indicator in lieu of the current CPI inflator..

The Commission decided to delete a review of potential of limiting allowable earnings after retirement from their items to focus on.

Mr. Coates indicated he is still obtaining information about private sector benefits for the comparison to state benefits.

The consensus of the Commission was to not continue to review the multiplier used to calculate benefits for all groups and plans. The Commission was interested to see what the difference would be between the current 1.67% and 1.5%.

The consensus of the Commission was to delete review of vesting period and the issue of tying employee contributions to salary or age.

(A recess was taken from 2:34 p.m. to 2:40 p.m.)

The Commission continued their discussion with the Funding section of the document entitled *Possible Actuarial Review Areas Based on Preliminary Areas of Review Under Consideration by the Benefit Study Commission*. The actuary is preparing estimates of impact of inflation and interest rate of return assumptions that will be reviewed at the next Commission meeting.

RE: the Teachers, the consensus of the Commission was to keep the subject of sources, including local or Education Fund, for the employer share of pension and retiree health benefits on the table for discussion.

The Design section of the above mentioned document was discussed. The consensus was to continue review of a DC and Cash Balance Plan. Ms. Pearce suggested a model might be prepared how they would impact the DB system. A member of the public requested a definition of a Cash Balance Plan, which Mr. Spaulding provided. The Commission discussed options for implementation of a DC or Cash Balance Plan. Mr. Wacek noted while the implementation of a DC or Cash Balance Plan may not be something to consider in the current economic & fiscal climate, it may be something to consider in the future.

The Commission discussed the Health section of the *Possible Actuarial Review Areas Based on Preliminary Areas of Review Under Consideration by the Benefit Study Commission* document. The Commission discussed funding for the teacher health plan and how to pay for teacher retiree health care.

The Commission reviewed the tiered health care for new State hires. The Commission decided it would like to see the financial impact of 70/30 instead of the current 80/20. The Commission indicated they would like more information about applying the tiered approach to everyone. Ms. White indicated she would like to see the tiered approach connected to salary. The Commission discussed, and was positive about the possibility of adding the spouses of teachers to the health care benefit. Mr. Coates stated he would like to see what it is costing the State for retiree health insurance for those retirees from age 55 to 65.

The Commission decided not to pursue the following items: pooling of health care, elimination of dependent from health care, potential transition to Medicare Plan and or Medicare D, create a health savings plan, no health insurance for new hires, or create catastrophic discretionary accounts. The

Commission previously discussed increase of co-pays/deductibles and contributions tied to salary or age.

Mr. Spaulding indicated the Commission will have additional information about each item that has been retained on the list. Mr. Spaulding indicated some information will take longer to obtain, but they will work with what they have at the next meeting.

ITEM 6: Testimony from Vermont-NEA relative to its perspective on charge of Commission and options for meeting the targets set by the Joint Fiscal Committee

Martha Allen, President of Vermont-NEA briefly addressed the Commission. Retired teachers, Linda Costello and Anna Johnston spoke before the Commission. Joel Cook, Executive Director of Vermont-NEA highlighted and presented a written statement to the Commission.

ITEM 7: Testimony from VSEA relative to its perspective on charge of Commission and options for meeting the targets set by the Joint Fiscal Committee

Conor Casey, Legislative Coordinator, VSEA, briefly addressed the Commission noting his concern that the Commission meetings were during working hours. Mr. Spaulding indicated a public hearing was intended to be held on a Saturday and/or evening after the Commission has specific recommendations.

Helen Morandi, a teacher of 31 years spoke to the Commission. State employee, Terry Lefebvre read a prepared statement to the Commission. Retired State employee Joan Eckley spoke to the Commission. State employees, Sheila Connif, David Bellini and Arthur Hamlin spoke to the Commission.

Joseph Mackey, member of the Teachers Board spoke to the Commission. Retired State employee Marjorie Power spoke to the Commission, as did State employee Amy Anderson.

Additional members of the public briefly addressed the Commission members with comments and suggestions.

ITEM 8: Determine next steps and develop future meeting schedule

The Commission discussed a tentative meeting schedule, which would be circulated by email for approval.

The Commission indicated it would like to discuss further whether the individual groups were paying appropriate contributions, whether there should be an extension of the smoothing period or amortization, and using a September 30th date instead of a June 30th date for one year.

ITEM 9: Public Comments

This item occurred throughout the meeting.

ITEM 10: Any other business to come before the Commission

Mr. Coates stressed to the public that the Commission members are not taking positions now, but merely gathering information.

ITEM 11: Adjournment

Hearing no objection, the Chair declared the meeting adjourned at 5:00 p.m.

Next Meeting Date:

The next scheduled Commission meeting is on Thursday, October 22, 2009 at 8:30 a.m. at Room 11 in the State House.

Respectfully submitted,

Monica Chiren
Treasurer's Office