Commission Members present:
Jeb Spaulding, VT State Treasurer, Chairperson
Terry Macaig, member of the House of Representatives
Jeanette White, member of the Senate
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
Bill Talbott, representing the Commissioner of Education

Members absent:
None

Also attending:
Beth Pearce, Vermont State Deputy Treasurer
Steve Wisloski, Director of Investment & Debt Management
Martha Allen, President, Vermont-NEA
Joel Cook, Executive Director of Vermont-NEA
Steven Jeffrey, Executive Director VT League of Cities and Towns
John Nelson
Mary Beth Braitman, Ice Miller LLP – via telephone
Terry A. M. Mumford, Ice Miller, LLP – via telephone
Thomas Howard, Executive Director, KY Office of Financial Management – via telephone
David Driscoll, Buck Consultants – via telephone
Lisa Ventriss, President, Vermont Business Roundtable
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, November 19, 2009, meeting to order at 8:11 a.m., which was held in Room 11 in the State House, 115 State Street, Montpelier, VT.

Mr. Spaulding briefly reviewed the agenda and indicated this would be a working meeting, with a review of what was accomplished at the last meeting. Mr. Spaulding invited Martha Allen and Joel Cook to sit at the head table to participate in the discussions of the day. Mr. Spaulding indicated that in response to the Commission’s invitation, the VSEA did not participate.

ITEM 1: Approve minutes of November 4, 2009
On motion by Mr. Coates, seconded by Mr. Lunderville, the Commission voted to approve the minutes of November 4, 2009 as submitted.

Ms. White made a statement to the public and the Commission about her dismay at the reaction to her suggestion to have the public hearing via VIT. Ms. White indicated her reasoning for making her suggestion. The consensus of the Commission was to keep the public hearing on December 3, 2009 and have the hearing via VIT. The Commission decided it would contact VIT to find out which site holds the most people, and then would decide which site most Commission members would go to, and inform the public of same.

ITEM 2: Review follow-up on data requests and options under consideration

The Commission reviewed the eight-page document entitled Two Possible Commission Recommendation Scenarios provided by Mr. Spaulding. The consensus of the Commission was just to deal with the pension side at this moment. Mr. Spaulding indicated the two scenarios addressed the same changes with the only difference being Scenario 1 addressed members with more than five years from retirement eligibility and Scenario 2 addressed members with more than ten years from retirement eligibility. The two scenarios each addressed raising the normal and early retirement age, lengthening the salary compensation period, increasing maximum benefit from 50% to 60% of AFC, and risk sharing of the contribution rates for employer and employees.

In Scenario 1 for State Group F and Teachers’ Group C raising the normal retirement age included raising normal retirement age from 62 years old or 30 years at any age to 65 years old or Rule of 90. For State Group F and Teachers’ Group C raising the early retirement age meant raising the early retirement age from 55 to 58. For State Group D Scenario 1 included raising normal retirement age from age 62 to age 65. For State Group C Scenario 1 included raising early retirement age from age 50 to age 52.

In Scenario 1 for State Group F and Teachers’ Group C the AFC would be raised from three to five years. For State Group C the AFC would be raised from two to three years, and State Group D would use a two-year AFC.

Scenario 1 increased the maximum benefit from 50% to 60% of the AFC for State Group F and Teachers’ Group C for members with more than five years from normal retirement date.

Scenario 1 addressed developing a going-forward (50/50, 60/40) proportional linkage to accomplish risk sharing in the contribution rates for employer and employees. Mr. Spaulding indicated for demonstration purposes the VSERS employer contribution rates would increase from 7.57% to 8.94% and the employee rates would increase from 5.1% to 6%. VSTRS employer contribution rates would increase from 7.41% to 9.46% and employee contribution rates would increase from 3.4% to 4.76%.
The Commission discussed Scenario 1 addressing members with more than five years from retirement eligibility and the results of the calculations. The Commission also discussed Scenario 2 which addressed the same items, but with members with more than ten years from retirement eligibility.

Ms. Pearce addressed questions about the ARC and corridors. Ms. Pearce explained the more years you forecast the less precise calculations will be. Mr. Wacek indicated he would like to see how these scenarios will impact people. Ms. Pearce indicated the change would be approximately $250.00 for State employees and $750.00 for teachers. Mr. Spaulding indicated these were concepts to help the Commission move forward. The Commission discussed it would need to decide how specific their recommendations would be.

Mr. O’Neil addressed his concern that Group C went from high three to high two and now they are recommending going back to high three and he wanted to know how Group C would be compensated for that.

Mr. Lunderville indicated he would like to have the figures for cost sharing presented not with a percentage, but with the total contribution. Mr. Lunderville indicated he would also like to have the scenario if you did not change from 50% to 60% of AFC. The Commission discussed their goal and whether implementing these changes would accomplish the goal.

Ms. Pearce addressed the questions of the Commission members concerning the pages that showed the results of bringing the assets of VSERS and VSTRS forward at the assumed rates of return. Ms. Pearce explained the concept of smoothing.

(A recess was taken from 9:20 a.m. to 9:35 a.m.)

(At this time Mary Beth Braitman and Terry A.M. Mumford were present via telephone.)

**ITEM 3: Presentation and discussion with Ice Miller – Legal considerations**

Mr. Spaulding indicated who was present in the room and a short outline how the Commission would proceed with this item.

Ms. Braitman indicated any changes to benefits would need to be considered in conjunction with Federal Constitution and State laws. Ms. Braitman indicated for guidance purposes an analysis would include whether there is a contractual relationship, whether there would be substantial impairment, whether the change that impairs the obligation is justified by significant and legitimate public purposes, and is the method used to advance the public purpose reasonable and necessary. Ms. Braitman stated that there would generally be three groups that would be considered, those that have already retired, those that are vested with five years of service and those that do not have five years and are not vested. Ms. Braitman indicated her understanding the direction the Commission
was heading meant that members that are already retired would not be touched and that the Commission has indicated those within five years of retirement eligibility would not be touched.

Ms. Mumford addressed raising the normal and early retirement age using the analysis. Ms. Braitman addressed lengthening the AFC period in conjunction with the analysis and raising the contribution rates. Mr. Macaig inquired whether health insurance is a contract right. Ms. Mumford discussed health insurance and how the Court might consider access to health insurance and not the contribution rate to health insurance. The Commission inquired what other states were doing. Ms. Braitman indicated there is a broad range of changes including changes to employer and employee contribution rates, raising the vesting period, eliminating COLA’s, changing AFC’s, changing normal and early retirement ages, and modifying the multiplier. She indicated it was too early to know whether these changes were going to be challenged. She indicated New Mexico was now the subject of litigation, but not enough time has elapsed to know the outcome.

The Commission discussed if Vermont was unique in having the benefits in statute. The answer was no.

(Mr. Lunderville left the meeting at this time.)

Ms. Mumford and Ms. Braitman responded to the questions posed by Mr. Cook and the Commission.

(Mr. Lunderville returned to the meeting at this time.)

Mr. Braitman indicated the best thing for the Commission was to gather all the facts, and to craft a solution from a policy standpoint that represents the most reasonable approach to avoid a non-sustainable system. The Commission discussed Ice Miller’s experience with the private sector and what Ice Miller was finding in that sector. There was a discussion about the DC, DB and Cash Balance plans. There was a discussion about having changes for new employees only. There was a discussion about AFC’s and COLA’s of other states. Mr. Wacek inquired whether the pension was a contractual right to teachers and State employees. There was a discussion about contribution rates.

(Mr. Wisloski entered the meeting at this time.)

(Ms. Braitman and Ms. Mumford left the meeting at this time.)

(A recess was taken from 10:54 a.m. to 11:03 a.m.)

(At this time Thomas Howard was present via telephone.)

**ITEM 4:** Presentation and discussion on use of pension obligation bonds.

Thomas Howard, Executive Director, KY Office of Financial Management
Mr. Spaulding outlined the reasons for having Mr. Howard present and discuss use of pension obligation bonds. Mr. Howard reviewed the document entitled *Update Regarding Pension Obligation Bonds September 2008*. Mr. Howard provided information about Kentucky’s pension systems and contribution rates. Mr. Howard explained pension obligation bonds in regards to Vermont’s ratings. Mr. Howard answered the questions posed by the Commission members and others.

**ITEM 5:** Discussion of Education Fund/Local District participation in payment of some portion of pension and/or retiree health benefits for teachers. VLCT, VSA, VSBA, and VNEA invited to participate in discussion

Mr. Spaulding indicated this was a discussion of the Preliminary discussion outline for a phased-in transition of responsibilities for payment of employer share of VSTRS pension and retiree health care payments. Mr. Nelson provided the Commission with his thoughts and reactions to the document. Mr. Nelson answered the Commission’s questions.

Mr. Jeffrey provided the Commission members with his document entitled *Poor Reasons To Shift Cost Of Teachers Retirement System To Education Fund*. There was a discussion about the document. There was a discussion about the implications on taxes. Mr. Jeffrey offered to discuss the Municipal Health Savings Plan with anyone who would like more information.

(Mr. Nelson and Mr. Wisloski left the meeting at this point.)

There was a discussion concerning what options were available and what the Commission was facing in having to make recommendations. There was a discussion concerning Burlington offering an early retirement incentive.

(There was a luncheon recess from 12:42 p.m. to 1:32 p.m.)

(At this time David Driscoll was present via telephone.)

(Mr. Lunderville was not present at this time.)

**ITEM 6:** Q & A/discussion with actuary – David Driscoll, Buck Consultants.

Data received thus far

Smoothing period, amortization period, valuation date

Any additional questions by Commission

Mr. Spaulding provided a brief outline why Mr. Driscoll was present. Mr. Driscoll provided the Commission with information about how other states were dealing with the same issues particularly what they were doing with the amortization period, smoothing period and corridors. Mr. Driscoll explained what corridors were. There was a discussion about California’s retirement system.
(Mr. Lunderville returned to the meeting at this point.)

There was a discussion about the assumption rates used. Mr. Driscoll indicated the State had a 30-year amortization period, five year smoothing and 20% corridors. Mr. Driscoll gave his opinion concerning changing each of those items. There was a discussion about changing the valuation date from June 30th to September 30th for this one year and the impact it would have. Mr. Driscoll discussed other states were changing the funding methods, changing the contribution levels, and creating a funding holiday. The Commission discussed these items along with the interest rate used of 8.25%. There was a discussion how the interest rates are achieved and approved by the individual Boards. Mr. Driscoll indicated the assumptions are revisited every five years in the experience study. Mr. Driscoll indicated the next experience study for the State system is 2011 and for the Teacher system is 2012. Mr. Driscoll indicated what rates were reviewed in the experience study. Mr. Driscoll indicated he used the figures of actual employees for his calculations and analyses.

(Mr. Driscoll left the meeting at this point.)

**ITEM 7: Public/private sector salary and benefit comparisons**

Vermont Business Roundtable

There were introductions made and Ms. Ventriss presented the Pension Survey Report. Ms. Ventriss described how the survey was conducted. Ms. Ventriss answered the questions posed by the Commission. She explained some information was so diverse that it could not be narrowed down for the survey, for instance what kind of health care was offered, if it was offered. There was a discussion about DC and DB plans.

**ITEM 8: Discuss/review OPEB Study**

Ms. Pearce reviewed the 6/30/2009 OPEB Study document. There was a discussion about recapturing health insurance. There was a discussion about the tiered system for new State employees. Ms. Pearce provided the Commission members with the current rates for State retirees. Ms. Pearce indicated she will obtain the figures for the analysis Mr. Coates requested at the last meeting for members from age 55 to 65 for health insurance.

**ITEM 9: Public comments. Any other business to come before the Commission.**

Jane Osgatharp, a retired State employee provided the Commission with her thoughts on raising the retirement age. Kevin Gaffney, Vice-Chairperson of the VSERS Board indicated seeing real life examples at the public hearing would be helpful for individuals to see how these changes would affect them. Paul White, VSEA Alternate representative from the VSERS Board inquired about the Guiding Principles. Linda Deliduka provided her thoughts on raising the retirement age for teachers and how there might be unintended consequences.

**ITEM 10: Commission decision-making on the components of a possible recommendation**
The consensus of the Commission was Mr. Spaulding would create a draft document by the end of Monday, November 23rd for review by the Commission members in order to provide the public with an idea of what the Commission is considering before the public hearing. The Commission members indicated they will provide Mr. Spaulding with any suggestions they have via email. The Public hearing is scheduled for Thursday, December 3, 2009 from 7:00 p.m. to 9:30 p.m. via VIT.

**ITEM 11: Adjournment**

Hearing no objection, the Chair declared the meeting adjourned at 4:07 p.m.

**Next Meeting Date:**

The next scheduled Commission meeting is on Wednesday, December 9, 2009 at 1:00 p.m. at Room 11 in the State House.

Respectfully submitted,

Monica Chiren
Treasurer’s Office