VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM
Meeting of the Board of Trustees – Actuarial Meeting
October 25, 2018 – 8:30 a.m.

VSERS Board Members present:
THOMAS HANGO, Vice-Chair, VSEA Representative (term expiring September 30, 2020)
ERIC DAVIS, VSEA Representative (term expiring September 30, 2019)
JAY WISNER, Governor's Delegate position
BETH FASTIGGI, Commissioner of Department of Human Resources (ex-officio)
DAN POULIOT, Deputy Commissioner of Department of Human Resources
ADAM GRESHIN, Commissioner of Finance & Management (ex-officio)
BETH PEARCE, Vermont State Treasurer
JOHN FEDERICO, VSEA Alternate Representative (term expiring September 30, 2019) – via telephone

VSERS Board Members absent:
ROGER DUMAS, Chair, VRSEA Representative (term expiring October 31, 2020)
JEAN-PAUL ISABELLE, VSEA Representative (term expiring September 30, 2020)
ALLEN BLAKE, VRSEA Alternate Representative (term expiring October 31, 2020)

Also attending:
Michael Clasen, Deputy State Treasurer
Eric Henry, Director of Investments
Andy Cook, Investments Analyst
Scott Baker, Director of Financial Reporting
Tim Duggan, Assistant Attorney General
Laurie Lanphear, Director of Retirement Operations
Erika Wolffing, Director Retirement Outreach & Policy

The Vice-Chair, Thomas Hango, called the Thursday, October 25, 2018, Actuarial Board Meeting to order at 8:32 a.m., which was held in the Auditorium, Pavilion Building, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda approval and announcements**

Ms. Pearce introduced the Board to Eric Henry, the new Director of Investments.

On a motion made by Ms. Pearce, seconded by Mr. Pouliot, the Board voted unanimously to approve the Board meeting agenda for October 25, 2018.

ITEM 2: **Approve the Minutes of:**

- October 11, 2018

On a motion made by Mr. Wisner, seconded by Mr. Davis, the Board voted unanimously to approve the minutes of October 11, 2018 as submitted.

ITEM 3: **FY2018 Actuarial Valuation**

Mr. Strom conducted a brief tutorial on actuarial valuations and how they are used to determine the actuarially determined employer contribution. Mr. Strom presented the FY18 Actuarial Valuation, Segal recommends a funding policy that targets 100% funding of the actuarial accrued liability. The amortization payment of the unfunded actuarial liability is a closed period through 2038 with an amortization amount increasing annually at the rate of 3% effective July 1, 2019. Previously the amortization amount increased at a rate of 5%. Ms. Pearce explained that the rate was intentionally changed in 2016 to be more consistent with the rate of inflation and changing to 3% will save $165 million in interest payments between the State and Teachers systems.

Mr. Strom explained the key valuation results, the actuarially determined employer contribution for FY2020 is $78,943,914, the unfunded actuarial accrued liability on a market value of assets (MVA) basis as of July 1, 2018 was $820,108,574. The funded percentage on a MVA basis decreased from 69.62% to 69.19% and on an actuarial value of assets (AVA) basis decreased from 71.43% to 70.70%. Mr. Strom highlighted the demographic data used in the valuation. As of July 1, 2018, there were 8,530 active members and 7,727 non-actives, yielding a ratio of non-active to actives of 0.91. The average payroll for active members was $61,157 with an average age of 45.9 years and 11.0 years of creditable service. There were 6,302 retired members and 672 beneficiaries with an average benefit of $1,602 per month and an average age of 70.3 years.

Mr. Strom explained the analysis of the experience and gain/loss. The loss from investments was $10 million, the expected rate of return was 7.5% and the calculated rate of return was 6.93% resulting in an investment loss. In addition to the investment loss there was additional loss of $54 million from other sources including net turnover, retirement, mortality, disability, salary increases, COLA experience, and terminated non-vested members. The loss from retirements was $17 million resulting from individuals retiring earlier than anticipated. Terminated non-vested members resulted in a $16 million loss and includes those individuals within the timeframe to return to service and are valued at 250% of their contributions.

Mr. Strom explained the reconciliation of the actuarially determined contribution for FY19. The normal cost amounted to $16 million or 3.12% of payroll. The unfunded liability was $779,804,010 and the payment on the unfunded liability as of July 1, 2018 was $50,090,049. The actuarially determined contribution for FY20 is based on projected payroll of $563 million with a normal cost of 3.12% of projected payroll for $17,587,034 and payment on the unfunded liability of $61,356,880 for a total FY20 actuarially determined employer contribution of $78,943,914.

Mr. Strom outlined new sections in the report, including pages regarding specific risks to the pension funds and how certain scenarios would impact the unfunded liability. Ms. Pearce explained that the Board has decided to early implement actuarial standard of practice (ASOP) 51 and conduct a risk assessment of the pension funds using the stochastic approach.

Mr. Strom presented 'actuarial hot topics' including changes that Board members may hear about in the media, including the public sector mortality table analysis, changes to ASOP 4, and implementation of ASOP 51. The new mortality tables focus on the public sector including three distinct categories, teachers, public safety, and all other employees. The new tables show that the prior mortality assumptions were likely understated. Mr. Strom explained these new tables should not significantly impact the VSERS due to the mortality assumption updates made in 2017 that considered the plan's experience.

Mr. Greshin and Ms. Fastiggi left the meeting at 10:13 a.m.

Mr. Strom explained that ASOP 4 will now require plans to calculate an actuarially determined contribution (VSERS already does) and calculate an investment risk defeasement measure (IRDM). The IRDM is an obligation measure that reflects the cost of defeasing the investment risk. Mr. Strom stated there are concerns with IRDM since investment risk cannot be defeased in a practical sense and that it will likely be misused. The final ASOP 4 is not expected until 2019 or 2020. ASOP 51 requires pension plans to study and identify sources of risk. Mr. Strom explained how stochastic modeling would allow the plan to determine risks to the system and recommended the Board consider implementing a plan management policy.

On a motion made by Mr. Wisner, seconded by Mr. Davis, the Board voted unanimously to approve the FY18 Valuation Report as presented by Segal Consulting, including all actuarial assumptions included in the report.

Ms. Pearce stressed that 35-40% of the state and teachers' pension liability is paid from the general fund. The total state budget was 5.733 billion in FY18. The payments to the teachers and state pension funds represented approximately 3.5% of the entire budget. According to Moody's, the total pension payments are approximately 4% of the state's dedicated revenues.

On a motion made by Mr. Wisner, seconded by Mr. Davis, the Board voted unanimously to recommend to the Governor and General Assembly an actuarially determined employer contribution (ADEC) recommendation for FY20 of $78,943,914.

Ms. Pearce informed the Board that the Other Post Employment Benefits (OPEB) reports are still outstanding and that staff is hoping to get the reports to the Board shortly.

ITEM 4: Other Business

Mr. Davis requested the Board have a brief discussion on suggestions from Prudential Retirement including allowing contribution changes to be made online. Mr. Davis inquired if a similar process to VTShares could be used to allow for online contributions. Mr. Pouliot stated that there may be some system limitations to allowing online changes currently. Mr. Davis also inquired around automatic enrollment and encouraging individuals to participate in the 457 Plan. Mr. Clasen clarified that the Board already authorized automatic enrollment and that the Union has not agreed to automatic enrollment to date. Mr. Hango stated that only the non-management unit had not agreed to automatic enrollment.

Ms. Pearce informed the Board that the Pension Symposium schedule for October 29th is postponed and will likely be rescheduled for late November or early December.

<u>ITEM 5:</u> **Adjournment**

On a motion by Ms. Pearce, seconded by Mr. Davis, the Board voted unanimously to adjourn at 10:46 a.m.

<u>Next Meeting Date</u>:
The next scheduled VSERS meeting is the Quarterly In-House Board Meeting on Thursday, November 8, 2018 at 9:00 a.m.

Respectfully submitted,

Erika Wolffing

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Director Retirement Outreach & Policy