

VERMONT STATE TEACHERS' RETIREMENT SYSTEM
Meeting of the Board of Trustees – Conference Call Meeting
December 14, 2017 – 3:30 p.m.

Members present:

JON HARRIS, Chairperson, Active Member Representative, term expiring– July 1, 2019 – via telephone

JOSEPH MACKEY, Vice-Chairperson, VRTA representative, term expiring July 1, 2020 – via telephone

JUSTIN NORRIS, Active Member Representative, term expiring July 1, 2021 – via telephone

LINDA DELIDUKA, VRTA Alternate Representative, term expiring July 1, 2020 - via telephone

PERRY LESSING, Active Member Alternate Representative, term expiring July 1, 2021- via telephone

DEBORA PRICE, representing Secretary of Agency of Education – via telephone

DANIEL RADDOCK, Financial Regulation Representative – via telephone

BETH PEARCE, VT State Treasurer

Also attending:

Katie Green, Investments Manager

Andy Cook, Investment Analyst

Scott Baker, Director of Financial Reporting

Laurie Lanphear, Director of Retirement

Tim Duggan, Assistant Attorney General

Erika Wolffing, Retirement Office

Charles Reibel – via telephone

Daniel Levin, Segal Consulting – via telephone

The Chairperson, Jon Harris called the Thursday, December 14, 2017 meeting to order at 3:34 p.m., which was held in the Treasurer's Conference Room, Pavilion Building, 4th Floor, 109 State Street, Montpelier, VT.

ITEM 1: **Approve the Minutes of:**

- November 16, 2017

On motion by Ms. Price, seconded by Mr. Norris, the Board voted unanimously to approve the minutes of November 16, 2017 as submitted.

ITEM 2: **Review/Act on Member Service Credit Request**

- Charles Reibel

On a motion made by Ms. Pearce, seconded by Ms. Deliduka, the Board voted unanimously to move into Executive Session at 3:37 p.m. pursuant to 1 V.S.A. § 313 for the purpose of discussing personnel issues.

The Board came out of Executive Session at 3:57 p.m. Mr. Reibel left the meeting at this time.

On a motion made by Ms. Pearce, seconded by Mr. Norris, the Board voted unanimously to move into Executive Session at 3:58 p.m. pursuant to 1 V.S.A. § 313 for legal counsel to provide guidance to the Board.

The Board came out of Executive Session at 4:13 p.m.

Mr. Reibel rejoined the meeting at this time. Mr. Duggan explained to Mr. Reibel that the Board does not have the authority to grant his request based on the law passed in 2010. Formal written notice of the Board's decision will be submitted to Mr. Reibel with his rights to appeal.

On a motion made by Ms. Pearce, seconded by Ms. Price, the Board voted unanimously to defer to legal counsel that the Board has no authority to grant Mr. Reibel's request.

Mr. Reibel left the meeting at this time. Mr. Levin joined the meeting at this time. Mr. Raddock left the meeting at this time.

ITEM 3: Review/Act on the OPEB Report

Ms. Pearce introduced Mr. Levin to the Board and provided a brief overview of the report and a historical overview of how benefits were previously funded. Mr. Levin presented the reconciliation of the actuarial accrued liability for the teachers' other post-employment benefits. Mr. Levin explained the changes resulting in increases from the prior report actuarial accrued liability of \$657 million. The current report projects liability 2 years forward resulting in a 9.7% increase or \$64 million. The current actuaries corrected the eligibility calculation taking into account the different groups (prior actuary used 55/30 for all groups) resulting in a 6.2% increase or \$45 million. New mortality rate assumptions adopted by the Board resulted in a 6.3% increase or \$48 million. Incorporating recent claims experience resulted in a 0.9% increase or \$7 million. Changes in health care trend rates from a flat 5% to select and ultimate rates resulted in a 6.9% increase or \$56 million. An increase in the excise tax or Cadillac tax resulted in a 1.9% increase or \$17 million. The discount rate was reduced from 4.00% to 3.58% resulting in a 6.0% increase or \$53 million. These changes in total resulted in a 44.3% increase in the actuarial accrued liability over the prior report or \$948 million.

Mr. Levin explained that if the OPEB were prefunded, with a rate of return at 7.5% the actuarial accrued liability would be \$557 million compared to \$948 million. The actuarial determined contribution for FY19 is \$54,658,645 with normal cost at \$19,502,203 and amortization of the unfunded liability at \$35,156,442. The ADC is 8.79% of the projected payroll.

On a motion made by Mr. Mackey, seconded by Ms. Price, the Board voted unanimously to accept the report as presented by Mr. Levin from Segal Consulting, and to convey to the Administration the importance of prefunding and the necessary actuarially determined contribution for FY19. The Board further directed the Treasurer to convey to the Administration the need to address health care trends nationally.

Mr. Levin left the meeting at this time. Ms. Green and Mr. Cook joined the meeting at this time.

ITEM 4: Director of Investments Report

Ms. Green presented staff recommendations related to the supplemental retirement plans' fee structures. Ms. Green identified the three action items for discussion by the Board of Trustees. The first, VSTRS vote whether to move to zero revenue share classes where available in the Supplemental Retirement Plans' line-ups. The second, VSTRS vote whether to standardize the recordkeeping participant fee process across all supplemental retirement plans. The third, VSTRS Board vote whether to bifurcate sole provider and non-exclusive supervisory unions on Prudential's platform, so the sole providers can add a guaranteed annuity product to their 403(b) fund line up, and whether to add a short-term bond fund to the 403(b) fund line-up.

Ms. Green defined the type of supplemental retirement plan fees, including investment management fees, recordkeeping fees, and fees for optional services. Starting with the investment management fee action needed, Ms. Green explained revenue share and the steps taken by Vermont to increase transparency in revenue share. For the VSTRS 403(b), staff recommends the lowest cost investment management fee, the zero-revenue option, at 0.35% for a savings of 0.03% or total direct aggregate savings to participants of \$23,972. The aggregate annual investment management fee across all plans at 0.40% for a savings of 0.07% or \$431,897.

On a motion made by Ms. Pearce, seconded by Ms. Price, the Board voted unanimously to move to the lowest cost share class across the line-up, so that each is a zero-revenue option where available.

Ms. Green presented the two types of recordkeeping fees available for the supplemental retirement plans, asset-based fee and per-participant fee. Asset-based fees are assessed to participants on a percentage of balance basis, small plan balances are not eroded by fees, but higher balances pay a larger percentage. Per-participant fees are a set dollar amount for all plan participants, as balances increase the fee will represent a smaller portion of a participant's balance, but a flat fee may see more expensive for those with a smaller balance. Prudential is offering a per participant fee of \$28.50.

On a motion made by Ms. Pearce, seconded by Mr. Norris, the Board voted unanimously to adopt a per-participant fee of \$28.50 for the 403(b) plans.

Ms. Green explained that Empower will not offer the Great-West Portfolio Fund on the Prudential platform. As a result, staff recommends the Board vote to allow Prudential to offer an annuity product (Prudential Guaranteed Long-Term Fund) to 'sole provider' supervisory unions.

On a motion made by Ms. Pearce, seconded by Ms. Price, the Board voted unanimously to offer the Prudential Guaranteed Long-Term Fund as the guaranteed annuity product for the VSTRS 403(b) line-up where Prudential is the sole provider for the supervisory union.

For those supervisory unions that do not offer a guaranteed annuity product, staff recommends that the VSTRS Board add a short-term bond fund and suggest the Lord Abbett Short Duration Income Fund (all supervisory unions can participate).

On a motion made by Ms. Pearce, seconded by Mr. Mackey, the Board voted unanimously to add the Lord Abbett Short Duration Income Fund to all supervisory unions' VSTRS 403(b) fund line-up.

ITEM 5: Review/Act on Title 16 Proposed Language

Ms. Lanphear presented the changes made to the Title 16 language as a result of discussion and requests made at the last Board meeting. Changes were largely around the disability retirement review and income verification process, and to bring the system in line with IRS requirements around non-vested withdrawals.

On a motion made by Mr. Harris, seconded by Ms. Price, the Board voted unanimously to proceed with the miscellaneous retirement bill placeholder language, deferring a recommendation on the changes to the disability retirement process pending further review.

ITEM 6: Other Business

Ms. Wolffing informed the Board that two individuals responded to the Retirement Office's request for quotation for a hearing officer. Staff recommended the Board execute a one-year contract to Michael Zimmerman, Esq. at a rate of \$75/hour to hear disability retirement appeals.

On a motion made by Ms. Pearce, seconded by Mr. Harris, the Board voted unanimously to execute a one-year contract with Mr. Zimmerman as hearing officer for disability retirement appeals.

ITEM 7: Adjournment

On motion by Ms. Pearce, seconded by Mr. Mackey, the Board voted unanimously to adjourn at 5:27 p.m.

Next Meeting Date:

The next scheduled VSTRS meeting is a Conference Call Meeting on January 11, 2018 at 3:30 p.m.

Respectfully submitted,



Erika Wolffing
Retirement Office