

VERMONT STATE TEACHERS' RETIREMENT SYSTEM
Meeting of the Board of Trustees – In-House Meeting
March 8, 2018 – 3:00 p.m.

Members present:

JON HARRIS, Chairperson, Active Member Representative, term expiring– July 1, 2019
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
BETH PEARCE, VT State Treasurer

Also attending:

Katie Green, Investments Manager
Andy Cook, Investment Analyst
Laurie Lanphear, Director of Retirement
Tim Duggan, Assistant Attorney General
Erika Wolffing, Retirement Office

The Chairperson, Jon Harris called the Thursday, March 8, 2018 meeting to order at 3:05 p.m., which was held in the BGS-MTPL Conference Room, Pavilion Building, 4th Floor, 109 State Street, Montpelier, VT.

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

- February 13, 2018

On motion by Mr. Norris, seconded by Ms. Pearce, the Board voted unanimously to approve the minutes of February 13, 2018 as submitted.

ITEM 2: **Director of Investments Report**

Ms. Pearce explained the reason for revisiting the Prudential fee discussion for the 403b Plan and the SDIA Plan since the Board acted in December to implement a flat fee. After the transition, Treasurer's Office staff were able to evaluate the fee decision based on actual participant account data and found that the flat fee negatively impacted more participants than anticipated.

Ms. Green explained the fee structure previously elected by the Board negatively impacted a larger number of participants with lower balances. Prudential provided 3 other potential scenarios for charging fees for both the recordkeeping fee and the communication and education fee. Ms. Green explained that under Empower, 403b participants were charged a 12 basis points

(bps) fee reflected on their statement as an asset-based charge across every investment option. Participants also had access to managed account services through Morningstar at an additional cost. Prudential offers a proprietary product, GoalMaker, that performs a similar evaluation at no additional cost.

Ms. Green explained that under the prior recordkeeper, SDIA Plan participants were charged 30 bps. This fee was deducted from the unit value of the stable value fund and was not reflected as an explicit fee on participant statements.

Ms. Pearce explained that under the flat fee proposal adopted in December, staff found that 76% of plan participants in the 403b exclusive plan would end up paying more than at the prior recordkeeper. Ms. Green stressed that unlike the 457 Plan, the 403b Plans do not have a Plan Expense Reimbursement Account (PERA) to allow the Board to offset fees. Even though participants will see a fee increase, the Prudential cost increases are still less than what was bid by the prior recordkeeper.

Ms. Green presented the various fee scenarios available for the 403b sole provider plan including the impact of these fees on the average plan participant. Each scenario assesses a recordkeeping fee for custodial services, and a communication and education fee covering legal services, compliance, and the in-state counselors. Ms. Pearce explained that under any scenario for the 403b sole provider plan, participants will pay more, but approximately 50% of those participants have the option to move from managed account services to GoalMaker and save on fees. Ms. Pearce stated that under scenario 4, plan participants will see the smallest increase, and stressed that whatever option is selected for the sole provider plan should also be adopted for the non-exclusive plan for consistency.

On a motion by Ms. Pearce, seconded by Ms. Price, the Board voted unanimously to modify their previous determination regarding fees associated with the 403(b) Sole Provider Plan, and to adopt Scenario 4 on page 9 of the Director of Investments Report, which reflects a 7.5 basis point fee for recordkeeping and 6.5 basis point fee for communication and education.

On a motion by Ms. Pearce, seconded by Mr. Norris, the Board voted unanimously to modify their previous determination regarding fees associated with the 403(b) Non-Exclusive Plan, and to adopt Scenario 4 on page 10 of the Director of Investments Report, which reflects a 7.5 basis point fee for recordkeeping and 6.5 basis point fee for communication and education.

Ms. Green explained the fee options for the SDIA Plan. Ms. Pearce explained that under a flat fee scenario 52% of plan participants are negatively impacted and informed the Board that the VSERS Board acted to implement Option 4 with a 7.5 bps recordkeeping fee and 6.5 bps communication and education fee.

On a motion by Ms. Pearce, seconded by Mr. Mackey, the Board voted unanimously to modify their previous determination regarding fees associated with the SDIA Plan, and to

adopt scenario 4 on page 11 of the Director of Investments Report, which reflects a 7.5 basis point fee for recordkeeping, and a 6.5 basis point fee for communication and education.

ITEM 3: Legislative Update

Ms. Pearce updated the Board on pending legislation that impacts VSTRS. There is currently a new education funding proposal that includes language that would shift the normal cost of retirement for teachers to the school districts. The Treasurer's Office has not provided an opinion on this change and has only requested that the Legislature fully fund the ADEC.

Ms. Wolffing updated the Board on the status of the miscellaneous retirement bill containing substantive changes to the VSTRS disability language. The bill passed out of both the House Committee on Government Operations and Ways & Means favorably. The bill is scheduled for action on the House floor after town meeting break.

Mr. Harris expressed his concern with the education funding proposal to shift the normal cost of retirement to the local level. Mr. Harris is concerned shifting these costs pits retirees against active teachers and opens up retiree costs to town meeting deliberations. Ms. Pearce stressed that the Treasurer's Office is more concerned with funding the ADEC and has not taken a position on education funding. Ms. Pearce explained that the Board could make a recommendation and she would convey that action to the committees of jurisdiction. Ms. Deliduka stated that retired teachers are concerned about the proposal. Mr. Harris made a motion to support fully funding the ADEC, but not shifting the cost to the local level adding additional funding pressures. Ms. Pearce, Mr. Raddock and Ms. Price stated they would have to abstain at this time. After further discussion, the Board decided to delay action on this motion until a later meeting. The motion was tabled until the April 12, 2018 meeting. Mr. Harris requested that Ms. Pearce convey to the legislative committees of jurisdiction that the Board is concerned with the funding proposal

ITEM 4: Other Business

Mr. Harris informed the Board that the regularly scheduled April meeting is changing to an in-house meeting at 3:00 p.m. to accommodate the health insurance discussion with Hickok and Boardman.

Ms. Pearce conveyed her frustration with communication around the transition to Prudential and informed the Board of her intent to meet with Prudential representatives.

ITEM 5: Adjournment

On motion by Ms. Pearce, seconded by Mr. Raddock, the Board voted unanimously to adjourn at 4:21 p.m.

Next Meeting Date:

The next scheduled VSTRS meeting is an In-House Meeting on April 12th, 2018 at 3:00 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Erika Wolfing".

Erika Wolfing
Retirement Office