Pension & Retirement Overview

Vermont State Treasurer’s Office
Pension & Retirement Boards

- Vermont State Employees’ Retirement System (VSERS)
- Vermont State Teachers’ Retirement System (VSTRS)
- Vermont Municipal Employees’ Retirement System (VMERS)
- Vermont Pension Investment Committee
Pension Funding Model

Pension Fund

Employer (State) Contribution
Employee Contributions
Investment Earnings
Benefit Expense
Other Expenses
Investment earnings comprise the greatest source of revenue


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• Actuarial accrued liability (AAL)  
  Present value of projected future benefits

• Actuarial value of assets (AVA)  
  Market-related value, with smoothing, designed to minimize volatility

• Unfunded (actuarial) Accrued Liability (UAL)
• Method by which UAL is eventually paid off (assuming it is funded)

• Annual required contribution

  Normal cost
  Amortization of UAL
Issues Facing States

Related to Retirement Funding in 2008

• Funding for retirement benefits, including health care, is among the largest fiscal challenges facing many state governments, including Vermont.

• Financial commitments for these programs, especially retiree health insurance, have historically grown much faster than the rate of revenue growth.

• Investment losses from the Great Recession significantly impacted pension funding.
Related to Retirement Funding in 2008

• While investment smoothing has spread the loss, significant additional funding, absent benefit and/or contribution changes, is needed.
  – Budget constraints may create pressures in some state’s to reduce or limit full funding.
  – Despite this, we need to fund pensions to take advantage of rebounds in returns.

• State of Vermont took proactive mitigating steps.
Pension Demographics

Ratio of Active Members to Retirees

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>3.74</td>
</tr>
<tr>
<td>1995</td>
<td>3.49</td>
</tr>
<tr>
<td>2000</td>
<td>2.81</td>
</tr>
<tr>
<td>2005</td>
<td>2.34</td>
</tr>
<tr>
<td>2010</td>
<td>1.71</td>
</tr>
</tbody>
</table>

Growth in Retiree Population

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Retirees at Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>2,577</td>
</tr>
<tr>
<td>1995</td>
<td>2,897</td>
</tr>
<tr>
<td>2000</td>
<td>3,647</td>
</tr>
<tr>
<td>2005</td>
<td>4,592</td>
</tr>
<tr>
<td>2010</td>
<td>6,146</td>
</tr>
</tbody>
</table>
Impact on Funding Status

Pension Liabilities

UAAL (pension only):

State Employees
Teachers

As of 6/30/08 Valuation: $87.1 Million $379.5 Million
As of 6/30/09 Valuation: $326.5 Million $727.8 Million

Funding Ratio:

State Employees Teachers

As of 6/30/08 Valuation: 94.1% 80.9%
As of 6/30/09 Valuation 78.9% 65.4%

Great Recession
# Pension Funding Requirements (Prior to FY11 Benefit Changes)

**Annual Actuarial Required Contributions (ARC) in the FY08 Valuation:**

<table>
<thead>
<tr>
<th>Year</th>
<th>State Employees</th>
<th>Teachers</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY10</td>
<td>$32.0 Million</td>
<td>$41.5 Million</td>
</tr>
<tr>
<td>FY11</td>
<td>$33.5 Million</td>
<td>$43.5 Million</td>
</tr>
</tbody>
</table>

**Annual Actuarial Required Contributions (ARC) in the FY09 Valuation:**

<table>
<thead>
<tr>
<th>Year</th>
<th>State Employees</th>
<th>Teachers</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY11</td>
<td>$41.6 Million</td>
<td>$63.5 Million</td>
</tr>
<tr>
<td>FY12</td>
<td>$43.5 Million</td>
<td>$66.6 Million</td>
</tr>
</tbody>
</table>

**Additional Resources Needed to Fund FY11 Estimated ARC Over FY10 Levels:**

<table>
<thead>
<tr>
<th></th>
<th>State Employees</th>
<th>Teachers</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9.6 Million</td>
<td></td>
<td>$22.0 Million</td>
</tr>
</tbody>
</table>

**TOTAL** $31.6 Million
The 2009 General Assembly created the Commission on the Design and Funding of Retirement and Retiree Health Benefits Plans for State employees and Teachers to review and report on the design and funding of retirement and retiree health benefit plans for the State employees’ and teachers’ retirement systems.

The Commission looked at ways to address this within the context of a set of guiding principles for our retirement plans.

Prior initiatives set the stage for change through this effort:
- 2005 Teacher Study made changes to the state’s actuarial methods and pt full funding of ARC on track
- 2007/2008 Studies resulted in changes to State system for new employees.
**Guiding Principles for a Retirement Plan**

Fairness and Sustainability Are Both Essential to Benefit Plans

**What Do We Want From Our Retirement Benefit Plan?**

- **Recruitment** – The benefit plan should act as an incentive for recruiting high quality employees. The plan must be competitive with those in other states and within Vermont.

- **Retention** – The benefit plan should act as an incentive for retaining high-quality employees and maintaining a stable workforce. The plan should also be compatible with changing workforce and demographic trends.

- **Reward** – The benefit plan should provide a solid foundation for retirement security following a career in public service.

- **Sustainability** – The cost of the benefit plan should be sustainable and predictable over the long term.

- **Affordability** – The cost of the benefit plan should be affordable for current and future public employees and other taxpayers.

- **Fairness** – The benefit plan should be fair to workers and other taxpayers.

- **Equity** – The benefit plan should be equitable for all parties.
VSTRS Agreement

- For employees more than 5 years from normal retirement eligibility (less than 25 years of service or less than 57 years old)
- Normal retirement changed to 65 or rule of 90 (combination of years of service & age), instead of 62 years old or with 30 years of service at any age.
- Early retirement will stay at 55, but the reduction will be an actuarial calculation.
- Employees more than 5 years from normal retirement eligibility will be eligible for a maximum benefit of 60% AFC, instead of the current 50% AFC, with a higher (2% instead of 1.67%) multiplier upon completion of 20 years of service.

Contribution Levels

The employee contribution rate will increase from 3.54% to 5.0% for all employees.

- Employees within 5 years of normal retirement eligibility will be eligible for a maximum benefit up to 53.34% of AFC instead of current 50% maximum, using the 1.67% multiplier, in recognition of years earned after July 1, 2010.
**Pension Cost Reductions VSTRS**

**Normal Cost FY 11**
- As of 6/30/09 Valuation: $22.8 Million
- Revised Per Statute Change: $10.3 Million

**Amortization of Unfunded Liability FY 11**
- As of 6/30/09 Valuation: $40.7 Million
- Revised Per Statute Change: $37.9 Million

**ARC FY 11**
- As of 6/30/09 Valuation: $63.5 Million
- Revised Per Statute Change: $48.2 Million

**FY 11 Employer Contribution Rate**
- As of 6/30/09 Valuation: 10.82%
- Revised Per Statute Change: 8.22%

*Based on a projected payroll of $587 million, this represents a savings to employer of $15.3 million*

**FY 11 Employee Contribution Rate**
- As of 6/30/09 Valuation: 3.54%
- Revised Per Statute Change: 5.00%

*Based on a payroll of projected $587 million, this represents an increase in employee contributions of $8.6 million*

**ARC FY 12**
- As of 6/30/09 Valuation: $66.6 Million
- As of 6/30/10 Valuation: $51.2 Million

*In addition, negotiated changes to health care premium contributions have reduced OPEB liabilities.*
Vermont Teachers' Retirement System - Contribution Rate History

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Employer Rate*</th>
<th>Employee Contribution Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>8.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>1996</td>
<td>8.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>1997</td>
<td>8.00%</td>
<td>4.00%</td>
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<tr>
<td>1998</td>
<td>8.00%</td>
<td>4.00%</td>
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<tr>
<td>1999</td>
<td>8.00%</td>
<td>4.00%</td>
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<tr>
<td>2000</td>
<td>8.00%</td>
<td>4.00%</td>
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<tr>
<td>2001</td>
<td>8.00%</td>
<td>4.00%</td>
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<tr>
<td>2002</td>
<td>8.00%</td>
<td>4.00%</td>
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<tr>
<td>2003</td>
<td>8.00%</td>
<td>4.00%</td>
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<td>2004</td>
<td>8.00%</td>
<td>4.00%</td>
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<td>2005</td>
<td>8.00%</td>
<td>4.00%</td>
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<tr>
<td>2006</td>
<td>8.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>2007</td>
<td>8.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>2008</td>
<td>8.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>2009</td>
<td>8.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>2010</td>
<td>8.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>2011</td>
<td>8.00%</td>
<td>4.00%</td>
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Reduction to employer rate and increase in employee rate as a result of legislative changes.
### Pension Cost Reductions VSERS

<table>
<thead>
<tr>
<th><strong>ARC FY 11</strong></th>
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<tbody>
<tr>
<td>As of 6/30/09 Valuation:</td>
<td>$41.6 Million</td>
<td></td>
</tr>
<tr>
<td>Revised Per Negotiated Salary Changes:</td>
<td>$37.2 Million</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>FY 11 Employer Contribution Rate</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 6/30/09 Valuation:</td>
<td>9.84 %</td>
<td></td>
</tr>
<tr>
<td>Revised Per Negotiated Salary Changes:</td>
<td>8.80%</td>
<td></td>
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Based on a projected payroll of $422.7 million, this represents a savings to employer of $4.4 million

**FY11 Savings based on a two year -3% pay cut and freezing/pushing out steps/COLAs**

<table>
<thead>
<tr>
<th><strong>ARC FY 12</strong></th>
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</thead>
<tbody>
<tr>
<td>As of 6/30/09 Valuation:</td>
<td>$43.5 Million</td>
<td></td>
</tr>
<tr>
<td>As of 6/30/10 Valuation:</td>
<td>$36.6 Million</td>
<td></td>
</tr>
<tr>
<td>Revised Per Proposed Statute Changes:</td>
<td>$31.6 Million</td>
<td></td>
</tr>
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Labor force reductions and pay changes incorporated in 6/30/10 valuation

Proposed Increases in employee contributions represent a savings to employer of $5.0 million
- Vermont enacted a tiered health care benefit system for teachers in July 2010
  - Changed amount of subsidized coverage for new hires and those with less than 10 years of service
  - Active teachers with more than 10 years of service given opportunity to obtain single or spousal coverage
- Tiered health care system implemented for group F members of the State system hired on or after July 1, 2008
  - No subsidized coverage for less than 10 years of service and phased in subsidized coverage for 11+ years of service
For new hires and those with less than 10 years of service...

- 1 to 14 years: No subsidized coverage
- 15 years: 60% Single
- 20 years: 70% Single
- 25 years: 80% Single or spousal

Current actives with more than 10 years of service...

- 80% single coverage - same as now
- 25 years: 80% single or spousal coverage

However:

- Those with more than 30 years of service will have to work another 5 years to be eligible for spousal coverage.
- Those with 25 to 30 years of service will have to work a total of 35 years.
- Those with 15 to 24 years of service will have to work 10 more years.
- Those with 10 to 15 years of service will be eligible upon 25 years of service.
The Vermont Pension Investment Committee or VPIC, oversees the investment of the assets of the Vermont State employees’, teachers’ and municipal employees’ retirement plans, as well as the Burlington employee’s retirement system.

<table>
<thead>
<tr>
<th>Market High Point</th>
<th>October 31, 2007</th>
<th>$3,608,743,725</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Low Point</td>
<td>February 28, 2009</td>
<td>$2,112,097,971</td>
</tr>
<tr>
<td>As of . . .</td>
<td>June 30, 2011</td>
<td>$3,404,377,452</td>
</tr>
</tbody>
</table>

The performance of VPIC managed assets has steadily improved since the market low point.
Reducing Pension Costs

Why Vermont has been successful in reducing pension costs:

• Fiscal prudence & collaborative problem solving

• Well-versed and supportive Administration & Legislature

• Strong research & analysis

• Well-organized employee & retiree representatives

• Transparency


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We need to continue to...

• Advocate for continued policies for full actuarial funding & against “raids” on the pension funds

• Utilize periodic valuations with reasonable assumptions to assure that the pension systems are achieving the dual goals of benefit security & fiscal responsibility to both members & taxpayers

• Review changes to the benefit system to assess their impact

• Remain disciplined investors

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Questions?