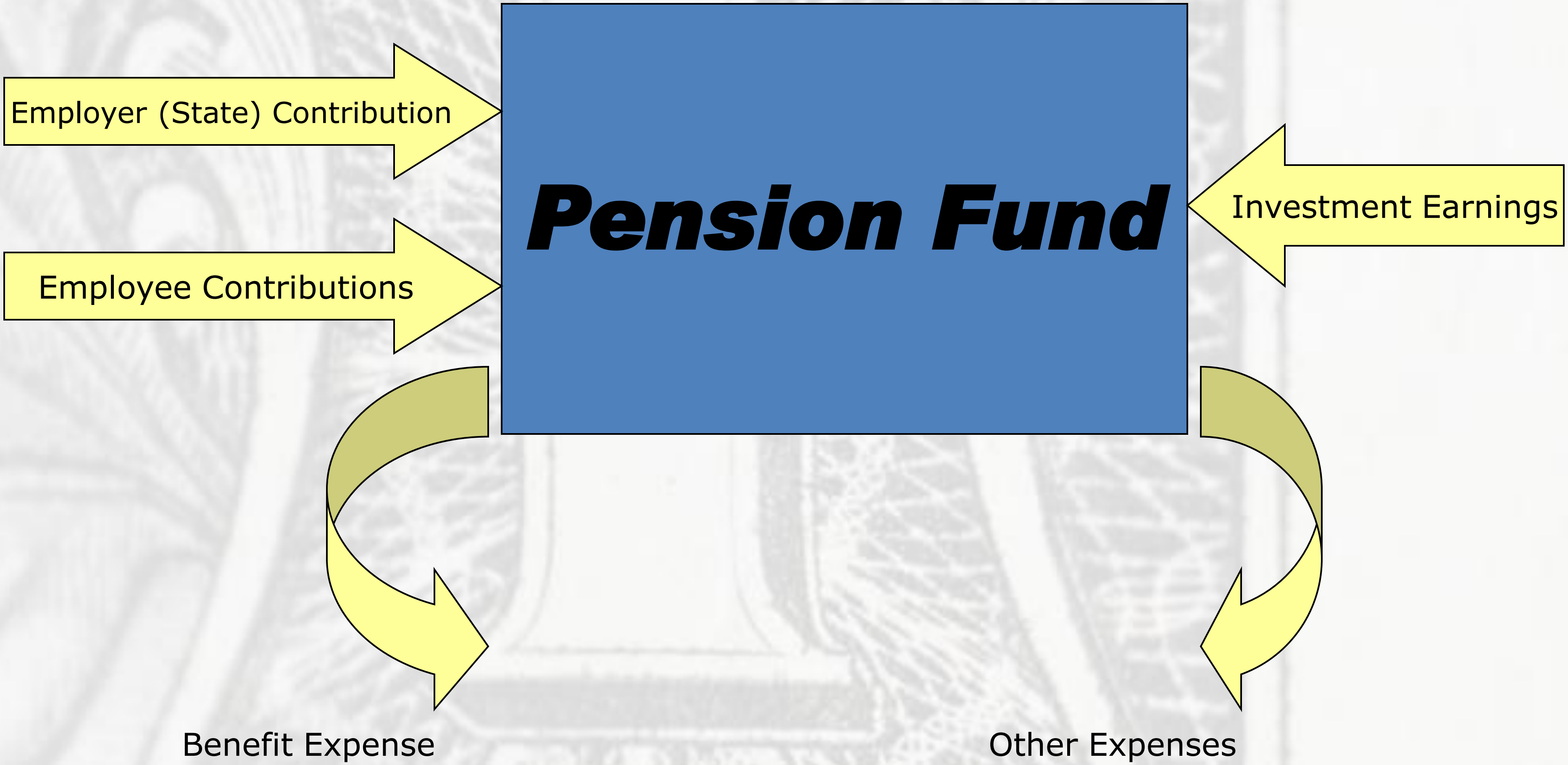
Pension & Retirement Overview

Vermont State Treasurer's Office

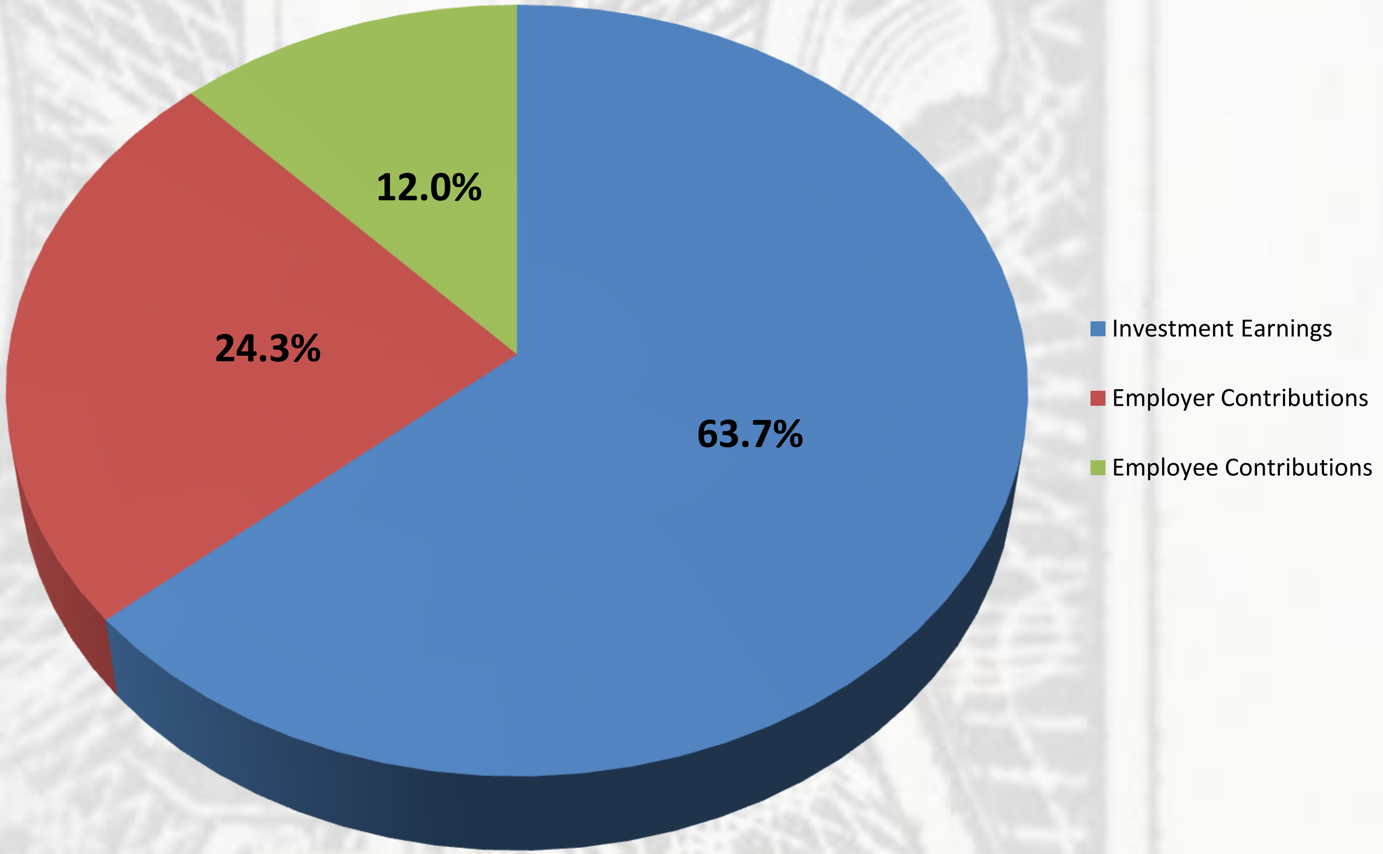
Pension & Retirement Boards

- 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



Investment earnings comprise the greatest source of revenue



Source: NASRA, Key Facts Regarding State and Local Government Defined Benefit Plans, January 2007.

Actuarial Concepts

UAL = AAL-AVA

- **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)**

Annual Actuarially Required Contribution (ARC)

- **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.**

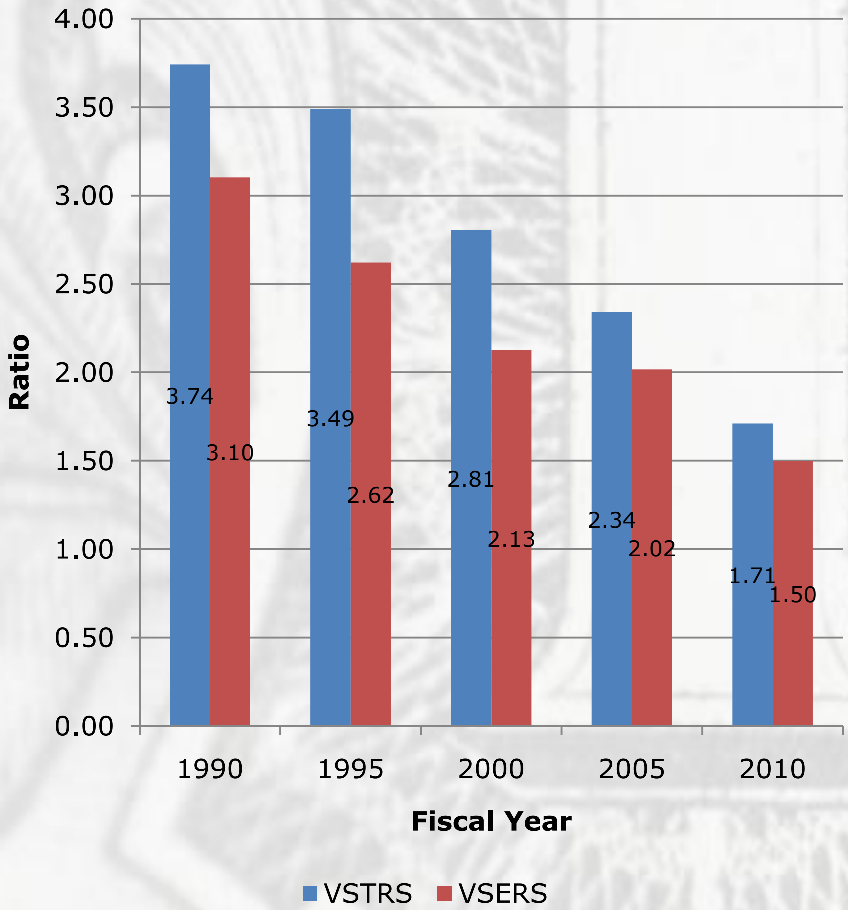
Issues Facing States

Related to Retirement Funding in 2008

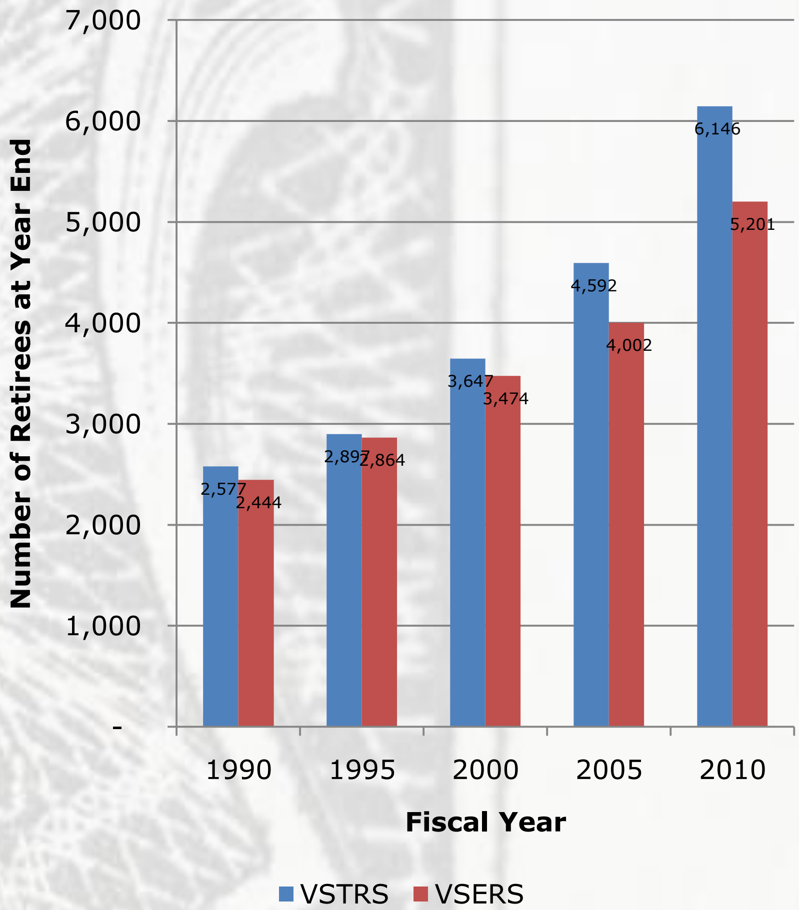
- **While investment smoothing has spread the loss, significant additional funding, absent benefit and/or contribution changes, is needed.**
  - **Budget constraints may create pressures in some state’s to reduce or limit full funding.**
  - **Despite this, we need to fund pensions to take advantage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

Pension Demographics

Ratio of Active Members to Retirees



Growth in Retiree Population



Great Recession

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%

Pension Funding Requirements (Prior to FY11 Benefit Changes)

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

	State Employees	Teachers
FY10	**$32.0 Million**	**$41.5 Million**
FY11	**$33.5 Million**	**$43.5 Million**

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

	State Employees	Teachers
FY11	**$41.6 Million**	**$63.5 Million**
FY12	**$43.5 Million**	**$66.6 Million**

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

	State Employees	Teachers
	$9.6 Million	**$22.0 Million**

TOTAL **$31.6 Million**

Pension Benefit Study

- 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.**
- **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.**

Contribution Levels

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

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

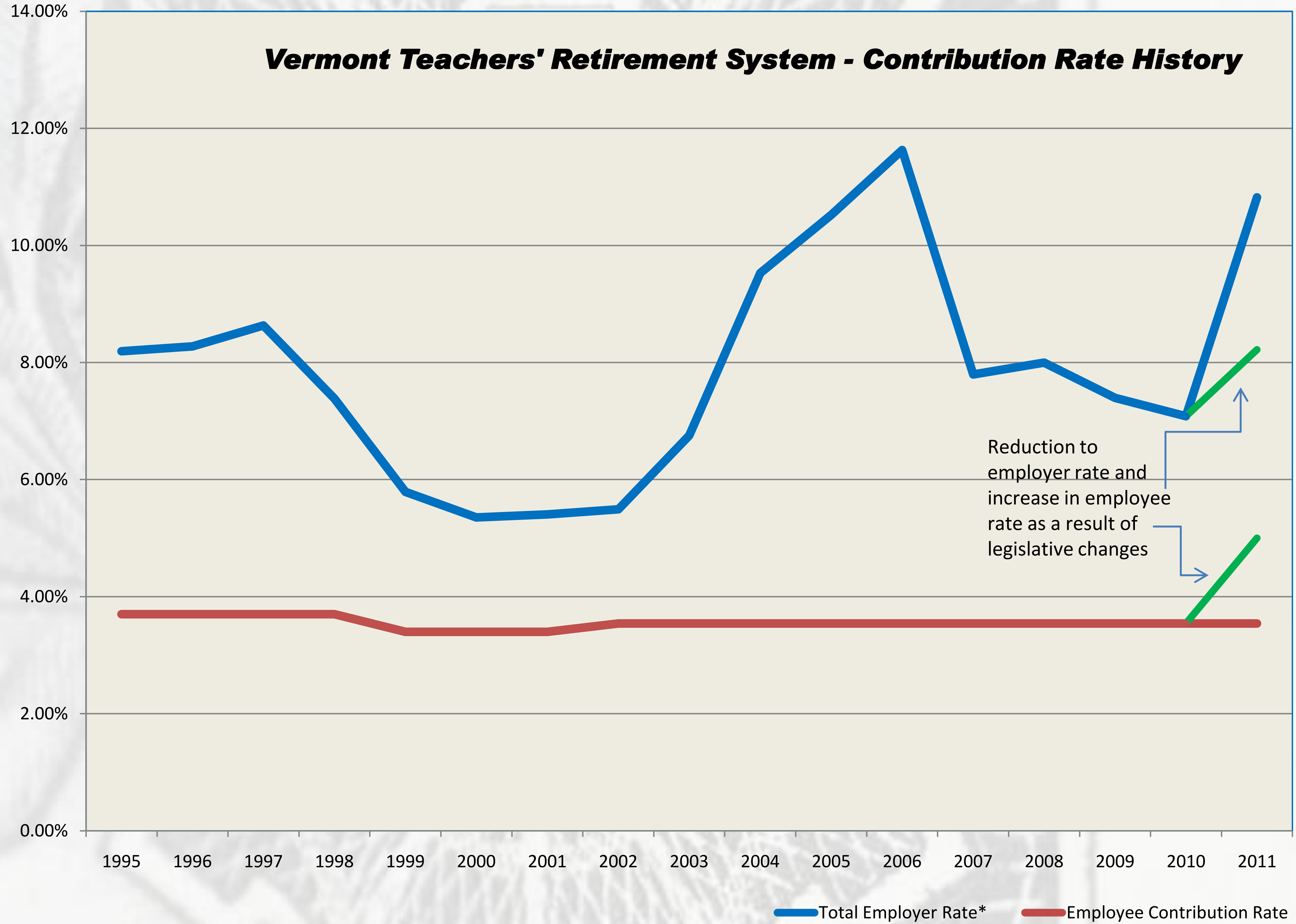
As of 6/30/09 Valuation:	**3.54%**
Revised Per Statute Change :	**5.00%**

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.



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Pension Cost Reductions VSERS

ARC FY 11

As of 6/30/09 Valuation:	**$41.6 Million**
Revised Per Negotiated Salary Changes:	**$37.2 Million**

FY 11 Employer Contribution Rate

As of 6/30/09 Valuation:	**9.84 %**
Revised Per Negotiated Salary Changes:	**8.80%**

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

ARC FY 12

As of 6/30/09 Valuation:	**$43.5 Million**
As of 6/30/10 Valuation:	**$36.6 Million**
Revised Per Proposed Statute Changes:	**$31.6 Million**

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

Health Care Benefit Changes

- **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

VSTRS Agreement on Health Care

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 year of service will be eligible upon 25 years of service.

Economic Downturn Impacts Investment Performance

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.

		Value of Assets
Market High Point	**October 31, 2007**	**$3,608,743,725**
Market Low Point	**February 28, 2009**	**$2,112,097,971**
As of . . .	**June 30, 2011**	**$3,404,377,452**

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**

Source: "Strengthening State and Local Government Finances: Frameworks for Negotiating Public Pension Plan Reforms" (working title), Center for State and Local Government Excellence. Forthcoming Summer 2011.

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**

Questions?