VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM
Meeting of the Board of Trustees – Treasurer's Conference Room
October 10, 2019 – 9:00 a.m.

Members present:
ROGER DUMAS, Chair, VRSEA Representative (term expiring October 31, 2020)
JEAN-PAUL ISABELLE, VSEA Representative (term expiring September 30, 2020)
ERIC DAVIS, VSEA Representative (term expiring September 30, 2019)
ADAM GRESHIN, Commissioner of Finance and Management
DAN POULIOT, Deputy Commissioner of Department of Human Resources
BETH PEARCE, VT State Treasurer
ALLEN BLAKE, VRSEA Alternate Representative (term expiring October 31, 2020) – via telephone

Members absent:
THOMAS HANGO, Vice-Chair, VSEA Representative (term expiring September 30, 2020)
JAY WISNER, Governor's Delegate position
JOHN FEDERICO, VSEA Alternate Representative (term expiring September 30, 2019)
BETH FASTIGGI, Commissioner of Department of Human Resources

Also attending:
Tim Duggan, Assistant Attorney General
Erika Wolffing, Director Retirement Operations
Lesley Campbell, Administrative Services Coordinator IV
Will Kriewald, Chief Financial Officer
Matthew Strom, Segal Consulting – via telephone
Kathy Riley, Segal Consulting – via telephone

The Chair, Roger Dumas, called the Thursday, October 10, 2019 meeting to order at 9:01 a.m., which was held in the Treasurer's Conference Room, Pavilion Building, 4th Floor, 109 State Street, Montpelier, VT.

ITEM 1: Agenda approval and announcements

On a motion made by Mr. Pouliot, seconded by Mr. Isabelle, the Board voted unanimously to approve the agenda for October 10, 2019.

ITEM 2: Approve the Minutes of:

- September 12, 2019

On a motion made by Mr. Isabelle, seconded by Ms. Pearce, the Board voted by roll call to approve the minutes of September 12, 2019 as submitted with Mr. Dumas, Ms. Pearce, Mr. Isabelle, Mr. Pouliot, and Mr. Greshin voting in the affirmative. Mr. Davis abstained.

ITEM 3: **Risk Assessment Presentation**

Ms. Pearce explained that the risk assessment will have no impact on the valuation of the pension fund currently in progress. Mr. Strom presented the completed risk assessment to the Board. The assessment was undertaken due to ASOP 51 and encompasses the three pension systems. Mr. Strom explained to two types of projections, deterministic and stochastic. The stochastic analysis projects employer contributions and projected funded percentage in terms of probability and a range of outcomes (2,500-5,000 trials). The deterministic method presents the funding position of the plan under certain 'what if' scenarios. Data is grouped into percentiles and summarized as a range.

Mr. Strom explained that the actuaries reviewed the rate of investment return. It was lowered from 7.95% to 7.5% in 2017. The actuaries ran a "what if" scenario if the investment rate of return were lowered to 7.30%, resulting in a 54% likelihood of meeting the assumption and resulting in a $6.6 million increase to the employer contribution. Ms. Pearce explained that the Treasurer's Office would be initiating an experience study in the spring.

Mr. Strom presented the investment simulations using stochastic modeling. The simulation shows long-term geometric return is in line with the current assumption. The projection is based on the July 1, 2018 actuarial valuation and additional assumptions that new entrants will have the same demographics as the last 3 years, experience emerges as assumed, and no future changes to plan benefits or employee rates. Mr. Strom further explained that projected dollars are unadjusted for inflation and provided a table to estimate the value of future amounts in today's dollars.

Mr. Strom presented the VSERS baseline projection where all assumptions are met and the plan is at 100% funding in 2038. The blue bars on the projection show the volatility. Mr. Strom next explained the projected state contribution showing volatility beginning in 2021, for example in 2029 the 50th percentile is at $105.6 million with a 5th percentile downside of $205.6 million. Mr. Strom explained that the Board should focus on the 25th-75th percentile as 50% of simulations fall within that band.

Mr. Strom explained that with a closed amortization schedule there will be significant volatility in employer contributions as the plan approaches 2038. The report shows a 5-year rolling amortization period to help mitigate the volatility in the later years and smooths it out beyond 2038. By moving to the 5-year rolling amortization the employer contribution volatility decreases, for example in 2038 the employer contribution in the 75th percentile under the closed period was $352 million, and the 75th percentile under the 5-year rolling amortization is decreased to $298 million. Ms. Riley clarified that the rolling amortization would only apply to the gains or losses during that period, not to the original unfunded liability. Mr. Strom presented the same analysis but for a 10-year rolling amortization period.

Mr. Strom presented the deterministic projections for sensitivity testing on the investment returns. The report includes scenarios for stagflation, recession, overextension and expansion as defined by the NEPC. The report contains expected rate of returns under each of these scenarios and the impact to the projected state contribution. For example, under the expansion scenario in 2025, the baseline contribution is $93.5 million versus $70.6 million.

Mr. Strom presented demographic changes based on past experience in the plan. The changes included a decrease to the active population of 200 and 400 over a two-year period (retirement incentive). The report also models a 'reverse' retirement incentive, i.e. incentivize retirement eligible active employees to stay in the plan past their normal retirement date. Mr. Strom explained that earlier retirements are marginally more costly to the plan. For example, under the 200 active employee decrease scenario, in 2030 the baseline employer contribution is $109.1 million versus $111.0 million were the active population to decrease by 200 employees.

Mr. Strom presented the scenario of a workforce retraction where active employees withdrawal from the system. The report includes two scenarios for 200 and 400 active employees withdrawing from system. The scenarios project a savings to the plan. The reverse retirement incentive scenario is where retirement eligible active are staying longer contributing into the plan. This scenario also results in savings to the plan, for example in 2030 the baseline contribution is $109.1 million versus $107.7 million under the reverse retirement incentive scenario.

The final scenarios modeled were cash infusions to the system above and beyond the actuarially determined amount. Five years of $10 million cash infusion results in additional cost at first with a breakeven point when savings start to accumulate in 2032.

Ms. Riley discussed the key takeaways from the risk assessment. Ms. Riley stated that the discussion on how to mitigate the increased volatility toward the end of the closed amortization period is a key takeaway. The change would require legislative action and would be moving the gains and loses to a rolling amortization period of 5-15 years.

<u>ITEM 4:</u> **Disability recommendation(s) from the August 15, 2019 Meeting of the Medical Review Board:**

- **Thelma Young (New)**

On a motion made by Ms. Pearce, seconded by Mr. Davis, the Board voted unanimously to enter Executive Session at 10:16 a.m. pursuant to 1 V.S.A. § 313 for the purpose of discussing personnel issues.

The Board came out of Executive Session at 10:24 a.m.

On a motion made by Ms. Pearce, seconded by Mr. Davis, the Board voted unanimously to defer making a recommendation on Thelma Young and refer her case back to the Medical Review Board pending additional information.

ITEM 5: **Other Business**

Mr. Davis inquired if there would be any impact from the risk assessment on the actuarial valuation. Ms. Pearce clarified that the risk assessment was informational only at this time and that the rolling amortization can be discussed by the Boards at a later date in preparation for the legislative session. Ms. Pearce confirmed that any discussion on potential changes to the funding of the plan would include the respective trustee boards, employee and employer groups.

ITEM 6: **Adjournment**

On a motion made by Mr. Isabelle, seconded by Mr. Pouliot the Board voted unanimously to adjourn at 10:31 a.m.

Next Meeting Date:

The next VSERS Board meeting is the Actuarial Valuation on October 29, 2019 at 8:30 a.m.

Respectfully submitted,

Erika Wolffing

Erika Wolffing
Retirement Office