

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM
Meeting of the Board of Trustees – Conference Call, Treasurer's Conference
Room

December 8, 2022 – 9:00 a.m.

DRAFT COPY – NOT YET APPROVED BY BOARD

Please note all member participated via telephone, video, or teleconference:

Members present:

ROGER DUMAS, Chair, VRSEA Representative (term expiring October 31, 2024)
BETH PEARCE, VT State Treasurer
ERIC DAVIS, VSEA Representative (term expiring September 30, 2023)
JEAN-PAUL ISABELLE, VSEA Representative (term expiring September 30, 2024)
THOMAS MOZZER, VSEA Representative (term expiring September 30, 2023)
BETH FASTIGGI, Commissioner of Human Resources
ADAM GRESHIN, Commissioner of Finance and Management
JAY WISNER, Governor's Delegate position
ALLEN BLAKE, VRSEA Alternate Representative (term expiring October 31, 2024)
JOHN VORDER BRUEGGE, VSEA Alternate Representative (term expiring September 30, 2024)

Also attending:

Michael Clasen, Deputy State Treasurer
Tim Duggan, Director, Vermont Retirement Systems
Nicole Weidman, Director of Retirement Operations and Policy
Justin St. James, Staff Attorney, Office of the State Treasurer
Tom Golonka, Chair, VPIC Board of Trustees
Eric Henry, Chief Investment Officer, VPIC
Scott Baker, Financial Reporting Director, State Treasurer's Office
Jeremiah Breer, Chief Financial Officer, State Treasurer's Office
John Booth, Director of Treasury Operations, State Treasurer's Office
Stephen Barry, Financial Administrator, Retirement Division
Owen Doherty, Executive Assistant to the Treasurer
Briana Howard, Retirement Specialist, Retirement Division
Alana Alger, Program Technician, Retirement Division
Yori Rubinson, Segal Consulting
Nicole Llorens, Segal Consulting

The Chair, Roger Dumas, called the Thursday, December 8, 2022 meeting to order at 9:02 a.m., which was held by conference call and in-person at 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. Isabelle, seconded by Mr. Clasen, the Board voted unanimously to approve the agenda.

ITEM 2: **Approve the Minutes of:**
 · November 10, 2022

On a motion made by Mr. Wisner, seconded by Mr. Davis, the Board voted unanimously to approve the minutes.

ITEM 3: **2023 Board Calendar Approval**

On a motion made by Mr. Wisner, seconded by Mr. Isabelle, the Board voted unanimously to approve the 2023 Board Calendar.

Ms. Pearce joined the meeting at 9:08 a.m.

Mr. Duggan and Mr. Dumas presented a Resolution recognizing Treasurer Pearce for her many years of service to the State of Vermont.

On a motion made by Mr. Wisner, seconded by Mr. Davis, the Board voted unanimously to approve the Resolution.

Ms. Pearce left the meeting at 9:28 a.m.

ITEM 4: **VSERS Other Post-Employment Benefits Report – Segal Consulting**

Segal Consulting presented the 2022 Actuarial Valuation of the OPEB Fund for the Vermont State Employees' Retirement System. The slide deck used is appended to these minutes and the link to the valuation can be found below.

On a motion made by Mr. Wisner, seconded by Mr. Isabelle, the Board voted unanimously to accept the 2022 VSERS GASB 74 (OPEB) Actuarial Report as presented by Segal Consulting.

On a motion made by Mr. Wisner, seconded by Mr. Isabelle, the Board voted unanimously to recommend to the Governor and General Assembly that the FY24 actuarially determined employer contribution (ADEC) to the Benefits Fund of \$67,146,946 be fully funded and appropriated in the next fiscal year in order to achieve and preserve the financial integrity of the fund.

On a motion made by Mr. Wisner, seconded by Mr. Isabelle, the Board voted unanimously to certify that the percentage of the payroll of all members sufficient to fund the normal cot and the accrued liability contribution is 10.35% based on the projected payroll shown in the actuarial report.

Link: [2022 VSERS OPEB Actuarial Valuation](#)

The representatives from Segal Consulting left the meeting at 9:55 a.m.

ITEM 5: VPIC Presentation

Mr. Golonka thanked Ms. Pearce for her service on behalf of VPIC and Mr. Henry presented an overview of VPIC's current position and operational strategies. He discussed the historical relationship between evolving capital markets and expected risk and how that relationship affects decision-making in the short and long term. Mr. Henry updated the Board on management fees as well as ESG factors that VPIC uses when evaluating investments.

Board discussion centered on risk related to future returns, actuarial assumptions as they relate to investments, and budgeting issues regarding staffing at VPIC.

Mr. Booth entered the meeting at 10:18 a.m.

Mr. Henry and Mr. Golonka left the meeting at 10:34 a.m.

ITEM 6: VSERS FY 2024 Budget Overview

Mr. Duggan highlighted some of the key changes to the proposed budget for FY 2024 which included a request for more positions in the Retirement Division and requesting funds for training for Board members and staff. Mr. Booth presented the proposed VSERS FY 2024 budget. He described reasons that have lead to the increase of 26.30% over the FY 2023 budget including costs associated with more positions, increased funding for staff and Board education, and the increased cost of actuarial services tied to inflation.

The Board discussed the increased staffing recommendation in the budget proposal for the Retirement Division.

On a motion made by Mr. Davis, seconded by Mr. Isabelle, the Board voted unanimously to approve the FY 2024 VSERS Budget as presented.

Mr. Booth left the meeting at 10:56

ITEM 7: Disability Recommendation(s) from the November 17, 2022 meeting of the Medical Review Board:

- Julie Stansbery (new)

On a motion made by Mr. Isabelle, seconded by Mr. Wisner, the Board voted unanimously to accept the recommendation of the Medical Review Board for the disability retirement for Julie Stansbery.

ITEM 8: Adjournment

Mr. Duggan took time to thank Mr. Clasen for his service in the Retirement Division and State Treasurer's Office.

On a motion made by Mr. Wisner, seconded by Mr. Isabelle, the Board voted unanimously to extend its appreciation and thanks to Michael Clasen for his service to state government.

On a motion made by Mr. Isabelle, seconded by Mr. Clasen, the Board voted unanimously to adjourn at 11:01 a.m.

Next Meeting Date:

The next regularly scheduled VSERS Board meeting is on January 12, 2022 at 9:00 a.m.
Respectfully submitted,

A handwritten signature in black ink, appearing to read 'S B O', with a large, stylized flourish at the end.

Stephen Barry
Financial Administrator I



Vermont State Employees' Retirement System

GASB 74 Actuarial Valuation Measured as of June 30, 2022

December 2022

Yori Rubinson, FSA MAAA
Nicole Llorens, ASA MAAA



Discussion Topics

Agenda

- Valuation Highlights
- Assumptions and Methods
 - Summary
 - Discount Rate
 - Spousal Participation
 - Per Capita Claims Costs
 - Trend
- Market Value of Assets
- Valuation Results
- Reconciliation of the Total OPEB Liability
- Actuarially Determined Contribution
- Member Demographics

Valuation Highlights

June 30, 2022 GABS 74 OPEB Actuarial Valuation

➤ Actuarial Determined Contribution (ADC)

- Funding legislation reduced ADC for FYE23 from \$122 million to \$65 million
- Expected \$2 million increase from annual payroll growth

\$ in millions	Year Ending June 30, 2024	Year Ending June 30, 2023	Year Ending June 30, 2022
Long-term investment return rate	7.00%	7.00%	7.00%
ADC	\$67	\$65	\$59

➤ Total OPEB Liability (TOL) decreased by 43.1% over prior year

- Expected 4.5% increase from normal plan operations
- TOL decreased relative to expected by 45.5%
- Funding legislation reduced TOL from \$1,677 million to \$907 million

Assumptions and Methods

Summary

Assumption or Method	Description	Same as Pension?	Updated for 2022?
Funding Method	Entry Age Normal Funding Method	Yes	No
Asset Valuation Method	Market value	No	No
Discount Rate	A blend of long-term (pension valuation) and short-term rates	Yes	Yes*
Salary Growth	Varies by age	Yes	No
Mortality Rates	How long members live after retirement, and how many members die prior to retirement	Yes	No
Termination Rates	How many members will leave the System prior to retirement	Yes	No
Retirement Rates	When members will retire	Yes	No
Plan Participation Rates	How many members will elect coverage upon retirement	N/A	Yes*
Spousal Participation Rates	How many spouses of members will elect coverage upon retirement	N/A	Yes*
Spousal Age Difference	How much older are spouses of members	N/A	No
Per Capita Claims Costs (Premium Rates)	Monthly cost of health care	N/A	Yes*
Trend Rates	How health care costs will increase in the future	N/A	Yes*

* Further discussion on following pages

Assumptions and Methods

Discount Rate

➤ Based on long-term rate

- Due to the funding policy recently set in the Vermont State Pension Code, the System is expected to contribute an amount at least equal to the actuarially determined contribution
- Consequently, the long-term expected rate of return (7.00%) on plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability
- The System's projected Fiduciary Net Position exceeds projected benefit payments for current active and inactive members for all years

Spousal Participation Rates

➤ Updated based on recent demographic experience

Assumptions and Methods

Per Capita Claims Costs

- Monthly cost of health care (i.e. premium rates)
- Varies by recipient type, plan elected, and Medicare status
- 2023 premiums, developed by Hickok & Boardman, are based on experience from July 2021 through June 2022
 - Self-sustaining rates for non-Medicare retirees increased by roughly 3% less than expected
 - Self-sustaining rates for Medicare retirees increased by roughly 1% less than expected

Trend Rates

- Trend rates were updated, based on most recent Segal Trend Survey, other published surveys and the composition of health care elected by participants
- The long-term trend rate of 4.50% is consistent with industry standards

Market Value of Assets (\$ in millions)

	Fiscal Year Ending June 30, 2022	Fiscal Year Ending June 30, 2021
Beginning of Year	\$120	\$58
Employer Contributions	35	90
Benefit Payouts	(35)	(36)
Administrative Expenses	(0)	(0)
Investment Income (net)	<u>(16)</u>	<u>8</u>
End of Year	\$105	\$120
Rate of Return	-13.1%	13.9%

Valuation Results (\$ in millions)

	June 30, 2022	June 30, 2021
Discount Rate	7.00%	2.41%
Total OPEB Liability (TOL):		
• Active Members	\$401	\$862
• Retirees and Beneficiaries	<u>506</u>	<u>731</u>
Total	\$907	\$1,593
Plan Fiduciary Net Position	<u>105</u>	<u>120</u>
Net OPEB Liability (NOL)	\$803	\$1,473
Plan Fiduciary Net Position as a percentage of TOL	11.55%	7.55%

Reconciliation of Total OPEB Liability (\$ in millions)

	Liability	% Change
Total OPEB Liability (TOL) as of June 30, 2021	\$1,593	
Expected Liability	\$1,665	
Changes		
Demographic Experience	0	0.0%
Updated per Capita Claims	(34)	-2.0%
Updated Contribution Rates	(20)	-1.2%
Updated Trend	75	4.7%
Updated Participation and Coverage Election	2	0.1%
Increased Discount Rate from 2.41% to 7.00%	(770)	-45.6%
Plan Change	<u>(11)</u>	-1.2%
Total Change	(758)	
Total OPEB Liability (TOL) as of June 30, 2022	\$907	-43.1%

Actuarially Determined Contributions (ADC)

- The ADC for the fiscal year ending June 30, 2024 uses the Projected Unit Credit actuarial method
 - Assets are projected forward from June 30, 2022 assuming contributions equal the ADC for the year ending June 30, 2023 (\$65 million)
 - The Unfunded Actuarial Accrued Liability was amortized over 25 years calculated as a level percent of projected payroll (3.50% annual payroll growth)

\$ in millions	Year Ending June 30, 2024	Year Ending June 30, 2023	Year Ending June 30, 2022
Long-term investment return rate	7.00%	7.00%	7.00%
Actuarial Accrued Liability	\$944	\$901	\$817
Health Care Fund Assets	<u>(125)</u>	<u>(129)</u>	<u>(62)</u>
Unfunded Liability	\$818	\$773	\$755
Normal Cost	\$20	\$21	\$18
Amortization of the Unfunded Liability	<u>47</u>	<u>44</u>	<u>41</u>
Total ADC	\$67	\$65	\$59

Member Demographics

	June 30, 2021*	June 30, 2020*
Active Members		
Number	8,448	8,788
Average Age	45.9	45.8
Average Years of Service	11.0	10.9
Retirees Enrolled in Health Care		
Number of Retirees	5,219	5,066
Average Age of Retirees	71.2	71.1
Number of Spouses and Dependents (excluding children)	2,572	2,491
Average Age of Spouses	67.8	67.8
Surviving Spouses Enrolled in Health Care		
Number	265	244
Average Age	76.9	76.9

*Total OPEB Liability was measured as of June 30, 2022 and 2021 determined from actuarial valuations using data as of June 30, 2021 and 2020 respectively.

Caveats

The assumptions, plan provisions and data used are described in the Vermont State Employees' Retirement System Governmental Accounting Standards Board (GABS) Statement 74 Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) Measured at June 30, 2022.

This presentation is based on the results of the June 30, 2022, actuarial valuation performed for the Board of Trustees of the Vermont State Employees' Retirement System. The actuarial valuation report has information on the plan provisions, data, methods and assumptions used in the valuation. Use of the information in this presentation is subject to the caveats described in that document. The measurements in this presentation may not be appropriate for purposes other than those described in the actuarial valuation report.

Segal accounting results are based on proprietary actuarial modeling software. The accounting valuation models generate a comprehensive set of liability and cost calculations that are presented to meet accounting standards and client requirements. Our Actuarial Technology and Systems unit, comprising both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

The results are also based on models for cost projections developed by Segal actuaries and programmers. The client team customizes and validates the models, and reviews the results, under the supervision of the responsible actuary.

The blended discount rate used for calculating Total OPEB Liability is based on a model developed by our Actuarial Technology and Systems unit, comprised of both actuaries and programmers. The model allows the client team, under the supervision of the responsible actuary, control over the entry of future expected contribution income, benefit payments and administrative expenses. The projection of fiduciary net position and the discounting of benefits is part of the model.

Our claims costs assumptions are based on proprietary modeling software as well as models that were developed by others. These models generate per capita claims cost calculations that are used in our valuation software. Our Health Technical Services Unit, comprised of actuaries and programmers, is responsible for the initial development and maintenance of our health models. They are also responsible for testing models that we purchase from other vendors for reasonableness. The client team inputs the paid claims, enrollments, plan provisions and assumptions into these models and reviews the results for reasonableness, under the supervision of the responsible actuary.