VERMONT STATE TEACHERS' RETIREMENT SYSTEM
Meeting of the Board of Trustees – BGS-MTPL Conference Room
October 29, 2019 – 2:00 p.m.

Members present:
JON HARRIS, Chairperson, Active Member Representative, term expiring July 1, 2023
JUSTIN NORRIS, Active Member Representative, term expiring July 1, 2021
EMILY SIMMONS, representing Secretary of Agency of Education
BETH PEARCE, VT State Treasurer
DANIEL RADDOCK, Financial Regulation Representative
LINDA DELIDUKA, VRTA Alternate Representative, term expiring July 1, 2020
PERRY LESSING, Active Member Alternate Representative, term expiring July 1, 2021

Members absent:
JOSEPH MACKEY, Vice-Chairperson, VRTA representative, term expiring July 1, 2020

Also attending:
Michael Clasen, Deputy State Treasurer
Eric Henry, Chief Investment Officer – via telephone
Katie Green, Deputy Chief Investments Officer
Scott Baker, Director of Financial Reporting
Erika Wolffing, Director Retirement Operations
Lesley Campbell, Administrative Services Coordinator IV
Will Kriewald, Chief Financial Officer
Tom Golonka, VPIC Chair – via telephone
Steve Klein, Joint Fiscal Office
Kathy Riley, Segal Consulting

The Chair, Jon Harris, called the Tuesday, October 29, 2019 Board meeting to order at 2:04 p.m., which was held in the BGS-MTPL Conference Room at 109 State Street, 4th Floor, Montpelier, VT.

ITEM 1: Agenda approval and announcements

On a motion made by Ms. Deliduka, seconded by Mr. Norris, the Board voted unanimously to approve the agenda as presented.

ITEM 2: Approve the Minutes of:

- October 10, 2019

On a motion made by Mr. Norris seconded, by Ms. Deliduka, the Board voted unanimously to approve the minutes of October 10, 2019 as submitted.

ITEM 3: **2019 Actuarial Valuation**

Ms. Riley presented the 2019 Actuarial valuation. As of June 30, 2019, there were 9,862 active members, 819 deferred members, 9,514 retired members and beneficiaries, and 10,333 total non-active employees. The ratio of non-actives to actives was 1.05 and is an indication of the plan's maturity. The average age of active members was 45.7 years, with average creditable service of 12.7 years, and average payroll of $63,365. There were 2,756 inactive members and 819 vested deferred members. As of July 1, 2019, there were 9,040 retired members and 474 beneficiaries receiving total monthly benefits of $16,557,992. The average monthly benefit for a retired member and beneficiary was $1,740 an increase from the prior valuation, and the average age was 72.2 years. Ms. Riley explained that the number of active members has been steadily decreasing.

Ms. Riley explained the comparison of contributions to benefits paid. The plan is in a negative cash flow state where benefits exceed contributions. Ms. Riley clarified the difference between actuarial value of assets versus market value of assets and explained how it is calculated. The actuarial value of assets as of June 30, 2019 was $1,950,859,980. The net actuarial experience loss was $48,932,512, including a loss of $11.5 million from investments and $37.3 million from other experience. The market return was 6.30% compared to the 7.5% assumption generating a $21.6 million loss on a market value basis, or 6.87% on an actuarial value basis generating an $11.5 million loss. Ms. Riley presented the historical investment return with a five-year average of 5.23% and a ten-year average of 8.49% on a market value basis.

Ms. Riley explained there is no provision for administrative expenses leading to experience loss. Ms. Riley further explained the net loss due to other experience totaling $37.3 million, including $21 million due to net turnover, $20 million due to retirement, $2.7 million due to mortality and $11 million in miscellaneous sources. There was a gain from salary increases for actives of $10.4 million and a gain of $7.6 million from COLA experience.

Ms. Riley stated that the actuarial accrued liability as of June 30, 2019 was $3,505,319,267 an increase of 3.7% over the prior valuation. There were no changes to the actuarial assumptions since the prior year.

Mr. Klein left the meeting at 2:54 p.m.

Ms. Riley explained the development of the unfunded actuarial accrued liability. In the prior valuation there was a $1,513,433,335 unfunded liability, at the end of 2019, the unfunded liability increased to $1,554,459,287. The actuarially determined employer contribution (ADEC) for FY20 consists of the total employer normal cost of $7,003,176 or 1.07% of payroll and a payment on the unfunded liability of $121,289,738 or 18.55% of payroll for a total ADEC of $128,292,914 for FY20. Starting this year, the amortization payment is increasing at 3% per year versus 5% previously.

Ms. Riley reviewed the amortization schedule of the unfunded actuarial liability including the additional $26.2 million appropriation. The Board decided to apply the additional funding at the end of the closed amortization period in 2038. Ms. Pearce explained that the legislative intent for the additional appropriation was not to lower the subsequent appropriations. Ms. Pearce explained that the Board in following statute would provide a recommended ADEC applying the $26.2 million today but recommend a larger amount explaining delay applying the $26.2 million until the end of the amortization period.

Mr. Golonka left the meeting at 3:22 p.m.

The Board recessed at 3:22 p.m. The Board reconvened at 3:43 p.m.

Ms. Riley explained the intent behind the $26.2 million. The original plan was to hold back the $26.2 million resulting in $70 million in interest at the end of the amortization schedule to maximize savings due to the additional payment. Holding back the $26.2 million results in higher contributions each year on the ADEC. For FY21, the report recommends a payment on the unfunded liability of $128,436,157 and a total ADEC of $135,649,428.

On a motion made by Ms. Deliduka, seconded by Mr. Norris, the Board voted unanimously to accept the report with requested changes to page 27 showing the funding percentage.

On a motion made by Ms. Deliduka, seconded by Mr. Norris, the Board voted to accept the recommendation on page 29 of the report and recommend an ADEC of $135,649,428 with an explanation that this a greater amount over the statutorily required ADEC recognizing the additional appropriation of $26.2 million is held back until the end of the amortization period. Mr. Raddock voted against the motion.

ITEM 4: **Other Business**

The Board discussed the upcoming meeting on the risk assessment on Friday, November 1. Mr. Harris asked members of the Board to attend.

ITEM 5: **Adjournment**

On a motion made by Ms. Pearce, seconded by Ms. Deliduka, the Board voted unanimously to adjourn at 4:10 p.m.

Next Meeting Date:
The next VSTRS Board meeting is the Quarterly In-House on November 12, 2019 at 9:00 a.m.

Respectfully submitted,

Erika Wolffing

Erika Wolffing
Director of Retirement Operations