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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

October 31, 2017

UPDATED 10/31/17
3:40 p.m.

The Honorable Phil Scott
Pavilion Office Building
109 State Street
Montpelier, VT 05609

Dear Governor Scott:

As provided in Title 16, V.S.A., Chapter 55, Section 1942(r), the Vermont State Teachers' Retirement Board of Trustees voted at a meeting held on October 25, 2017 to adopt the actuarial valuation prepared by Segal Consulting and to recommend the following actuarially determined employer contribution (ADEC/previously referred to as the annually required contribution, or ARC) to the State Teachers' Retirement System:

Fiscal Year 2019: $105,640,777

Also please note that pursuant to §1944(b)(2), the actuary has determined that the reduction to the recommended contribution for FY19 attributable to the increase from 5% to 6% for Group C members with less than five years of service as of June 30, 2014 is $1,945,487.

A copy of the Fiscal Year 2019 valuation will be available for your review at:
http://www.vermonttreasurer.gov/content/retirement/teacher/financial-reports

The increase in the FY19 ADEC is due to four primary factors: 1) a revision to the assumed rate of return; 2) changes in mortality projections; 3) some changes in actuarial methodology; and 4) retirement experience including the extent of turnover among participants and retirement at years that differ from past projections. With respect to the latter, as the State has made decisions that impact the transition of education service delivery and associated costs, they have had the effect of increasing pension liabilities.

The ADEC can be broken down into two components: a normal cost of $8,081,768, and a payment on the unfunded liability of $97,559,106. A sizeable portion of the unfunded liability is associated with investment losses incurred during the Great Recession, the long-standing practice of paying for health care through the retirement system (which ended in 2014), and the significant underfunding of the actuarially determined contribution in the 1990s through 2006. The State's current funding plan contemplates increasing annual contributions and retiring the unfunded liability in 2038, at which time the normal cost would be contributed on an annual basis, and all payments related to unfunded liability would be eliminated.

The State portion of normal cost, currently $8,051,768, out of a total of approximately $42.8 million represents just under 19% of the total. The teacher contribution is approximately $34.8 million, representing 81% of the total. Please note that a 2014 statute change directed that teachers not vested on July 1, 2014 contribute 6% of their pay, up from 5%. Therefore, we project that the teacher share of normal cost will increase over time, further reducing the State portion.

Since 2010, incremental changes have been implemented to the State and the Teachers' systems to address the unfunded liability in both systems. Examples of cost saving decisions include increasing contributions by teachers in fiscal year 2011 and fiscal year 2015; pushing out the age of retirement eligibility; developing a funding plan for teacher health care; and requiring teachers to work longer for health care benefits. Additionally, we now fund the retirement contributions of federally grant-funded teachers from the federal grants themselves. We estimate that approximately $5.7 million will be paid through these assessments to federal grants. Changes to both systems have already saved millions of dollars and are expected to save taxpayers $1.3 billion dollars by 2038.

I recognize that this year's ADEC is challenging. While we can discuss opportunities to revise the funding schedule, it is important to note that any smoothing of this year's contribution will negatively affect long-term interest payments to the detriment of taxpayers. There are no quick fixes to this challenge. The bottom line is that our current funding strategy has been developed to achieve the best value for both the current and future retirees and all other taxpayers.

Please let me know if you have any questions.

Sincerely,

Elizabeth A. Pearce
Vermont State Treasurer

cc: Senator Jane Kitchell, Chair, Senate Committee on Appropriations
Senator Jeanette White, Chair, Senate Committee on Government Operations
Representative Catherine Toll, Chair, House Committee on Appropriations
Representative Maida Townsend, Chair, House Committee on Government Operations
Jon Harris, Chairperson, Vermont State Teachers' Retirement Board of Trustees
Laurie Lanphear, Director of Retirement Operations, Office of the Treasurer
Representative Mitzi Johnson, Speaker of the House
Senator Tim Ashe, Senate President Pro Tempore

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