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**STATE OF VERMONT**  
**OFFICE OF THE STATE TREASURER**

October 31, 2017

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

Dear Governor Scott:

As provided in Title 3, V.S.A, Chapter 16, Section 471(n), the Vermont State Employees' 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 Employees' Retirement System:

Fiscal Year 2019: \$62,984,742

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

State administrative expenses and retiree health care premiums are not included in the recommendation above. These are incorporated in the calculation of the surcharge as detailed below.

Every year, a surcharge is applied to the total state payroll to fund the ADEC, retiree health care premiums, and non-investment pension administrative costs. In both FY17 and FY18, the surcharge has remained constant at 17.47%. In FY17, this surcharge generated a significant surplus. For FY18, our current analysis indicates that we are again likely to generate a surplus.

Based on projected payrolls for FY18 and FY19 and assuming no significant increase in health care premiums, we could absorb most of the increase in the ADEC at the existing 17.47% rate and use any FY18 surplus to assist in paying the FY19 ADEC. I therefore recommend that we hold the current surcharge constant, or at most apply a minimal increase to cover likely increases in premium payments for health care. This recommendation assumes that there are no significant changes to existing workforce levels. Importantly, it results in either no increase or a minimal increase in appropriations over the existing base.

Our actuaries are completing the valuations for other post-employment benefits (OPEB), predominately health care, and will forward these when available. As you are aware, Vermont does not prefund the OPEB, and the medical premiums paid for with the payroll charge do not cover accrued costs. The State needs to move to a system of prefunding health care. Prefunding is ultimately in the best interest of the taxpayer, and the Treasurer's office will continue to advocate for full funding of the OPEB. I would be pleased to work with your staff on this issue.

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  
Roger Dumas, Chairperson, Vermont State Employees' 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