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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Senator Jeanette K. White, Chair, Senate Committee on Government Operations
FROM: Beth Pearce, Vermont State Treasurer
RE: Comments on S. 273
DATE: February 15, 2018

I am writing to address section 6 of S. 273 as introduced. These comments are in my capacity as State Treasurer. The VMERS (municipal) Board of Trustees has just recently become aware of this proposal and has not yet had the opportunity to opine.

I believe you are investigating the creation of a new plan to put all municipal law enforcement officers into one plan within VMERS that is substantially equivalent to the retirement plan for law enforcement in VSERS (Group C).

I would like to address a few issues. First, group D¹ in the VMERS plan is substantially the same as group C in VSERS. I have consolidated the relevant table information that you received in previous testimony relative to these plans and have identified the few differences. Please see attachment A.²

The benefits are very similar. The greatest differences are in the health care benefit which S.273 acknowledges and the COLA benefit. Other benefit differences include differences in disability retirement that are noted in attachment A.

One difference that is important to note is that age 55 mandatory retirement exists for group C VSERS but there is no mandatory retirement age 55 for VMERS group D, although participant can retire at age 55 with no penalty/reduction in benefits.

There is a substantial difference in contribution rates. These are set by the actuarial process. In VMERS the employer contributions are set for each group while in VSERS the rate is set across all groups. Please be advised that the VMERS Board has made some recommended changes to the contribution rates for employers in all groups (A, B, C and D) and the miscellaneous retirement bill (currently in the House Committee on Government Operations) will include some recommended increases for employees as well.

Funding rates between VMERS and VSERS are unlikely to be equalized. Each group has distinct differences in eligibility and demographics. Funding decision-making is different in VMERS since the

¹ Group D was established in 1999, effective FY 2000. Per board minutes, informational sessions were held across the State. First entrants occurred in 2002 with five members. Current membership is 161 active members.

² Attachment B is a general description of group D as it currently is structured. Rate changes for employer contributions are expected to be made, subject to legislative approval of the employee rates in the "miscellaneous retirement bill" which has been presented to the House Committee on Government Operations (staff Luke Martland).

State has no funding role in the municipal contributions. The participating municipalities and entities pay the employer contribution, not the State.

These minor differences aside, municipal law enforcement and emergency personnel already have a substantially comparable plan if the municipality so chooses to provide this plan to its members. See eligibility section in Attachment B.

Attachment C is a census report from our latest actuarial report. As you can see, group D is a small group as is C. We do not collect data of employee position titles from participating municipalities but believe that current law enforcement is included in groups B, C, and D. We are aware that several municipalities have used group D as their option for law enforcement. Nonetheless groups C and D are small groups with demographics that result in considerable volatility in the rates for employers from year to year. The addition of another group would create even greater volatility and budget pressures on our participating municipalities.

While not in the proposed bill, I would also note that any proposal to combine group D (VMERS) with group C (VSERS) is not feasible. It would change the definition of group C (VSERS) from a single employer to a multiple employer cost-sharing plan adding structural issues as well as increased auditing and actuarial costs.

This brings me to the issue of municipal choice and the flexibility of determining a plan for its members. Section 5068 of Title 24 addresses the issue of election of the group plan. In VMERS all employees are members of group A unless an election to become a member of groups B, C, or D is made pursuant to section 5068. On or before September 30th of any year, the legislative body of the municipalities may designate groups of employees eligible to become members of groups B, C, and D based on the prescribed eligibility for the plans.

If an employer elects to offer group D, employees may move into that group by making their own elections by December 31st following the employer designation, for an effective date of July 1st immediately following. If the intent of S.273 would be to ultimately require membership in a new law enforcement group, it would undermine the decision-making of both the employer municipalities and their employees. Since the State has no dollar contribution into VMERS, it could be characterized as an unfunded mandate.

In summary, I believe that the expense (staff time, actuarial costs, and legal costs) of a study as proposed is not warranted given the existence of a significantly comparable plan. Financial decisions about admission to group D should be left to the municipality that pays for it in conjunction with its legislative process and citizen input. Since the proposed legislation is asking for a study, I would expect, if passed, that there would be an appropriation associated with this bill to cover the above-mentioned costs.

I also want to state for the record that this is my assessment. Due to the short notice on this issue, we have not had the opportunity to bring this before the VMERS Board. They are meeting tomorrow, unfortunately at the same time as your testimony. I will discuss this issue with the VMERS Board and provide you with feedback or action taken by its members.

Thank you for your time. My office is here to follow up with any questions or additional information.

Attachment A: VSERS Group C & VMERS Group D Comparison Chart

GROUP COMPARISON	VSERS (State) GROUP C	VMERS (Municipal) GROUP D*	DIFFERENCES
Employee Contributions	8.53% of gross salary	11.35% of gross salary	Higher employee contribution rate for VMERS Group D over VSERS Group C
Employer Contributions	17.47% of gross salary – will vary based on annual actuarial valuation (includes pension & post-employment benefits)	9.85% of gross salary	Lower employer contribution rate for VMERS Group D over VSERS Group C
Average Final Compensation (AFC)	Highest 2 consecutive years, including unused annual leave payoff	Highest 2 consecutive years	Same except for unused annual leave payout included in AFC for VSERS Group C
Benefit Formula	2.5% x creditable service	2.5 % x creditable service x AFC + previous service: 1.4% x Group A x AFC, 1.7% x Group B x AFC, 2.5% x Group C x AFC	Same except for prior Group service for VMERS
Maximum Benefit Payable	50% of AFC	50% of AFC	Same
Normal Retirement (no reduction)	Age 55 (mandatory)	Age 55 with 5 years of service	VMERS Group D not mandatory at age 55
Post-Retirement COLA	Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement	50% of CPI, up to 3% per year	Lower COLA for VMERS Group D over VSERS Group C
Early Retirement Eligibility	Age 50 with 20 years of service	Age 50 with 20 years of service	Same
Early Retirement Reduction	No Reduction	No Reduction	Same
Post-Retirement Survivorship Options	70% spousal survivorship with no reduction in retiree's benefit	70% spousal survivorship with no reduction in retiree's benefit	Same
Benefit Eligibility - Other (Vested Rights, Disability, Death-in-Service)	5 years of service (vested and disability) 10 years of service (death-in-service)	5 years of service	Same disability eligibility, 5 years for death in service benefit for VMERS Group D compared to 10 years for VSERS Group C

Attachment A: VSERS Group C & VMERS Group D Comparison Chart

GROUP COMPARISON	VSERS (State) GROUP C	VMERS (Municipal) GROUP D*	DIFFERENCES
Disability Benefit	Unreduced, accrued benefit with minimum of 25% of AFC, with children's benefit of 10% of AFC to maximum of 3 concurrently, if injured on the job 50% of AFC	Unreduced, accrued benefit, plus children's benefit representing 10% of AFC to maximum of 3 concurrently	No minimum AFC for VMERS Group D
Death-in-Service Benefit	70% of accrued benefit with no actuarial reduction applied, plus children's benefit	70% of accrued benefit with no actuarial reduction applied	Same except no children's benefits for VMERS Group D
Medical Benefits	80% of total premium	N/A	No Medical benefits for VMERS Group D

* VMERS Group D includes law enforcement, firefighters, and emergency medical personnel, however some members may be in VMERS Groups A, B, or C

Vermont Municipal Employees' Retirement System

GROUP D PLAN

Who is eligible?

- 1) Sworn police officers appointed under Chapter 55 of 24 V.S.A. or a comparable provision of a municipal charter;
- 2) Firefighters and officers of fire departments appointed under Chapter 57 of 24 V.S.A. or a comparable provision of a municipal charter;
- 3) Emergency medical personnel as defined in 18 V.S.A., § 902(6).

How does a municipality offer the group D plan to eligible employees?

On or before September 30 of any year, a municipality may designate groups of employees eligible to become members of group D, or a bargaining unit agreement may be submitted for review. Such designation may apply to one or more of the eligible employment groups listed above.

Is participation mandatory for all eligible employees once the group D plan is offered?

Not for existing employees. On or before any December 31 following a designation by the voting municipality, individuals that have been offered the group D plan may elect to become members effective the July 1 immediately following. If an existing employee does not elect to become a member during the initial offering, he/she may elect by December 31 of any subsequent year to enroll effective the following July 1. However, statutory provisions state that if a participant elects to join a higher benefit plan after the initial offering, they must be covered under the plan for at least 3 years before retiring with the higher plan benefits. All new employees hired after the original vote is taken to offer the group D plan shall become members of the group D plan.

What are the benefits of the group D plan?

- ▶ Normal Retirement at age 55
- ▶ Early Retirement at 50 with 20 years of service with no reduction in group D service
- ▶ 2 year Average Final Compensation (AFC)
- ▶ Maximum benefit of 50% of AFC with 20 years of service in the group D plan (2.5% for each year accrued)
- ▶ Automatic 70% survivorship benefit payable to surviving spouse upon death of retiree (with no reduction in retirees monthly allowance)
- ▶ Children's benefits payable under a disability retirement benefit
- ▶ Accidental and occupationally-related death benefit payable to dependent beneficiary

What is the contribution rate for the group D plan?

The contribution rate for employees is 11.35% of gross compensation (set by statute)
The contribution rate for employers is currently 9.85% of gross compensation.

Special Note: The employer rate can vary from year to year based on the actuarial liability of the anticipated benefits of the participants.

Is there a mandatory retirement age in the group D plan?

No, although participants can retire with no reduction in the group D benefits at age 55, they are not required to do so. Participants that have accrued the maximum 50% of AFC will still continue to increase their retirement benefit through anticipated salary increases.

If a member of either group A, B or C transfers to the group D plan, what happens to their previous service?

As with transfers between groups A, B and C, all service earned under a previous group retains the value accrued within that group. For example, if a group B member with previous group A service elects to transfer to the group D plan, all service will count towards the 20 years required to retire under an early retirement at age 50. Although there would be no reduction in the group D service, the group A service would have a 70% reduction applied if drawn at age 50, and the group B portion would have a 64% reduction applied. Obviously, the more service accrued in the group D plan, the more attractive the benefit becomes, as the significant reductions applied to the previous group accruals would be offset by the unreduced higher benefit accrual of the group D plan.

Can a municipality elect to transfer the full liability of an existing retirement plan into the VMERS group D plan?

Yes. There are statutory provisions to allow existing private plans to be transferred into the VMERS system. This can be accomplished in a variety of ways, i.e., accrued liability for active participants only, or for both active participants and retirees receiving benefits from the existing plan. A municipality can also opt to participate in the group D plan prospectively only, without consideration for previously accrued benefits in an existing plan.

Additional Questions?

Call or write the following: Vermont Municipal Employees' Retirement System
109 State Street
Montpelier, Vermont 05609-6901

Tel: (800) 642-3191 or (802) 828-2305

03/02/17

Summary of Key July 1, 2017, Valuation Results by Group

	Group A	Group B	Group C	Group D	Total
Contributions:					
• Current funding policy rate	4.000%	5.500%	7.250%	9.850%	5.562%
• Actuarially determined rate	3.271%	5.381%	7.290%	7.731%	5.221%
• Excess/(shortfall)	0.729%	0.119%	-0.040%	2.119%	0.341%
Actuarial cost method measures:					
• Actuarial shortfall	36,262,325	91,942,536	39,479,367	10,672,381	178,356,608
– Normal contribution rates					
– Employee rate	2.500%	4.875%	10.000%	11.350%	5.380%
– Employer rate	0.512%	1.436%	2.576%	1.911%	1.399%
– Total rate	3.012%	6.311%	12.576%	13.261%	6.779%
Actuarial accrued liability (EAN):					
• Total actuarial accrued liability	\$166,925,811	\$380,445,303	\$168,102,363	\$39,403,031	\$754,876,508
• Employer normal cost dollars	3,293,174	7,424,810	2,731,571	514,685	13,964,241
• Employer normal cost rate	4.051%	5.151%	5.274%	4.539%	4.839%
Assets:					
• Market value of assets (MVA)	\$145,682,393	\$314,476,075	\$130,287,274	\$29,064,601	\$619,510,342
• Actuarial value of assets (AVA)	149,252,116	322,182,829	133,479,763	29,776,785	634,690,493
Funded status (EAN):					
• Unfunded liability on MVA basis	21,243,418	65,969,228	37,815,089	10,338,430	135,366,166
• Funded percentage on MVA basis	87.27%	82.66%	77.50%	73.76%	82.07%
• Unfunded liability on AVA basis	17,673,695	58,263,474	34,622,600	9,626,246	120,186,015
• Funded percentage on AVA basis	89.41%	84.69%	79.40%	75.57%	84.08%
Demographic data:					
• Retired members and beneficiaries	1,158	1,410	338	36	2,942
• Vested former members	449	315	27	6	797
• Inactive members entitled to a refund of employee contributions	1,158	962	88	13	2,221
• Active members	2,701	3,583	857	161	7,302
• Total payroll	\$77,415,109	\$137,274,426	\$49,324,084	\$10,800,088	\$274,813,707
• Average payroll	28,662	38,313	57,554	67,081	37,635

Section 1: Actuarial Valuation Summary as of June 30, 2017 for the Vermont Municipal Employees' Retirement System

Attachment C.