Office of the Vermont State Treasurer

Selected Pension Data
House Committee on Appropriations

December 17, 2019

VERMONT

This presentation includes selected pension tables to facilitate review of recent pension valuations and risk assessment data previously submitted to the Committee. A more extensive review will be provided later in the legislative session.

PLAN CHARACTERISTICS: VSERS

Vermont State Employees' Retirement System (VSERS)			
Active Members	June 30, 2019	June 30, 2018	% Change
Vested	5,341	5,370	-0.54%
Not Vested	3,102	3,160	-1.84%
Total Active members	8,443	8,530	-1.02%
Average Age	45.7	45.9	-0.44%
Average Service	10.8	11.0	-1.82%
Average Compensation	$ 62,486	$ 61,157	2.17%
Retired Members and Beneficiaries			
Number	7,268	6,974	4.22%
Net Benefit Payments	$ 144,296,719	$ 134,090,344	7.61%
Inactive Members	1,443	1,266	13.98%
Terminated Vested Members	747	753	-0.80%

PLAN CHARACTERISTICS: VSTRS

Vermont State Teachers' Retirement System (VSTRS)			
Active Members	June 30, 2019	June 30, 2018	% Change
Vested	7,424	7,413	0.15%
Not Vested	2,438	2,479	-1.65%
Total Active members	9,862	9,892	-0.30%
Average Age	45.7	45.7	0.00%
Average Service	12.7	12.6	0.79%
Average Compensation	$ 63,365	$ 61,959	2.27%
Retired Members and Beneficiaries			
Number	9,514	9,269	2.64%
Net Benefit Payments	$ 193,196,825	$ 182,258,923	6.00%
Inactive Members	2,756	2,613	5.47%
Terminated Vested Members	819	787	4.07%

PLAN CHARACTERISTICS: VMERS

Vermont Municipal Employees' Retirement System (VMERS)			
Active Members	June 30, 2019	June 30, 2018	% Change
Vested	4,007	4,051	-1.09%
Not Vested	3,623	3,401	6.53%
Total Active members	7,630	7,452	2.39%
Average Age	48.0	48.3	-0.62%
Average Service	8.5	8.6	-1.16%
Average Compensation	$ 40,118	$ 38,894	3.15%
Retired Members and Beneficiaries			
Number	3,415	3,189	7.09%
Net Benefit Payments	$ 35,397,043	$ 31,444,463	12.57%
Inactive Members	2,814	2,516	11.84%
Terminated Vested Members	896	798	12.28%

FUNDING STATUS

VSERS		2017		2018		2019
Actuarial Accrued Liability	$	2,511,372,455	$	2,661,608,857	$	2,779,965,523
Actuarial Value of Assets	$	1,793,794,733	$	1,881,804,847	$	1,964,500,825
Unfunded Liability	$	717,577,722	$	779,804,010	$	815,464,698
Funding Percentage		71.43%		70.70%		70.67%

VSTRS		2017		2018		2019
Actuarial Accrued Liability	$	3,282,045,614	$	3,379,553,748	$	3,505,319,267
Actuarial Value of Assets	$	1,779,592,227	$	1,866,120,413	$	1,950,859,980
Unfunded Liability	$	1,502,453,387	$	1,513,433,335	$	1,554,459,287
Funding Percentage		54.22%		55.22%		55.65%

VMERS		2017		2018		2019
Actuarial Accrued Liability	$	754,876,508	$	827,679,630	$	896,341,848
Actuarial Value of Assets	$	634,690,493	$	680,005,147	$	718,337,020
Unfunded Liability	$	120,186,015	$	147,674,483	$	178,004,828
Funding Percentage		84.08%		82.16%		80.14%

FUNDING HISTORY – VSERS

Year ending June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) (in thousands)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
2019	$ 1,964,501	$ 2,779,966	815,465	70.7%
2018	1,881,805	2,661,609	779,804	70.7%
2017	1,793,795	2,511,373	717,578	71.4%
2016	1,707,268	2,289,452	582,184	74.6%
2015	1,636,268	2,178,827	542,559	75.1%
2014	1,566,076	2,010,090	444,014	77.9%
2013	1,469,170	1,914,300	445,130	76.8%
2012	1,400,779	1,802,604	401,825	77.7%
2011	1,348,763	1,695,301	346,538	79.6%
2010	1,265,404	1,559,324	293,920	81.2%
2009	1,217,638	1,544,144	326,506	78.9%
2008	1,377,101	1,464,202	87,101	94.1%
2007	1,318,687	1,307,643	(11,044)	100.8%
2006	1,223,323	1,232,367	9,044	99.3%
2005	1,148,908	1,174,796	25,888	97.8%
2004	1,081,359	1,107,634	26,275	97.6%
2003	1,025,469	1,052,004	26,535	97.5%
2002	990,450	1,017,129	26,679	97.4%
2001	954,821	1,026,993	72,172	93.0%
2000	895,151	967,064	71,913	92.6%
1999	804,970	876,412	71,442	91.8%
1998	733,716	804,501	70,785	91.2%
1997	639,128	753,883	114,755	84.8%

FUNDING HISTORY – VSTRS

Year ending June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) (in thousands)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
2019	$ 1,950,860	3,505,319	1,554,459	55.7%
2018	1,866,121	3,379,554	1,513,433	55.2%
2017	1,779,592	3,282,045	1,502,453	54.2%
2016	1,716,296	2,942,024	1,225,728	58.3%
2015	1,662,346	2,837,375	1,175,029	58.6%
2014	1,610,286	2,687,049	1,076,764	59.9%
2013	1,552,924	2,566,834	1,013,910	60.5%
2012	1,517,410	2,462,913	945,503	61.6%
2011	1,486,698	2,331,806	845,108	63.8%
2010	1,410,368	2,122,191	711,823	66.5%
2009	1,374,079	2,101,838	727,759	65.4%
2008	1,605,462	1,984,967	379,505	80.9%
2007	1,541,860	1,816,650	274,790	84.9%
2006	1,427,393	1,686,502	259,109	84.6%
2005	1,354,006	1,492,150	138,144	90.7%
2004	1,284,833	1,424,661	139,828	90.2%
2003	1,218,001	1,358,822	140,821	89.6%
2002	1,169,294	1,307,202	137,908	89.5%
2001	1,116,846	1,254,341	137,495	89.0%
2000	1,037,466	1,174,087	136,621	88.4%
1999	931,056	1,065,754	134,698	87.4%
1998	821,977	955,694	133,717	86.0%
1997	717,396	849,179	131,783	84.5%

THERE IS NO SILVER BULLET TO REDUCING THESE LIABILITIES

- Learn from history: The same arguments made in 1990s and early 2000 (for instance, budget constraints and impacts on important programs) should not be used to support quick fixes at the expense of future taxpayers

- The changes we make now, or in the future, should be based on an effective means of providing retirement benefits at the best value to the taxpayer

- Defined benefit plans provide the best value per retirement benefit for both the employee and other taxpayers for Vermont

- Disciplined, forward thinking approach is needed

A HISTORY OF UNDERFUNDING THE ARC LED TO THE CURRENT UNDERFUNDING OF TEACHERS PLAN, FURTHER NEGATIVELY IMPACTED BY GREAT RECESSION

Year	Total VSTRS Payroll	Recommended Contribution For Budget Based On Actuarial Projection	Actual Contribution	$ Difference: Act vs. Rec. (Uses Budget Beginning 1996)	Percentage of Request
1979	96,725,620	7,806,825	4,825,155	2,981,670	61.8%
1980	104,521,888	8,944,090	8,471,960	472,130	94.7%
1981	112,811,389	9,862,861	8,830,900	1,031,961	89.5%
1982	126,748,398	10,200,209	7,822,760	2,377,449	76.7%
1983	139,085,342	10,721,814	10,929,355	(207,541)	101.9%
1984	153,329,729	12,341,069	11,592,100	748,969	93.9%
1985	169,219,652	13,475,181	12,567,866	907,315	93.3%
1986	187,834,677	14,668,095	14,461,148	206,947	98.6%
1987	206,728,650	15,925,452	16,239,416	(313,964)	102.0%
1988	230,430,153	16,294,346	17,186,259	(891,913)	105.5%
1989	261,596,990	18,072,172	19,000,000	(927,828)	105.1%
1990	273,951,188	21,320,155	19,561,000	1,759,155	91.7%
1991	298,104,184	25,013,437	15,000,000	10,013,437	**60.0%**
1992	312,346,750	28,595,220	14,618,992	13,976,228	**51.1%**
1993	324,536,824	28,819,875	19,890,048	8,929,827	**69.0%**
1994	335,155,405	25,805,408	20,580,000	5,225,408	**79.8%**
1995	346,975,007	27,451,926	18,080,000	9,371,926	**65.9%**
1996	355,894,809	29,884,559	11,480,000	18,404,559	**38.4%**
1997	364,695,370	30,954,237	18,080,000	12,874,237	**58.4%**
1998	357,899,112	33,519,949	18,106,581	15,413,368	**54.0%**
1999	372,298,852	27,232,542	18,080,000	9,152,542	**66.4%**
2000	387,998,959	23,573,184	18,586,240	4,986,944	**78.8%**
2001	403,258,305	20,882,521	19,143,827	1,738,694	91.7%
2002	418,904,021	21,965,322	20,446,282	1,519,040	93.1%
2003	437,238,543	23,197,088	20,446,282	2,750,806	**88.1%**
2004	453,517,153	29,608,892	24,446,282	5,162,610	**82.6%**
2005	486,857,658	43,592,332	24,446,282	19,146,050	**56.1%**
2006	499,044,327	49,923,599	24,985,506	24,938,093	**50.0%**
2007	515,572,694	38,200,000	38,496,410	(296,410)	100.8%
2008	535,807,012	40,749,097	40,955,566	(206,469)	100.5%
2009	561,588,013	37,077,050	37,349,818	(272,768)	100.7%
2010	562,149,916	41,503,002	41,920,603	(417,601)	101.0%
2011	547,748,405	48,233,006	50,268,131	(2,035,125)	104.2%
2012	561,179,272	51,241,932	56,152,011	(4,910,079)	109.6%
2013	563,623,421	60,182,755	65,086,320	(4,903,565)	108.1%
2014	567,073,601	68,352,825	72,668,412	(4,315,587)	106.3%
2015	557,708,310	72,857,863	72,908,805	(50,942)	100.1%
2016	586,397,072	76,102,909	76,947,869	(844,960)	101.1%
2017	607,354,756	82,659,576	82,887,174	(227,598)	100.3%
2018	612,899,069	88,409,437	114,598,921	(26,189,484)	129.6%
2019	624,908,253	105,640,777	119,174,913	(13,534,136)	112.8%

TEACHER FUNDING ISSUE: PRE-2014

"Unlike the state system where the "pay-as-you-go" portion is budgeted and funded in a separate OPEB Trust fund, the health care expenses for VSTRS are paid out of the pension fund and are treated as an actuarial loss to the system, creating additional financial stresses on the pension system…Health care costs over the last decade or more have risen at a much higher rate than the rate of inflation, and while some stabilization of that trend is expected, costs are projected by our actuaries to continue to exceed CPI. The situation for the teachers' health care payments is reaching a critical phase….

Source: "Report of the Commission on the Design and Funding of Retirement and Retiree Health Benefits Plans for State Employees and Teachers", December 2009, p.37.

For example: $20 million of health care premium costs "put on the credit card" in FY2012 will cost taxpayers $58.8 million over the amortization period

FUNDAMENTAL CHANGES TO VSTRS HEALTH CARE FUNDING EFFECTIVE 7/1/2014

- The State has established and funded a separate trust to account for the assets and liabilities of the retiree medical benefit plan
- Annual contributions to the Retiree Medical Plan are separately identified in the State budget and not commingled with Retirement Plan contributions
- A series of funding sources were put in place, replacing the “retroactive” funding approach
- Projected to save $480 million in avoided interest costs through 2038

ANNUAL REQUIRED CONTRIBUTION (NOW ADEC)

- Method by which UAL is eventually paid off (assuming it is funded)

- Annual Required Contribution (ARC)/Actuarially Determined Employer Contribution (ADEC):
  - A measure of needed plan funding
  - The actuarially determined pension fund contribution in a single year

- The ARC has two parts:

1. The Normal Cost
   - The normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year
   - The employer normal cost equals the total normal cost of the plan reduced by employee contributions

2. Amortization
   - The annual amount needed to eliminate the unfunded liability over the plan's amortization period

FY 2019 VALUATION RESULTS AND DEVELOPMENT OF ADEC

VSERS

- Incorporates an FY 2021 ARC/ADEC recommendation of

  $83,876,570

  - Normal 18,339,489
  - Amortization $65,537,081

- Increase from prior year of **$4.9 million**
- 2019 to 2020 increase was $16.0 million
- Normal Cost: 3.22% of projected payroll
- 78.1% of the ARC/ADEC is to pay down a portion of the unfunded liability
- Includes planned change in amortization schedule effective 2020
- Upward pressures on ADEC includes retirement experience ($13.4 million, misc. changes ($14.9 million) and investment experience ($ 13.8 million) which were partially offset by COLA experience. Retirement Incentive programs increased costs.

VSTRS

- Incorporates an FY 2021 ARC/ADEC recommendation of

  $135,649,428*

  - Normal 7,213,271
  - Amortization $128,436,157

- Increase from prior year of **$6.2 million**
- 2019 to 2020 increase was $23.9 million
- Normal Cost: 1.07% of projected payroll
- 94.7% of the ARC is to pay down a portion of the unfunded liability
- Includes planned change in amortization schedule effective 2020
- FY2020 included change in amortization schedule going forward. Upward pressures related to retirement related experience incl. turnover ($41 million and investment experience (411.6 million). These were partially offset by less than assumed salary increases $10.4 million) and COLA experience ($7.6 million)

* Includes additional contribution requested from VSTRS Board, reflecting adjustment for $26.2 million FY2018 appropriation.

AMORTIZATION CHANGE EXPLAINED

- While the State has a date set in statute—2038—to pay down the unfunded liability, the previous payment schedule was established with increases in 5% increments each year

- This has the effect of increasing interest costs associated with the payment of these liabilities

- Leveling out the payment schedule will:
  - increase ARC payments in the short-term, but have the effect of saving the taxpayers millions of dollars over the long-term
  - more rapid reduction of the unfunded liability

- Changes to amortization schedule were phased in to cushion budgetary impact

- Adopted by the Legislature in 2016 for VSERS and VSTRS. Effective FY 2020.

- Treasurer's Office proposed, and the Legislature adopted, phasing in a payment schedule with increases at 3% increments each year, closer to the projected long-term rate of inflation. **Interest savings through 2038 were estimated at $165 million.**

DISTRIBUTION OF STATE ARC/ADEC PAYMENT BY ENTITIES AND FUNDS

- VSERS Pension and Health Care Premiums—Included across various state funds as part of a payroll benefit charge. Approximately 35%-40% of VSERS ARC/ADEC is paid by the General Fund, depending on year
- 22.8% of the total ARC/ADEC for VSERS is reimbursed by Federal reimbursements
- VSTRS Pension—While most of the ARC paid with general fund dollars, beginning in FY2015, a portion paid through federal grants via local school systems; for 2019 this is calculated to be 5.4%
- Approximately $8 million of VSTRS normal cost funded through the Education Fund
- 23% of the Teachers' OPEB pay-go payments through FY2023 are projected to be reimbursed with Non-State Revenues (EGWP & Teacher Healthcare Assessment)
- The Teachers' OPEB plan expects to have paid off all loans and begin generating surplus by FY2022
- VMERS employer payments made by participating entities

EMPLOYEE CONTRIBUTIONS HAVE INCREASED

- Teachers (VSTRS):

  In 2009, a teacher paid 3.54% of salary for their pension. Employees agreed to an increase to 5% effective 7/1/10. Employees also agreed to work longer to receive a full benefit – the result was a **reduction for taxpayers of $15 million per year in the ARC, increasing over time.**

  For new employees after 7/1/15, that increased to 6%, generating **$1 million initial annual savings, increasing each year**

- State Employees (VSERS):

  In 2010, Group A, D and F employees were paying 5.1% of pay for their retirement, scheduled to go to 4.85% in FY16

  Employees agreed to increase this to 6.4% effective 7/1/10. In 2016, employees agreed to increase to 6.65%. Group C employees agreed to similar increases and are paying 8.53% of payroll today. **For FY17, this is estimated to result in at least $8.4 million in additional contributions from state employees.**