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Sent: Wednesday, March 31, 2021 9:59 PM
To: Andrea Hussey <AHussey@leg.state.vt.us>
Cc: HOUSE_GOVERNMENT_OPERATIONS
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Subject: A proposal for your consideration tomorrow

Committee Members

The three of us have come together to present what we would hope would be accepted as a mutually agreeable proposal for moving forward from the void we are all straddling in our committee discussion.

I will lay out the details of our proposal with a bit of comment when appropriate.

We have all become aware of the strains and issues with the current pension system and related benefits, real or imagined. We have tried to look at issues of both investment and governance.

Beyond the distribution in #1, the objective of this proposal is to lay out a framework for mandatory consideration/review and recommendation in a study committee that shall complete such work as required and make a report to the general assembly in a fashion so as to facilitate enacting necessary legislation as a first order of business in the 2022 Legislative session.

Members of the State plan C (LEO based) and D (Judicial) shall be exempt to certain considerations in this proposal indicated by a * or specific note within the proposal. This consideration is offered due to mandatory end of career age or recognized "later in life" employment start dates.

The details and priorities:

1. The \$150 million is distributed to the buckets ASAP. Our recommendation based on the representation of the Business Roundtable testimony would be. \$90 million to the Teachers Fund UL, 40 million to the State Fund UL, and 20 million dedicated to OPEB. Determination of future funding mechanisms for OPEB will remain a separate discussion topic.
2. Individual members would see a rate increase to compensate for increased plan expenses resulting from changes to assumptions, of an amount recommended by the actuary. Individual plans would be evaluated for an additional fee based on the portion of the UL that the plan is responsible for generating as determined by the actuary. This generally applies to the State plans, but could impact educators since there is a variance in the contribution rates of the two plans.
3. * New Hires in all systems will enter under the parameters of the RULE OF 90 so that all plans are uniform. Hopefully the recommended benefit structure underlying the teacher and State plans will justify the coordination of basic rate structures. Existing employees who are hired before the date of implementation of the new (rule or 90) plan, shall continue within the structure of their current plan, or if deemed appropriate by the committee, shall be afforded

the opportunity to move to a new plan offering as appropriate and cost neutral to that plan. Group C and D members are exempt from the rule of 90 but early retirement actuarially adjusted penalty for early retirement (under 55) shall apply to new hires in plan C.

The committee shall also consider as determined appropriate, offering alternative options or systems (Defined Contribution, Cash Balance, etc.) to supplement or replace existing systems that do not exclude existing established DC plans in effect now.

4. COLA shall be afforded to all pension benefits at or under \$25,000 in gross benefit. In addition the next \$15,000 of gross benefit shall enjoy COLA at the rate of ½ of the CPI, indexed to increase at a maximum of 5% adjustment per year with a minimum of 0% increase as published. COLA adjustments shall be eligible in January after one full year of retirement. This applies to all plans.

5. The computation of Average Final Compensation shall be based upon the last 48 months of employment in all cases for all plans. Existing provisions to prevent spiking of salary shall continue to apply and will be applied to all AFC computations in all plans.

6. The Committee established for review of these considerations shall be comprised of the members of the House Government Operations committee in full, two members of the House Appropriations Committee, one member from the House Ways and Means Committee and shall include person to person equal representation from the impacted groups as designated by those representative groups. The Committee shall be supported by the Office of the State Treasurer and such support shall include Committee access to the Actuary under contract as appropriate. The Treasurer shall also be a member of the committee. Each member of the committee shall have a vote

7. The Committee shall also give due consideration to designating additional complimentary revenue sources to consistently fund retirement obligations as appropriate. Since the elimination of the UL is an immediate goal, no offsetting of contributions in order to lower annual UL payments shall be considered. Normal cost shall remain funded as required.

8. The Committee shall take into due consideration, the impact any and all changes to the benefit packages they entertain that would be an enhancement or detriment to recruitment or retention of employees of the State of Vermont or the general economy of the State.

9. Governance issues shall be examined by the Committee and shall consider recommendations made in the study of Best Practice Commissioned by the Vermont Pension Invest Committee as a priority for implementation. Due to the independent duties and function of the underlying retirement boards, no changes to their function or compensation shall be considered beyond their moving into a "in consultation" role on matters of setting annual plan assumptions.

10. Upon recommendation of the Committee, up to two new members with appropriate institutional investment experience may be added to the VPIC. Appropriate financial disclosures and evidence of a lack of conflict of interest shall be mandatory considerations. One member shall be added by plan members and one by management or legislature.

11. Subject matters proscribed above, after having given due consideration by the Committee, shall be available for such changes as are deemed appropriate to include a recommendation for separation of the VPIC from the structure of the Office of the Treasurer

and to function as an independent Board under the office of the Secretary of Administration. Employees of the newly created Board shall enjoy all rights and privileges as any and all classified employees in the Agency of Administration.

Thank you all for entertaining our proposal. I think we will all find something to love and something to not so much.... The elements of directing a good compromise.

Tanya, Peter and Bob