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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

January 7, 2022

Jeff Fannon, Executive Director
Vermont-NEA
10 Wheelock Street
Montpelier, VT 05602

Dear Jeff,

This letter summarizes joint discussions with you and representatives of other employee groups regarding the employer and employee contribution rates for FY2023 and my request for consideration of a proposed rate schedule effective FY2023. The VMERS Board of Trustees is requesting the Vermont-NEA Board of Directors' approval, consistent with historical practice, of a proposal to increase both the employer and employee group contribution rates by .25% (.50% aggregate) each year for four years beginning July 1, 2022.

The FY2021 actuarial valuation summarizes the need for these increases. The aggregate of the employee and employer contributions comprise the necessary increases to approach full funding. The VMERS Board of Trustees is empowered to set the employer rate while the General Assembly is charged with setting the employee rate. Beginning in fall 2012, effective FY 2014, the Board of Trustees and representatives of the participating employee groups agreed to jointly develop proposals to equally increase both rates as needed. This collaborative "cost sharing" approach has been the basis of all proposed contribution increases since that time and the General Assembly has adopted those recommendations. I have attached a summary of the historical rates.

In November 2020, the actuaries calculated that without increases for the next four years, the fund would be projected to have a future crossover/depletion event and, under the recent accounting standards promulgated by the Governmental Accounting Standards Board (GASB), it would immediately experience a considerable increase in its unfunded liabilities, to be reflected in the financial statements of all participating entities.

The timing of that notification, and the need for the State and participating municipalities and schools to timely complete their annual financial statements for 2020, required immediate action. The Board adopted a motion to increase the employer rates by .50% each year for the four year period but that these would be offset by any employee contribution increases. Discussions began after the Board of Trustee's receipt of the FY2021 valuation so that we could confirm that the proposed increases continued to meet the funding requirements. The required increases were confirmed.

I have met with representatives of the employee groups and there is broad consensus, pending action by the applicable governing bodies, that the collaborative cost sharing approach should

continue, and the increases be split evenly between employers and employees. I am therefore requesting that the Vermont- NEA Board of Directors review and adopt this proposal to increase employee contribution rates by .25% each year for four years beginning July 1, 2022, recognizing that the employer rates will increase at the same rate.

I understand you have a Board of Directors meeting on January 8th. Please let me know if you need any additional information. VMERS Board member and State Treasurer Beth Pearce will be available if, at your request, you would like her to address any questions or issues. I thank you for your consideration of this matter.

Sincerely,

Christopher Dube

Chris Dube, Chair.
VMERS Board of Trustees

Section 2: Actuarial Valuation Results

Actuarially determined contribution by group

The following table shows a comparison of the Actuarially Determined Contribution to the current funding policy rates, by group.

Actuarially Determined Contribution by Group
for Fiscal Year Ending June 30, 2023

	Group A	Group B	Group C	Group D	Total
1 Normal contributions					
a. Member	3.250%	5.625%	10.750%	12.100%	6.294%
b. Employer	<u>4.437%</u>	<u>6.129%</u>	<u>6.300%</u>	<u>7.096%</u>	<u>5.798%</u>
c. Total	7.687%	11.754%	17.050%	19.196%	12.092%
2 Payment on unfunded liability through June 30, 2038	2.916%	5.201%	8.567%	10.398%	5.513%
3 Actuarially determined contribution rate: 1b + 2	7.353%	11.330%	14.867%	17.494%	11.311%
4 Current funding policy contribution rate	5.250%	6.750%	8.500%	11.100%	6.922%
5 Contribution excess/(shortfall): 4 – 3	-2.103%	-4.580%	-6.367%	-6.394%	-4.389%

We recommend that the Board set future contribution rates to ultimately target the rates specified in item 3 in the table above. At the November 17, 2020 Board meeting, the Board voted unanimously to authorize employer contribution rate increases of 0.50% each year for a period of four years, beginning July 1, 2022, to be offset by any increases in the employee contribution rates as negotiated with employee groups and approved by the Legislature. For this valuation report, the entire contribution increase is assumed to be an increase in employer contribution rates for illustrative purposes.

The difference between the current funding policy rate and the actuarially determined contribution rate is a shortfall of 4.389% of payroll in the aggregate. If the remaining three 0.50% contribution rate increases were applied immediately, the contribution shortfall would effectively reduce to 2.889%. Projected payroll for fiscal 2022 is \$348,794,207.

VMERS- Historical Employee and Employer Contribution Rates

FY	EMPLOYEE RATES	DATE GROUP			
		A	B	C	D
FY 2000	7/1/1999	3.000	5.000	11.000	NA
FY 2001	7/1/2000	2.500	4.500	9.000	NA
FY 2011	7/1/2010	2.500	4.500	9.250	11.000
FY 2014	7/1/2013	2.500	4.625	9.375	11.125
	1/1/2014	2.500	4.625	9.500	11.125
FY 2015	7/1/2014	2.500	4.750	9.625	11.250
	1/1/2015	2.500	4.750	9.750	11.250
FY 2016	7/1/2015	2.500	4.875	9.875	11.350
	1/1/2016	2.500	4.875	10.000	11.350
FY 2019	7/1/2018	2.625	5.000	10.125	11.475
FY 2020	7/1/2019	2.750	5.125	10.250	11.600
FY 2021	7/1/2020	3.000	5.375	10.500	11.850
FY 2022	7/1/2021	3.250	5.625	10.750	12.100

FY	EMPLOYER RATE	DATE GROUP			
		A	B	C	D
FY 2000	7/1/1999	4.20	5.60	6.50	NA
FY 2001	7/1/2000	4.00	5.00	6.00	NA
FY 2011	7/1/2010	4.00	5.00	6.50	9.50
FY 2014	7/1/2013	4.00	5.13	6.63	9.63
	1/1/2014	4.00	5.13	6.75	9.63
FY 2015	7/1/2014	4.00	5.38	6.88	9.75
	1/1/2015	4.00	5.38	7.00	9.75
FY 2016	7/1/2015	4.00	5.50	7.13	9.85
	1/1/2016	4.00	5.50	7.25	9.85
FY 2019	7/1/2018	4.13	5.63	7.38	9.98
FY 2020	7/1/2019	4.25	5.75	7.50	10.10
FY 2021	7/1/2020	4.50	6.00	7.75	10.35
FY 2022	7/1/2021	4.75	6.25	8.00	10.60