

Treasurer's Comments and Recommendations on the Government Operations Proposed Pension Governance Changes

(Preliminary Review)

1. The replacement of VPIC and the adoption of the Vermont Retirement Commission (VRC) model is not recommended at this time. VPIC structure is showing results. Study by an independent consultant is recommended.
2. The Treasurer's Office concurs that a statute change should be made to require completion of an experience study every 3 years (currently 5 years).
3. While all other actuarial assumptions should continue to be set by the Boards of Trustees, setting of the rate of return assumption should be under the authority of Vermont Pension Investment Committee (VPIC).
4. While extensive training opportunities exist and have been effectively utilized for both the Trustee Boards and VPIC, statutes should be updated to require that the boards/committees implement a comprehensive education policy. This is more about codifying what is already taking place.
5. While the VPIC and Trustee Board financial information is extensively available on the Treasurer's Office webpage, specifying required reporting in statute would be beneficial.

1. The replacement of VPIC and the adoption of the Vermont Retirement Commission (VRC) model is not recommended at this time.

- Let's take the time to get it right-- Given the importance of governance and its link to performance, action should be deferred until a full independent study is completed.
- VPIC unanimously voted to pursue a governance study with an independent consulting firm that has governance expertise in the public fund space.
- Treasurer's Office supports an independent VPIC with an appointed chair rather than a commission chaired by the Treasurer.
- Areas of Concern:
 - Commission Size
 - Commission composition
 - Chair appointment
 - Decision-making

Investment Commission/Committee Size Considerations

- Vanguard Survey 2017:
 - “Committees of six to nine members are large enough for diversity yet small enough for all to provide meaningful contributions and still achieve acceptable decision speed.”⁽¹⁾
 - 63% of investment committees have five to eight members.
- VPIC original structure had 17 members which proved to be unwieldy. Based on a 2007 consultant report, membership revised to committee of six and an appointed chair.
- GFOA Best Practice: Governance of Public Employee Postretirement Benefits Systems—
“The post-retirement benefit system’s board of trustees should be neither so large as to be unwieldy nor so small that it runs the risk of not being able to get a quorum to make decisions. Optimal board size is between seven and 13 members, depending on the size and complexity of the system.”
- Maryland Governance Study (2018): Consultant recommended reducing size of the State Retirement and pension System Trustee Board.
 - Board was considered too large at 15 members with a recommendation to reduce to 11 members.
 - Recommended reduction of Investment Committee to 9 members.
 - Report noted that “trustees expressed numerous concerns about the size of the Investment Committee as being too big and unwieldy.”⁽²⁾
- Center for Retirement Research at Boston College.⁽³⁾
“While the ideal board size can vary depending on the complexity of the system, most governance experts recommend 6-10 members, as it allows for stakeholder representation, but is small enough to function efficiently.”

(1) Vanguard, Paul M. Bosse, CFA; Douglas M. Grim, CFA; Frank Chism, CFA, CAIA, “Duty, Opportunity, Mastery: Investment committee best practices”, 2017

(2) (2)Maryland Department of Legislative Services, “State Retirement and Pension System- Study of the Board of Trustees”, 2019

(3) Jean-Pierre Aubry and Caroline V. Crawford, “Does Public Pension Board Composition Impact Returns?”, Updated November 2019

Investment Commission/Committee Composition

- An investment committee needs to be appropriately sized and balanced.
- What may work in one state, may not work in another.
- GFOA Best Practice: Governance of Public Employee Postretirement Benefits Systems:

“Board Composition – Any board that operates effectively includes members who have a mix of skills, competencies, and behaviors, including leadership, teamwork, communication, planning and organizational abilities, and knowledge of sound decision-making principles. A successful board actively pursues and makes use of these skills and behaviors. Board composition should reflect the varied interests of those responsible for funding the plan and should include plan participants and retirees, citizens of the governmental unit, and officers of the plan sponsor, as well as independent directors. This assures balanced deliberations and decision making.”
- Three member trustees out of total of 15 members may be disproportionately low.

Committee Chairperson

- Need strong and effective leadership. Independent, expert and compensated board chair – no term limits.
- Chair should not be an elected official.
- Treasurer should be a member but not the chairperson.
- VPIC model has demonstrated that a strong, independent chair produces results.

Other Considerations, Decision-Making

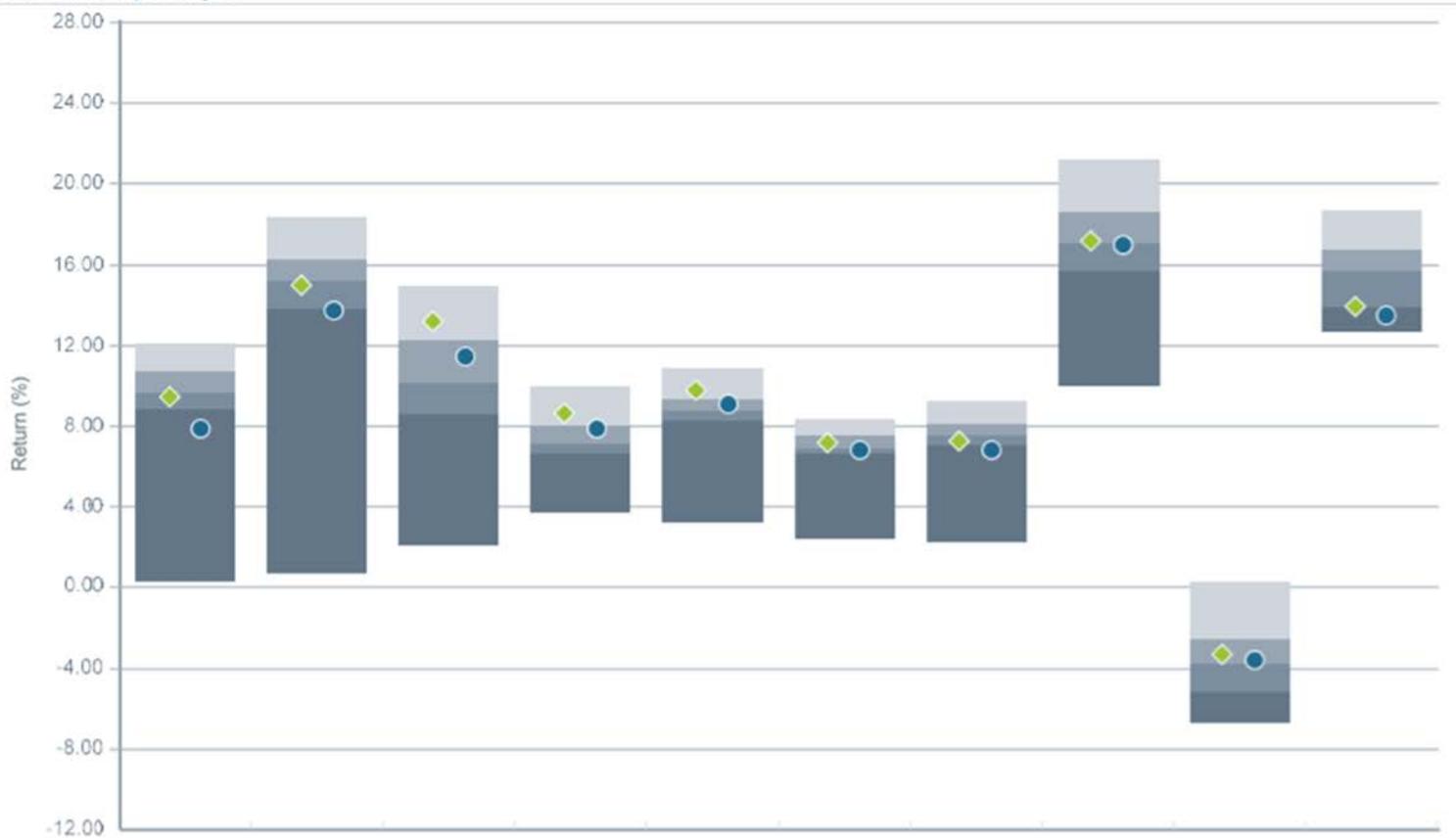
- Duties and responsibilities of VRC and Investment Committee and approval process.
- What should be delegated ?

VPIC Governance Consultant:

- VPIC created in 2005.
- Section 10 of Act 50 of 2005:
 - “On or before January 15, 2008, the state treasurer shall submit a report to the general assembly, prepared by a qualified independent party and approved by the three retirement boards, which evaluates the effectiveness of having the Vermont pension investment committee manage the funds of the State Teachers' Retirement System of Vermont, the Vermont State Employees' Retirement System, and the Vermont Municipal Employees' Retirement System according to the provisions of this act, along with any recommendations for revising statutes, rules, or policies. The independent party shall seek input from the three retirement boards and other directly affected groups in preparing the report.”
- Report completed by Gordon L. Clark and Ashby H. B. Monk, University of Oxford and Harvard Law School. Statutory changes were subsequently enacted.
- The same care and consideration in employing a pension governance consultant should be taken at this time.

Vermont Pension Investment Committee
 All Public Plans (\$1B to \$10B) (Custom PG)
 Plan Sponsor Peer Group Analysis

As of December 31, 2020



	QTD	FYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2019	2018	2017
◆ Total Fund	9.50 (58)	15.02 (56)	13.17 (19)	8.62 (18)	9.80 (19)	7.17 (34)	7.24 (69)	17.15 (49)	-3.33 (41)	13.96 (76)
● Target Allocation Index	7.86 (91)	13.65 (79)	11.41 (33)	7.87 (32)	9.06 (38)	6.75 (68)	6.76 (81)	16.91 (53)	-3.63 (47)	13.43 (85)
Median	9.73	15.22	10.18	7.22	8.80	6.93	7.57	17.09	-3.80	15.73
Population	70	70	70	63	62	62	57	74	50	17

Performance shown is net of fees. Parentheses contain percentile ranks.



2. Experience Studies

- Pension funding (assets, liabilities, and funding status) is measured by an Independent Actuary through an annual valuation.
 - Valuation is completed based on a series of actuarial assumptions.
 - Actuarial assumptions are projections of future events that affect the cost and funding condition of a pension plan (source: National Association of State Retirement Administrators).
 - Economic
 - Demographic
 - Experience
 - Reviewed by the Board of Trustees.
 - Board recommendation made to the Governor for the funding of the plan by November 1st.
- Assumptions are reset through an experience study, to be completed, per statute, at least every five years.
 - Full experience studies completed for 2002, 2007, 2011, 2015, 2020.
 - Partial experience study completed in 2017.
- Current practice is consistent with national trends per NASRA “According to a 2016 survey of NASRA members, most systems must conduct an actuarial valuation on an annual basis. Time periods required to produce an actuarial experience study vary, with five-years the most frequently cited period among those systems who responded.”
- Treasurer’s Office supports more frequent issuance of experience studies- 3 years.

3. Setting the Assumed Rate of Return

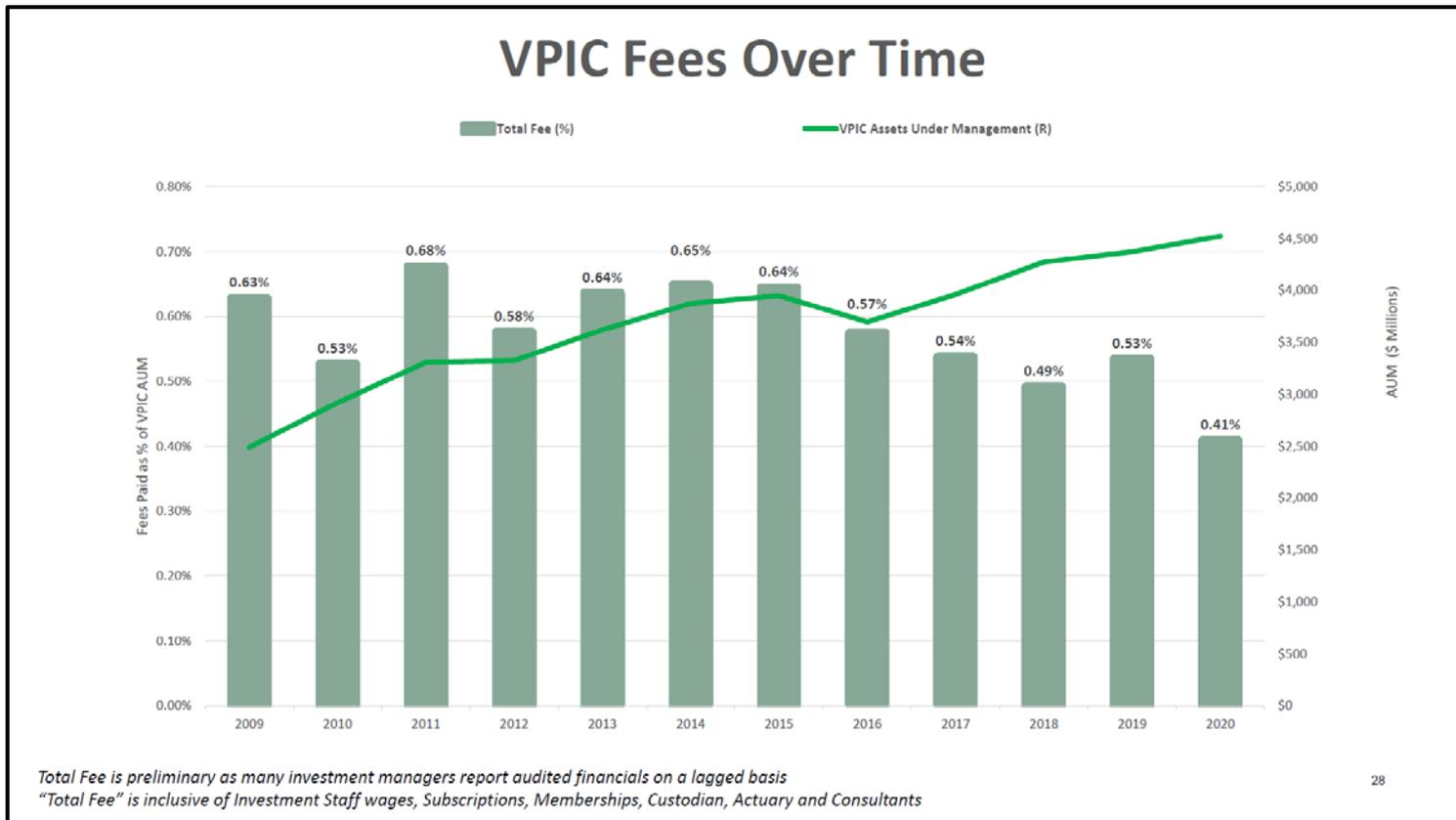
- The proposal states changes to the assumed rate of return (ARR) and actuarial assumptions shall be made by the VRC.
- The Treasurer's Office agrees that setting the ARR should be under the authority of an investment body although proposed language would seem to suggest that all assumptions are under the purview of VRC.
- While economic assumptions (ARR, inflation,) may be appropriate to an investment body (VRC or VPIC), other assumptions are specific to the retirement systems' demographic makeup and that review process should continue to rest with the Trustee Boards.
- The Treasurer's Office supports the recommendation that the investment body should make decisions on the ARR, it agrees that the Trustee Boards should have a vehicle for input.
- The Treasurer's Office believes that the appropriate investment body is VPIC.

4. Training and Education - Trustee Boards/VPIC

- Trustee Boards are affiliated with national organizations that provide training and educational opportunities.
 - National Association of State Retirement Administrators (NASRA)
 - National Conference on Public Employee Retirement Systems (NCPERS)
 - National Council on Teacher Retirement (NCTR)
- The Treasurer recommends that each Board statute be amended to provide for a formal education policy.
- VPIC education policy is included in Appendix A and should be codified by reference in VPIC enabling statute.

5. While the VPIC and Trustee Board financial information is extensively available on the Treasurer's Office webpage, specifying required reporting in statute would be beneficial.

- See Appendix B for a display of full range of pension and investment data already available to the General Assembly, members of the system, and the general public.
- Treasurer's Office is currently adding reports relating to VPIC fees to the webpage.



Appendices - Supplemental Information

Appendix A

VPIC Education Policy

https://www.vermonttreasurer.gov/sites/treasurer/files/VPIC/PDF/2019/Operating%20Policies_Amended20190625.pdf

TITLE: Education Policy – Travel, Conferences, Meetings and Educational Materials

I. PURPOSE

Prudent administration requires each VPIC member to achieve and maintain proficiency in the conduct of VPIC business by educating himself or herself in matters central to the investment of Retirement System assets. To that end, the VPIC adopts this Education Policy to promote the VPIC members' ability to achieve this proficiency. The VPIC recognizes that Vendors and Potential Vendors (as defined herein) may offer conferences on investment topics. This policy is intended to facilitate the attendance of VPIC Members at such conferences when the VPIC has approved the conference agenda and determined that the conference has educational merit.

For purposes of this Policy, the term "VPIC Member" shall include VPIC members and alternates. These Guidelines are intended to be read in conjunction with the VPIC Standards of Conduct adopted January 25, 2011.

Each VPIC Member shall participate in ongoing training in investments, securities and fiduciary responsibilities as set forth below:

An authority responsible for electing or appointing a member or alternate ... shall inform potential members and alternates that they shall participate in ongoing training in investments, securities, and fiduciary responsibilities as directed by the [VPIC]. *3 VSA § 522(b)*

The [VPIC] shall be attached to the office of the state treasurer for administrative support, and the expenses of the [VPIC] and the treasurer's office in support of the [VPIC] shall be paid proportionately from the funds of the three retirement systems and any individual municipalities that have been allowed to invest their retirement funds pursuant to subsection 523(a) of this title. *3 VSA § 522 (f)*

Public employee members and alternates shall be granted reasonable leave time by their employers to attend ... [VPIC]-related education programs. *3 VSA § 522 (g)*

The [VPIC] shall provide an annual report to the respective authorities responsible for electing and appointing members and alternates regarding attendance at ...relevant educational programs attended. *3 VSA § 522 (h)*

Members and alternates of the [VPIC] who are not public employees shall be entitled to compensation as set forth in *32 VSA § 1010* and reimbursement for all necessary expenses that they may incur through service on the [VPIC] from the funds of the retirement systems. *3 VSA 523(b)*

VPIC Education Policy (cont.)

II. VPIC DIRECTION TO APPOINTING AUTHORITIES

In accordance with 3 V.S.A. §522(b), the various electing or appointing authorities of the VPIC Members shall inform such VPIC Members that the VPIC Members are required to participate in ongoing training in investments, securities, and fiduciary responsibilities as directed by the VPIC.

III. GUIDELINES

A. General Provisions

The following guidelines set forth the VPIC's continuing education activities.

1. VPIC Members shall strive to develop and maintain an appropriate level of knowledge and skill necessary to comply with their statutory duty to prudently, and within acceptable levels of risk, strive to maximize total return on investment for the public retirement systems. The following areas of continuing education are required:

- a. Investment performance measurement;
- b. Principles of asset allocation and investment management;
- c. VPIC governance, ethics and fiduciary obligations; and
- d. Various types of asset classes

2. Educational opportunities designed to help VPIC Members achieve proficiency in these areas include:

- a. External conferences, seminars, workshops, and events;
- b. In-house educational seminars and presentations; and
- c. Relevant print and electronic media resources.

B. Program Selection and Approval Process

1. VPIC Members should seek out and evaluate educational programs which are consistent with the goals of this policy and the VPIC Standards of Conduct approved January 25, 2011. VPIC may approve attendance at free conferences offered by Vendors (defined below) and Potential Vendors (defined below) and conferences offered by Vendors for which the VPIC has paid in accordance with its contract,

2. VPIC Members shall attend such programs as may be directed by the VPIC. Otherwise, attendance by a VPIC Member at such programs in his or her capacity as a VPIC Member, shall require the consent of the VPIC upon consideration of the following:

- a. The extent to which attendance is expected to provide the VPIC Member with the level of knowledge and understanding sought by this Policy;
- b. The extent to which a program provides valuable substantive educational content, as opposed to being substantially a marketing opportunity for third parties;

- c. The cost effectiveness of the opportunity, considering the substance of the information presented;
- d. The timeliness and relevance of the opportunity and the number of VPIC Members proposed to attend;
- e. Whether attendance creates either an actual or potential conflict of interest or the appearance of a conflict of interest; and
- f. Such other considerations as the VPIC may deem relevant.

Such notice shall include disclosure of (i) the agenda, (ii) written materials pertaining to the event, (iii) when available, an estimate of the cost of the trip, and (iv) the names of all sponsors of the event to be attended.

VPIC Members shall execute the attached form when requesting VPIC consent and travel funding.

Notwithstanding the foregoing, the VPIC Chair may, in his or her discretion, approve incidental travel expenses of VPIC Members up to \$300.00 for appropriate educational opportunities. The requesting VPIC Member shall provide the Chair with any supporting documentation the Chair may request.

Nothing in this policy is intended to limit or restrict travel to, and attendance at, an event by a VPIC Member when attendance is in a capacity other than as a VPIC Member. VPIC Members who plan to attend external conferences, seminars, workshops and events sponsored by corporate sponsors, professional and trade organizations and/or other third party professional conferences relating to investment management ("Professional Conferences"), in any capacity other than as a VPIC Member, shall notify the VPIC in advance of any such Professional Conference. Such notice shall include disclosure of the individual or entity paying the costs of travel, lodging, registration fees and incidentals of the VPIC Member.

C. Print and Media Materials

VPIC Members should seek out and evaluate print and media materials, including newspapers, periodicals, books and electronic sources, which are consistent with the goals of this policy. Requests for VPIC reimbursement for print and media materials shall require the consent of the VPIC upon consideration of the applicable factors set forth in section B(2), above. VPIC shall also consider the aggregate cost of providing requested materials to each VPIC Member and Alternate, and may direct the Treasurer's Office to research alternative electronic resources or government, group or other reduced pricing for such materials.

D. VPIC Education Sessions

The VPIC may organize educational sessions for the VPIC to discuss topics of special importance or relevance to the VPIC. The educational sessions may be scheduled in conjunction with the VPIC's regularly scheduled meetings.

VPIC Education Policy (cont.)

E. Expenses

Continuing education expenses of the VPIC shall be paid proportionately from the funds of the three Retirement Systems and any individual municipalities that have been allowed to invest their retirement funds. 3 VSA § 522 (f)

VPIC Payment of Education-Related Expenses. The reasonable and necessary expenses of education-related travel, lodging, meals, conference registration fees and incidentals for a VPIC Member, Retirement Board Trustee or employee of the Treasurer's Office traveling on behalf of the VPIC, or in his or her capacity as a VPIC Member, or because of his or her position as a VPIC Member, shall be paid proportionately from the funds of the three Retirement Systems and any individual municipalities that have been allowed to invest their retirement funds if approved prior to the travel by the VPIC. Additionally, where a VPIC Member's attendance at a conference or other education-related event conforms to this policy (*i.e.*, attendance is either with the direction or the consent of the VPIC), then the member shall be entitled to per diem in accordance with 3 V.S.A. § 523(b). Reimbursement for education-related travel shall be paid consistent with the State's Administrative Bulletin 3.4.

On an annual basis, the VPIC may establish a budget for reasonable and necessary education-related materials, including relevant print and electronic media resources, and travel expenses of VPIC Members.

Acceptance of Travel Expenses Prohibited. Solicitation or acceptance of travel expenses, lodging, meals, conference registration fees and incidentals by a VPIC Member shall be prohibited, except in accordance with Section 9(A) of the Standards of Conduct, or as the VPIC may otherwise approve. This prohibition shall include the acceptance of payment for travel, lodging, meals, conference registration fees or other expenses as compensation for serving on a panel, or providing any other service to the sponsor of the event.

The VPIC hereby directs the Office of the Treasurer to negotiate Vendor contracts to expressly include any Vendor conference registration fees in the Vendor fee schedule.

All expenses related to the travel of a spouse, family or household member, or other invitee of a VPIC Member, shall be paid by the VPIC Member or invitee.

For purposes of this policy, "Vendor" means a natural person, a corporation, a partnership, an association, a joint-stock company, a trust, an unincorporated organization, a limited liability company, or a limited liability partnership that performs services for the VPIC for direct or indirect compensation. The term includes affiliated entities and trade organizations. "Potential Vendor" means any Vendor that has bid on a VPIC contract and any Vendor that is in the business of providing goods or services of the type routinely purchased by the VPIC, whether or not it has bid on a VPIC contract, including but not limited to administrative, investment, financial, banking, and consulting services.

F. Reporting

A VPIC member attending (i) an approved education program in his or her capacity as a VPIC member; or (ii) a Professional Conference, shall provide a report to the VPIC at its next regular meeting on the content of the event, evaluating the program and its merits (or lack thereof) and whether a Vendor or Potential Vendor attempted to pay any expenses of the VPIC Member or sponsored any function or event in which the VPIC Member participated. In addition, the VPIC members shall provide the VPIC with the materials obtained during the program so that they may be available to other VPIC members and staff for reference purposes.

The Standards of Conduct shall be included as an attachment to all requests for proposals, bidding documents and contracts of the VPIC. Further, the VPIC may, in its discretion, contact, or direct the Office of the Treasurer to contact, Potential Vendors or the organizers of events sponsored by one or more Vendors or Potential Vendors to advise these entities that the offer of education-related travel expenses conflicts with the Standards of Conduct and this VPIC Policy.

The VPIC shall provide an annual report to the Governor and each of the three Retirement Systems regarding attendance at relevant educational programs attended. 3 VSA § 522 (g)

IV. LIMITATIONS

No VPIC member may be reimbursed for educational travel unless the member receives a certificate of completion of the minimum number of sessions at the conference or seminar. In those cases where no certificate is provided, the VPIC member shall certify in writing at the time that the expenses are presented that the member attended at least 80% of the sessions.

V. NEW VPIC MEMBER RESOURCES

The following materials shall be available on the Office of the Treasurer's Website:

- The principal laws governing VPIC, including the State prudent investor rule;
- Existing VPIC Policies;
- A list of names and contact information for all VPIC members and alternates;
- The current schedule of VPIC meetings;
- A list of VPIC key service providers;
- Information on how to access information regarding the VPIC on the Treasurer's website;
- Any other relevant information or documents deemed appropriate by the Chair of the VPIC, and/or Treasurer acting as custodian of the funds.

The Chair of the VPIC will brief new VPIC members on current issues and the relevant functions of the Treasurer's Office and the Office of the Attorney General.

VPIC Education Policy (cont.)

VI. POLICY REVIEW

The VPIC shall review this Policy at least once every two years to ensure that it remains relevant and appropriate.

VII. NOTICE OF MEETING REMINDER

Attendance by a quorum of the members of the VPIC at an educational meeting constitutes a public meeting subject to the Vermont Public Meetings Law and public notice of the meeting must be provided in accordance with that Law.

VIII. SANCTIONS

A. The VPIC may take such actions it deems appropriate if a VPIC Member fails to comply with the provisions of this policy including, but not limited to:

1. A recommendation that a VPIC Member refrain from participation and voting in a matter or matters pending before the VPIC.
2. A recommendation that a VPIC Member repay or return any gift or benefit received by a VPIC Member from a Vendor or potential Vendor.
3. A recommendation that a VPIC Member refrain from particular actions that the VPIC determines constitute an actual or potential conflict and are detrimental to public confidence in the VPIC's integrity.
4. The VPIC may disqualify a Vendor or Potential Vendor from ongoing business or potential business for attempting to pay any expenses of a VPIC Member contrary to this policy.

IX. VPIC MEMBER HANDBOOK

The Treasurer's Office will maintain and make available a VPIC Handbook to all Members electronically.

Appendix B

Extensive Resources Available for General Assembly, members of the Retirement Systems and the Public

- Annual Report (contains all legislative reporting)
- Treasurer Website
- Reports to General Assembly and committees have been submitted on an ongoing basis to provide information on funding status, history and identify upward pressures on unfunded liability.

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



2020 ANNUAL REPORT

January 14, 2021

Annual Report

Trustee Board and Retirement Division
Activity

Pension actuarial history and funding
status

OPEB actuarial history and funding status

Actuarial balances

Fund statement w/balance sheet

Reports available from FY2010 to present

<https://www.vermonttreasurer.gov/content/reports/annual-reports>

VSERS PENSION AND SYSTEM REPORTS

Investment Performance Analysis

The Investment Performance Analysis provides a thorough analysis of the State Employee Pension Fund. The report covers the overall fund, as well as the individual portfolios that comprise the fund. The analysis looks at criteria such as: asset growth, asset allocation, performance, rates of return, market cycle performance comparison, risk, return vs. risk, turnover, diversification, and holdings.

Financial Snapshots

June 2019 will be the last snapshot report produced. For more recent reports please see the complete reports section below.

[2019 June: Second Calendar Quarter](#)
[2019 March: First Calendar Quarter \(Revised\)](#)
[2018 December: Fourth Calendar Quarter \(Revised\)](#)
[2018 September: Third Calendar Quarter \(Revised\)](#)
[2018 June: Second Calendar Quarter \(Revised\)](#)
[2018 March: First Calendar Quarter \(Revised\)](#)
[2017 December: Fourth Calendar Quarter](#)
[2017 September: Third Calendar Quarter](#)
[2017 June: Second Calendar Quarter](#)
[2017 March: First Calendar Quarter](#)
[2016 December: Fourth Calendar Quarter](#)
[2016 September: Third Quarter](#)
[2016 June: Second Quarter](#)
[2016 March: First Quarter](#)
[2015 December: Fourth Quarter](#)
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[2011 June: Second Quarter](#)
[2011 March: First Quarter](#)
[2010 December: Fourth Quarter](#)
[2010 September: Third Quarter](#)
[2010 June: Second Quarter](#)
[2010 March: First Quarter](#)

Complete Reports

[2020 December: Fourth Calendar Quarter](#)
[2020 September: Third Calendar Quarter](#)
[2020 June: Second Calendar Quarter](#)
[2020 March: First Calendar Quarter](#)
[2019 December: Fourth Calendar Quarter](#)
[2019 September: Third Calendar Quarter](#)
[2019 June: Second Calendar Quarter](#)
[2019 March: First Calendar Quarter \(Revised\)](#)
[2018 December: Fourth Calendar Quarter \(Revised\)](#)
[2018 September: Third Calendar Quarter \(Revised\)](#)
[2018 June: Second Calendar Quarter \(Revised\)](#)
[2018 March: First Calendar Quarter \(Revised\)](#)
[2017 December: Fourth Calendar Quarter](#)
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[2011 June: Second Quarter](#)
[2011 March: First Quarter](#)
[2010 December: Fourth Quarter](#)
[2010 September: Third Quarter](#)
[2010 June: Second Quarter](#)
[2010 March: First Quarter](#)

These reports are available on the Treasurer's Website. VSERS sample displayed; same pages exist for VSTRS and VMERS.

Teacher Website also includes historical studies on impact of underfunding.

Site Links:

<https://www.vermonttreasurer.gov/content/retirement/state/financial>

<https://www.vermonttreasurer.gov/content/retirement/teacher/financial-reports>

<https://www.vermonttreasurer.gov/content/retirement/vmers/financial-reports>

Calendar

Contact Us

Accounting Services

Cash and Investments

Debt Management

Financial Literacy

Forms and Documents

Links of Interest

Pension Funds

Investment Policies

ESG Materials

Vermont Pension Investment Committee

Reports and Committees

Retirement

Unclaimed Property

Vermont ABLE Program

INVESTMENT POLICIES

Proxy Voting Policy

This document sets forth the proxy voting policy and guidelines of the Vermont State Treasurer's Office and Vermont's three state-sponsored defined benefit pension funds. All investment managers for Vermont responsible for the voting of our owned common stock are expected to take the following proxy voting policy and guidelines into consideration before making proxy voting decisions.

We expect our investment managers to vote our proxies solely in the best interest of plan participants and beneficiaries, and Vermont citizens. Investment managers are expected to act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

- [Domestic Proxy Voting Policy Statement & Guidelines](#)
- [International Proxy Voting Policy Statement & Guidelines](#)

VPIC Investment Policy Statement and Other VPIC Policies

The Vermont Pension Investment Committee (VPIC) Investment Policy Statement is designed to clearly communicate the investment policy, processes and philosophy of the VPIC. The Policy Statement is reviewed annually and modified as necessary to insure relevance to the VPIC's needs. Pension fund investments shall be made in full accordance with the Policy Statement and any and all applicable State and federal law and regulation. Investment Guidelines for each of the VPIC's investment managers are included in each applicable investment management agreement. A summary of each of the VPIC investment management contracts is available upon request.

The Investment Policy Statement was approved by VPIC on October 29, 2009 and most recently amended on January 31, 2017.

- [VPIC Investment Policy Statement](#)
- [VPIC Operating, Standards of Conduct and Education Policy](#)
- [VPIC Environmental, Social and Governance Policy](#)
- [VPIC Policy on Investments in Terrorist or Genocide Linked Countries: Policy# 3-006](#)
- [Vermont Manager Program: Policy #1-009](#)
- [VPIC Watch List Policy](#)
- [VPIC Manager Search Process Policy](#)

Actuarial Valuation

Vermont Statutes Annotated, Title 3, Chapter 16, Section 471, Subsection (k) requires that an approved actuary make an annual valuation of the System's assets and liabilities. The purpose of the actuarial valuation is to determine the financial condition of the retirement fund and the required state contribution to the System. The System's consulting actuary also does other special studies related to new or proposed legislation.

[2020 GASB No. 67 Report \(accounting\)](#)

[2020 Actuarial Valuation \(funding\)](#)

[2020 GASB No. 68 Report](#)

[2019 GASB No. 67 Report \(accounting\)](#)

[2019 Actuarial Valuation \(funding\)](#)

[2019 GASB No. 68 Report](#)

[2018 Actuarial Valuation \(funding\)](#)

[2018 GASB No. 68 Report](#)

[2018 GASB No. 67 Report \(accounting\)](#)

[2017 Actuarial Valuation \(funding\)](#)

[2017 GASB No. 67 Report \(accounting\)](#)

[2017 GASB No. 68 Report](#)

[2016 Actuarial Valuation \(funding\)](#)

[2016 GASB No. 67 Report \(accounting\)](#)

[2016 GASB No. 68 Report](#)

[2015 Actuarial Report \(funding\)](#)

[2015 GASB No. 67 Report \(accounting\)](#)

[2015 GASB No. 68 Report](#)

[2014 Actuarial Report \(funding\)](#)

[2014 GASB No. 67 Report \(accounting\)](#)

[2013 Actuarial Report](#)

[2012 Actuarial Report](#)

[2011 Actuarial Report](#)

[2010 Actuarial Report](#)

[2009 Actuarial Report](#)

[2008 Actuarial Report](#)

[2007 Actuarial Report](#)

[2006 Actuarial Report](#)

[2005 Actuarial Report](#)

[2004 Actuarial Report](#)

[2003 Actuarial Report](#)

[2002 Actuarial Report](#)

[2001 Actuarial Report](#)

Other Reports

[2020 Post Retirement GASB No. 74 Report](#)

[2020 VSERS Experience Study](#)

[2020 Investment Rate of Return Report](#)

[2020 GASB No. 75 Report](#)

[2019 Post Retirement GASB No. 74 Report](#)

[2019 GASB No. 75 Report](#)

[2018 Post Retirement Benefits Analysis](#)

[2018 Post Retirement GASB No. 74 Report](#)

[2018 GASB No. 75 Report](#)

[2017 Post Retirement Benefits Analysis](#)

[2017 Post Retirement GASB No. 74 Report](#)

[2016 Post Retirement Benefits Analysis](#)

[2014 Experience Study](#)

[2015 Post Retirement Benefits Analysis](#)

[2014 Post Retirement Benefits Analysis](#)

[2013 Post Retirement Benefits Analysis](#)

[2012 Post Retirement Benefits Analysis](#)

[2010 Experience Study](#)

[2011 Post Retirement Benefits Analysis](#)

[2010 Post Retirement Benefits Analysis](#)

[2009 Post Retirement Benefits Analysis](#)

[2008 Post Retirement Benefits Analysis](#)

[2007 Post Retirement Benefits Analysis](#)

[2006 Experience Study](#)

[2006 Post Retirement Benefits Analysis](#)

[2005 Post Retirement Benefits Analysis](#)

[2004 Post Retirement Benefits Analysis](#)

[2001 Experience Study](#)

These reports are available on the Treasurer's Website. VSERS sample displayed; same pages exist for VSTRS and VMERS.

Teacher Website also includes historical studies on impact of underfunding.

Site Links:

<https://www.vermonttreasurer.gov/content/retirement/state/financial>

<https://www.vermonttreasurer.gov/content/retirement/teacher/financial-reports>

<https://www.vermonttreasurer.gov/content/retirement/vmers/financial-reports>

Links to holdings of the VPIC portfolio as of the most recent fiscal year end and the most recent quarter are listed below. For holdings in periods other than those listed, please contact TRE.VPICInquiries@vermont.gov

- [December, 2020](#)
- [September, 2020](#)
- [June, 2020](#)
- [March, 2020](#)
- [December, 2019](#)
- [September, 2019](#)
- [June, 2019](#)
- [March, 2019](#)
- [December, 2018](#)
- [September, 2018](#)
- [June, 2018](#)
- [March, 2018](#)
- [December, 2017](#)
- [September, 2017](#)
- [June, 2017](#)
- [March, 2017](#)
- [December, 2016](#)
- [September, 2016](#)
- [June, 2016](#)
- [March, 2016](#)
- [December, 2015](#)
- [September, 2015](#)
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- [March, 2015](#)
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- [June, 2014](#)
- [March, 2014](#)
- [December, 2013](#)
- [September, 2013](#)
- [June, 2013](#)
- [March, 2013](#)
- [December, 2012](#)
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- [March, 2012](#)
- [December, 2011](#)
- [September, 2011](#)
- [June, 2011](#)
- [March, 2011](#)
- [December, 2010](#)
- [September, 2010](#)
- [June, 2010](#)
- [March, 2010](#)
- [December, 2009](#)
- [September, 2009](#)
- [June, 2009](#)

PENSION FUNDS

Pension Funds Management and Investments

The State Treasurer's Office administers the investment policies and strategies adopted by the [Vermont Pension Investment Committee](#) for the benefit of the Vermont State Retirement System, Vermont State Teachers' Retirement System and Vermont Municipal Employees Retirement System.

Table of Contents

- [Vermont Pension Investment Committee \(VPIC\)](#)
- [VPIC Mission Statement](#)
- [Pension Funds Financial Snapshot](#)
- [Asset Allocation](#)
- [Pension Funds Holdings](#)
- [Contact Us](#)

Detailed spreadsheets of all VPIC Holdings on a quarterly basis since June 2009

<https://www.vermonttreasurer.gov/content/pension>

GASB RESOURCE PAGE

Governmental Accounting Standards Board (GASB)

The Governmental Accounting Standards Board (GASB) is an organization whose main purpose is to improve and create accounting reporting standards or generally accepted accounting principals (GAAP). These standards make it easier for users to understand and use the financial records of both state and local governments.

GASB approved two new standards in June 2012 that will impact the Vermont State Retirement System and its participating employers. The State Treasurer's Office has compiled resources on this page to assist accounting and financial administrators with the implementation of the new standards.

GASB 67 will change the accounting and financial reporting of the Vermont State Retirement System and other public employee public pension plans starting in fiscal years commencing after June 15, 2013--that is, fiscal years ending June 30, 2014 or later. GASB 68 will change financial reporting of participating state and local governments beginning in fiscal years commencing after June 15, 2014--that is, fiscal years ending June 30, 2015 or later.

GASB Links

The following are links to resources located on the GASB web site.

- [GASB "Plain Language" statement on new pension reporting standards](#)
- [GASB general Q&A on new pension standards](#)
- [GASB Q&A "Setting the Record Straight" on new pension standards](#)
- [GASB 67 Fact Sheet](#)
- [GASB 67 Full Text Summary](#)
- [GASB 68 Full Text](#)
- [GASB 68 Summary Statement](#)
- [Implementation Guides for GASB 67 and 68](#)
- [GASB 67 Tool Kit](#)

AICPA

[GASB Pensions](#)

Issues and resources, including white papers, on cost-sharing multiple-employer plans (VMERS and VSTRS).

Resources

[Pension Funding: A Guide for Elected Officials](#)

This report, from the Pension Funding Task Force of 2013, provides a brief history of pension funding, examines policy development and GASB's new approach.

[Public Employee Pension Accounting Overview \(for municipal systems\)](#)

This presentation by State Treasurer Beth Pearce was made at a Governmental Accounting and Auditing Symposium in June 2013.

[New GASB Accounting Standards: Statements 67 and 68](#)

This presentation is from the State's consulting actuary, David Driscoll of Buck Consultants, and was made in July 2013.

[Pension Reporting for Local Governments: Getting Ready for GASB Changes](#)

A presentation made by Vermont State Treasurer Beth Pearce made at the VTGFOA workshop in June 2014.

The Governmental Accounting Standards Board issued new pension accounting standards, effective FY2014. The Treasurer's Office provided training for local governments relative to reporting requirements. The impacts of the GASB changes were also included in presentations to House Government Operations and House Appropriations Committees in 2013 and 2014.

This site provides an aid to reviewing the full GASB reports on the Treasurer's Website.

This information is provided on the State's Website:
<https://www.vermonttreasurer.gov/content/retirement/gasb>

VERMONT FINANCIAL REPORTING PAGE

Welcome to the new Vermont investor web page. This page organizes, in one location, ten items that the National Association of State Auditors, Comptrollers and Treasurers (NASACT) recommend that state government provide for interim disclosure. NASACT represents the elected or appointed government officials tasked with the management of state finances.

Disclosure and financial reporting are very important aspects of ensuring accountability and improving transparency in the market. The ten items provided in this centralized, web-based location are intended to provide analysts and investors with relevant and timely information that is easily accessed online. The italicized text beneath each heading describes the general information NASACT recommends be provided. This information is being provided on a voluntary basis and is intended, but not required, to be updated periodically.



View the NASACT Report on Voluntary Interim Financial Reporting: Best Practices for State Governments, August 2013. [View Report](#)

The Lake Champlain Bridge is just one example of a project utilizing bond issuance to raise funds to complete a much needed transportation project.

Table of Contents

- [Tax Revenues](#)
- [Budget Updates](#)
- [Cash Flow](#)
- [Debt Outstanding](#)
- [Economic Forecasts](#)
- [Pensions and OPEB](#)
- [Interest Rate Swaps and Bank Liquidity](#)
- [Investments](#)
- [Debt Management Policies](#)
- [EMMA Filings](#)
- [Other Financial and Debt Management Information](#)

Vermont was the first State to establish a disclosure Website adhering to the National Association of Auditors Comptrollers and Treasurers (NASACT) ten best practices for State Government Voluntary Interim Financial Reporting, including a section on pensions and OPEBS

Sample of Reports to the General Assembly

Office of the Vermont State Treasurer

Pension Presentation
October 10, 2017



2017 report was resented to business community (Roundtable) as well as legislators and employee groups in attendance and is available on Treasurer Website. The 2018 report was an update for the General Assembly.

Office of the Vermont State Treasurer

Pension Presentation
Updated September 2018



From 2017 Report

FY 2016 VALUATION RESULTS

VSERS

- Incorporates an FY 2018 ARC recommendation of
\$52,065,397
 - Normal \$14,037,814
 - Amortization \$38,027,583
- Increase from prior year of **\$3.6 million**
- Normal Cost: 2.88% of projected payroll
- Recent experience study incorporated upward pressures due to the changes in interest rate and new mortality assumptions
- These have been further updated in 2017 and we expect upward pressures on pension liabilities and the ARC
- Retirement Incentive program increased costs

VSTRS

- Incorporates an FY 2018 ARC recommendation of
\$88,409,437
 - Normal \$ 8,346,261
 - Amortization \$80,063,176
- Increase from prior year of **\$5.7 million**
- Normal Cost: 1.33% of projected payroll
- Recent experience study incorporated upward pressures due to the changes in interest rate and new mortality assumptions. Further updated in 2017.
- Intentional lack of funding of the ARC in past years, impacts on amortization
- Increase in retirements, local workforce changes have increased costs

From 2018 Report

(highlight added)

FY 2017 VALUATION RESULTS

VSERS

- Incorporates an FY 2019 ARC recommendation of **\$62,984,742**
 - Normal \$16,390,171
 - Amortization \$46,594,571
- Increase from prior year of **\$10.9 million**
- Normal Cost: 3.01% of projected payroll
- **Prior Year increase was \$3.6 million. The big jump in 2017 largely attributable to:**
 - **lowering the assumed rate of return**
 - **and updated mortality assumptions.**
- **Other Impacts: Workforce issues: Retirement Incentive program increased costs**

VSTRS

- Incorporates an FY 2018 ARC recommendation of **\$105,640,777**
 - Normal \$ 8,081,768
 - Amortization \$97,640,777
- Increase from prior year of **\$17.2 million**
- Normal Cost: 1.23% of projected payroll
- **Prior Year increase was \$5.7 million. The big jump in 2017 largely attributable to:**
 - **lowering the assumed rate of return**
 - **and updated mortality assumptions**
- **Other Issues: Intentional lack of funding of the ARC in past years, impacts on amortization**
- **Other Issues: Increase in retirements, local workforce changes have increased costs**

Pension Funding Informational Session

Presentation to Legislators, Employee Groups and Interested Parties

September 2015



Part of a full day presentation on pension issues. Also posted to Treasurer's Website

The Pension Challenge

- **Funding for retirement benefits, including health care, is among the largest fiscal challenges facing many state governments, including Vermont**
- **Health insurance has historically grown much faster than the rate of revenue growth**
- **Investment losses from the Great Recession significantly impacted pension funding**
- **At the same time, retirement security is important to Vermont's economic future**
- **Maintaining a disciplined approach is important to meet these challenges**

In addition to various charts on pension funding status and historical funding, presentations included an overview of upward pressures on the pension systems.

Upward Budget Pressures on Funding of the the ARC

- Demographic/Experience and Economic Assumptions vs. Actual
- Experience Study
 - Interest Rate Assumption
 - Mortality
 - Other
- Retirement Incentive
- Teacher Retirements

Retirement Funds Update/Outlook

Presentation to the House Appropriations Committee

April 2015



www.VermontTreasurer.gov

Teacher Health Care and Pension Update

October 2013

Office of the State Treasurer



Pension & Retirement Operations Overview

February 2012



www.VermontTreasurer.gov

Funding Teacher Retirement and Healthcare

October 2013

Office of the State Treasurer

*Revised Title January 2014



Presentation to House Government Operations Committee

Office of the State Treasurer
January 20, 2016



Treasury by the Number\$

Presentation to
House Appropriations Committee

January 2012



Presentation to Senate Appropriations Committee

Office of the State Treasurer
March 2016



Office of the Vermont State Treasurer

Selected Pension Data
House Committee on Appropriations
December 17, 2019



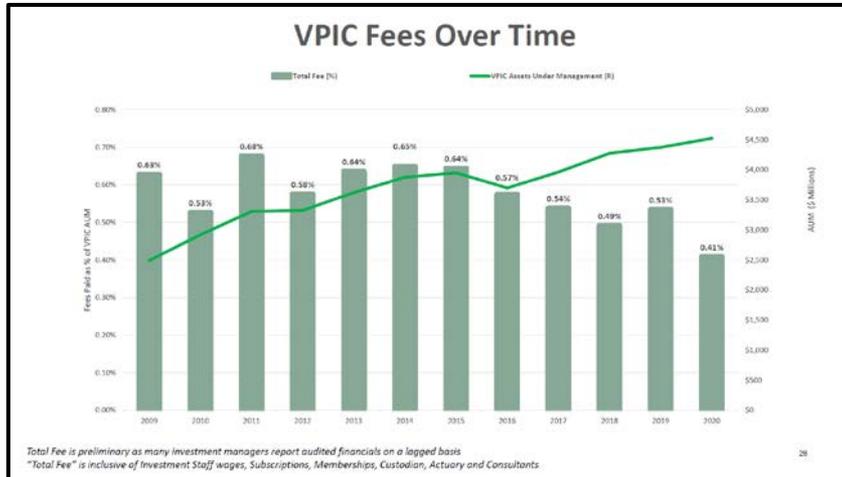
VERMONT

Pension Funding, Proposed Revisions to the Amortization Schedule and DB/DC Plans

March 2016



Sample Fee Reports to be Added to Treasurer's Website



FY 2020 VPIC Management Fees				
Purpose	\$ AUM as of 6/30/2020	% AUM as of 6/30/2020	2020 Fee (\$)	2020 Fee (%)
Growth	2,832,036,817	62%	14,581,132	85%
Downside Protection Hedge	1,367,743,415	30%	1,110,563	6%
Inflation Hedge	358,352,948	8%	1,444,129	8%
Grand Totals			\$17,135,825	0.38%
Average AUM Over FY			\$4,523,197,739	

*Total Fee is preliminary as many investment managers report audited financials on a lagged basis
2020 Fee is investment managers only and does not include investment staff wages, Subscriptions, Memberships, Custodian, Actuary or Consultants*

Investment Managers	Fiscal Year 2020			
	Fee (\$)	% of Total Fees	Asset Allocation (\$) as of 6/30/2020	Asset Allocation (%) as of 6/30/2020
BlackRock Equal Weighted	\$35,388	0%	\$176,529,327	4%
Champlain Mid Cap	\$990,804	5%	\$136,912,765	3%
Artisan	\$1,614,960	9%	\$252,715,560	6%
BlackRock ACWI IMI	\$352,559	2%	\$1,406,441,965	31%
1. 2. Harbourvest Partners IX Credit Opportunities	\$51,508	0%	\$2,289,782	0%
1. 2. 3 Harbourvest Partners IX Venture	\$121,081	1%	\$13,129,706	0%
1. 2. 3 Harbourvest Partners IX Buyout	\$284,273	2%	\$16,487,469	0%
1. 2. 3 Harbourvest Dover VIII	\$380,632	2%	\$7,900,672	0%
1. 2. 3 HIPEP VII	\$190,244	1%	\$12,788,398	0%
1. 2. 3 HIPEP VIII	\$444,203	2%	\$13,931,805	0%
1. 2. 3 Harbourvest Partners X Venture	\$248,795	1%	\$18,331,004	0%
1. 2. 3 Harbourvest Partners X Buyout	\$573,562	3%	\$23,084,853	1%
1. 2. 3 Harbourvest Dover IX	\$851,703	5%	\$28,007,694	1%
1. 2. 3 Harbourvest Partners XI Venture	\$251,938	1%	\$8,460,164	0%
1. 2. 3 Harbourvest Partners XI Buyout	\$488,759	3%	\$12,406,820	0%
1. 2. 3 Harbourvest Partners XI Micro	\$82,175	0%	\$1,668,272	0%
1. 2. 3 HCF V	\$223,858	1%	\$7,917,126	0%
1. 2. 3 HarbourVest Dover X	\$514,612	3%	\$9,762,979	0%
Acadian Int'l Equity	\$588,068	3%	\$109,944,469	2%
Mondrian Int'l Equity	\$433,841	2%	\$104,935,857	2%
SgA International Small Cap	\$595,533	3%	\$81,531,564	2%
PIMCO Core Plus	\$790,861	4%	\$289,736,907	6%
Wellington EMD	\$1,100,016	6%	\$203,799,790	4%
2 Benefit Street SOF I	\$557,532	3%	\$58,451,501	1%
3 BlueBay Global Private Debt	\$235,177	1%	\$20,866,445	0%
3 Brookfield Intl Real Estate	\$1,451,612	8%	\$39,662,241	1%
1. 2. 3 Siguler Guff	\$266,018	1%	\$27,224,517	1%
3 Siguler Guff IIA	\$93,285	1%	\$11,705,329	0%
BlackRock Aggregate Bond Index	\$319,702	2%	\$1,078,006,508	24%
UBS Trumbull	\$1,409,024	8%	\$217,810,754	5%
Blackrock TIPS	\$35,105	0%	\$140,542,194	3%
3 Hosking Global Equity	\$175,946	1%	\$0	0%
PIMCO Lq Fund	\$30,738	0%	\$9,367,766	0%
3 Pinnacle Natural Resources	\$1,352,312	7%	\$3,937,892	0%
Total: Investment Managers	\$17,135,825	0.38%		

Other Vendors	Fee (\$)	% of Total Fees
Custodian	\$278,039	2%
Investment Consultant	\$406,400	2%
Actuary	\$181,500	1%
Investment Staff	\$360,000	2%
Proxy Administrator	\$35,000	0%
Subscriptions	\$69,780	0%
Memberships	\$8,959	0%
Total: Other Vendors	\$1,339,678	
Total: All	\$18,475,502	0.41%

¹ Fee is based on the total committed dollars and not the total called capital
² This is a fund-of-funds vehicle and the fee does not include underlying manager fees
³ The fee incorporates a performance based fee that will fluctuate year to year

VPIC EXPECTED PORTFOLIO RISK/RETURN OVER TIME

