

# OVERVIEW OF PROPOSED PENSION GOVERNANCE CHANGES

House Government Operations Committee

March 24, 2021

# OBJECTIVES

- Increase the level of professional expertise and range of perspectives represented at the decision-making table.
- Maintain the representation and participation from key employee and employer stakeholders.
- Streamline the decision-making process around changes to actuarial assumptions.
- Require more frequent experience studies and enhanced transparency around investment fees.

# CURRENT STRUCTURE

- **VPIC**

- 7 member committee that makes and manages investments for all 3 systems

- **Three Boards of Trustees**

- Responsible for the general administration and proper operation of the retirement systems.
- Adopting mortality and service tables, based on actuarial investigation/recommendation
- Record keeping responsibilities
- Setting rates of regular interest.
- Designates actuary
- All three boards plus VPIC must agree to changes in assumed rate of return.

## VSERS Board of Trustees:

- Governor
- State Treasurer
- Commissioner of Human Resources
- Commissioner of Finance and Management
- 3 VSEA members
- One retired state employee elected by the VT Retired State Employees' Association

## VSTRS Board of Trustees:

- Secretary of Education
- State Treasurer
- Commissioner of Financial Regulation
- 2 trustees (and 1 alternate) who are members of the system.
- One trustee (and 1 alternate) who are retired members and elected by the Association of Retired Teachers.

## VMERS Board of Trustees:

- State Treasurer
- 2 employee representatives
- 2 employer representatives (one elected by participating employers, one chosen by Governor from a list of 4 nominees jointly nominated by VLCT and VSBA).

# NEW PROPOSED VERMONT RETIREMENT COMMISSION

- A new **Vermont Retirement Commission** (VRC) is proposed to oversee the investments and management of all three systems (similar to New Hampshire model).
- 15 Members:
  - State Treasurer (chair) – only votes to break ties
  - Commissioner of Finance and Management
  - 2 Governor appointees that must have institutional investment, financial, or actuarial experience.
  - 3 member trustees (one from each pension Board of Trustees) who serve on the Board of Trustees and are selected by their respective board.
  - 3 employer representatives (one municipal, one school, one state) who are nominated by the respective trustee boards and appointed by the State Treasurer. Each trustee board shall nominate no fewer than three candidates for each vacancy.
  - 3 public representatives who are nominated by the trustee boards (one per board) and appointed by the Governor. Each trustee board shall nominate no less than 3 candidates for each vacancy. Each public member shall have institutional investment, financial, or actuarial experience.
  - 2 legislative appointees (one per body), each of whom must have institutional investment, financial, or actuarial experience and may not be current elected officials. Legislative appointees do not have a vote on the VRC.
- With the exception of the Treasurer and Commissioner of Finance and Management, commissioners serve staggered 4-year terms with a limit of 3 consecutive terms or 12 years.
- Aside from the State Treasurer, no elected officials may serve on the VRC.

# VRC POWERS AND DUTIES

- VRC assumes the current powers and duties of VPIC.
- VRC shall appoint an Investment Committee comprised of 5 of its members, three of whom shall have institutional investment, financial, or actuarial experience.
  - Investment committee reviews the recommendations and selection of the investment consultant, reviews the consultant's recommendations around the asset allocation and hiring/termination of fund managers, and provides recommendations to the full VRC for final action.
  - Members of the Investment Committee shall serve for unlimited, staggered 2-year terms.
- The 3 Trustee Boards are maintained, with the additional power to nominate members to the VRC.
- The VRC has the final authority to adopt changes to the assumed rate of return and actuarial assumptions without requiring concurrence of all three Trustee Boards.
- 3 Trustee Boards shall review the recommendations of the actuary and investment consultant regarding any proposed changes to assumption. Before the VRC can adopt any changes to assumptions, the trustee boards shall make a formal recommendation to VRC on whether the VRC should accept or reject the proposed changes (or the trustee boards may elect to make no recommendation). Trustee recommendations are not binding on the VRC.

## Current

### VPIC

7 members:

- 1 member (and 1 alternate) elected by the employee and retiree members of the VSERS board. May or may not be a member of the VSERS board.
- 1 member (and 1 alternate) elected by the employee and retiree members of the VSTRS board. May or may not be a member of the VSTRS board.
- 1 member (and 1 alternate) elected by the VMERS Board. May or may not be a member of the VMERS board.
- 2 members (and 1 alternate) appointed by the Governor.
- State Treasurer or designee
- 1 member appointed by the other 6 voting members of VPIC, who shall serve as chair and only votes to break ties.

Appointees serve staggered 4 year terms except for the chair, who serves at the pleasure of the others.

## Proposed

### VT Retirement Commission

15 members:

- Treasurer (chair) – only votes to break ties
- Commissioner of DFM
- 2 governor appointees that must have institutional investment, financial or actuarial experience.
- 3 member trustees, one from each trustee board and selected by the trustee board.
- 3 employer representatives (one municipal, one school, one state) who are nominated by the respective trustee boards and appointed by the Treasurer. Each trustee board shall nominate no fewer than three candidates for each vacancy.
- 3 public representatives who are nominated by the trustee boards (1 per board) and appointed by the Governor. Each trustee board shall nominate no less than three candidates for each vacancy. Each public member shall have institutional investment, financial, or actuarial experience.
- 2 legislative appointees (1 per body). Both appointees must have either financial or actuarial experience and may not be current legislators. Legislative appointees do not have a vote.

With the exception of the Treasurer and DFM Commissioner, commissioners serve staggered 4 year terms with a limit of three consecutive terms or 12 years.

Aside from the Treasurer, no other current elected officials may serve on VRC.

## Current

### VPIC

- Changes to ARR are made at a joint meeting of VPIC and the appropriate retirement board. Changes must be approved by joint resolution of VPIC and the appropriate retirement board. In the event of no agreement, the existing rate shall remain in effect. (3 VSA § 523)

## Proposed

### VT Retirement Commission

- VRC absorbs all current responsibilities of VPIC.
- VRC appoints an Investment Committee comprised of 5 of its members, three of whom shall have institutional investment, financial, or actuarial experience. Investment Committee reviews the recommendations and selection of the investment consultant, reviews the recommendations of the investment consultant around asset allocation and the hiring/termination of fund managers, and provides recommendations to the full VRC for final action. Members of the investment committee shall serve for unlimited, staggered 2 year terms.
- Changes to the ARR and actuarial assumptions shall be made by the Commission. The retirement trustee boards shall review the recommendations of the actuary and investment consultant and shall make a recommendation of accepting/not accepting/no recommendation on acceptance to the Commission.
- Recommendations of the trustee boards shall not be binding on the VRC.

## OTHER PROPOSED GOVERNANCE CHANGES

- Statutorily require experience studies every 3 years instead of every 5 years.
- Statutorily require annual disclosure of all administrative costs associated with the retirement system, including investment management fee structures and actual fees paid to investment managers. Annual disclosures shall be filed no later than January 15<sup>th</sup> for the most recently concluded fiscal year.
- Streamline and make consistent the appointment process of members to the three trustee boards by designating the Treasurer's Office to oversee and administer the election of trustees to all trustee boards plus VRC.



QUESTIONS?