Overview of Request 5 – Group "G" Analysis

Chris Rupe, JFO - January 10, 2022

The Pension Task Force requested actuarial analysis on the estimated impact of allowing certain VSERS Group F active members to enroll in a new pension benefit (a new Group "G") with the same provisions as the existing VSERS Group C (law enforcement). The results of this analysis are described in the January 5, 2022 response from Segal.

The requested analysis estimated the additional total contribution rate (as a percentage of future salary) that would be needed to make the new Group "G" benefit revenue neutral to the employer's pension costs and without increasing member contributions of other VSERS employee groups.

Two different employee universes were studied, with the assumption that all current Group F members in each universe, as well as new entrants, would switch from Group F to the new Group "G."

- *Employee Universe 1:* All Department of Corrections (only) active members in Group F who are currently covered by the provision allowing unreduced retirement at age 55 with 20 years of service (720 members).

- *Employee Universe 2:* All Department of Corrections active members **plus** other active members mentioned in 3 V.S.A. § 459(d)(2)(a) in Group F who are currently covered by the provision allowing unreduced retirement at age 55 with 20 years of service (850 members).

Each universe of employees was modeled in conjunction with three potential benefit plan changes:

- Group "G" would have the same benefit terms as the current Group C.

- Group "G" has the same terms as Group C, but with an increase in the max benefit cap of **1%** of AFC for each year worked beyond the later of age 50 or 20 years of service, applied prospectively to service actually worked after July 1, 2022. Mandatory retirement age increased from 55 to 57 (PC-1).

- Group "G" has the same terms as Group C, but with an increase in the max benefit cap of **2%** of AFC for each year worked beyond the later of age 50 or 20 years of service, applied prospectively to service actually worked after July 1, 2022. Mandatory retirement age increased from 55 to 57 (PC-2).

<u>Results – Universe 1 (DOC Employees)</u>

The actuarial analysis estimates that if Employee Universe 1 were to be enrolled in a new Group "G" benefit that reflects the existing Group C benefit, the required additional member contribution needed to fully offset the higher benefit would be 36.44% of covered wages and salary. This additional cost is lowered when combined with the two changes to the maximum benefit cap and mandatory retirement age described above. Required additional contribution rates would decline further if the age at which members retire is extended or if other terms of the Group "G" benefit were changed (such as using a lower benefit multiplier than Group C's 2.5%).

VSERS – Universe 1 – Plan Change Scenarios PC-1 and PC-2

2020 Valuation ($ in millions)	Baseline	Uni-1	Uni-1 + PC-1	Uni-1 + PC-2
Present Value of Benefits (PVB):	$3,714.2	$3,831.9	$3,821.9	$3,830.2
Change from Baseline Valuation:		$117.7	$107.7	$116.0
Present Value of Future Salary for Uni-1 members:	N/A	$323.0	$396.1	$396.1
Additional Contribution Rate (% of Future Salary) for Uni-1 members needed to offset the increase in PVB:	N/A	36.44%	27.20%	29.29%

The "Change from Baseline Valuation" values shown above in column Uni-1 are based on the current Group C retirement assumption that members retire at the age they are first eligible. For comparison/sensitivity purposes, we have also modeled based on the assumption that Uni-1 members retire at age 55 and at age 57. Assuming Uni-1 members retire at age 55, the change in Present Value of Benefits (PVB) is $106.3 million and the additional contribution rate (% of future salary) for Uni-1 members needed to offset the increase in PVB is 28.97%. Assuming Uni-1 members retire at age 57, the change in PVB is $99.5 million and the additional contribution rate (% of future salary) for Uni-1 members needed to offset the increase in PVB is 25.11%.

(Chart above from Segal January 5, 2022 Memo)

Results – Universe 2 (DOC Employees plus Others)

The actuarial analysis estimates that if Employee Universe 2 were to be enrolled in a new Group "G" benefit that reflects the existing Group C benefit, the required additional member contribution needed to fully offset the higher benefit would be 35.72% of covered wages and salary. This additional cost is lowered when combined with the two changes to the maximum benefit cap and mandatory retirement age described above. Required additional contribution rates would decline further if the age at which members retire is extended or if other terms of the Group "G" benefit were changed (such as using a lower benefit multiplier than Group C's 2.5%).

VSERS – Universe 2 – Plan Change Scenarios PC-1 and PC-2

2020 Valuation ($ in millions)	Baseline	Uni-2	Uni-2 + PC-1	Uni-2 + PC-2
Present Value of Benefits (PVB):	$3,714.2	$3,846.5	$3,836.0	$3,845.1
Change from Baseline Valuation:		$132.3	$121.8	$130.9
Present Value of Future Salary for Uni-2 members:	N/A	$370.5	$452.5	$452.5
Additional Contribution Rate (% of Future Salary) for Uni-2 members needed to offset the increase in PVB:	N/A	35.72%	26.91%	28.94%

The "Change from Baseline Valuation" values shown above in column Uni-2 are based on the current Group C retirement assumption that members retire at the age they are first eligible. For comparison/sensitivity purposes, we have also modeled based on the assumption that Uni-2 members retire at age 55 and at age 57. Assuming Uni-2 members retire at age 55, the change in Present Value of Benefits (PVB) is $119.9 million and the additional contribution rate (% of future salary) for Uni-2 members needed to offset the increase in PVB is 28.62%. Assuming Uni-2 members retire at age 57, the change in PVB is $112.6 million and the additional contribution rate (% of future salary) for Uni-2 members needed to offset the increase in PVB is 24.89%.

(Chart above from Segal January 5, 2022 Memo)