

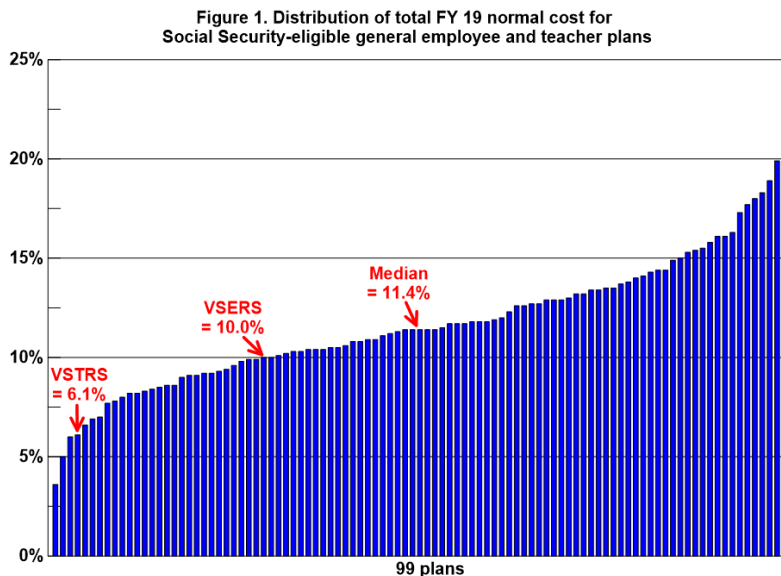


Normal Cost Analysis for the Vermont State Employees' and Teachers' Retirement Systems February 2021

Two elements comprise the cost of a pension plan: the normal cost and the cost to amortize, or pay off, the unfunded liability. The normal cost is the cost of pension benefits accrued in a given year, and the unfunded liability represents the cost of benefits accrued in prior years for which no assets have been accumulated. The normal cost, which is generally expressed as a percentage of a plan's covered payroll, is a strong indicator of a pension plan's benefit level. Generally, the higher the normal cost, the more "generous" the plan's benefits.

The charts below present the normal cost and the percentage of the normal cost funded by employees, for a sample of 99 state and local pension plans for general employees and teachers who also participate in Social Security.

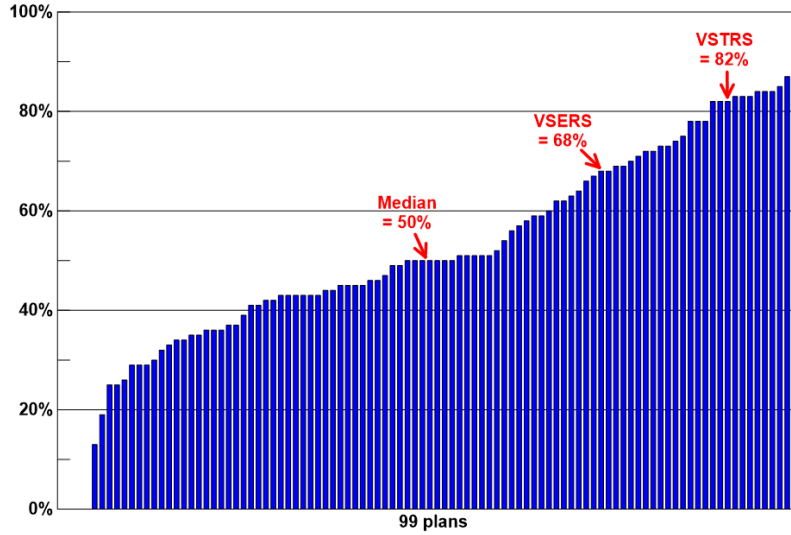
As Figure 1 shows, at 6.1 percent and 10.0 percent, the respective normal costs for the Vermont State Teachers' (VSTRS) and State Employees' (VSERS) Retirement Systems are below the national median of 11.4 percent for characteristically similar plans. VSTRS' normal cost is the fourth lowest of all plans, and VSERS' normal cost is 10.0 percent.



In most cases the normal cost is funded by a combination of employee and employer contributions, and with limited exceptions, the unfunded liability is funded exclusively by employers. As in most states, employees in Vermont are required to contribute toward the cost of their pension benefit, with all employee contributions directed to the normal cost.

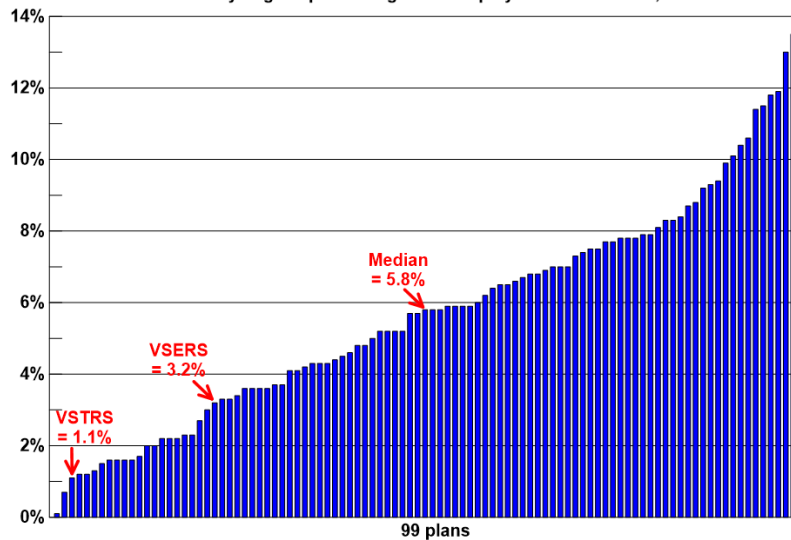
Figure 2 identifies the percentage of the normal cost paid by employees for the same group of plans. At approximately 68 percent and 82 percent, respectively, Vermont state employees and teachers pay a higher portion of the cost of their own benefit than most other similar groups of state and local employees.

Figure 2. Distribution of percentage of normal cost paid by Social Security-eligible general employees and teachers in FY 19



As the charts above indicate, pension benefits for Vermont state employees and teachers are less generous than those for similar groups of state and local employees, and employees are responsible for funding a relatively high percentage of their pension benefit. As Figure 3 presents, these factors combine to produce comparatively low normal costs for public employers in Vermont.

Figure 3. Distribution of normal cost paid by employers, Social Security-eligible plans for general employees and teachers, FY 19



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