

# Fiscal Year 2024 Update: The State of Vermont's Public Pension Systems

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**Presentation to the Joint Public Pension Oversight Committee**  
November 6, 2024

# Executive Summary

1. Vermont Pension Systems Funding Background (Slides 3-12)
2. Annual Pension Valuations for Fiscal Year 2024 (Slides 13-21)
3. Annual OPEB Valuations for Fiscal Year 2024 (Slides 21-26)
4. Links to Key Documents (Slide 27)

# Vermont Pension Systems in the 2010s

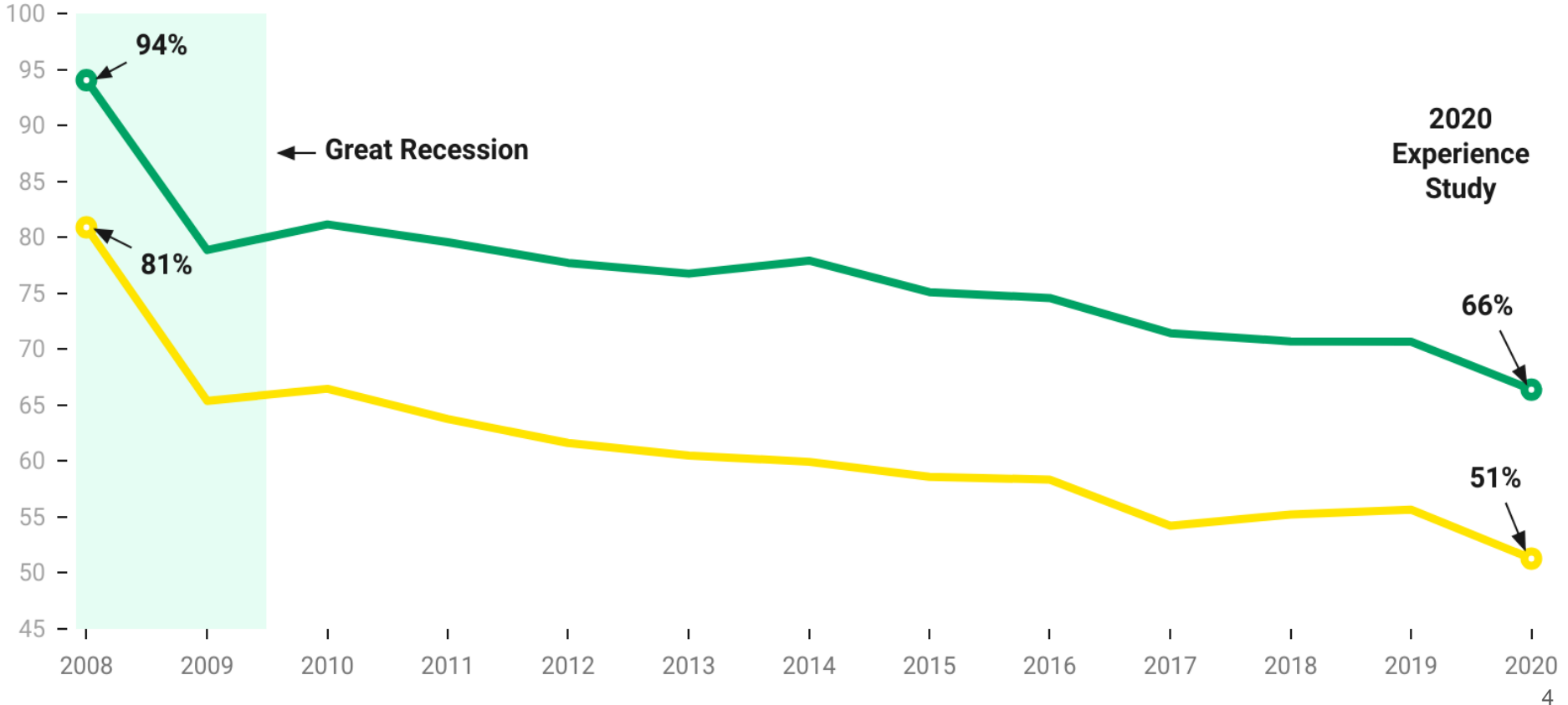
The Great Recession, coupled with historic underfunding, caused the Pension Systems to be significantly underfunded in the late 2000s through 2020.

In response, Vermont adopted a policy to reach full funding of the Pension Systems by 2038.

- Early years of this policy (the 2010s) required a steep ramp up in annual pension payments, called actuarially determined employer contributions or ADECs, in addition to the steady-state (“normal”) costs.
- Even with these steadily increasing payments, the funded percentage continued to decline.

# VSERS & VSTRS Post-Recession Funded Ratios

VSERS VSTRS



## Declining Funded Ratios in the 2010s (1/3)

**Reason 1:** Teachers System paid health insurance premiums out of a Pension System sub-trust, resulting in over \$20 million of interest costs/year.

**Progress Made:** In 2015, Legislature created the Retired Teachers' Health and Medical Benefits Fund (RTHMB); invested by the Treasurer's Office.

- VSTRS Health insurance payments now come from the RTHMB, rather than the Pension Fund
- Estimated savings at the time were \$480 million.

# Declining Funded Ratios in the 2010s (2/3)

**Reason 2:** Amortization Schedule – 30 years to full funding in 2038 – originally relied on larger unfunded liability payments in later years.

**Progress Made:** Made earlier payments proportionally larger; lowered overall cost.

- Payment Schedule was initially set to increase in 5% increments each year.
- In 2016, this was reduced to 3% increases each year, to better match inflation.
- In 2022, Legislature made one-time payments of \$75 million to VSERS and \$125 million to VSTRS *and* established an Additional Payment schedule, with ongoing payments of \$9 - \$15 million per year above the ADEC until VSERS and VSTRS reach 90% funded (projected to occur in 2033 and 2035 respectively).

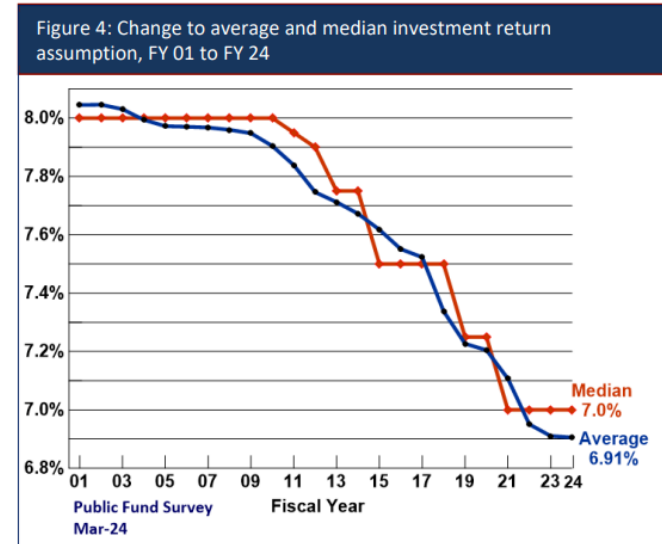
# Declining Funded Ratios in the 2010s (3/3)

**Reason 3:** Declining assumed rates of return due to factors including the national low-interest-rate environment

- Most significant factor in funded ratio decline.
- Vermont's experience largely matches the national experience.

**Progress Made:** Reduced the assumed rate of return from 8.25% to 7.50% by 2019.

“Although each pension plan is unique, the effect of a 25-basis point reduction in the assumed rate of return, such as from 7.5 percent to 7.25 percent, has been estimated to increase the cost of a plan that has an automatic COLA, by three percent of pay (such as from 10 percent to 13 percent).” [NASRA Brief at 3.](#)



[NASRA Issue Brief: Public Pension Plan Investment Return Assumptions \(updated March 2024\)](#)

# 2020 Experience Studies

Experience Studies review economic and demographic assumptions against what happened in recent years (“experience”) to assess and update assumptions.

In 2020, the assumed rate of return was reduced again, from 7.5% to 7.0%.

## **VSERS**

- Funded Percentage – dropped from 70.7% to 65.6%
- FY21 ADEC – increased from \$83.9 million to \$113.6 million

## **VSTRS**

- Funded Percentage – dropped from 55.7% to 50.9%
- FY21 ADEC – increased from \$135.6 million to \$186.4 million

This was the **low point** for both systems’ funded percentages.



# 2021 - 2022 Pension Reforms

## 2021

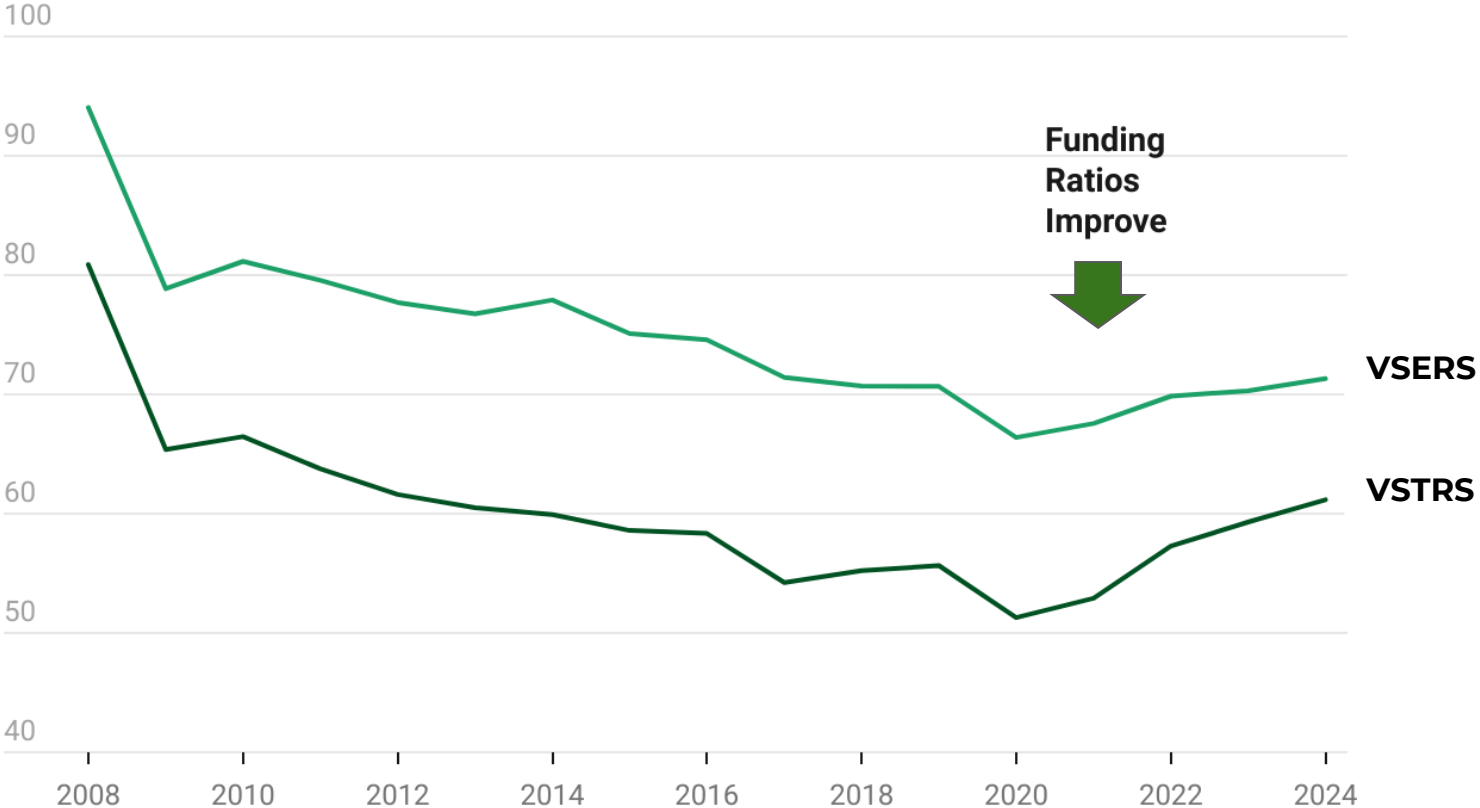
- Pension Governance Reforms
- Legislature established the Pension Benefits, Design, & Funding Task Force

## 2022

Legislature unanimously passed Act 114, which resulted from the Task Force

- Provided significant one-time (\$200 million) and ongoing additional funding
- Increased member contributions
- Made changes to COLAs and other system provisions
- Requires pre-funding Retiree Health (OPEB) Benefits

# Funding Ratios 2008 to 2024



# 2023 Experience Studies

The 2023 Experience Studies suggested only modest changes to the assumptions; broadly, the message of the studies was to stay the course.

- Economic assumptions (including rate of return and inflation) remain unchanged.
- State and Municipal Systems saw a modest increase in unfunded liabilities.
- Teachers' System saw a modest decrease in the unfunded liability.

# Final Thoughts on Pension Background

- July 1, 2023, was the halfway point on our 30-year amortization period.
- Year 16 (FY24) is already in the books – and it was a good one with strong investment returns:
  - Pension Funds – just above 10%
  - OPEB Funds – just above 13%
- We are making progress, and the rating agencies are taking note.

*“Policy actions in recent years attest to active state management of its pensions’ funded status. Over the long term, this could have beneficial effects on funding progress assuming the plans achieve their rate of return assumptions.” – Fitch Ratings 6/4/2024*

# Annual Valuation Reports (FY24)

## Purpose

To project future Retirement System obligations.

An actuarial valuation is an estimate – actual long-term System costs will be determined by actual benefits, expenses, and investment returns. Annual valuations help minimize divergence from actuals.

## Looking Back

Valuation looks back at FY24 to see how the Plan performed against assumptions.

Establishes metrics like the **FY24 funded percentage**.

Assets are tracked on both market and actuarial basis.

## Looking Forward

The FY24 Valuations determine the **FY26 ADECs**.

# Pension System Funding Year-over-Year

## FY25 Pension System Funding

In FY25, the State is contributing:

- State - \$143.3 million (includes \$12 million “plus” payment)
- Teachers - \$213.2 million (includes \$12 million “plus” payment)

## FY26 Pension System Funding

Plans' FY26 recommended State contributions:

- State - \$151.5 million (includes \$15 million “plus” payment)
- Teachers - \$227.8 million (includes \$15 million “plus” payment)

## State Employees' System Year-over-Year

Fiscal Year 2023	
Members	VSERS
Active	8,611
Inactive	2,287
Deferred	844
Retired & Beneficiaries	8,058
Total	19,800
Benefits	
Total Monthly	\$15,534,832
Average Monthly	\$1,928
Average Annual	\$23,136
Financial Position (in 000's)	
Actuarial Value of Assets	2,523,349
Actuarial Accrued Liability	3,589,070
Unfunded Liability	(1,065,722)
Funded %	70.31%

Fiscal Year 2024	
Members	VSERS
Active	8,819
Inactive	2,554
Deferred	869
Retired & Beneficiaries	8,142
Total	20,384
Benefits	
Total Monthly	\$16,199,459
Average Monthly	\$1,990
Average Annual	\$23,875
Financial Position (in 000's)	
Actuarial Value of Assets	2,690,348
Actuarial Accrued Liability	3,772,062
Unfunded Liability	(1,081,714)
Funded %	71.32%

## Teachers' System Year-over-Year

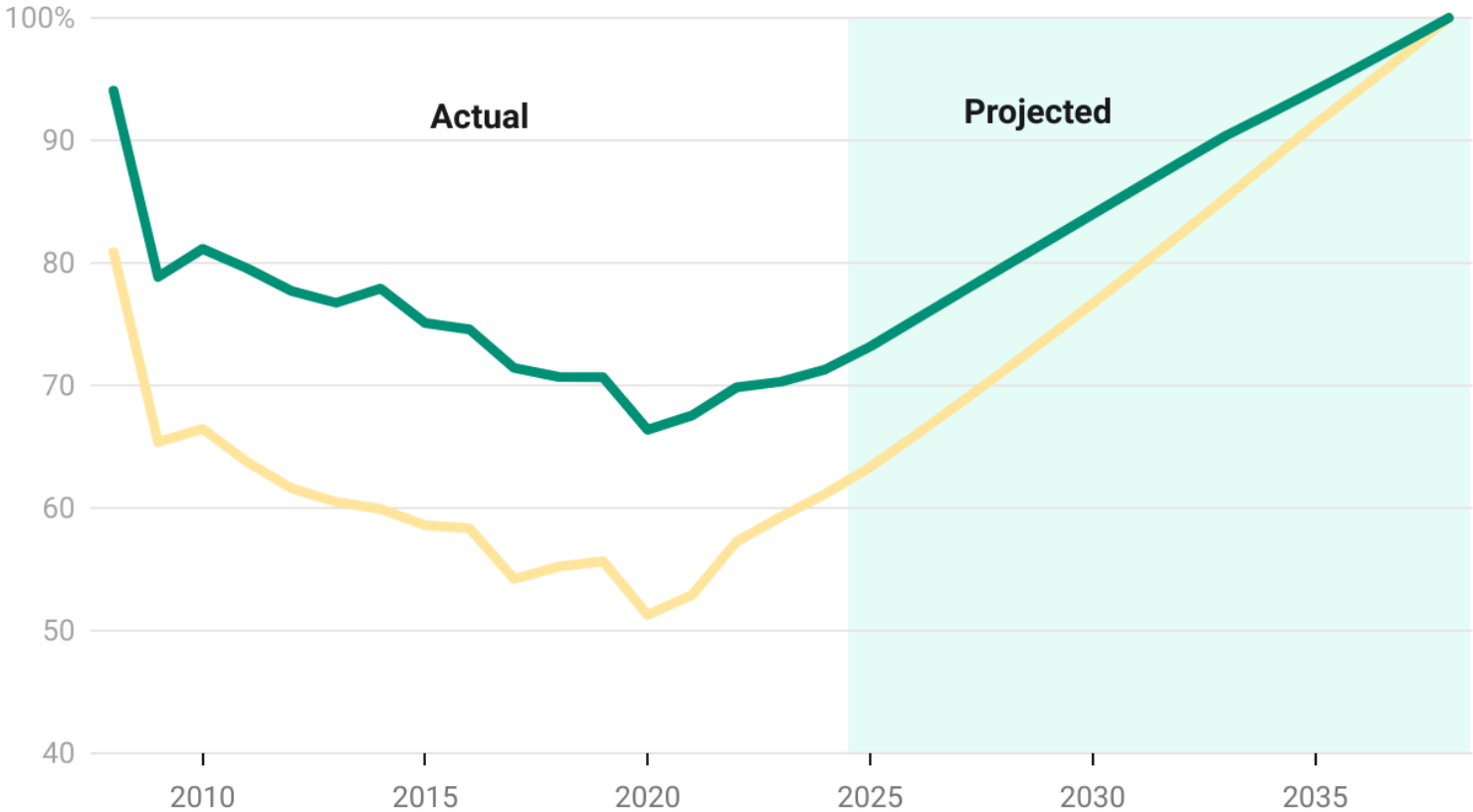
Fiscal Year 2023	
Members	VSTRS
Active	10,618
Inactive	3,167
Deferred	998
Retired & Beneficiaries	10,431
Total	25,214
Benefits	
Total Monthly	\$20,576,933
Average Monthly	\$1,973
Average Annual	\$23,672
Financial Position (in 000's)	
Actuarial Value of Assets	2,615,250
Actuarial Accrued Liability	4,410,042
Unfunded Liability	(1,794,792)
Funded %	59.30%

Fiscal Year 2024	
Members	VSTRS
Active	10,567
Inactive	3,500
Deferred	1,050
Retired & Beneficiaries	10,625
Total	25,742
Benefits	
Total Monthly	\$21,475,087
Average Monthly	\$2,021
Average Annual	\$24,254
Financial Position (in 000's)	
Actuarial Value of Assets	2,815,335
Actuarial Accrued Liability	4,602,349
Unfunded Liability	(1,787,014)
Funded %	61.17%



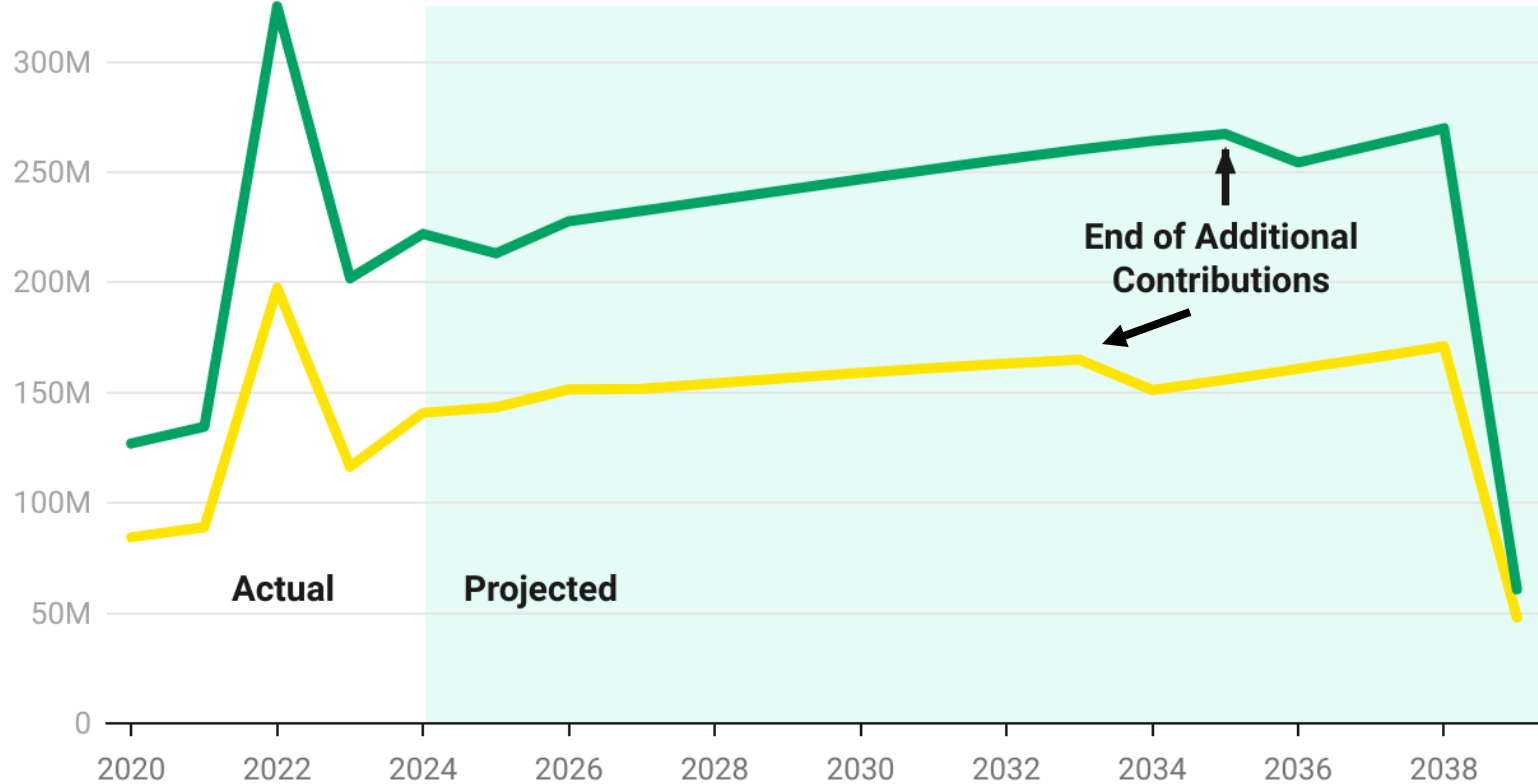
# Projected Funding Percentages Through 2038

— VSERS — VSTRS



# Total Employer Contributions 2020-2039

— VSERS — VSTRS



## Municipal Employees' System Year-over-Year

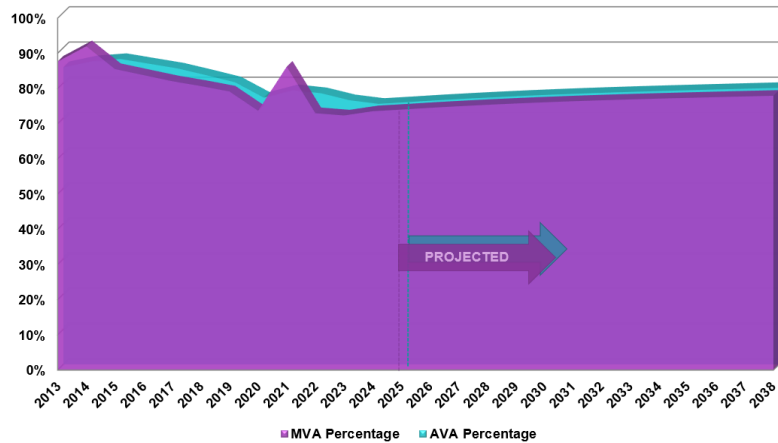
Fiscal Year 2023	
Members	VMERS
Active	8,393
Inactive	4,544
Deferred	1,095
Retired & Beneficiaries	4,431
Total	18,463
Benefits	
Total Monthly	\$4,388,927
Average Monthly	\$991
Average Annual	\$11,886
Financial Position (in 000's)	
Actuarial Value of Assets	946,401
Actuarial Accrued Liability	1,260,909
Unfunded Liability	(314,507)
Funded %	75.06%

Fiscal Year 2024	
Members	VMERS
Active	8,692
Inactive	5,020
Deferred	1,160
Retired & Beneficiaries	4,638
Total	19,510
Benefits	
Total Monthly	\$4,741,469
Average Monthly	\$1,022
Average Annual	\$12,268
Financial Position (in 000's)	
Actuarial Value of Assets	1,015,400
Actuarial Accrued Liability	1,371,375
Unfunded Liability	(355,975)
Funded %	74.04%

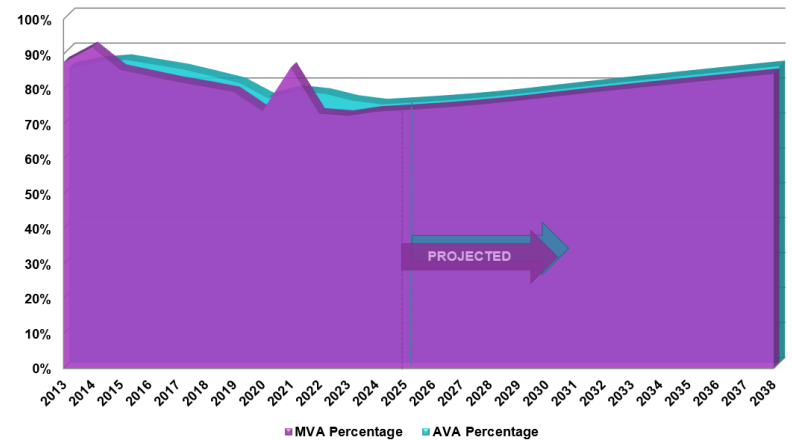
# Municipal System Funding

Last year, the Legislature and VMERS Board adopted a package of rate increases from FY27 through FY30. This has improved the funding outlook.

Funding Ratio Projection – Without Newest Rate Increases



Funded Percentage Projections – With Newest Rate Increases



# FY 2024 Annual Valuations – Key Takeaways

- Good investment year – VPIC achieved a return of more than 10% on pension assets
  - Net investment gains of \$591.6 million.
  - Large deferred losses from 2022 are almost fully realized.
- ADECs as a percentage of payroll have stabilized and are holding generally flat post Act 114.
- All plans are cashflow positive net of investments. This is a strong position to be in.
  - Investment gains go to increasing the funded percentage instead of paying benefits;
  - No need to sell assets to pay benefits in down years;
  - Particularly important for State and Teacher plans with active-to-retiree ratio near 1.0.
- Municipal Plan funded ratio dipped, but the funding trajectory has improved over the long term.
- Funding Plan is working – Stay the Course!

# Background on OPEB System Funding

- OPEB stands for Other Post-Employment Benefits, primarily health insurance.
- State has historically paid for OPEB on a pay-as-you-go basis.
- Act 114 put the State on a path to fully prefund the State and Teachers' OPEB Systems by 2048.
- JFO has calculated that prefunding has reduced the State's long-term OPEB liabilities by over **\$1.7 billion**. This is particularly important in light of recent rating agency changes that take closer account of pension/OPEB liabilities.

# OPEB System Funding Year-over-Year

## **FY25 OPEB System Funding**

In FY25, the State is contributing:

- State - \$78.3 million
- Teachers' - \$70.5 million

## **FY26 OPEB System Funding**

*Draft* OPEB Reports have not yet been approved by the State and Teachers' Retirement Boards. Boards meet next week, so numbers are not yet final.

Plans' FY26 recommended ADECs (*not yet adopted* - based on Draft Reports):

- State - \$94.1 million
- Teachers' - \$80.0 million

## VSERS OPEB Funding Year-over-Year

<b>Fiscal Year 2023</b>	
<b>Members</b>	<b>VSERS</b>
Active	8,590
Retired & Beneficiaries	5,475
Total	14,065
<b>Financial Position (in 000's)</b>	
Plan Net Position	137,759
Total OPEB Liability	1,029,531
Unfunded Liability	<b>(891,772)</b>
Funded %	13.38%

<b>Fiscal Year 2024</b>	
<b>Members</b>	<b>VSERS</b>
Active	8,855
Retired & Beneficiaries	5,672
Total	14,527
<b>Financial Position (in 000's)</b>	
Plan Net Position	176,655
Total OPEB Liability	1,222,218
Unfunded Liability	<b>(1,045,563)</b>
Funded %	14.45%



## VSTRS OPEB Funding Year-over-Year

Fiscal Year 2023	
Members	VSTRS
Active	10,387
Retired & Beneficiaries receiving benefits	7,313
Retired & Beneficiaries not receiving benefits	2,813
Vested terminated members entitled to but not yet receiving benefits	1,816
Total	22,329
Financial Position (in 000's)	
Plan Net Position	72,228
Total OPEB Liability	851,763
Unfunded Liability	(779,535)
Funded %	8.48%

Fiscal Year 2024	
Members	VSTRS
Active	10,618
Retired & Beneficiaries receiving benefits	7,369
Retired & Beneficiaries not receiving benefits	2,891
Vested terminated members entitled to but not yet receiving benefits	1,953
Total	22,831
Financial Position (in 000's)	
Plan Net Position	113,207
Total OPEB Liability	974,539
Unfunded Liability	(861,332)
Funded %	11.62%

# OPEB Key Takeaways

## **Increases in Liabilities and ADECs driven by increases in health care costs generally**

- Change in health care trend assumption drives the year-over-year increases in the ADECs

## **Prefunding plan is working to increase the funding percentage in both plans**

- State Plan improves to 14.45% (up more than 1.0%)
- Teachers' Plan improves to 11.62% (up more than 3.0%)
- Prefunding plan and Treasurer's Office investments are generating returns (over 13% in FY24)
  - State Plan earned \$18.2 million in investment returns
  - Teachers' Plan earned \$13.8 million in investment returns
  - Total OPEB Investment income of **\$32 million** in FY24.

# Key Links - 2024 Reports

## State System (VSERS)

- Annual Valuation, *available* [here](#)

## Teachers System (VSTRS)

- Annual Valuation, *available* [here](#)

## Municipal System (VMERS)

- Annual Valuation, *available* [here](#)

OPEB Reports will be posted following review and approval by Retirement Boards