VSERS and VSTRS Pension Update

Fiscal Year 2025

House Committee on Appropriations

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About this update

- This document provides an overview of the status of the Vermont State Employees' Retirement System (VSERS) and Vermont State Teachers' Retirement System (VSTRS) as of the FY 2025 actuarial valuations.
- Data examines trends within the current 30-year closed amortization period (2008-2038).
- Unless otherwise noted, all data is from the actuarial valuations for the respective pension systems and values are not adjusted for inflation.
- Actuarial valuations are available on the website of the Office of the State Treasurer.

Before we dive in…

- The **Actuarially Determined Employer Contribution (ADEC)** has two components:
  - Normal cost and administrative expenses
  - Amortization payment on the unfunded liability
- Active employee contributions go toward the normal cost, and the remainder of the normal cost is funded by the employer through the ADEC.
- The unfunded liability is calculated to be paid off by FY 2038, with payments increasing 3% annually.
- When all else is equal, the ADEC is expected to increase roughly in parallel with payroll growth (i.e., a stable percentage of payroll) due to the State's funding methods.
- Act 114 (2022) committed the State to make additional "plus" payments of $15 million annually from the General Fund toward the unfunded liabilities of the VSERS and VSTRS pension systems until each system reaches 90% funded (expected to be FY 2033 for VSERS, FY 2035 for VSTRS).
  - "Plus" payments are in addition to ADEC, and have the effect of lowering the rate of growth in future ADECs to less than 3%. "Plus" payments also enhance investment potential, lowering future costs.
  - "Plus" payments are appropriated from the General Fund in the Big Bill.
- VSERS ADEC is funded across the funds that support the active payroll (approx. 40% from General Fund)
  - Embedded in the personnel budgets of State agencies and charged back through a payroll assessment.
  - A portion is also paid by local governments and other entities that employ VSERS members
- VSTRS ADEC is split – Normal Cost paid by Education Fund, Unfunded Liability paid by General Fund
  - Appropriated from the Ed Fund and General Fund in the Big Bill.
  - A portion is also paid by LEAs using federal funds for federally-funded staff.

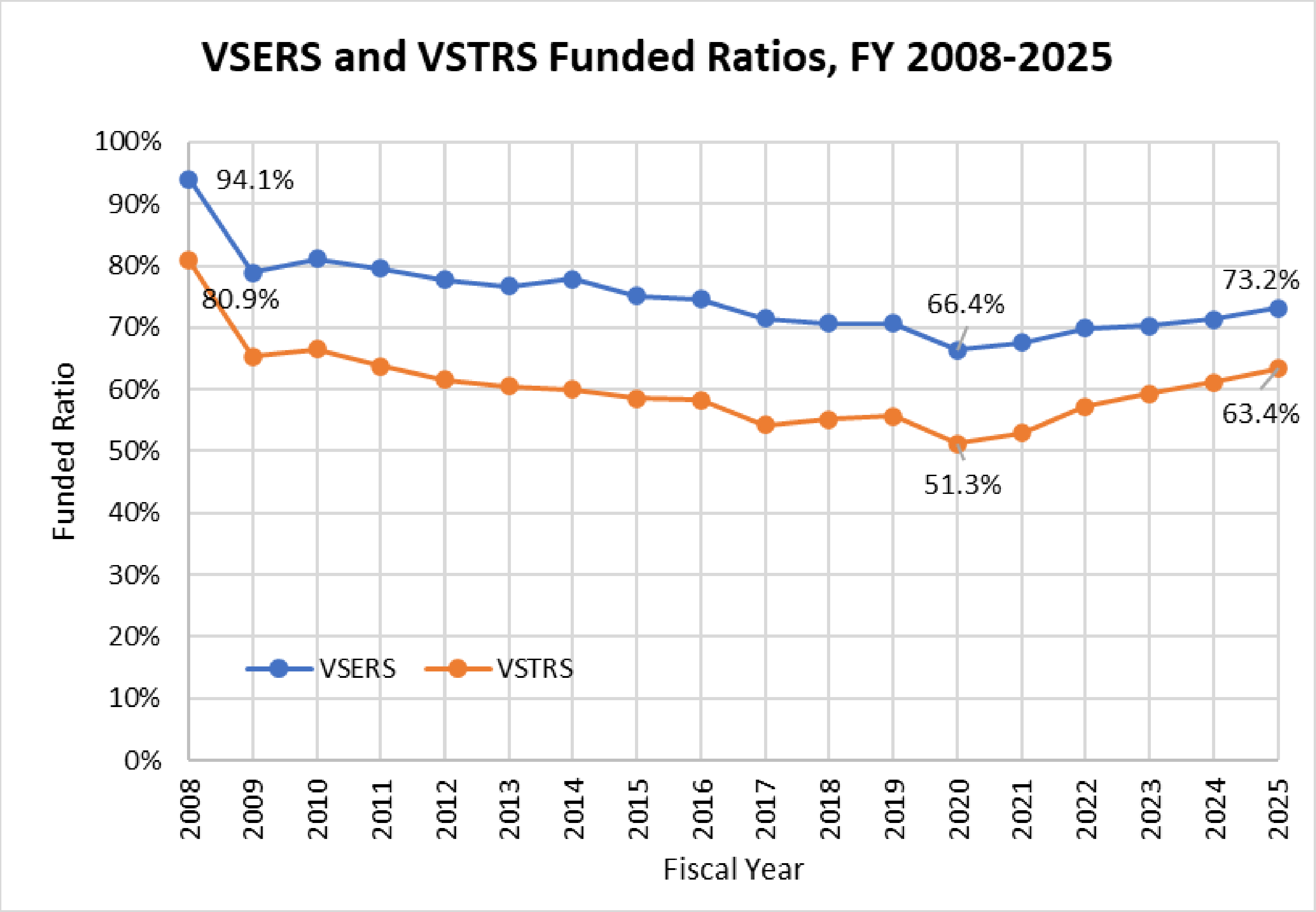
Overview of FY 2025 Valuations

- The Vermont State Employees' Retirement System (VSERS) and Vermont State Teachers' Retirement System (VSTRS) improved their funded ratios during fiscal year 2025.
- Investment performance exceeded the 7% assumption for the third year in a row, resulting in deferred gains that will be recognized in future years.
- Higher than assumed inflation led to higher cost of living adjustments and salary growth, causing some actuarial losses.
- Actuarially Determined Employer Contributions for fiscal year 2027:

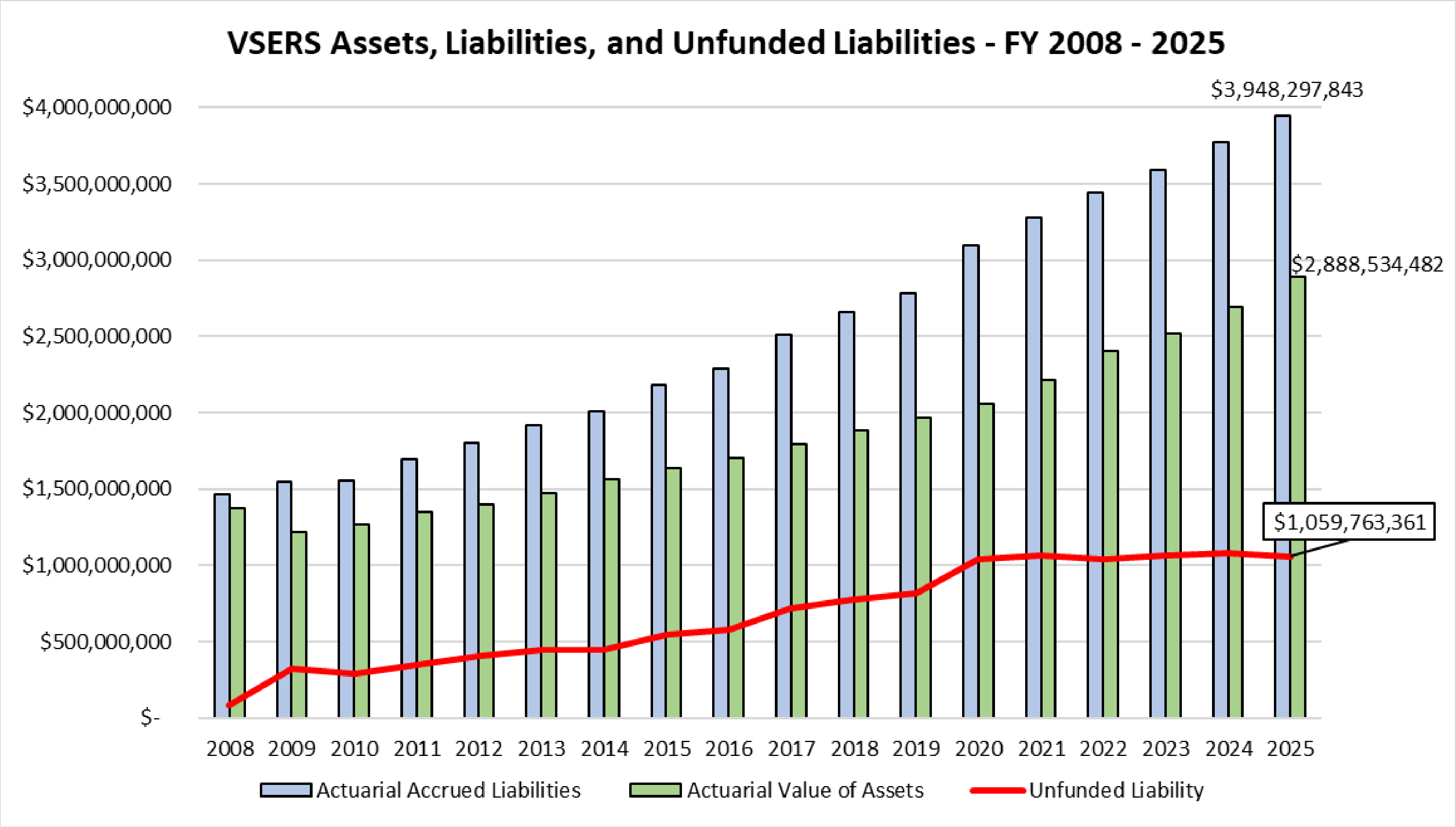
	FY 2026	FY 2027	% Change YoY
VSERS	$151,481,622	$155,459,108	2.63%
VSTRS	$227,752,627	$235,905,084	3.58%
Includes $15 million "plus" payments made in addition to ADEC per Act 114 (2022)			

Funded Status

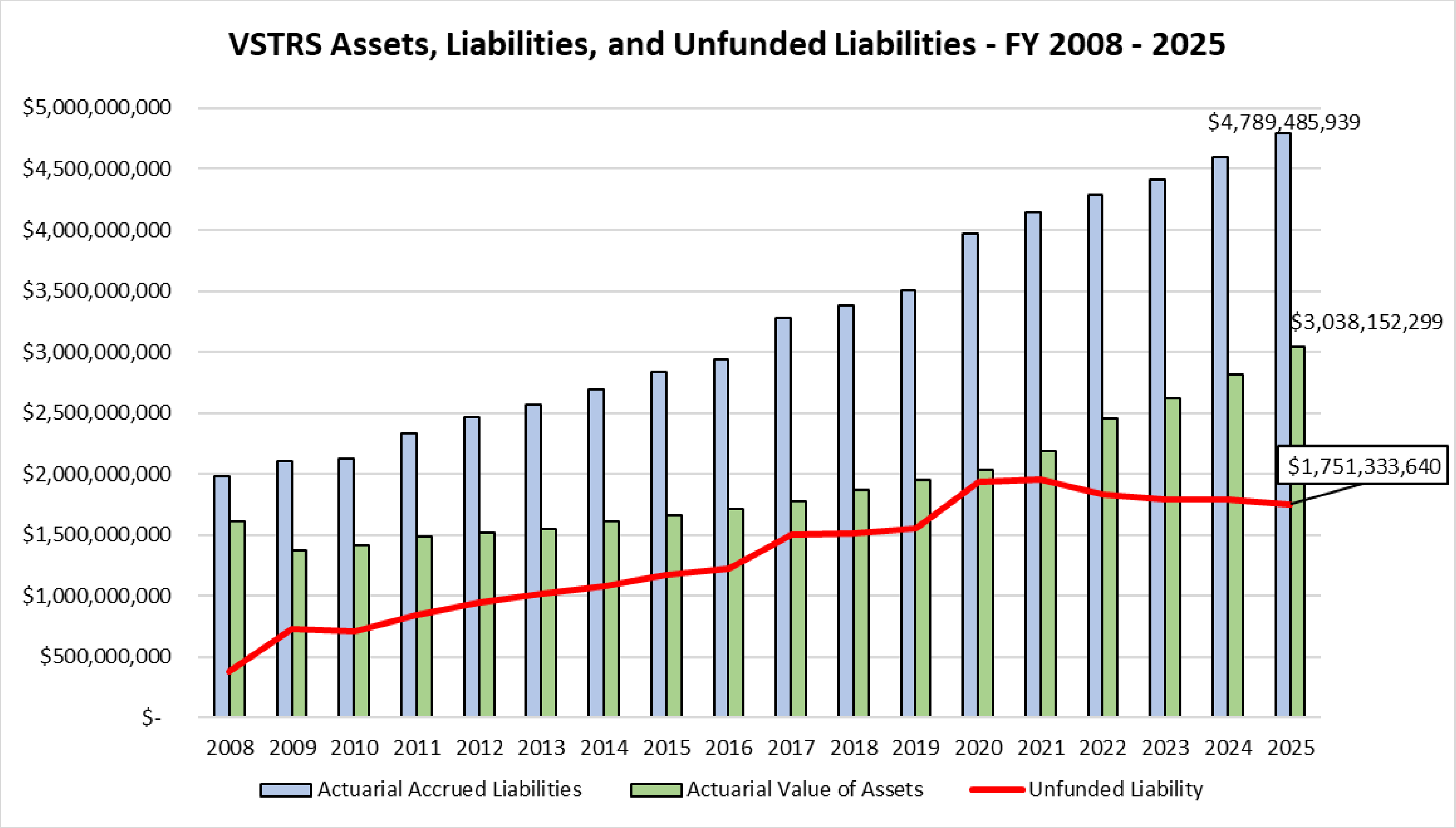
- Since reaching their low points in FY 2020, the funded ratios for the two pension systems have steadily improved.
- As of FY 2025, VSERS is 73.2% funded and VSTRS is 63.4% funded.
- Statutory funding policy calls for reaching 100% funded in FY 2038 – closed amortization.
- Funded ratio = actuarial value of assets / accrued liabilities
- VSERS has highest funded ratio since 2016.
- VSTRS has highest funded ratio since 2011.
- Both systems are currently cash flow positive – payments into the systems are sufficient to fund payments out of the systems. Improves investment efficiency.



VSERS Assets and Liabilities

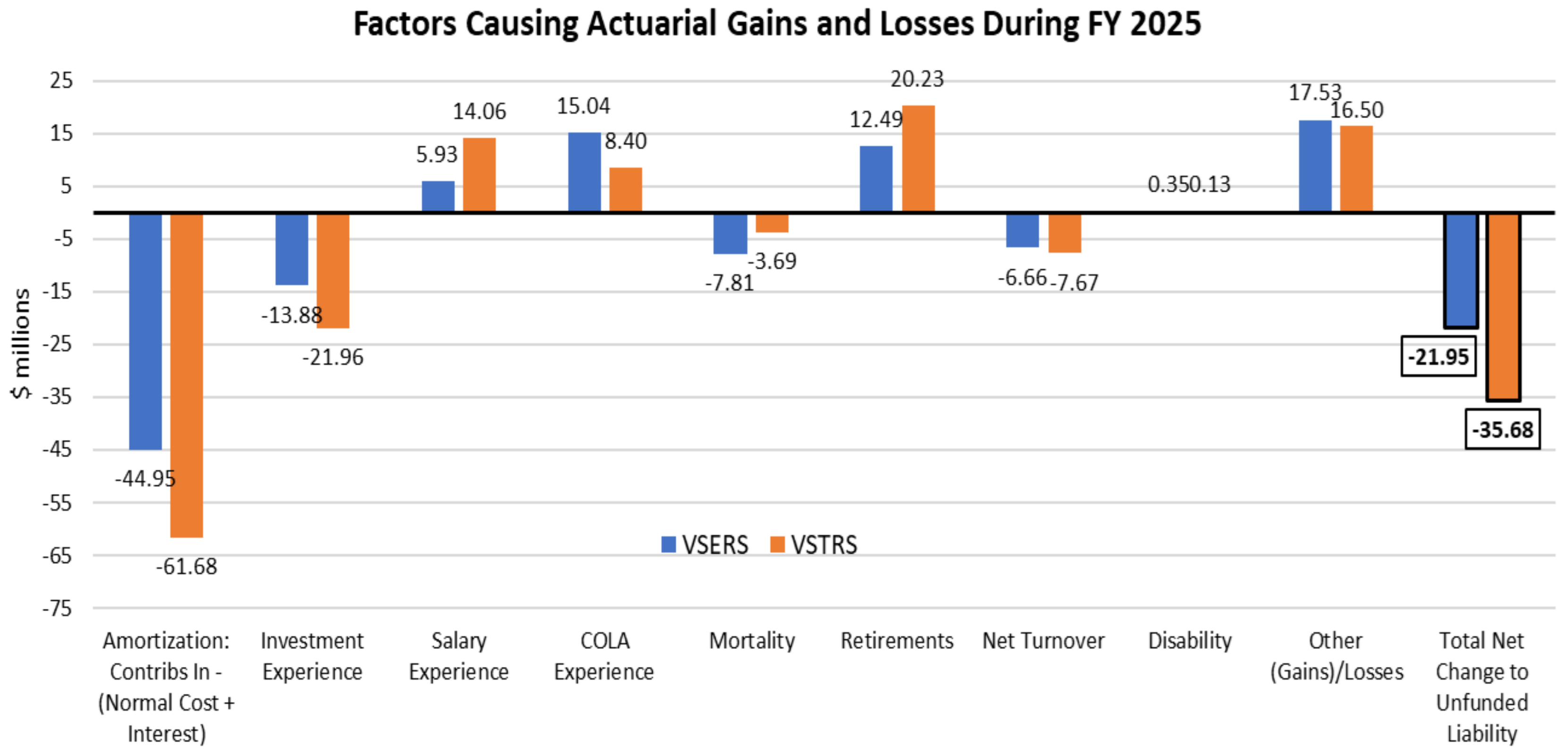


VSTRS Assets and Liabilities



Gains and Losses During FY 2025

- Actuarial gains and losses occur when experience deviates from actuarial assumptions. The impact of these gains and losses is reflected in the unfunded liability.
- Both systems experienced actuarial gains from investment performance, mortality, and employee turnover.
- Both systems experienced actuarial losses from inflation-driven salary and COLA experience, as well as retirement behavior.
- Net of all experience factors, both systems reduced their unfunded liabilities during FY 2025.



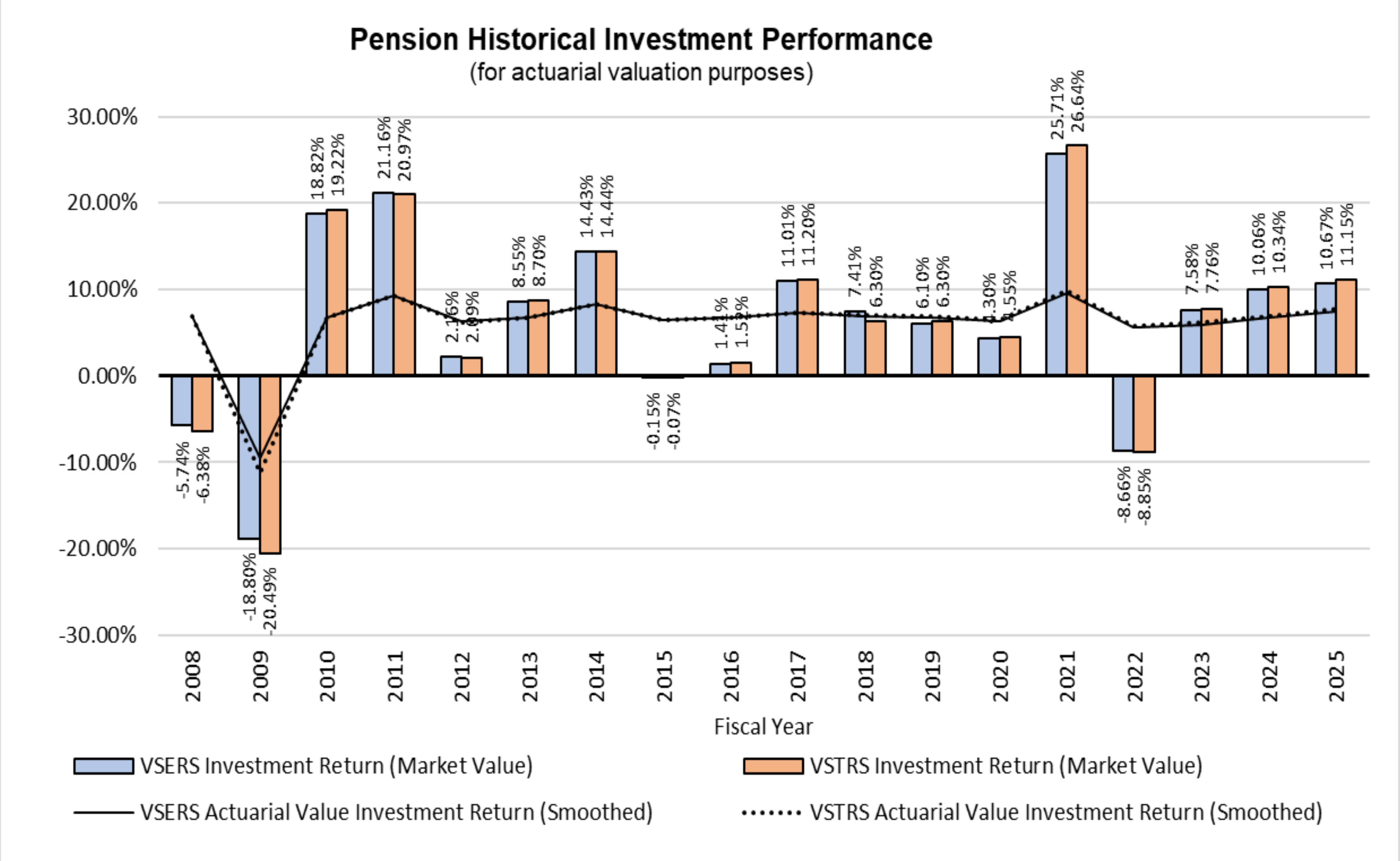
Note: Factors that increased the unfunded liability are represented by positive values. Factors that decreased the unfunded liability are represented by negative values.

Investment Performance

- Investments exceeded the 7% assumed rate of return for the third year in a row.
- Actuarial value of assets is used for funding purposes – smooths in market gains/losses over a 5 year period.

Historical Investment Performance (FY 2025)				
	State Employees (VSERS)		Teachers (VSTRS)	
	Actuarial Value	Market Value	Actuarial Value	Market Value
Most Recent 5-Year Average Return	7.02%	8.39%	7.22%	8.68%
Most Recent 10-Year Average Return	6.92%	7.38%	7.07%	7.64%
Most Recent 15-Year Average Return	7.03%	7.68%	7.16%	7.91%
Most Recent 20-Year Average Return	6.47%	6.87%	6.50%	6.91%

Source: VSERS and VSTRS Actuarial Valuations.

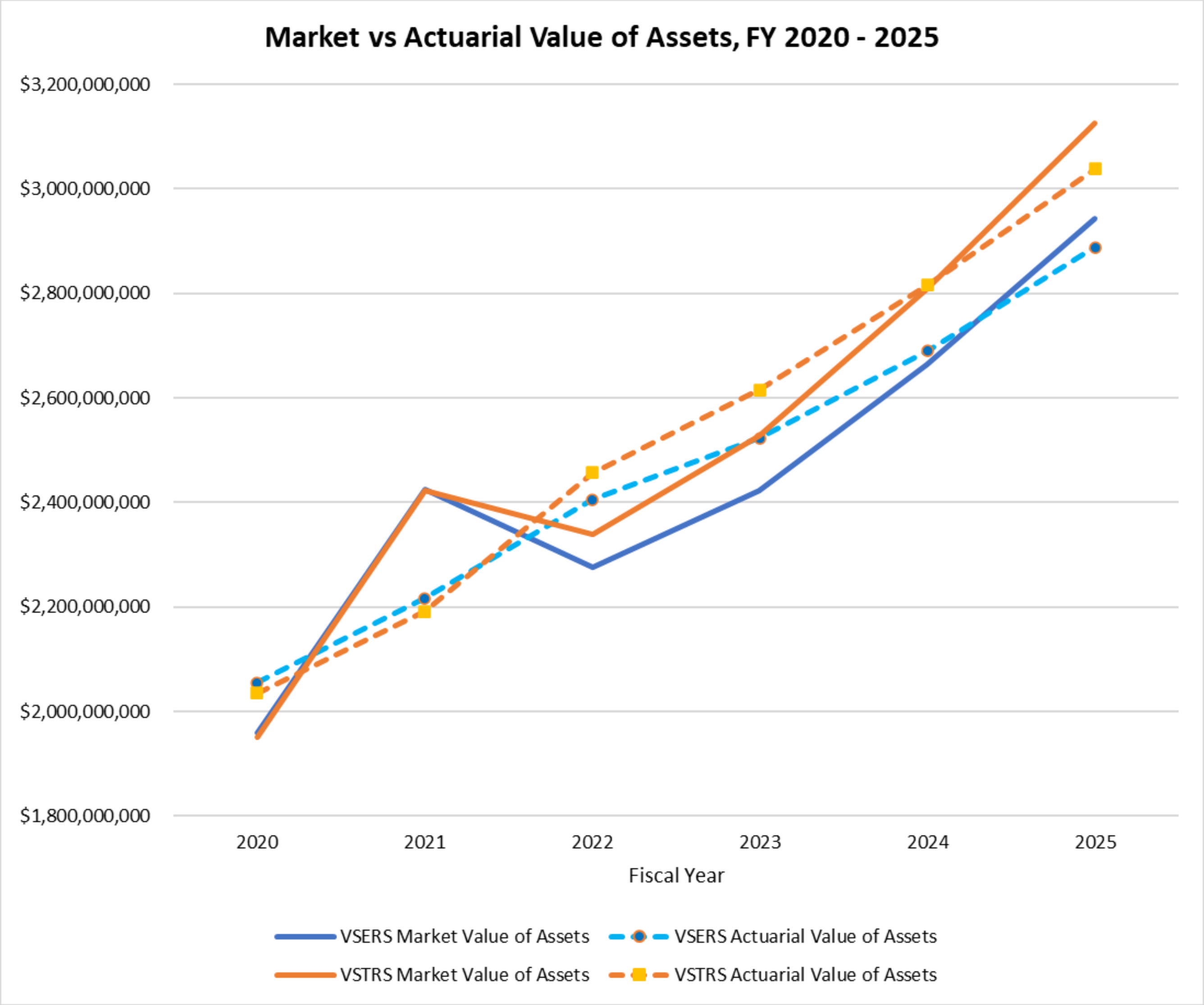


Source: VSERS and VSTRS Actuarial Valuations.

Market Value vs. Actuarial Value of Assets

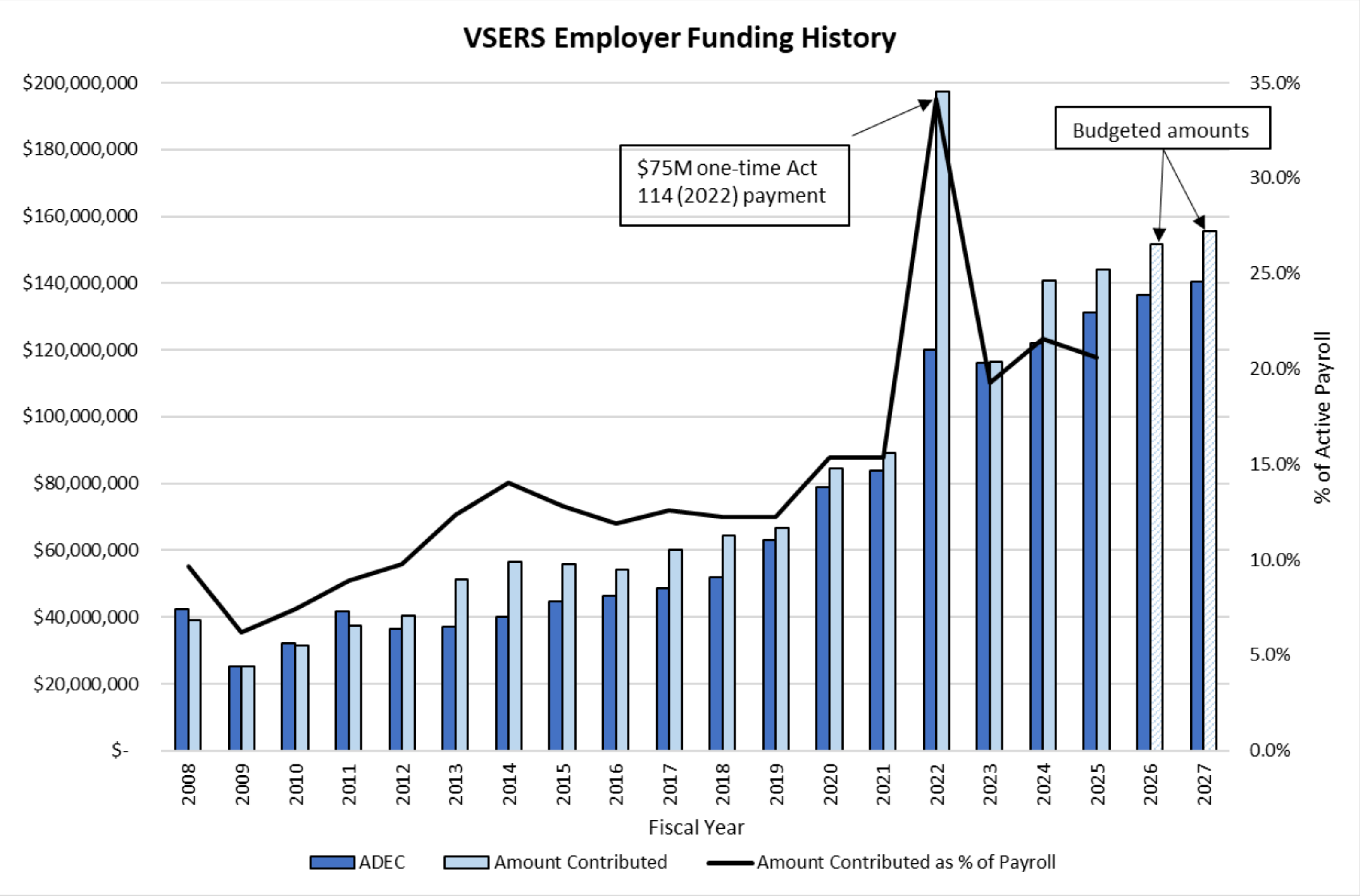
- To reduce volatility in funding requirements, market investment gains and losses are recognized and smoothed into the actuarial value of assets over a 5-year period.
- The market value of assets is now higher than the actuarial value of assets, meaning that there are deferred investment gains that will be smoothed into the funding math in future years.
  - VSERS: $55.5 million deferred gain
  - VSTRS: $87.8 million deferred gain
- Deferred gains act like a tailwind to help put downward pressure on employer funding requirements in the years ahead.

Year Ending June 30	VSERS			VSTRS		
	Market Value of Assets (MVA)	Actuarial Value of Assets (AVA)	Ratio of AVA to MVA	Market Value of Assets (MVA)	Actuarial Value of Assets (AVA)	Ratio of AVA to MVA
2020	$ 1,959,066,641	$ 2,054,825,853	104.89%	$1,951,489,882	$ 2,035,713,611	104.32%
2021	$ 2,425,222,408	$ 2,216,499,478	91.39%	$2,422,793,508	$ 2,191,650,755	90.46%
2022	$ 2,276,645,124	$ 2,405,795,708	105.67%	$2,339,412,945	$ 2,457,374,321	105.04%
2023	$ 2,423,230,404	$ 2,523,348,610	104.13%	$2,528,481,816	$ 2,615,250,146	103.43%
2024	$ 2,663,839,711	$ 2,690,347,928	101.00%	$2,808,813,254	$ 2,815,334,500	100.23%
2025	$ 2,944,071,035	$ 2,888,534,482	98.11%	$3,125,986,373	$ 3,038,152,299	97.19%



Actuarially Determined Employer Contributions (ADEC)

- The ADEC represents the amount that must be paid by the employer to fully fund the normal cost, plus an amortization payment on the unfunded liability.
- If all assumptions are perfectly met, the ADEC would increase by approx. 3% per year with payroll growth. Looking at contributions as a percentage of payroll controls for payroll growth.
- Act 114 set a policy of making additional contributions above the ADEC beginning in FY 2024 until the system is 90% funded.
- Making additional payments reduces the rate of ADEC growth in future years on a two-year lag (making additional payments in FY 2024 lowers future ADEC payments beginning in FY 2026).



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