

# Pension, OPEB, and Act 114 Savings Update

Office of State Treasurer Mike Pieciak



**Senate Appropriations Committee**  
**February 11, 2025**

# Pension Reform Timeline

## Great Recession

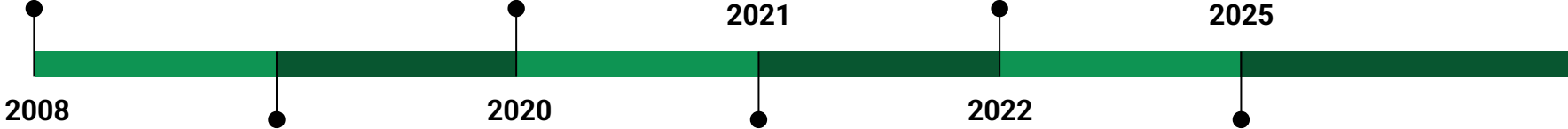
The Great Recession causes the funding ratios to drop suddenly and significantly

## Assumed Rate of Return

Causes a sharp increase in unfunded liabilities and brings funding ratio to historic lows

## Act 114

One-time & ongoing additional funding  
Increased member contributions  
Benefit changes  
Pre-funds Retiree Health (OPEB) Benefits



## Declining Funded Ratios

Long Period of Funding Ramping Up While Funding Ratio Declined

## Act 75

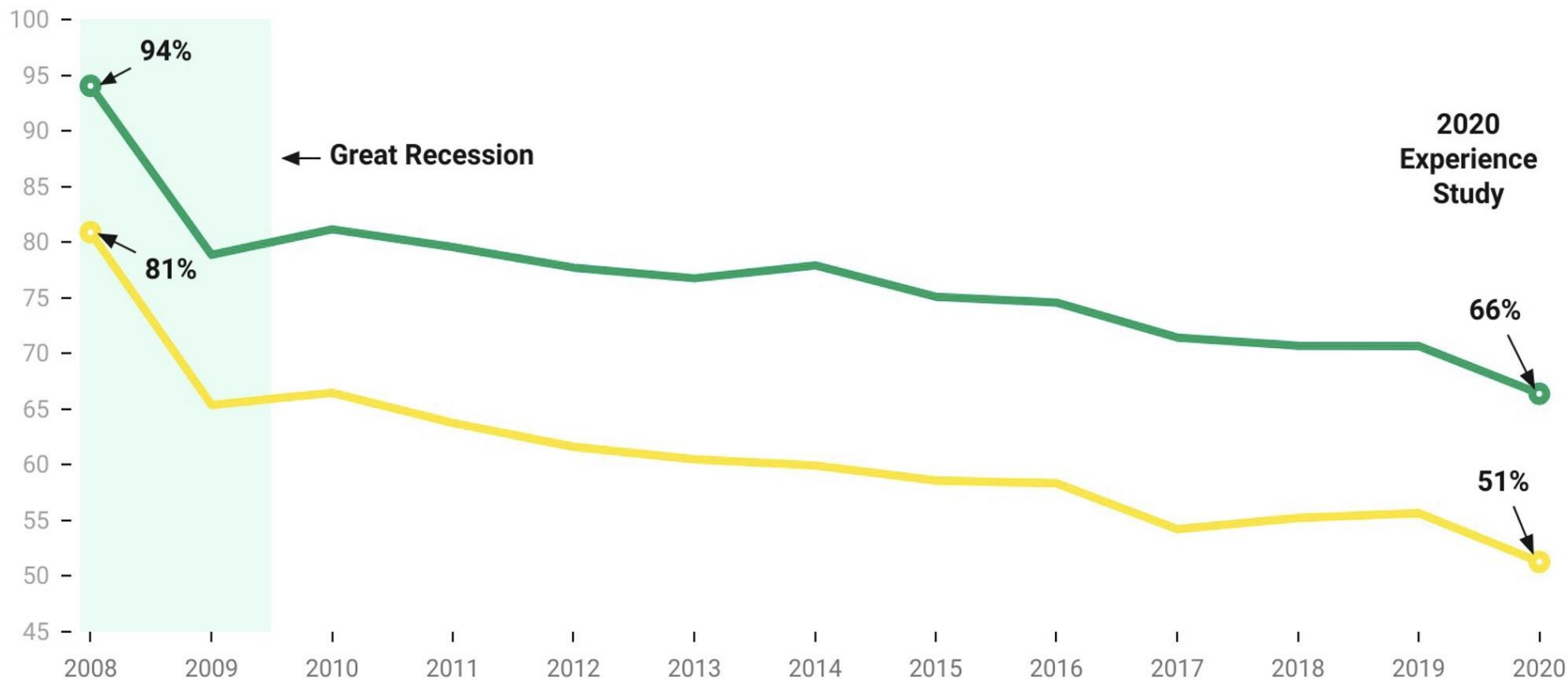
Governance Reforms & Established Pension Benefits, Design, & Funding Task Force

## Improving Funding Ratios

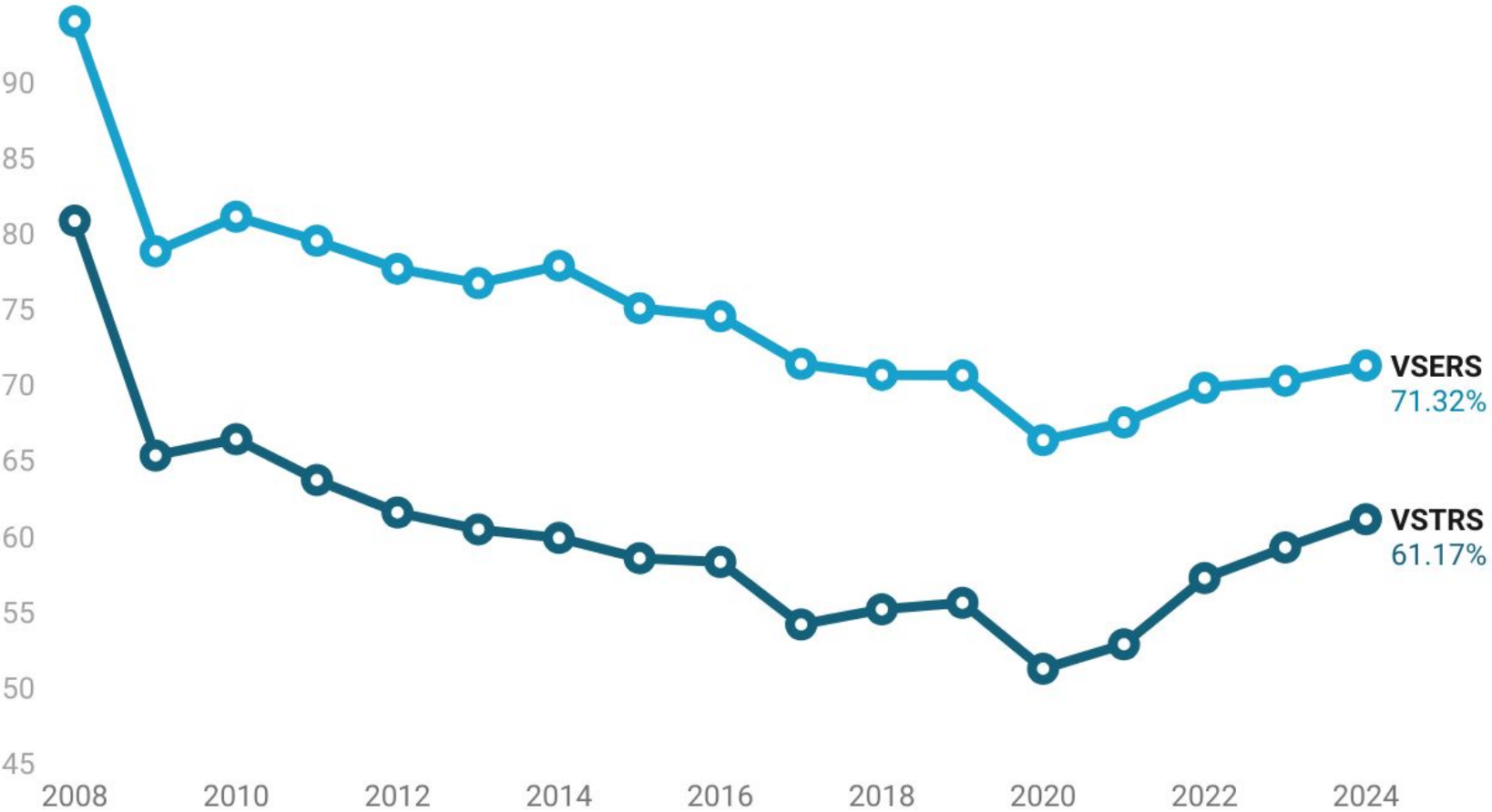
2025 Teachers and State Pensions have experienced four years of improved funded ratios

# VSERS & VSTRS Post-Recession Funded Ratios

VSERS VSTRS



# Funding Ratio: Pension Systems



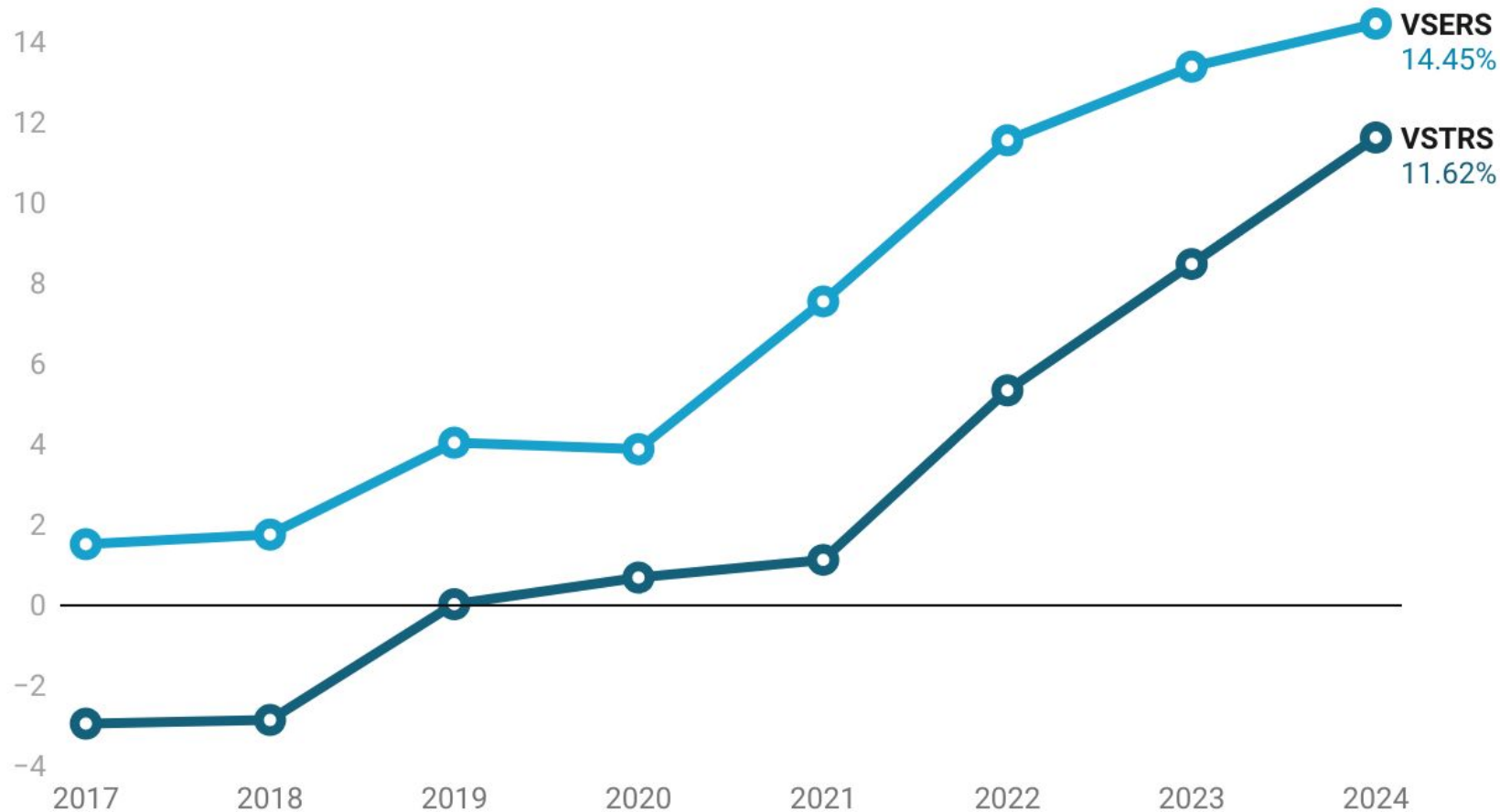
# OPEB Funding Background

OPEB stands for Other Post-Employment Benefits, primarily health insurance.

Historically, State and Teachers OPEB Benefits have not been prefunded

- **State System** – Pay-as-you-go funding has been the traditional funding method
- **Teacher System** – Until 2015, paid out of a Pension System sub-trust (further eroding the pension funded ratio). Required an interfund loan to bridge the gap to pay-as-you-go funding. (Interfund loan retired in FY19.)

# Funding Ratio: Other Post-Employment Benefits



# Act 114 Savings

Recent analysis by the Treasurer's Office estimates **\$6 billion in savings** to taxpayers as a result of Act 114:

- **\$1 billion** - in State and Teacher savings resulting from benefit changes and additional employee contribution rates (and associated investment returns)
- **\$5 billion** - in State and Teacher savings through additional investment returns due to accelerating funding, including:
  - Accelerated one-time and ongoing payments to the Pension System
  - Pre-funding OPEB Benefits

# Act 114 Savings

**Higher Employee Contributions and Benefit Changes** in the Pension System - **\$1.0 billion** savings through FY38

**\$580 million** - savings from higher employee contributions, phased in over a 3 – 5 year period

**\$400 million** - savings from benefit changes, primarily from changes to how retiree COLAs are set



# Act 114 Savings

**Prefunding OPEB Benefits – \$4.3 billion** savings through FY48

Prefunding OPEB is in the very early stages, with a plan for full funding in FY48:

- State Plan improves to 14.45% in FY24 (up more than 1.0%)
- Teachers' Plan improves to 11.62% in FY24 (up more than 3.0%)

Prefunding plan and Treasurer's Office investments are generating returns (over 13% in FY24)

Total OPEB Investment income of **\$32 million** in FY24

- State Plan earned \$18.2 million in investment returns
- Teachers' Plan earned \$13.8 million in investment return

# Act 114 Savings

**Accelerated State Contributions** to the Pension System - **\$0.7 billion** savings through FY38

**\$200 million:** in one-time contribution in FY22

- VSERS - \$75 million
- VSTRS - \$125 million

**ADEC Plus Payments:** additional annual payments to State and Teachers Systems until they are 90% funded (expected through FY33 (State) and FY35 (Teachers))

- Payments increase from \$9 million/year in FY24 to \$15 million/year beginning in FY26 and beyond

# Summary: Act 114 Savings

Plan	Pension System Savings (FY2022-2038)		OPEB System Savings 2022- 2048	Total by Fund
	Accelerated Pension Funding	Additional Member Contributions and Benefit Changes	OPEB System Reforms	
<b>VSERS</b>	\$298.9	\$572.9	\$2,179.2	<b>\$3,051.0</b>
<b>VSTRS</b>	\$412.7	\$407.4	\$2,116.4	<b>\$2,936.5</b>
<b>Total</b>	<b>\$711.6</b>	<b>\$980.3</b>	<b>\$4,295.7</b>	<b>\$5,987.6</b>
All Monetary Values Represent Dollars in Millions				

# Act 114 Savings Take-A-Ways

## **The Pension Reforms Are Working, And It's Important To Stay The Course**

Our funding plans and the Act 114 reforms are working

Achieving the Act 114 savings takes long-term commitment, and builds on the hard work of our predecessors coming out of the Great Recession

We are making progress, and the ratings agencies are taking note

# Act 114 Savings Take-A-Ways

## Rating Agencies

*“Our view of the state's risk management for pension governance has improved following the passage of pension reform legislation in 2022 that we believe places Vermont's pension and OPEB on a more sustainable long-term cost trajectory.”*

— **S&P Global Ratings** 10/17/2024

*“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

*“All of these measures will have a positive impact on the state's long-term pension liabilities. The 2022 legislation also committed the state to greater prefunding of other post-employment benefits, which over time will also lower the state's net OPEB liabilities.”*

— **Moody's Ratings** 05/31/2024

# Act 114 Waterfall

Act 114 amended the “waterfall” statute (32 V.S.A. § 308c(a)) to direct funds otherwise reserved in the General Fund Balance Reserve as follows:

- 50% State Budget Reserves
- 25% to the State Pension Fund
- 25% to the Teachers Postretirement Adjustment Allowance Account  
*(Note: this is the only funding mechanism for the future enhanced COLA benefit envisioned in Act 114)*

In FY24, resulted in \$8.9 million to the State Pension and Teachers PAAA