

Vermont Retirement Systems: Retirement 101

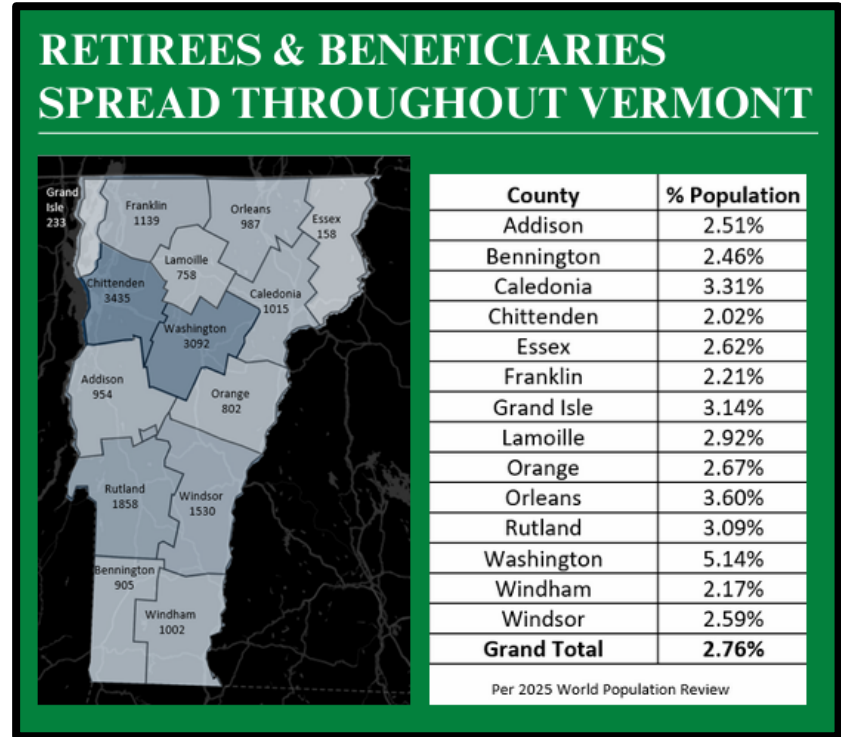


**Presentation to the Senate Government
Operations Committee**
January 9, 2026

Retirement Systems Overview

Retirement Systems provide value to Vermont and Vermonters!

- Recruitment and retention of public servants
 - Modest but consistent retirement income
 - Economic driver for Vermont
 - 75% of our members remain in Vermont in retirement, and they are spread throughout
 - For every \$1.00 of taxpayer funds put into the retirement systems, \$4.48 in total activity results in the State!
- NIRS, Pensionomics 2025: Vermont



Retirement Systems Overview

Three defined benefit **public pension** plans:

- State Employees – funded by State and State Employees
- Teachers – funded by State and Teachers
- Municipal Employees – funded by Municipalities and Municipal Employees

Two **retiree health insurance** plans (also called Other Post-Employment Benefit (OPEB) plans):

- State Employees – funded by the State
- Teachers – funded by the State

State also contracts with third parties to administer **defined contribution** plans, **deferred compensation** plans, and a **health reimbursement** plan.

Retirement System Overview

Pension Systems provide retirees with a monthly pension payment:

- Amount determined by a retiree's group membership, their average final compensation, and their years of service.
- Amount increases by a COLA each year once a member is eligible.
- Guaranteed for the retiree's life, and the life of their beneficiary (if selected).

Benefit Systems subsidize a retiree's health insurance premiums:

- State procures insurance plans for retirees and their beneficiaries (if selected).
- Subsidies vary based on group membership and years of service.

Retirement System Overview

Retirement Systems

- governed by independent Boards
- administered by 18-person Retirement Division in the Treasurer's office.

Vermont's member to staff ratio is 2,860 – more than double the median ratio of peer systems.

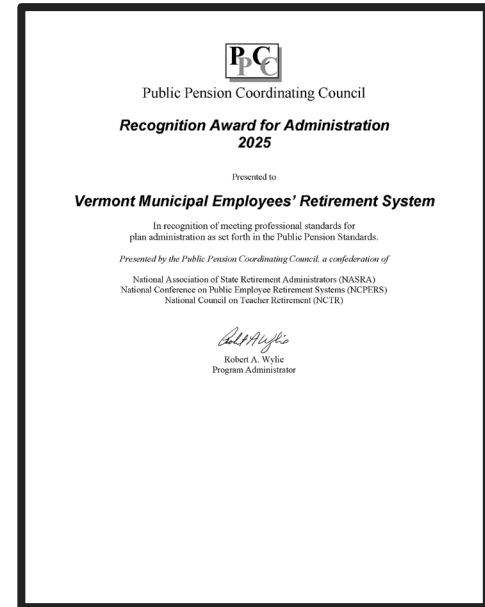
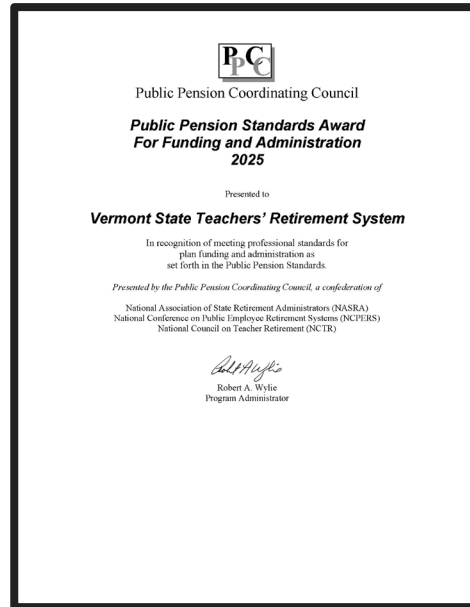
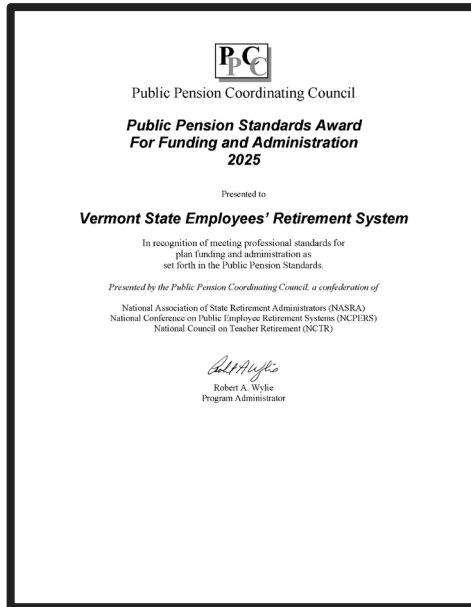
Investments managed by 4-person Vermont Pension Investment Commission.

“Among systems in the smallest quartile by size of system membership, the Vermont Retirement Systems has the second highest ratio of participants to administrative staff – at 2,860 participants for each member of staff – and among the highest ratios for the entire sample.”

- NASRA analysis

Retirement System Overview

Defined Benefit Pension System recognized for meeting and exceeding industry standards in 2025!



Vermont State Employees Retirement System (VSERS) Defined Benefit

Who is Covered

- Covers all Classified Employees, and any Exempt Employees who elect to join
- State Troopers, Judiciary
- Sheriffs and some municipalities

How is it Funded

- Employee contributions – based on salary
- Employer contributions – made by the State and set by Finance & Management as percentage of payroll
- Funding source tracks funding for the position

How is it Governed

- VSERS Board oversees System administration
- VPIC oversees investment of System funds

Fiscal Year 2025	
Members	VSERS
Active	8,963
Inactive	2,721
Deferred	934
Retired & Beneficiaries	8,256
Total	20,874
Benefits	
Total Monthly	\$17,136,938
Average Monthly	\$2,076
Average Annual	\$24,908
Financial Position (in 000's)	
Actuarial Value of Assets	2,888,534
Actuarial Accrued Liability	3,948,298
Unfunded Liability	(1,059,764)
Funded %	73.16%

VSERS Other Post-employment Benefits (OPEB)

Who is Covered

- Members of VSERS who elect coverage
- Members of the State Defined Contribution System who elect coverage
- Eligible dependents

How is it Funded

- Employer rate set by Finance & Management as percentage of payroll
- Employees do NOT contribute to OPEB benefits

How is it Governed

- VSERS Board oversees the benefits funding
- Treasurer oversees investment of System funds
- DHR contracts with Insurance Providers

Fiscal Year 2025	
Members	VSERS
Active	9,063
Retired	5,680
Total	14,743
Financial Position (in 000's)	
Plan Net Position	223,369
Total OPEB Liability	1,345,739
Unfunded Liability	1,122,370
Funded %	16.60%

Vermont State Teacher's Retirement System (VSTRS) Defined Benefit

Who is Covered

- Covers licensed teachers & principals who work in public schools and a handful of independent schools

How is it Funded

- Employee contributions – based on Salary
- Employer contributions – made by the State in a lump sum
- Offset by amounts from federal grants
- Unfunded Liability – General Fund
- Normal Cost – Education Fund

How is it Governed

- VSTRS Board oversees System administration
- VPIC oversees investment of System funds

Fiscal Year 2025	
Members	VSTRS
Active	10,526
Inactive	3,612
Deferred	1,057
Retired & Beneficiaries	10,772
Total	25,967
Benefits	
Total Monthly	\$22,443,858
Average Monthly	\$2,084
Average Annual	\$25,002
Financial Position (in 000's)	
Actuarial Value of Assets	3,038,152
Actuarial Accrued Liability	4,789,486
Unfunded Liability	(1,751,334)
Funded %	63.43%

VSTRS Other Post-employment Benefits (OPEB)

Who is Covered

- Members of the VSTRS Retirement System who elect coverage
- Eligible dependents

How is it Funded

- Normal Cost is paid from the Education Fund
- Unfunded Liability payment is paid from the General Fund
- Total payment is offset by New Teacher Assessment
- Employees do NOT contribute to OPEB benefits

How is it Governed

- VSTRS Board oversees the benefits funding
- Treasurer oversees investment of System funds
- VSTRS Board contracts with Insurance Providers

Fiscal Year 2025	
Members	RTHMB
Active	10,567
Retired & Beneficiaries receiving benefits	7,434
Retired & Beneficiaries not receiving benefits	3,000
Vested terminated members entitled to but not yet receiving benefits	2,072
Total	23,073
Financial Position (in 000's)	
Plan Net Position	162,808
Total OPEB Liability	1,200,774
Unfunded Liability	(1,037,966)
Funded %	13.56%

Vermont State Municipal Retirement System (VMERS) Defined Benefit

Who is Covered

- Covers a wide range of municipal and school district employees including law enforcement and firefighters
- Municipalities elect to participate

How is it Funded

- Employee contributions – based on salary
- Employer contributions – based on salary

How is it Governed

- VMERS Board oversee the System administration
- VPIC oversees investment of System funds

Fiscal Year 2025	
Members	VMERS
Active	8,991
Inactive	5,297
Deferred	1,250
Retired & Beneficiaries	4,890
Total	20,428
Benefits	
Total Monthly	\$5,203,527
Average Monthly	\$1,064
Average Annual	\$12,769
Financial Position (in 000's)	
Actuarial Value of Assets	1,098,094
Actuarial Accrued Liability	1,477,521
Unfunded Liability	(379,427)
Funded %	74.32%

Vermont Supplemental Retirement Plans


Retirement Division Administers additional plans in conjunction with Empower as third-party recordkeeper

- **Defined Contribution**

Required Retirement savings plans for employees who are not in the State or Municipal Pension systems

- **Deferred Compensation**

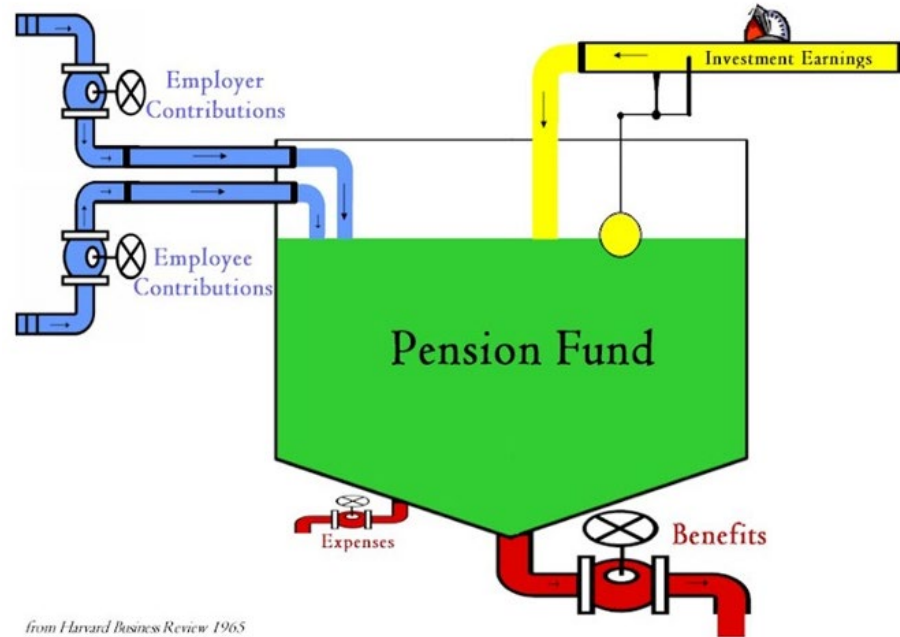
457 and 403(b) plans for optional additional retirement savings

	Defined Contribution		Deferred Compensation	
	State DC	Municipal DC	457	403b
Total Participants	523	425	9,421	2,889
Total Assets (6/30/2025)	\$92,930,669	\$33,427,537	\$771,947,098	\$176,460,436

Retirement Systems Funding

**Pension Funding operates
on a simple formula:**

$$\begin{array}{c} \text{Contributions + Investments} \\ = \\ \text{Benefits + Expenses} \end{array}$$

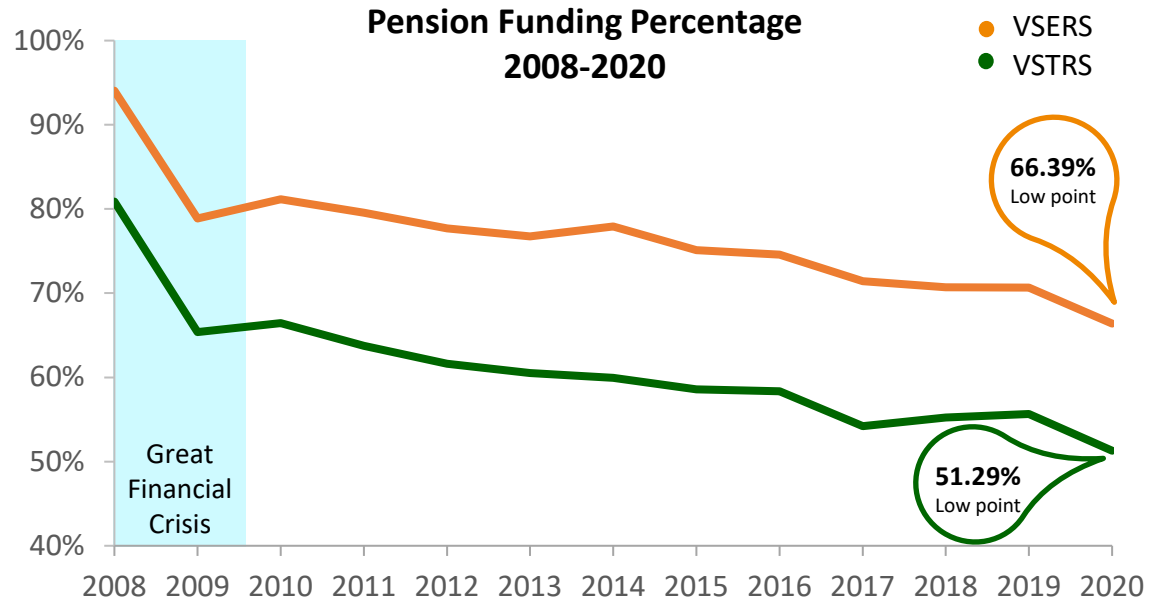


from Harvard Business Review 1965

Bill Hallmark, *Characteristics of a Great Public Pension Plan: An Actuarial Perspective*, NCPERS
2025 Public Pension Funding Forum

State and Teacher System Funding

- In 2008, the State established a policy to pay down unfunded liabilities for the State and Teachers Pension Plans over a closed 30-year period
- FY20 marked a low point for plan funding, following an Experience Study and a decision to reduce the assumed rate of return from 7.5% to 7.0%.

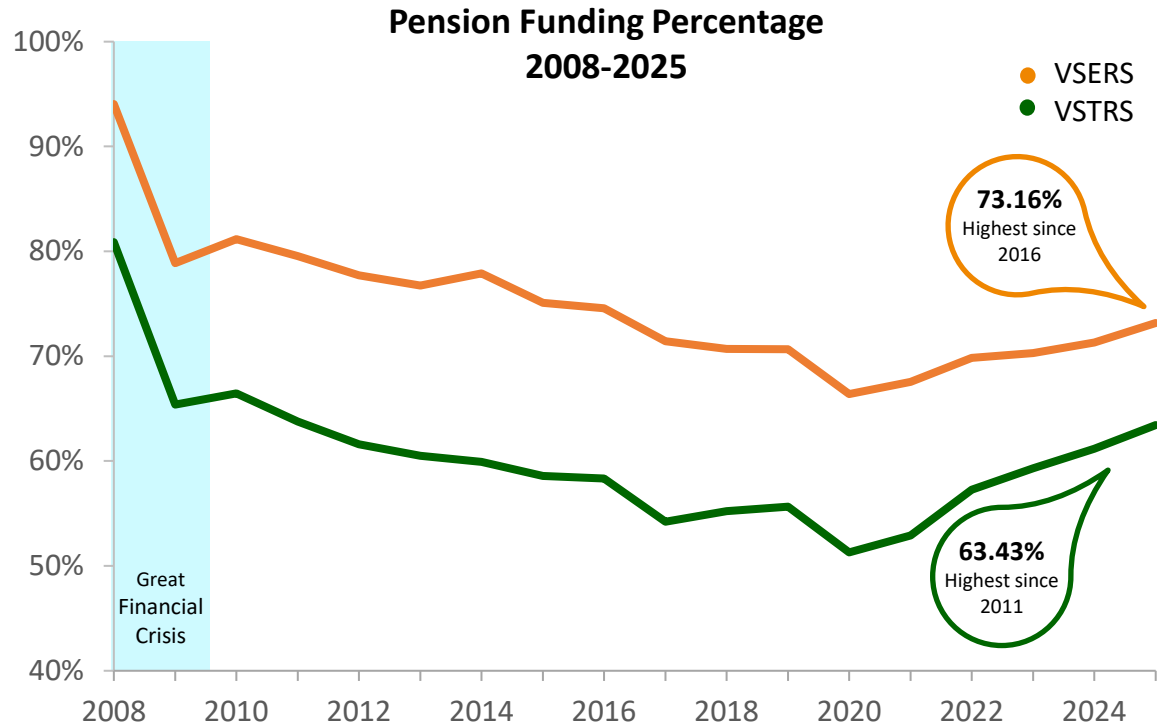


State and Teacher System Funding

- In 2022, the Legislature passed Act 114.
 - 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
- Treasurer's Office calculated savings of almost **\$6 billion in savings** from Act 114 over time.
 - \$5 billion in additional investment returns due to accelerating funding
 - \$1 billion through benefit changes and additional employee contribution rates (and associated investment returns)
 - [Act 114 Savings Report.pdf](#)

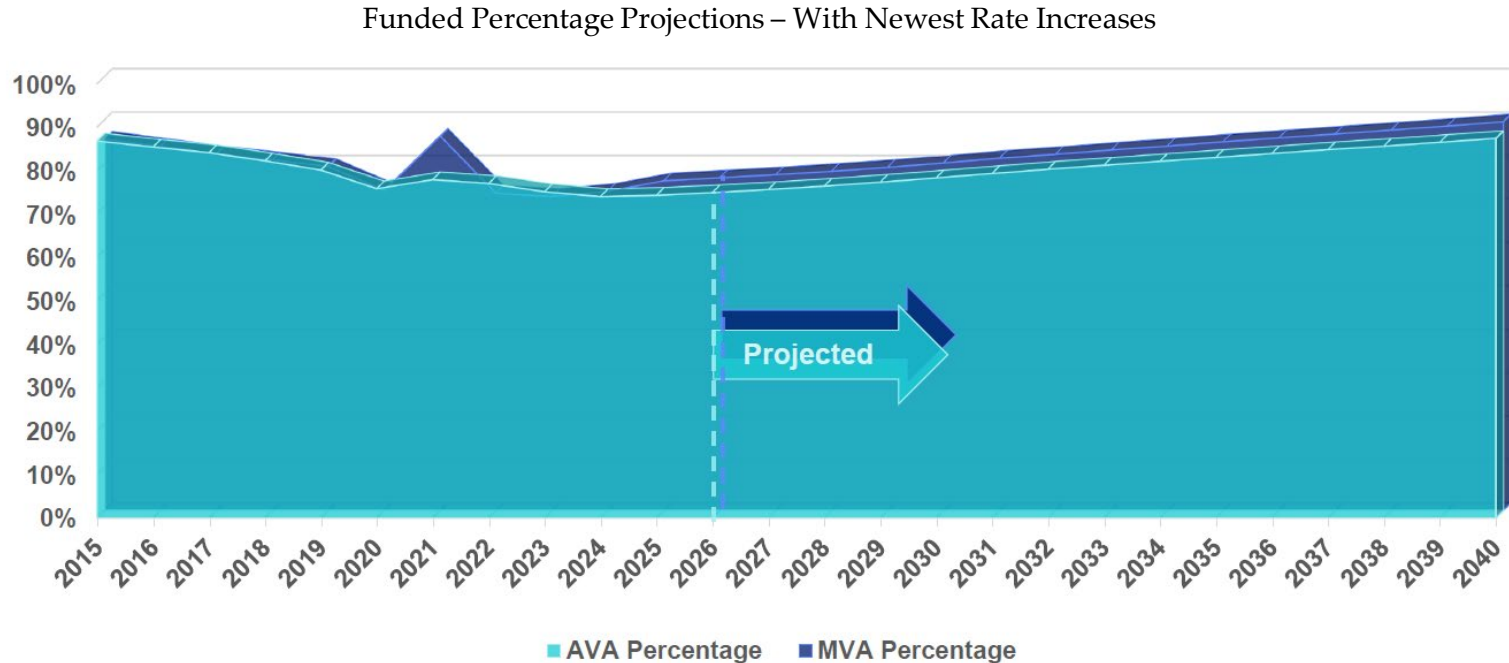
State and Teacher System Funding

- Since 2020, funding levels have improved steadily.
- FY25 was another good year with a strong **10.7% return** on investments



Municipal System Funding

In 2024, the Legislature and VMERS Board adopted a package of rate increases from FY27 through FY30. This has improved the funding outlook.



2025 Pension Valuations – Key Takeaways

Another strong year for plan investments

- Pensions - Net investment gains of \$603.6 million
 - Over \$165 million in deferred investment gains to be recognized in future years

Annual increases in ADECs have stabilized

All plans are cashflow positive net of investments.

- Investment gains go to better funding instead of paying benefits
- No need to sell assets to pay benefits in down years

Improvements noted by Ratings Agencies

“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

Funding Plan is working – Stay the Course!

Pension System Contributions

Modest increases in State Contributions between FY26 and FY27, generally on par with 3% rate of inflation in FY25

FY26

State contributions:

\$151.5 million

71.32% funded

State

FY27

Recommended State contributions:

\$155.5 million

73.16% funded

Teachers

\$227.8 million

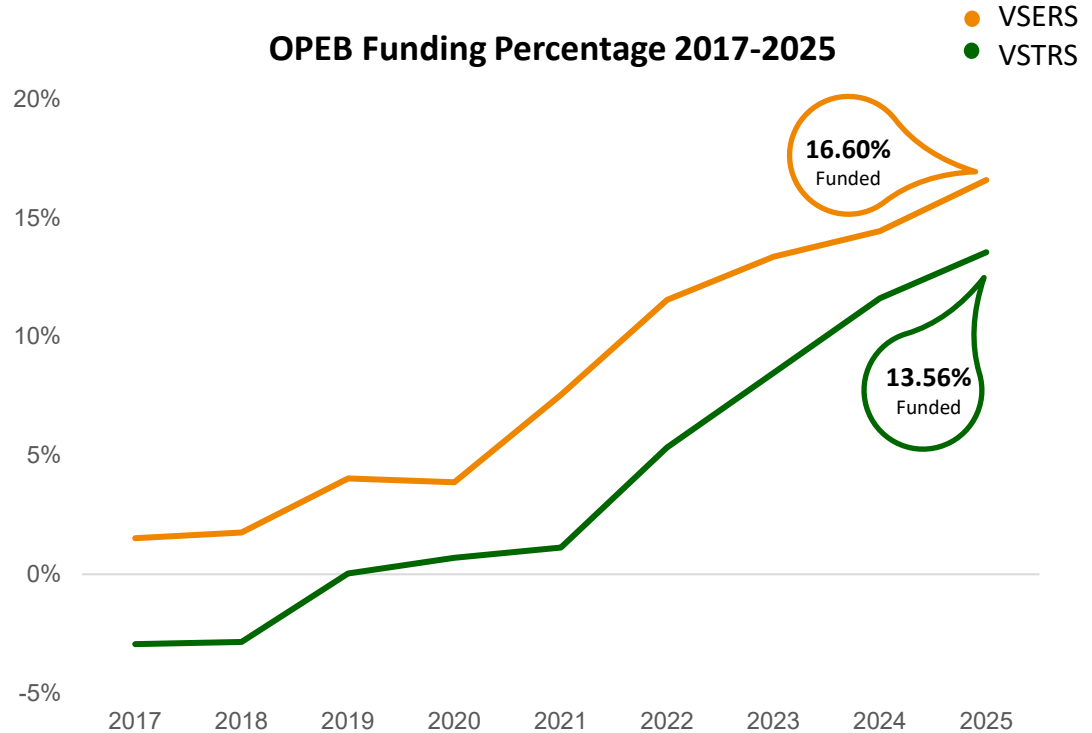
61.17% funded

\$235.9 million

63.43% funded

OPEB System Funding Improvement

- Retiree health funds were negligible (and even negative) before 2020.
- Act 114 Prefunding of OPEB reduced unfunded liabilities by \$1.7 billion
- Assets continue to climb, earning **\$36.3 million** in investment returns in 2025!



Recent OPEB Cost Saving Efforts

VSTRS Board changed insurers for Medicare eligible retirees in CY26

- **Impact on Premiums**
 - Savings of approx. \$7.8 million to the State and \$3.2 million to members
- **Impact on State Budget**
 - Reduces FY27 ADEC by at least \$20 million and prevents an additional \$215 million in unfunded liability compared to status quo

Proactive management of drug costs delivers savings for non-Medicare plans

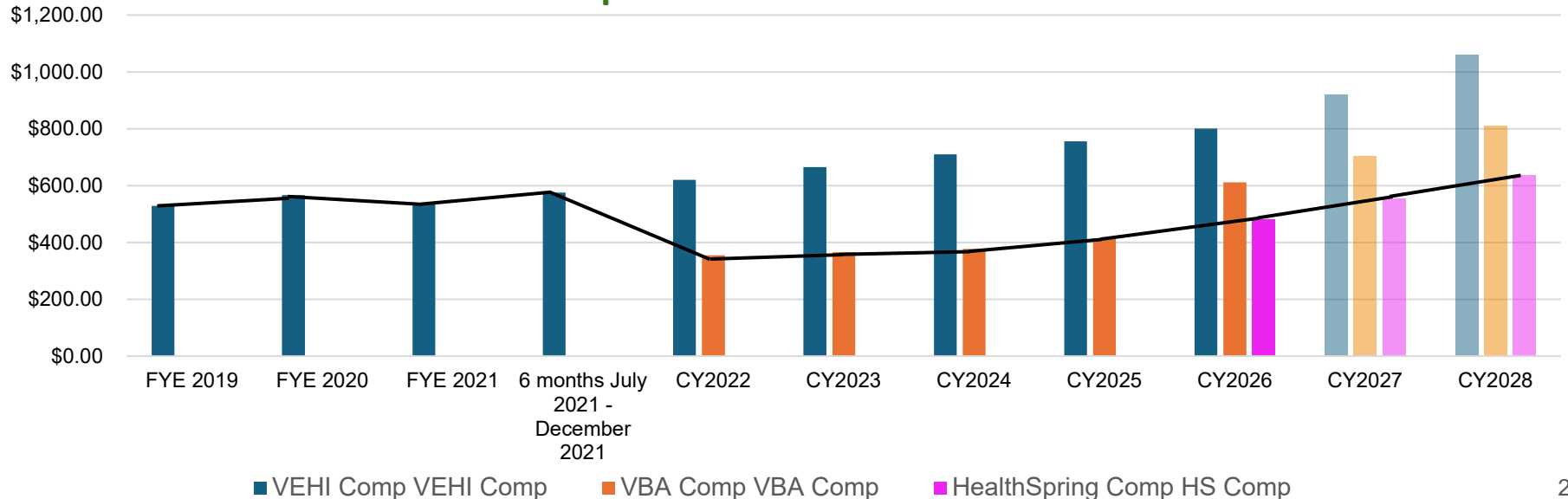
- **Impact on Premiums**
 - Reduces premium rate increases by 2%
- **Impact on State Budget**
 - Reduces FY27 ADEC by approx. \$500,000 and prevents an additional \$4.3 million in unfunded liability compared to status quo

Recent OPEB Cost Saving Efforts

Chart below shows the premium savings resulting from changes in the retired teachers health plan over recent years

- Approximately 70% of these savings are reduced State payments and 30% are reduced member premiums

Comprehensive Plan Premiums



2025 OPEB Valuations – Key Takeaways

Prefunding is working – **investment return of 11.8%** in 2025

Increases in liabilities and ADECs driven by increases in health care costs

- Change in health care trend assumption drives the year-over-year increases in the ADECs for both plans
- Spike in insurance costs for teachers' plan also contributes

Treasurer's Office has engaged in substantial cost savings efforts, saving the State and members millions.

- Increasing health care costs are driving substantial increases in funding needs
- We must address the broader issue of runaway healthcare spending

Retirement Systems are doing what we can to manage costs!

OPEB System Contributions

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

FY26

State contributions:

\$94.1 million

14.45% funded

State

FY27

Recommended State contributions:

\$105.4 million

16.60% funded



\$80.0 million

11.62% funded

Teachers

\$99.8 million

13.56% funded



Legislative Proposals in 2026

- Create a Task Force to review and make recommendations about potential changes to funding policies
 - Current policy risks substantial budget volatility as we approach 2038
 - Task Force to review options to maintain funding discipline while mitigating budget risk
- Transfer Investment Authority of OPEB Funds from Treasurer to VPIC
 - VPIC has a professional investment staff with access to better investment vehicles and resources
 - As OPEB investments grow, Treasurer's Office would need additional resources to manage
 - Committee fiduciary model has advantages to current sole fiduciary model

Key Links & Contact Information

For further information, please feel free to
contact

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State System

- Annual Pension Valuation, available [here](#)
- Annual OPEB Valuation, available [here](#)

Teachers' System

- Annual Pension Valuation, available [here](#)
- Annual OPEB Valuation, available [here](#)

Municipal System

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