

## VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Actuarial Meeting of the Board of Trustees

October 25, 2018 – 11:00 a.m.

### **VMERS Members present:**

PETER AMONS, Chairperson, Employee Representative (term expiring July 1, 2020)

CHRISTOPHER DUBE, Employee Representative (term expiring July 1, 2022)

MAURA CARROLL, Employer Representative (term expiring July 1, 2022)

KIMBERLY GLEASON, Employer Representative (term expiring July 1, 2020)

BETH PEARCE, Vermont State Treasurer

### **Members absent:**

### **Also attending:**

Eric Henry, Director of Investments

Katie Green, Investments Manager

Andy Cook, Investments Analyst

Tim Duggan, Assistant Attorney General

Laurie Lanphear, Director of Retirement Operations

Erika Wolffing, Retirement Office

Matthew Strom, Segal Consulting

The Chair, Mr. Amons called the Thursday, October 25, 2018 Actuarial Meeting to order at 11:00 a.m. which was held in the Auditorium, Pavilion Building, 109 State Street, Montpelier, VT.

### **ITEM 1:      **Agenda approval and announcements****

Mr. Amons asked the Board if there were any announcements or changes to the agenda. There were no changes or announcements.

### **ITEM 2:      **Approve the minutes of:****

- **October 16, 2018**

**On a motion made by Mr. Dube, seconded by Ms. Carroll, the Board voted unanimously to approve the minutes of October 16, 2018 as submitted.**

### **ITEM 3:      **FY2018 Actuarial Valuation****

Mr. Strom from Segal Consulting presented a brief overview on actuarial valuations and how the actuarially determined contribution is derived. Mr. Strom explained that the present value of future benefits includes the actuarial value of assets, the present value of future normal costs, and the unfunded actuarial accrued liability (UAAL). The actuarially determined contribution is the amortization of the UAAL and the normal cost.

Mr. Strom explained that Segal recommends a 100% funding policy of the actuarial accrued liability. The actual employer contributions made in FY18 were 17.5 million or 116.3% of the actuarially determined contribution. The funded percentage decreased from 84.1% to 82.2% under the entry age normal (EAN) method. Mr. Amons questioned why the funded percentage continues to decrease despite fully funding the plan. Ms. Pearce explained that the changes to the investment return and mortality assumptions last year had an impact this year. The Board further discussed moving to an entry age normal method at a later date, Ms. Pearce stated the Board may want to wait to see how the contribution rate increase over the 4-year period impacts future valuations before moving to EAN. Ms. Pearce stated that switching to the EAN method would result in a higher funded ratio.

Mr. Strom explained that the actuarial shortfall as of July 1, 2018 was \$206 million. Under EAN the funded percentage increases because the normal costs increase. The composite employer rate was 5.74% including the first year of contribution increases resulting in a small surplus of 0.07%. The market value of assets versus the actuarial value of assets differed by less than a percentage point. Mr. Strom presented the demographic data used to compile the report, there were 7,452 active members to 3,987 non-actives, yielding a ratio of non-active to actives of 0.54. The average age of an active members was 48.3 years with an average creditable service of 8.6 years. The 55-59 age group had the highest concentration of actives. As of July 1, 2018, there were 2,962 retirees and 227 beneficiaries with an average age of 71.4 years and average monthly benefit of \$806.

Mr. Strom explained the cash flows in and out of the plan. The plan is in a cash positive state. Mr. Amons inquired why there was a spike in contributions in 2017, Ms. Pearce explained that this spike coincided with Brattleboro joining the system.

Mr. Strom explained the losses to the system, including a loss of \$5 million from investments and a loss of \$17 million from other sources. The assumed investment rate was 7.5% and the actual rate of return was 7.32% resulting in a small loss of \$1 million. The smoothed investment loss resulted in the actuarial loss of \$5 million. The loss due to other sources included a loss of \$4 million from net turnover, a loss of \$8 million from retirements, a gain of \$407K from mortality, a loss from disability retirements of \$627K, a gain of \$753K from salary increases less than expected, a small loss of \$50K from COLA experience, and a \$5 million loss from terminated members within the time frame to return to service. The terminated members are valued at 250% of their contributions.

Mr. Strom explained the amortization schedule of the actuarial shortfall. The schedule pays off the unfunded liability over a period of years increasing at a rate of 3% per year. Mr. Strom explained that the employee contribution increase resulted in a 75 basis point increase in the present value of future contributions by members for a total amount of \$141,353,394.

Mr. Strom presented the new portions of the report due to ASOP 51 surrounding risk factors within the calculations that could lead to variability in valuation results. For example, if the asset value were changed by 10% either direction, this would result in a change in the unfunded

liability of \$66.8 million either positive or negative. Ms. Pearce stated the Board has decided to early implement ASOP 51 using stochastic modeling.

Mr. Strom presented actuarial 'hot topics' that Board members may hear about in the media including new public sector mortality tables, changes to ASOP 4, and ASOP 51. Mr. Strom stated that due to the mortality assumptions adopted by the Board in 2017, the new tables likely will not have a large impact on VMERS. The new ASOP 4 draft will require plans to calculate an actuarially determined contribution (Vermont plans already do) and calculate an investment risk defeasement measure (IRDM) similar to market value of liability. These new provisions will likely not be adopted until 2020 or 2021. Mr. Strom explained that ASOP 51 requires actuaries to help plans understand the risks in measuring pension plan obligations. Mr. Strom further discussed the potential for the Board to adopt a plan management policy.

**On a motion made by Ms. Pearce, seconded by Ms. Gleason, the Board voted unanimously to approve the FY18 Actuarial Valuation including all actuarial assumptions and benefit changes.**

**On a motion made by Ms. Pearce, seconded by Mr. Dube, the Board voted unanimously to affirm the employer rate structure previously adopted on December 15, 2017.**

**ITEM 4: Other Business**

Ms. Pearce informed the Board that the Pension Symposium on October 29<sup>th</sup> is postponed until late November or early December.

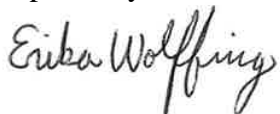
**ITEM 5: Adjournment**

**On a motion by Ms. Gleason, seconded by Mr. Dube, the Board voted unanimously to adjourn at 1:07 p.m.**

**Next Meeting Date:**

The next scheduled VMERS meeting is November 20, 2018 at 11:00 AM.

Respectfully submitted,



Erika Wolfing  
Director Retirement Outreach & Policy