

Subject: VPIC Governance Proposals
Date: Wednesday, March 31, 2021 at 5:42:49 PM Eastern Daylight Time
From: Golonka, Thomas
To: Gannon, J, Sarah Copeland Hanzas
CC: Beth Pearce, jkrowinski@leg.state.vt.us, Henry, Eric
Attachments: Final Proposed VPIC Law Changes.docx

Reps Copeland-Hanzas and Gannon:

Thank you for your commitment to VPIC governance and making the State pension systems sustainable. Beth Pearce and I would like to formally recommend for consideration the attached governance changes to consider. VPIC continuity, representation equality, transparency and independence are cornerstones to these ideas and hopefully will help move the process forward.

We would be happy to testify to the House Government Operations Committee to answer any questions going forward as we tackle this important issue.

Regards,
Tom Golonka

Proposed amendments to existing VPIC statutes to enhance governance:

1. Increase VPIC size of members from 7 to 10 persons—equal representation is given on the board to employees, employers and the public
 - a. 3 employee members (one from each plan)
 - b. 3 employer members (one that is part of each plan)
 - c. 3 public members (Two are appointed by the Governor, the third will serve as chair and will be appointed by the other nine members)
 - d. Treasurer (is a voting member)
 - e. All board members must be Vermont residents
 - f. Subject to transition rules, the intent of the revisions are to exclude members of the General Assembly from being able to serve as members of VPIC.
2. Commissioner of Finance and Management would be the employer member for the state. The Vermont league of Cities and Towns (VLCT) and the Vermont School Board Association would select/appoint the municipal and education members
3. The public members would be subject to Financial Expert and Independence requirements
4. Term limits (the greater of 3 terms or 12 years) would apply to most VPIC members. These term limits would not apply to the VPIC Chair, the Treasurer or the Commissioner of Finance and Management and would be subject to the transition rules describe below for the three plan members.
5. The VPIC Chair would be subject to the following term limit: a maximum of 20 years of service on VPIC.
6. The 3 employee members, the Commissioner of Finance and Management and the Treasurer would not be subject to Financial Expert or Independence requirements.
7. The 3 public members must be a Financial Expert and Independent. (*)
8. The Governor shall appoint two public members. The third public member will serve as chair and will be appointed by the members of VPIC and will serve at the pleasure of the VPIC. The chair will be a non-voting member except in the case of a tie. If the chair is not able to perform his/her duties as a result of illness or is otherwise incapacitated, the VPIC will elect an interim chair, who must be a Independent and a Financial Expert.
9. The members elected by the VLCT and the School Board Association must be Independent

10. Members have a statutory onboarding and periodic training requirement .
11. VPIC shall be solely responsible for setting the following actuarial assumptions: investment rate of return, inflation rate, smoothing method used for the calculation of actuarial valuation of asset and/or returns.
12. The actuary shall conduct an experience study on each of the retirement systems (state employees, teachers and municipal) every three years.
13. The VPIC shall within 90 days of the end of each fiscal year conduct an asset allocation study that reviews the expected return of the fund. As part of that study, the VPIC shall conduct a risk analysis using best practices methodologies to estimate potential risks to the fund's asset value over the next 5, 10, and 20 years, as well as the remainder of the statutory amortization period. This study shall be made available to the Legislature, the Governor's office and the public within 10 days of its completion.

The VPIC shall complete an Asset/Liability study with a 20 year horizon every three years following the actuaries completion of the most recent pension plan Actuarial Valuation. At a minimum, this study shall --

- a. project the expected path of the key indicators of the each plan's financial health based on all current actuarial and investment assumptions, current contribution policies and current benefit policies, including but not necessarily limited to the plans' mark to market funded ratio, actuarially required contributions by source, payout ratio and related liquidity obligations.
- b. project the effect on each plan's financial health resulting from possible material deviations from plan assumptions in investment assumptions, specifically returns versus those expected and embedded in the actuary's estimate of actuarially required contributions, but also including material changes in capital markets volatility.
- c. project the effect on each plan's financial health resulting from possible material deviations from key plan actuarial assumptions, including but not limited to retiree longevity, potential benefit increases, and inflation.
- d. VPIC shall develop a written policy for implementing the asset allocation studies and asset/liability studies contemplated by section 13 by January 15, 2022, and such policy shall be available to the public on VPIC's website.
- e. VPIC shall develop a plan by January 15, 2022 to report on the one, three-, five-, seven- and ten-year performance of each plan versus its peer benchmark and the funding ratio of each plan to each plan beneficiary after the end of each fiscal year.

14. VPIC Chair shall submit a report to the House and Senate Government Operations Committee each year and shall testify each January on the status of the Plans' funding and investment performance and any relevant information from the asset liability and scenario testing done in the prior year.
15. VPIC shall employ an independent consultant to review the operations of the VPIC and the Treasurer's Office to recommend best practices and steps to transfer VPIC to a standalone entity and report recommendations to the General Assembly by January 15, 2022. The consultant report should include the issues of budgetary authority, personnel transfer and/or hiring, and compensation.
16. Transition Rules will apply to the term limits for the retirement plan systems. Current occupants can finish their current terms. Current terms will be extended from ending on June 30th to ending on October 31st so that all terms end on October 31st for all appointed members.

(* "Financial Expert" means an individual with material expertise and experience in institutional fund management, or other significant pension or other relevant financial expertise (e.g., a certified public accountant or actuary).

(* "Independent" means an individual that does not have a material direct or indirect interest in the Plans. An individual is not Independent if a spouse, parent, child, sibling or in-law is a beneficiary of any of the Plans. An individual is not independent if the individual (or the individual's spouse, parent, child, sibling or in-law) has had a material direct or indirect economic relationship in the past five years with the Plans, including without limitation as an employee, director, officer, consultant, owner (of more than 5% of entity if a publicly traded company), consultant, manager or other material role with any entity servicing the plans (e.g., actuary, pension adviser, entities managing money for the plan).