

Vermont State Employees' Retirement System

Legislative Request #1: Allocation of Liabilities and Costs Between Groups

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Vermont State Employees' Retirement System (VSERS)

There are four primary group plans within VSERS*:

- **Group C**

- State law enforcement officers
- Normal Retirement Benefit: 2.50% of AFC times service up to 20 years.

- **Group D**

- Judges
- Normal Retirement Benefit: 3.33% of AFC times service up to 30 years.

- **Group F**

- State employees hired before July 1, 2008
- Normal Retirement Benefit: 1.25% of AFC times service prior to January 1, 1991, plus 1.67% of AFC times service after 1990, up to a maximum benefit of 50% of AFC.

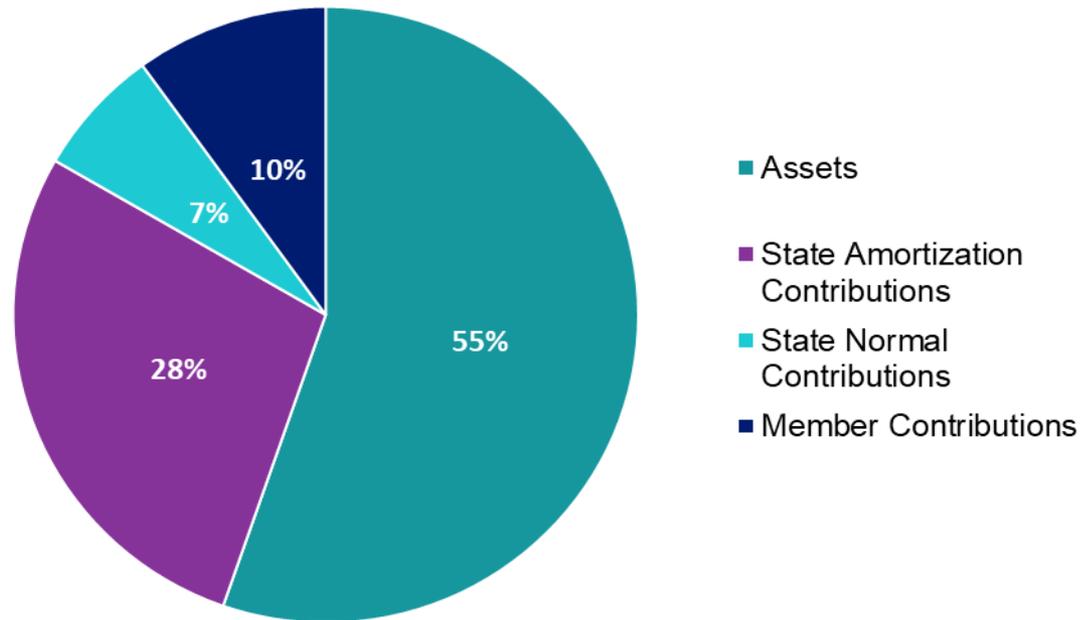
- **Group F***

- State employees hired on or after July 1, 2008
- Normal Retirement Benefit: 1.25% of AFC times service prior to January 1, 1991, plus 1.67% of AFC times service after 1990, up to a maximum benefit of 60% of AFC.

* There are three additional legacy groups: Group A is closed to new enrollment and has one active member remaining, Group B is a grandfathered state police plan with no active members, and Group E is a grandfathered plan whose members were transferred to Group F

Sources of Future Contributions – Total System

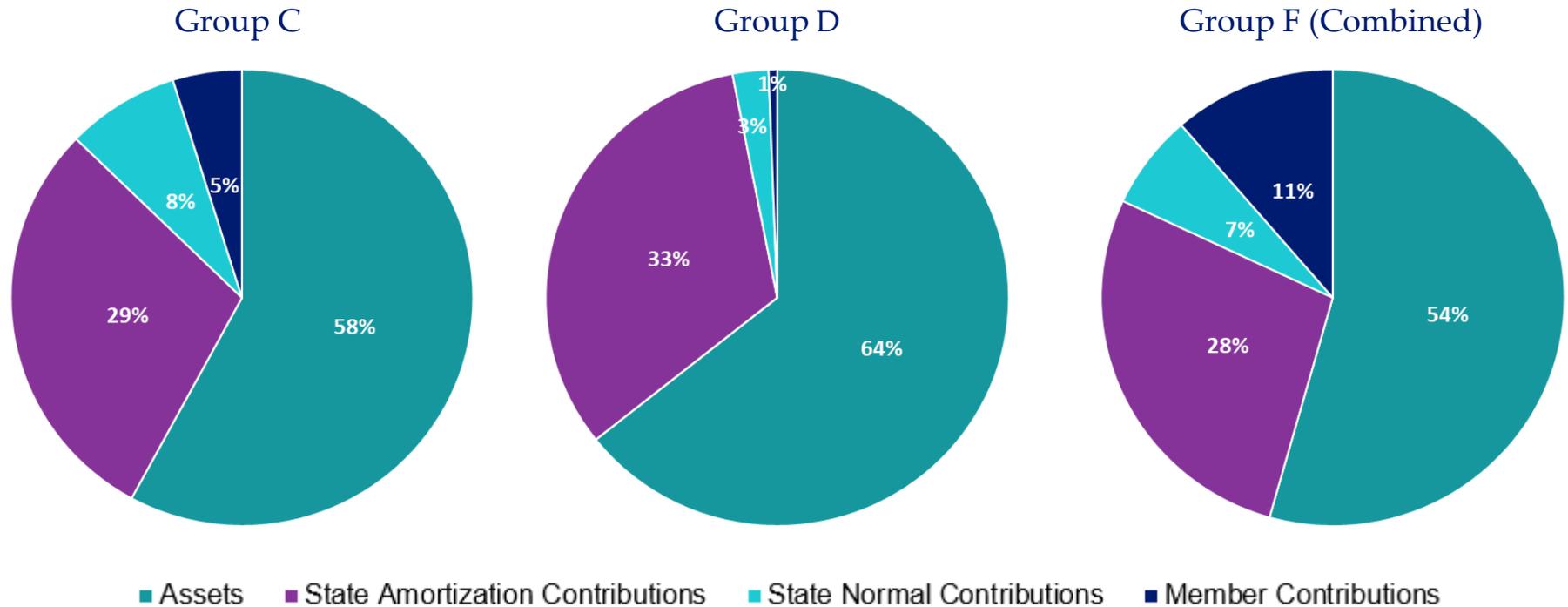
Allocation of Present Value of Future Benefits as of June 30, 2020



Using the data, assumptions, and actuarial methods from the 2020 valuation of VSERS, the graph shows the percentage of Present Value of Future Benefits that are assumed to come from the sources indicated as of June 30, 2020.

Sources of Future Contributions – By Group

Allocation of Present Value of Future Benefits as of June 30, 2020



The allocations are affected by the portion of benefits earned in the past versus that expected to be earned in the future. Because Group D members are significantly older and closer to retirement age, a very small portion of the PVFB is attributable to future service (i.e., Normal and Member Contributions).

Comparison of Normal Cost Rates on a Group-by-Group Basis

	Group C	Group D	Group F	Group F*	Total	Group F Combined
Total Normal Cost (\$)	10,527,436	1,998,716	23,758,147	36,942,733	73,227,033	60,700,880
Total Normal Cost Rate	24.64%	26.93%	10.30%	12.42%	12.67%	11.50%
Member Contribution Rate	<u>(8.53%)</u>	<u>(6.65%)</u>	<u>(6.65%)</u>	<u>(6.65%)</u>	<u>(6.79%)</u>	<u>(6.65%)</u>
Employer Normal Cost Rate	16.11%	20.28%	3.65%	5.77%	5.88%	4.85%

	Group C	Group D	Group F	Group F*	Total	Group F Combined
Average Age	38.65	60.94	53.35	41.46	45.59	45.88
Average Service	11.14	11.05	21.05	4.64	10.77	10.74
Retirement Age	Age 55	Age 62	Age 62 or 30 Years of Service	Age 65 or Rule of 87		

Total Normal Cost represents the annual contribution as a percentage of payroll necessary to fund an employee's benefit over their working lifetime.

Development of the Recommended Contribution on a Group-by-Group Basis

If the recommended state contribution for VSERS was developed on a group-by-group basis, reflecting the normal cost and accrued liability of each group and allocating assets as of June 30, 2020, in proportion to each group's accrued liability, the results would be the following:

	Group C	Group D	Group F Combined	Total
FY22 Employer Normal Cost Rate	16.11%	20.28%	4.85%	5.88%
FY22 Amortization Rate	<u>29.78%</u>	<u>29.56%</u>	<u>12.43%</u>	<u>13.94%</u>
FY22 Total Contribution Rate	45.89%	49.84%	17.28%	19.81%
FY22 Total Contribution (\$)	20,292,355	3,828,509	94,436,274	118,557,138*

* \$1,410,631 of the total \$119,967,769 reported contribution requirement for fiscal 2022 is allocated to legacy members of Groups A, B, and E.

What contribution percentages would have to be if there were no cross-group subsidization in VSERS

- With the unfunded liability amortization payments developed by allocating assets in proportion to the accrued liability for each group, total contributions needed as a percentage of pay were as follows:
 - Group C: 54.42%
 - Group D: 56.49%
 - Group F Combined: 23.93%
- The overall State contribution to VSERS in FY 2022 is 19.81% of payroll. If each group were allocated a State contribution of 19.81% of payroll, the resulting employee contribution rates would have to be:
 - Group C: 34.61%
 - Group D: 36.68%
 - Group F Combined: 4.12%