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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

October 30, 2020

The Honorable Phil Scott
Pavilion Office Building
109 State Street
Montpelier, VT 05609

Dear Governor Scott:

As provided in Title 16, V.S.A., Chapter 55, Section 1942(r), the Vermont State Teachers' Retirement (VSTRS) Board of Trustees voted at a meeting held on October 28, 2020 to adopt the actuarial valuation prepared by Segal Consulting.

A copy of the valuation as of June 30, 2020 which outlines the Fiscal Year 2022 contribution will be available for your review at:

https://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/PDF/2020/Vermont%20State%20Teachers%20Retirement%20System_Actuarial%20Valuation%20June%2030%202020.pdf

The VSTRS Board voted, based on statutory requirements, to recommend the following State contribution to the Teachers' Retirement System:

Fiscal Year 2022: $196,206,504

The recommended State contribution, to the VSTRS fund is made up of an employer normal cost of $38,901,533 and an unfunded liability amortization payment of $157,304,971. This recommendation does not reflect the approved alternative amortization schedule passed by the Board last year, as the approved ADEC for the fiscal year 2020 budget did not adhere to that schedule.

We understand that these are significant increases from the previous valuation. As you may be aware, earlier this year we completed an experience study that reviewed the assumptions used in valuing the plan. While the board approved changes in various demographic assumptions based on observed trends over the past 5 years, economic assumptions were also changed based on updated capital market assumptions. The experience study stated a 42% increase attributable to demographic trends and the remainder due to the change in discount rate from 7.50% to 7.00%. These changes increased the actuarial accrued liability by $334.3 million, and the total normal cost by $30.3 million.

The Board recognizes the impacts of this increase and therefore passed a motion for the VSTRS Board to direct the Treasurer to work with stakeholder groups to identify and review recommendations to lower the unfunded liability and the actuarially determined employer contribution (ADEC) to at least the previous 2021 projections, and to present those recommendations to the Governor and the Vermont General Assembly by January 15, 2021.

Also please note that pursuant to Section 1944(b)(2), the actuary has determined that the reduction to the recommended contribution for Fiscal Year 2021 attributable to the increase from 5% to 6% for Group C members with less than five years of service as of June 30, 2014 is $3,059,351.

I look forward to working with the Administration and the General Assembly on funding the VSTRS system this year, and I am happy to work through any questions you may have.

Sincerely,

Elizabeth A. Pearce
Vermont State Treasurer

cc: Senator Jane Kitchel, Chair, Senate Committee on Appropriations
Senator Jeanette White, Chair, Senate Committee on Government Operations
Representative Catherine Toll, Chair, House Committee on Appropriations
Representative Sarah Copeland-Hanzas, Chair, House Committee on Government Operations
Jon Harris, Chairperson, Vermont State Teachers' Retirement Board of Trustees
Erika Wolffing, Director of Retirement Operations, Office of the Treasurer
Representative Mitzi Johnson, Speaker of the House
Senator Tim Ashe, Senate President Pro Tempore