

Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

FISCAL NOTE

Date: April 15, 2021

Revised: May 5, 2021

Prepared by: Chris Rupe

H.449 - An act relating to the membership and duties of the Vermont Pension Investment Commission and the creation of the Pension Benefits, Design, and Funding Task Force – As Recommended by Senate Committee on Government Operations

Bill: <https://legislature.vermont.gov/bill/status/2022/H.449>

Proposed Amendment from Senate Committee on Government Operations:

<https://legislature.vermont.gov/Documents/2022/Docs/CALENDAR/sc210505.pdf>

Bill Summary

The amendment recommended by the Senate Committee on Government Operations to H.449 As Passed by the House makes numerous changes to the membership and duties of the existing Vermont Pension Investment Committee (VPIC), codifies various pension reporting requirements into statute, creates a 12-member Task Force to review and report on the benefits, design, and funding of Vermont's state employee and teacher retirement systems, and establishes a new Joint Legislative Pension Oversight Committee.

VPIC Changes:

- The first instance of amendment expands VPIC from seven to nine members and two of the additional members are public members who would be entitled to per diems and expense reimbursements. The additional cost of these two members is estimated at \$250 per meeting (including both per diem and estimated expense reimbursements), paid from the respective retirement systems.
- Section 3 of the underlying bill requires a study to examine the governance of VPIC. This study is already underway and will have an estimated cost less than \$100,000, paid from the respective retirement systems. Therefore, this statutory language does not represent an additional cost.
- Sections 4, 6, and 8 of the underlying bill require experience studies to be performed on a three-year basis rather than the current five-year basis. The estimated cost to each of the three pension systems for the four additional studies that would be required over a 30-

year period ranges from approximately \$96,000-\$112,000 based on the cost of the most recent studies. These estimated costs would be incurred over a 30-year period by the respective pension funds. Costs are subject to change in future years, however, due to changes in contracts for actuarial services and inflationary pressures.

Task Force:

The fourth instance of amendment amends Section 10 of the underlying bill to:

- Create a 12-member Task Force comprised of four legislators, two state officials, and six members chosen by labor organizations. The Task Force shall hold its first meeting by June 15, 2021 and convene for up to 15 meetings. Costs associated with per diems and expense reimbursements are estimated to be \$13,500 to the budget of the General Assembly for the legislative members, and \$11,000 to the State Treasurer for the non-state official members. Actual expenses, however, are likely to be somewhat lower than these estimates due to reduced reimbursable expenses in a remote working environment. Most expenses would fall in FY22, though some may fall into FY21 based on the meeting calendar.
- Provide the Task Force with contracted professional services, which are estimated to cost \$200,000. These expenses would be paid from appropriations to the General Assembly from the General Fund in FY22.

Joint Legislative Pension Oversight Committee:

- The fourth instance of amendment creates a new Section 11 in the underlying bill, which creates a Joint Legislative Pension Oversight Committee with jurisdiction over matters related to the State's retirement system and other post-employment benefits. This six-member committee, which would not take effect until FY23, is authorized to meet up to six times during adjournment. Should the committee meet all six times, the General Assembly would incur an additional expense of approximately \$8,000 per year (beginning in FY23) in per diem and expense reimbursement costs.

Fiscal Impacts

Membership Changes to VPIC

The first instance of amendment and Section 1 of the underlying bill change the name of the existing Vermont Pension Investment Committee (VPIC) to the Vermont Pension Investment Commission and expands the membership from seven to nine members. The two new members include a member representing municipal employers and a member representing school employers.

According to [3 V.S.A. § 523](#) and [32 V.S.A. § 1010](#), public members and alternates of committees are entitled to a \$50 per diem plus reimbursement for actual expenses, except for members serving ex officio or otherwise regularly employed by the State. Adding two additional public members to VPIC, therefore, would result in an estimated cost increase of approximately \$250 per meeting (including both per diems and estimated reimbursements). The meeting frequency of VPIC varies, but meetings have occurred on an approximately monthly basis in recent years.

As with other costs related to VPIC's operations, the costs associated with per diems and expense reimbursements for the two additional public members would be paid proportionately from the funds of the three retirement systems¹ and any individual municipalities that have been allowed to invest their retirement funds with VPIC ([3 V.S.A. § 522\(f\)](#)).

The provision permitting the chair of VPIC to be compensated at a level not to exceed one-third of the salary of the State Treasurer, as determined by the other members of the Commission, mirrors existing law and is not a new provision or additional fiscal impact ([3 V.S.A. § 523\(b\)](#)).

Reporting Requirements

The first instance of amendment and Section 1 of the underlying bill amend [3 V.S.A. § 523](#) to require VPIC to:

- Conduct an **asset allocation study** on an annual basis to review the expected return of each fund, including a risk analysis using best practices methodologies to estimate potential risks to the fund's asset values over a five-, 10-, and 20-year period, and the remainder of the statutory amortization period.
- Conduct an **asset and liability study** for each plan on a three-year basis beginning on July 1, 2022.
- Submit **annual reports** on the performance of each plan and send copies of those reports to each participant or beneficiary of each plan. Annual reports are currently issued by the Treasurer's Office, and the contents of these reports are informed by the results of other studies.

According to the Treasurer's Office, these studies and reports are currently performed through existing contracts funded by the respective retirement systems. Codifying these requirements into statute, therefore, is unlikely to result in material fiscal impacts beyond what is currently incurred. The most significant additional fiscal impact is likely related to the cost of producing and mailing hard copies of annual reports to any plan participants or beneficiaries who opt out of

¹ As of June 30, 2020, VPIC invested combined pension assets with a market value of approximately \$4.583 billion across the three pension systems. VSERS (\$1.937 billion, or 42.3% of total), VMERS (\$0.719 billion, or 15.7% of total), VSTRS (\$1.927 billion, or 42.0% of total).

electronic distribution. It is unknown how many plan participants may opt out of electronic distribution.

Section 3 of the underlying bill requires VPIC to hire an independent third party to review and report on the operations of VPIC and the Retirement Division of the Treasurer’s Office and make recommendations on best practices and necessary actions to transfer the Commission to a stand-alone entity. Based on information from the Treasurer’s Office, this review (a one-time expense) is estimated to cost less than \$100,000 and the study is already underway. Therefore, this study does not represent an additional fiscal impact.

Sections 4, 6, and 8 of the underlying bill amend respective pension system statutes to require experience studies on a three-year basis, rather than on a five-year basis. According to the Treasurer’s Office, the most recent experience studies cost approximately \$25,000 (VSERS), \$28,000 (VSTRS), and \$24,000 (VMERS) and those costs are paid from the respective retirement systems. Requiring experience studies on a three-year basis would require four additional studies to be performed over a 30-year basis than the current five-year requirement. If costs were to remain at similar levels, they would translate to the following additional costs to the respective pension plans:

	VSERS	VSTRS	VMERS
Cost estimate for most recent experience study	\$25,000	\$28,000	\$24,000
Additional cost for 4 more studies over 30 year period	\$100,000	\$112,000	\$96,000
Annualized additional cost over 30 year period	\$3,333	\$3,733	\$3,200

Actual costs, however, are subject to change over time due to inflationary pressures and any changes to actuarial services contracts that may occur in the future.

Pension Benefits, Design, and Funding Task Force

The fourth instance of amendment, which amends Section 10 of the underlying bill, creates a Pension Benefits, Design, and Funding Task Force to review and report on the benefits, design, and funding of retirement and retiree health benefit plans for the VSERS and VSTRS systems.

The Task Force is to be comprised of four legislators, two state officials, three members of Vermont-NEA, two members appointed by VSEA, and one member appointed by the Vermont Troopers’ Association. The bill requires the Task Force to first meet on or before June 15, 2021 for up to 15 meetings.

Legislative members of the Task Force are entitled to per diem compensation and reimbursement of expenses pursuant to [2 V.S.A. § 23](#) for not more than 15 meetings, with payments made from monies appropriated to the General Assembly. Four legislative members meeting for 15 meetings, therefore, would result in approximately \$13,500 of expenses to the General Assembly – most of which would fall in FY22. Actual reimbursable expenses may be somewhat lower than these estimates due to the remote working environment.

The other members of the Task Force who are not state employees are entitled to per diem compensation and reimbursement of expenses pursuant to [32 V.S.A. § 1010](#) for not more than 15 meetings, with payments made from monies appropriated to the State Treasurer. Six public members meeting for 15 meetings, therefore, would result in approximately \$11,000 of expenses to the State Treasurer – most of which would fall in FY22. Actual reimbursable expenses may be somewhat lower than these estimates due to the remote working environment.

Furthermore, Section 10 of the underlying bill authorizes the Office of Legislative Counsel and Joint Fiscal Office to contract for advisory services for the Task Force from an actuary, benefits expert, and legal expert, as necessary. These expenses are estimated to cost \$200,000 and would be paid from appropriations made to the General Assembly from the General Fund in FY22. Actual expenses will vary, however, based on the volume and scope of contracted services requested by the Task Force.

Joint Legislative Pension Oversight Committee

The fourth instance of amendment creates a new Section 11 in the underlying bill, which creates a Joint Legislative Pension Oversight Committee with jurisdiction over matters related to the State's retirement system and other post-employment benefits. This six-member committee, which would not take effect until FY23, is authorized to meet up to six times per year during adjournment and at the call of the chair when the General Assembly is in session. Should the committee meet all six times during adjournment, the General Assembly would incur an additional expense of approximately \$8,000 per year (beginning in FY23) in per diem and expense reimbursement costs.