VSERS and VSTRS Pension Update
Fiscal Year 2025

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Joint Fiscal Office
November 19, 2025

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About this update

- This document provides an overview of the status of the Vermont State Employees’ Retirement System (VSERS) and Vermont State Teachers’ Retirement System (VSTRS) as of the FY 2025 actuarial valuations.
- Data examines trends within the current 30-year closed amortization period (2008-2038).
- Unless otherwise noted, all data is from the actuarial valuations for the respective pension systems and values are not adjusted for inflation.
- Actuarial valuations are available on the website of the Office of the State Treasurer.

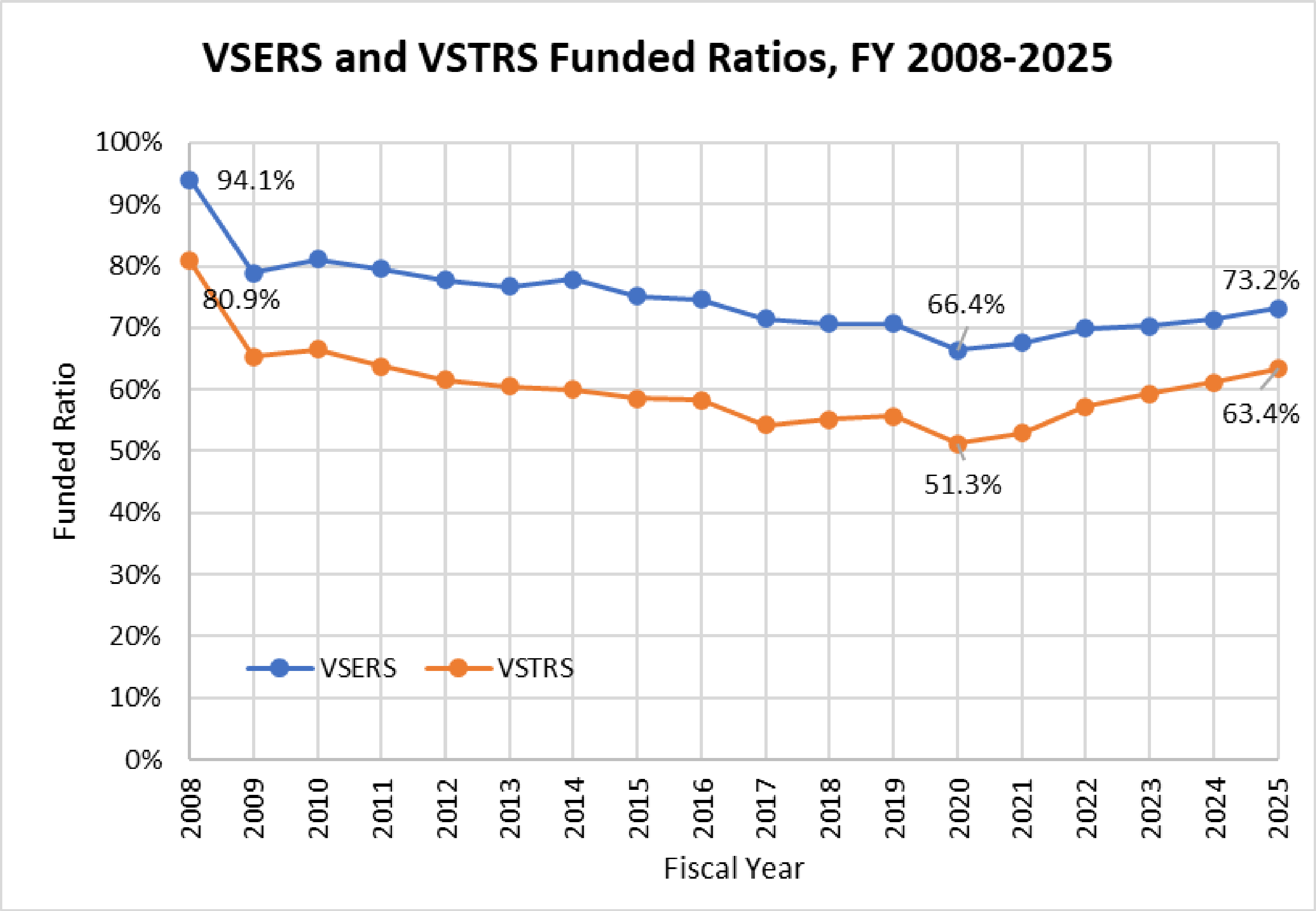
Overview of FY 2025 Valuations

- The Vermont State Employees' Retirement System (VSERS) and Vermont State Teachers' Retirement System (VSTRS) improved their funded ratios during fiscal year 2025.
- Investment performance exceeded the 7% assumption for the third year in a row, resulting in deferred gains that will be recognized in future years.
- Higher than assumed inflation led to higher cost of living adjustments and salary growth, causing some actuarial losses.
- Employer contributions for fiscal year 2027:

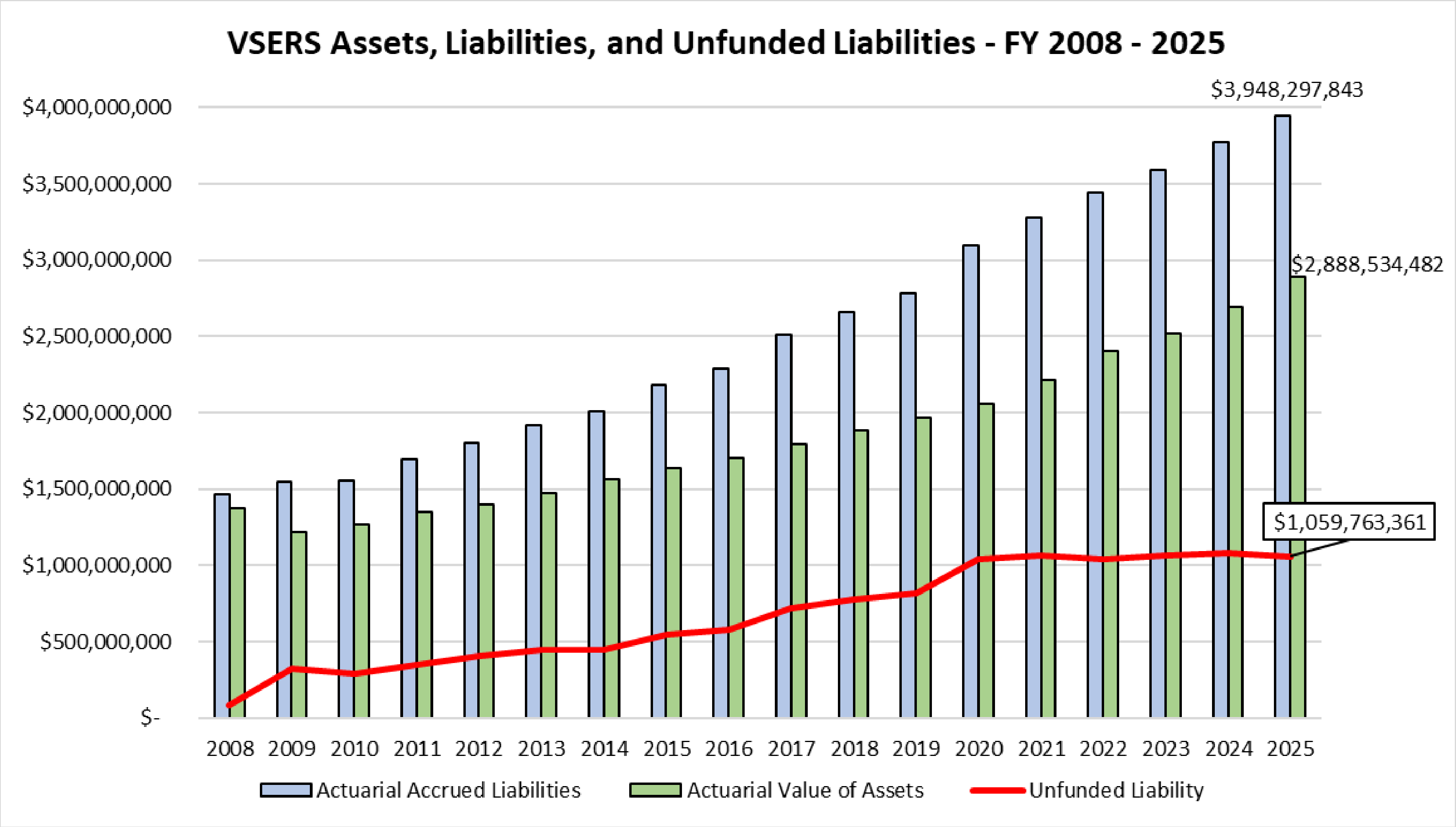
	FY 2026	FY 2027	% Change YoY
VSERS	$151,481,622	$155,459,108	2.63%
VSTRS	$227,752,627	$235,905,084	3.58%
Includes $15 million "plus" payments made in addition to ADEC per Act 114 (2022)			

Funded Status

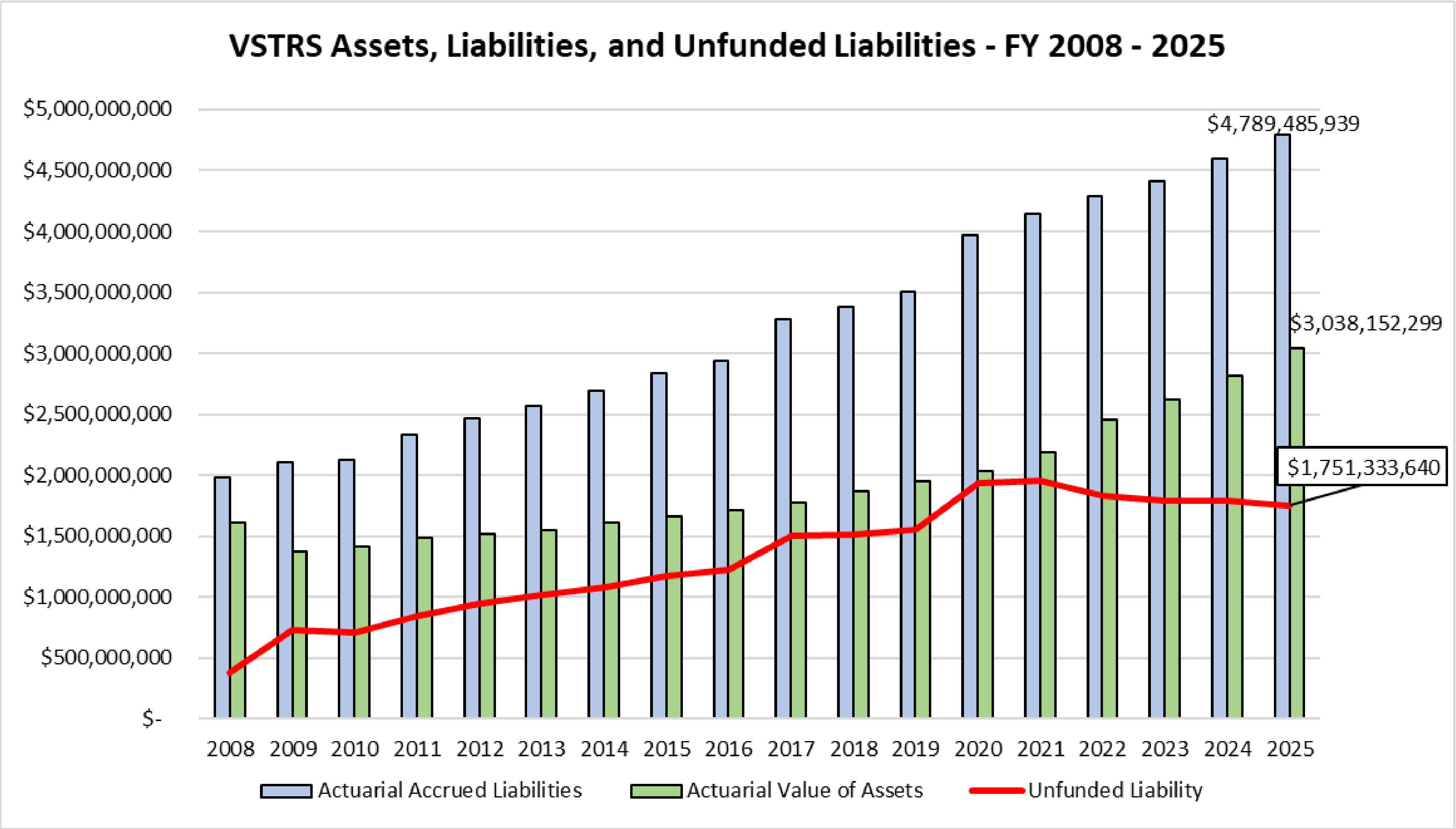
- Since reaching their low points in FY 2020, the funded ratios for the two pension systems have steadily improved.
- As of FY 2025, VSERS is 73.2% funded and VSTRS is 63.4% funded.
- Statutory funding policy calls for reaching 100% funded in FY 2038 – closed amortization.
- Funded ratio = actuarial value of assets / accrued liabilities
- VSERS has highest funded ratio since 2016.
- VSTRS has highest funded ratio since 2011.



VSERS Assets and Liabilities

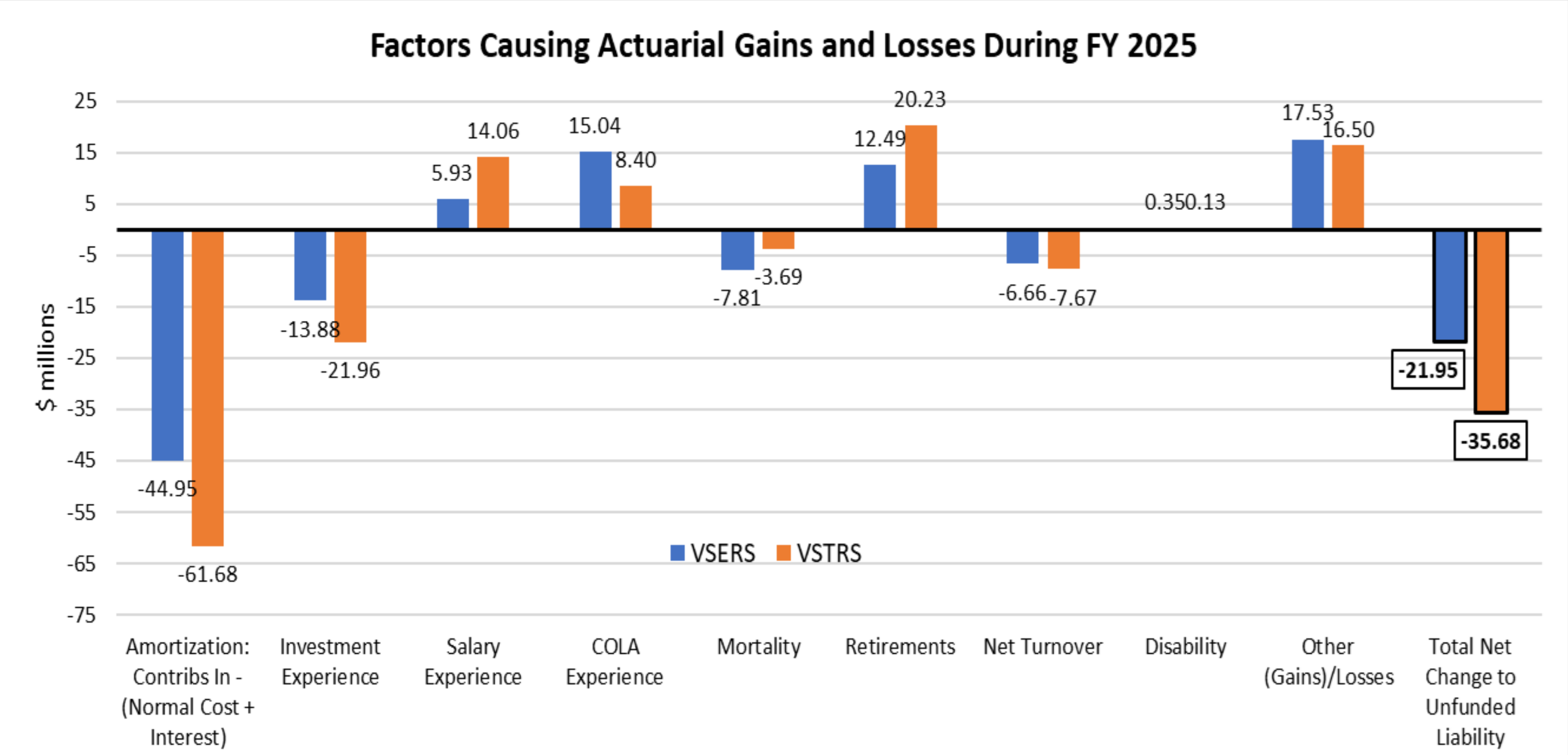


VSTRS Assets and Liabilities



Gains and Losses During FY 2025

- Actuarial gains and losses occur when experience deviates from actuarial assumptions. The impact of these gains and losses is reflected in the unfunded liability.
- Both systems experienced actuarial gains from investment performance, mortality, and employee turnover.
- Both systems experienced actuarial losses from inflation-driven salary and COLA experience, as well as retirement behavior.
- Net of all experience factors, both systems reduced their unfunded liabilities during FY 2025.



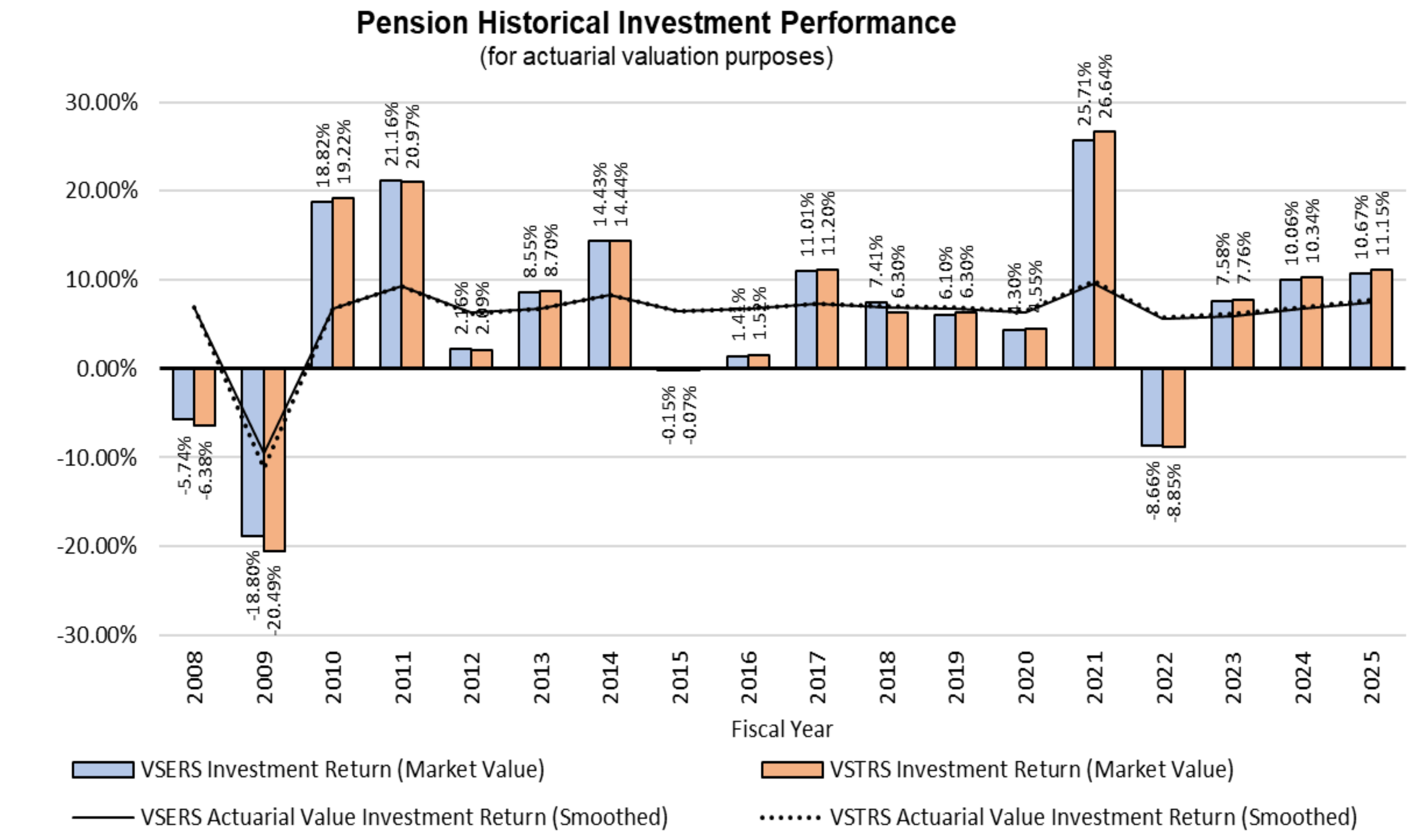
Note: Factors that increased the unfunded liability are represented by positive values. Factors that decreased the unfunded liability are represented by negative values.

Investment Performance

- Investments exceeded the 7% assumed rate of return for the third year in a row.
- Actuarial value of assets is used for funding purposes – smooths in market gains/losses over a 5 year period.

Historical Investment Performance (FY 2025)				
	State Employees (VSERS)		Teachers (VSTRS)	
	Actuarial Value	Market Value	Actuarial Value	Market Value
Most Recent 5-Year Average Return	7.02%	8.39%	7.22%	8.68%
Most Recent 10-Year Average Return	6.92%	7.38%	7.07%	7.64%
Most Recent 15-Year Average Return	7.03%	7.68%	7.16%	7.91%
Most Recent 20-Year Average Return	6.47%	6.87%	6.50%	6.91%

Source: VSERS and VSTRS Actuarial Valuations.

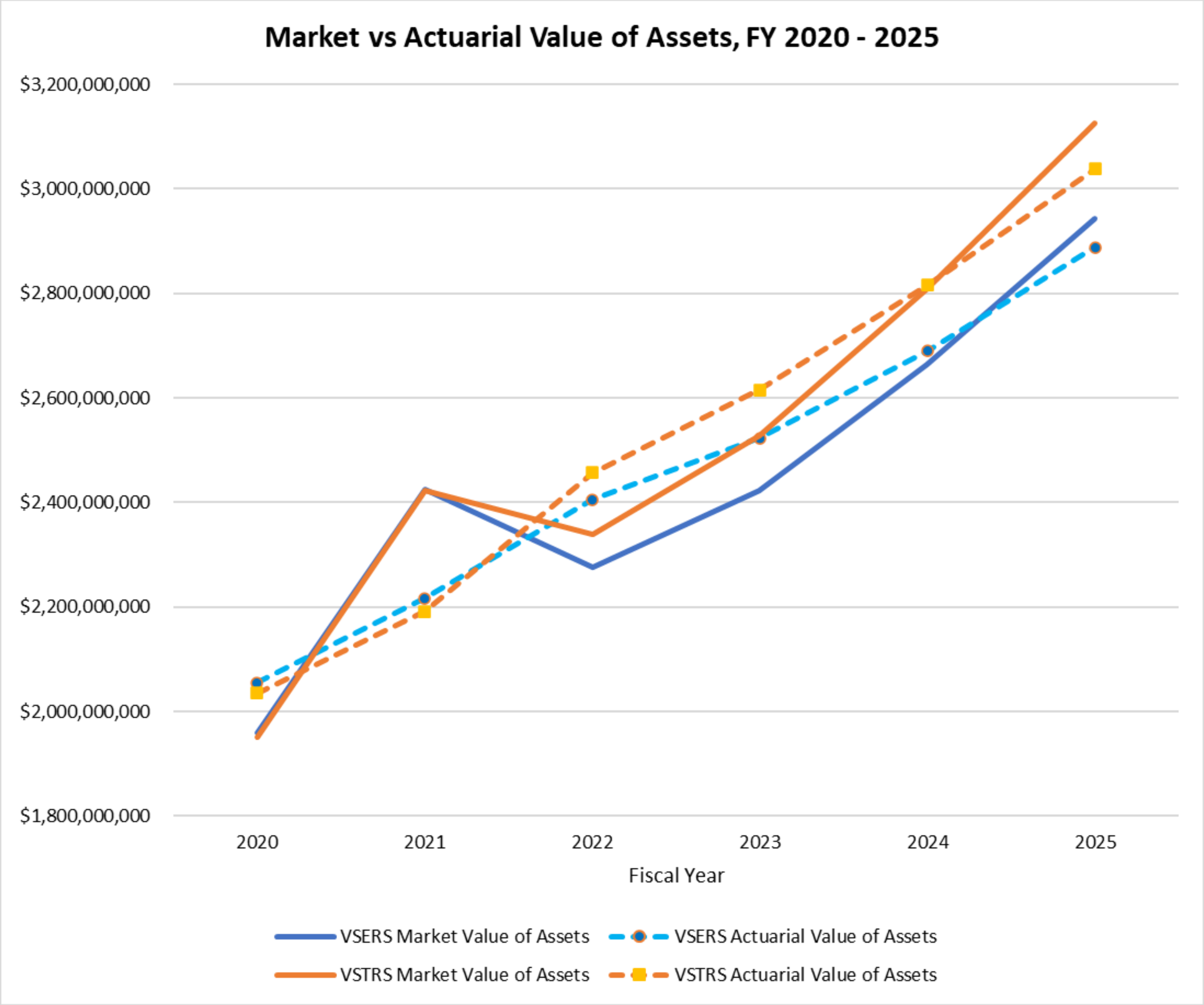


Source: VSERS and VSTRS Actuarial Valuations.

Market Value vs. Actuarial Value of Assets

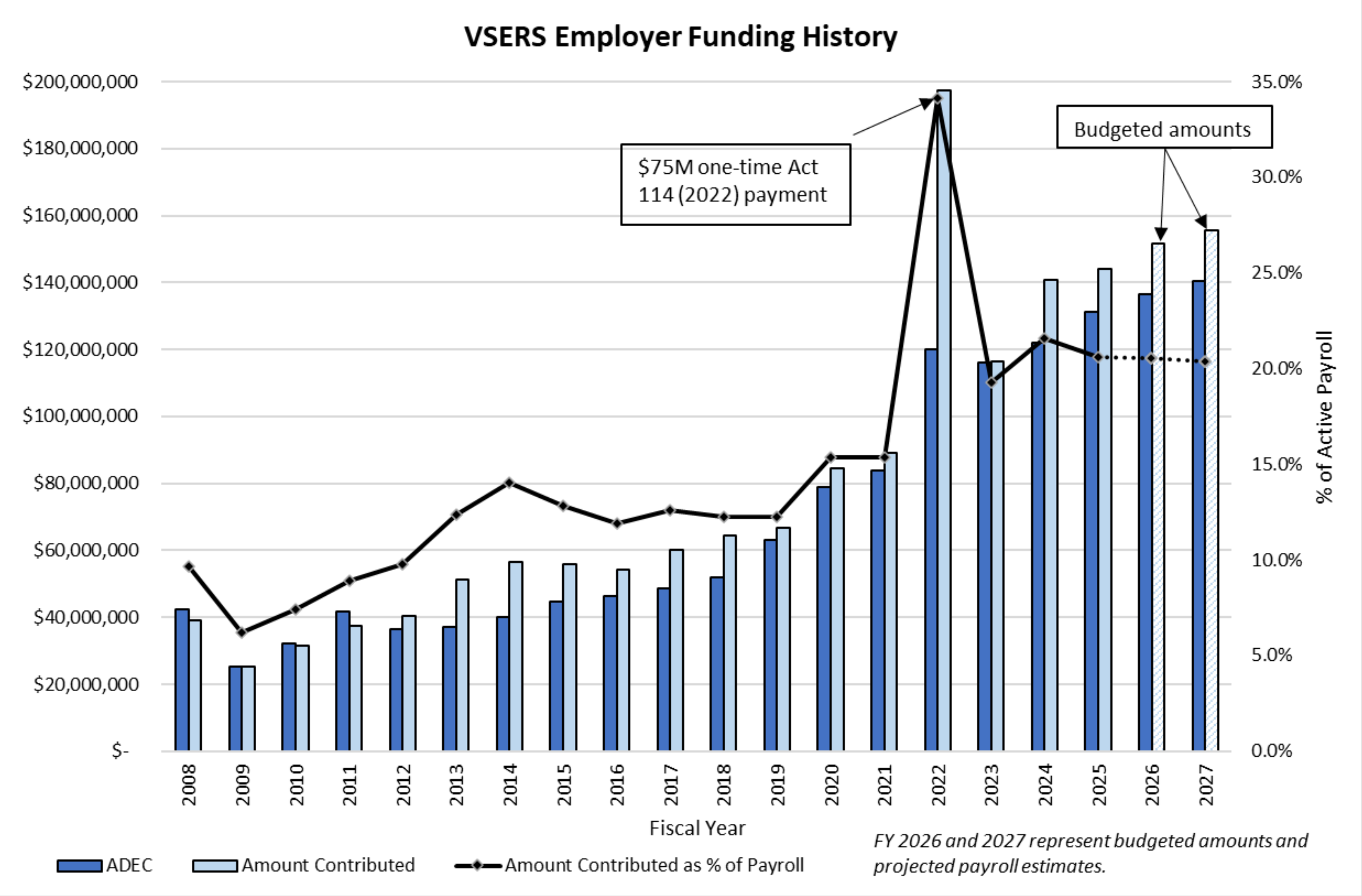
- To reduce volatility in funding requirements, market investment gains and losses are recognized and smoothed into the actuarial value of assets over a 5-year period.
- The market value of assets is now higher than the actuarial value of assets, meaning that there are deferred investment gains that will be smoothed into the funding math in future years.
  - VSERS: $55.5 million deferred gain
  - VSTRS: $87.8 million deferred gain
- Deferred gains act like a tailwind to help put downward pressure on employer funding requirements in the years ahead.

Year Ending June 30	VSERS			VSTRS		
	Market Value of Assets (MVA)	Actuarial Value of Assets (AVA)	Ratio of AVA to MVA	Market Value of Assets (MVA)	Actuarial Value of Assets (AVA)	Ratio of AVA to MVA
2020	$ 1,959,066,641	$ 2,054,825,853	104.89%	$1,951,489,882	$ 2,035,713,611	104.32%
2021	$ 2,425,222,408	$ 2,216,499,478	91.39%	$2,422,793,508	$ 2,191,650,755	90.46%
2022	$ 2,276,645,124	$ 2,405,795,708	105.67%	$2,339,412,945	$ 2,457,374,321	105.04%
2023	$ 2,423,230,404	$ 2,523,348,610	104.13%	$2,528,481,816	$ 2,615,250,146	103.43%
2024	$ 2,663,839,711	$ 2,690,347,928	101.00%	$2,808,813,254	$ 2,815,334,500	100.23%
2025	$ 2,944,071,035	$ 2,888,534,482	98.11%	$3,125,986,373	$ 3,038,152,299	97.19%



Actuarially Determined Employer Contributions (ADEC)

- The ADEC represents the amount that must be paid by the employer to fully fund the normal cost, plus an amortization payment on the unfunded liability.
- If all assumptions are perfectly met, the ADEC would increase by approx. 3% per year with payroll growth. Looking at contributions as a percentage of payroll controls for payroll growth.
- Act 114 set a policy of making additional contributions above the ADEC beginning in FY 2024 until the system is 90% funded (FY 2033 for VSERS).
- Making additional payments reduces the rate of ADEC growth in future years on a two-year lag (making additional payments in FY 2024 lowers future ADEC payments beginning in FY 2026).



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- Act 114 set a policy of making additional contributions above the ADEC beginning in FY 2024 until the system is 90% funded (FY 2035 for VSTRS).
- Making additional payments reduces the rate of ADEC growth in future years on a two-year lag (making additional payments in FY 2024 lowers future ADEC payments beginning in FY 2026).