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Adam Greshin, Commissioner

March 10, 2022

Senator Jane Kitchel
Vermont State House
115 State Street
Montpelier, VT 05602

Dear Senator Kitchel:

Thank you for taking the time to speak with Secretary Clouser and me today. As we discussed, the Administration appreciates the hard work done by you and the members of the Pension Benefits, Design, and Funding Task Force. The *Final Report*, dated January 10, 2022, and S.286 – *An act relating to amending various public pension and other postemployment benefits* – help move the state in the direction of sustainable retirement plans for our public employees.

In addition to addressing the growth in our unfunded liabilities, the Governor has routinely highlighted the need for structural change to make the retirement plans truly sustainable. If structural change is not more robustly incorporated in this bill, we will find ourselves returning to this topic in future years. Thus, in order to fully support the bill, the Administration requests two additions to the proposed list of statutory changes already incorporated into S.286:

- Allow Choice for New Employees - Under current law, new recruits to state government are enrolled in the Defined Benefit plan. The only exception is made for exempt employees who are automatically enrolled in the Defined Benefit plan but have the choice to switch to a Defined Contribution plan. All new employees should have this option. While choice in retirement plans will lower the state's risk exposure over time, it should also be viewed as a recruiting tool, particularly for younger employees who are accustomed to switching jobs and are often more interested in portability, and for seniors returning to the workforce who do not intend to spend many years working for the state. In addition to portability, both groups might appreciate the shorter vesting period and lower employee contribution requirements of the Defined Contribution plan.

- Include Risk-Sharing Provisions – Under current law, the state bears the risk of faulty assumptions. Payments into the retirement system are shared between employees and the state, but if investment returns are not met or if experience is different than forecast by the actuaries, the state is responsible for the difference. This has led to progressively increasing state payments into the system. Many states have moved to a shared risk model, whereby employer and employee contribution rates and benefit levels are adjusted – lower and higher - to make up for performance variances. In this model, everyone is incented to ensure the plans remain on track

and losses as well as gains are shared evenly. This could be combined with a reduction in the investment return assumption and a lengthening of the pension amortization schedule, thereby making it more likely the plans' investment returns will meet targets.

Again, thank you for the discussion today and your willingness to review these additions.

Sincerely,

Adam Greshin