

State Employees' & Teachers'

RETIREMENT SYSTEMS



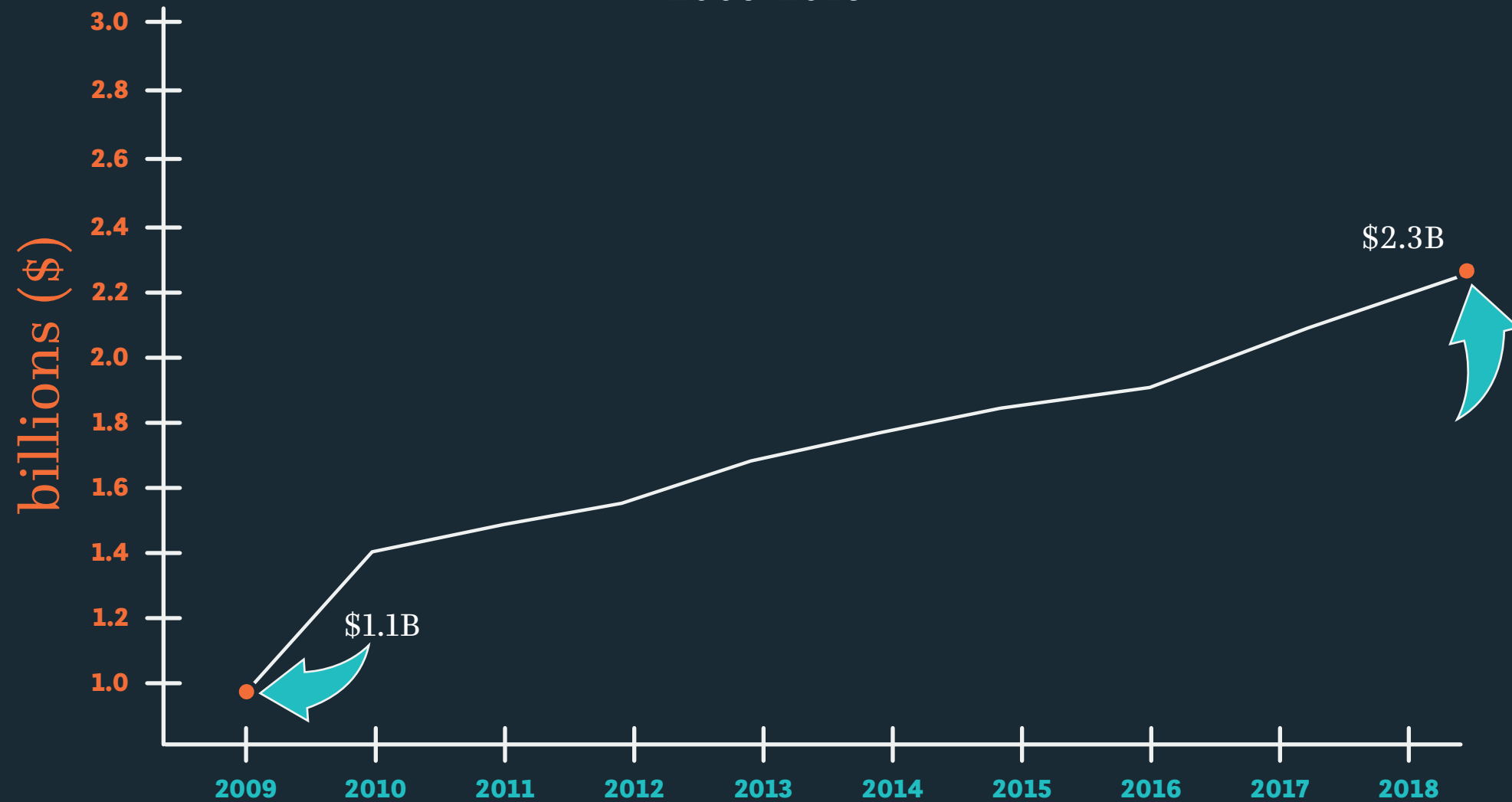
VERMONT BUSINESS ROUNDTABLE



Where we have been.

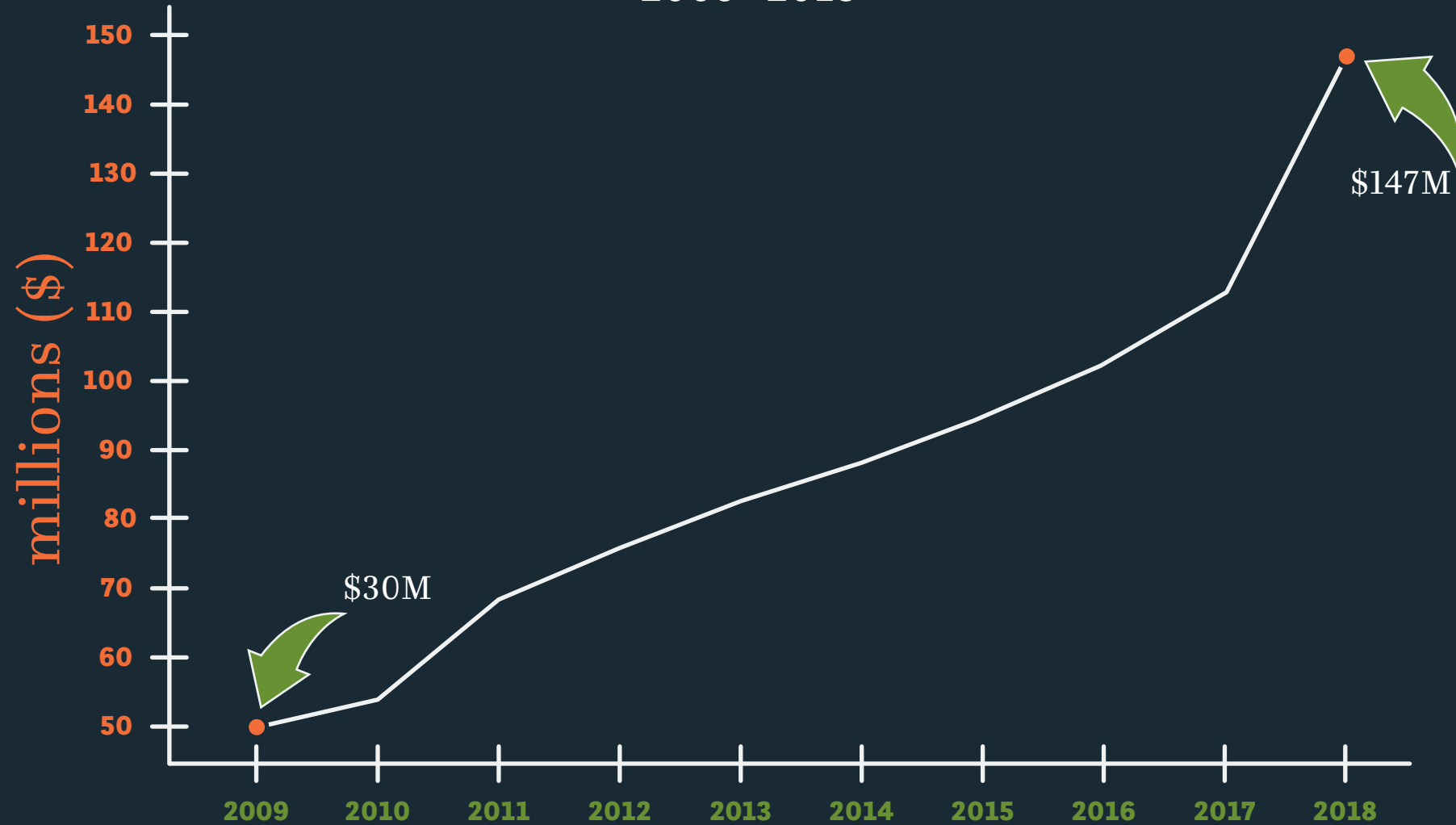
PENSION UNFUNDED LIABILITY

2009-2018



REQUIRED ANNUAL PAYMENT (THE ADC) FOR PENSION UNFUNDED LIABILITY

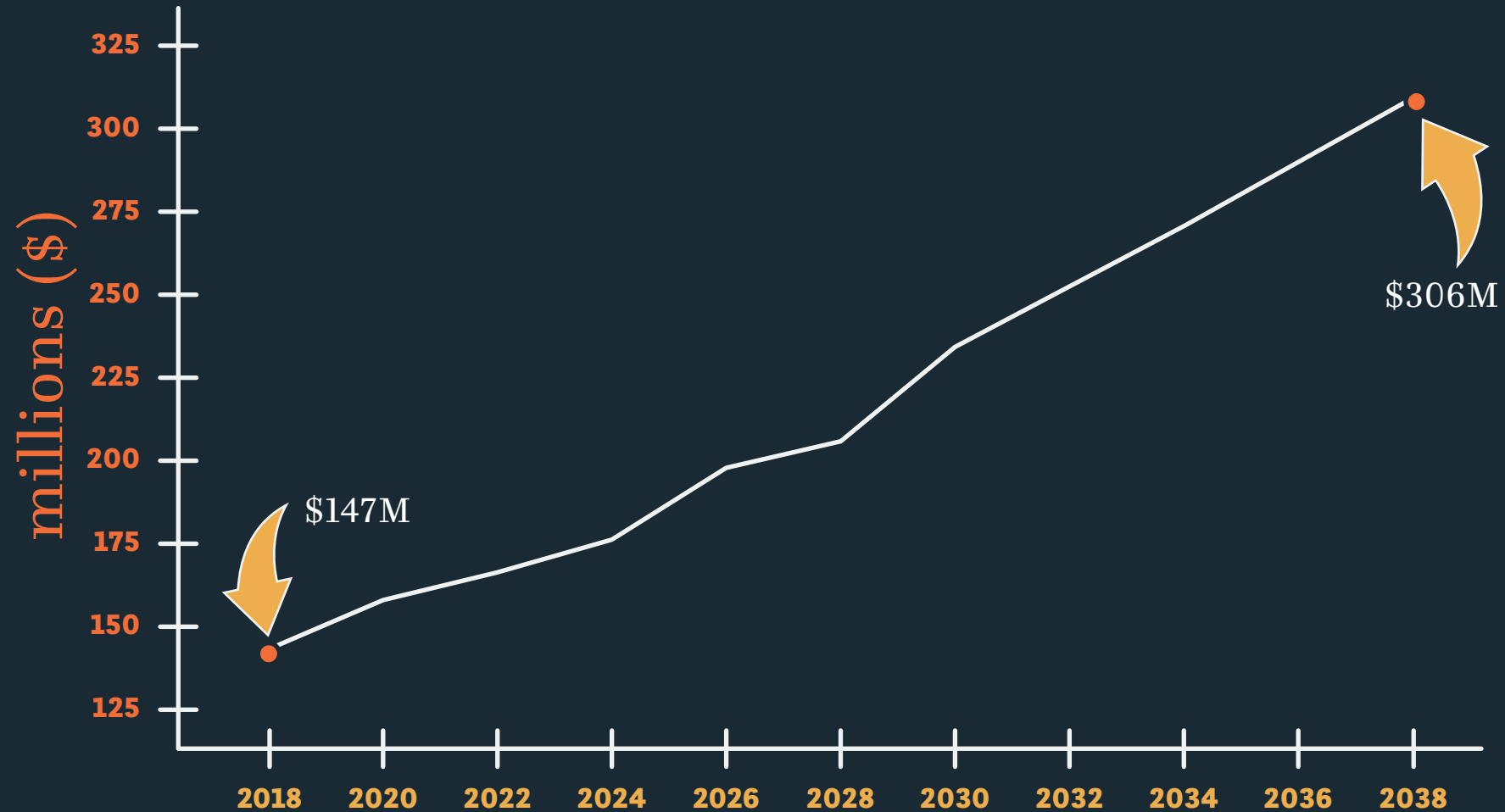
2009-2018



| | PENSION PLANS | RETIREE HEALTH CARE PLANS | |
|-------------|---------------------------|----------------------------------|---------------------------------|
| | UNFUNDED LIABILITY | UNFUNDED LIABILITY | TOTAL UNFUNDED LIABILITY |
| 2018 | \$2.3 BILLION | \$2.2 BILLION | \$4.5 BILLION |
| 2013 | \$1.5 BILLION | \$1.9 BILLION | \$3.4 BILLION |
| 2009 | \$1.1 MILLION | \$1.7 BILLION | \$2.8 BILLION |

At the end of 2038, if all required payments are made and all assumptions are accurate, the unfunded liability of the pension plans will be paid.

REQUIRED ANNUAL PAYMENT (THE ADC) FOR PENSION UNFUNDED LIABILITY 2018-2038



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1

ESCALATING TAXPAYER LIABILITIES



2

CONSUMING MORE AND MORE OF THE GENERAL FUND

| | GENERAL FUND | % OF PENSION ANNUAL PAYMENT (ADC) TO GENERAL FUND |
|------|--------------------|---|
| 2018 | 1.6 BILLION | 7.1% |
| 2009 | 1.1 BILLION | 3.8% |

LEAVING LESS AND LESS FOR VITAL STATE PROGRAMS AND INFRASTRUCTURE

3

NEGATIVE NET WORTH



4

LOWER BOND RATING



Means **higher interest** and **higher cost** for state, municipal and quasi-state agency bonding projects.

And, it's just not sustainable

The perfect storm
for tax base depletion



Aging demographics
**MORE PARTICIPANTS
AND LESS PEOPLE TO
PAY LIABILITY**



Lack of newcomers
**NO WAY TO REPLACE
LOSS OF OLDER
TAXPAYERS**



Tax migration
**THOSE MOST ABLE
TO PAY MOVING
AWAY**



**Liability & annual
payments will
continue to rise**

- NEW PARTICIPANTS
- LIVING LONGER

AND...

...THE INFLATED RATE OF RETURN ISSUE:

ASSUMED RATE OF RETURN:

2009-2011 : 8.25%
2012* : 8.42%
2013* : 8.39%
2014* : 8.37%
2015* : 8.34%
2016-2017 : 7.95%
2018 : 7.50%

ACTUARIAL RATE OF RETURN:

Teachers' Pension Plan: 5.32%
State Workers' Pension Plan: 5.61%

10-year average

RESULTS:

» ADC continues to rise to cover the difference in earnings between the assumed and real rate of return

» Actual liability is understated

IF CURRENTLY USE

6.5%

WOULD ADD

650M

to pension liability

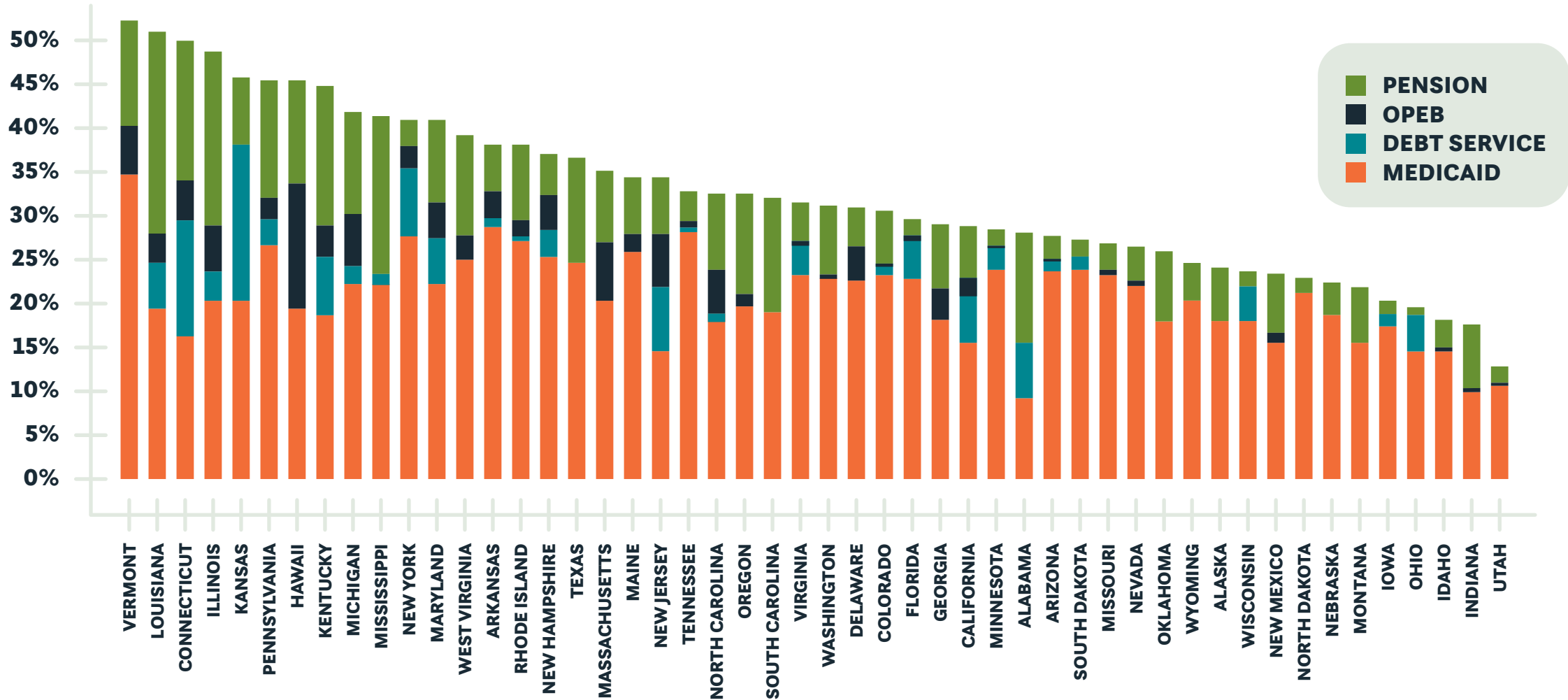
AND

60M

to ADC

*Average annual return of the select-and-ultimate rate system through 2038.

COMBINED MEDICAID, DEBT SERVICE, AND PENSION AND OPEB CONTRIBUTIONS SHARE OF GENERAL FUND EXPENDITURES



Source: When the Credit Cycle Turns, U.S. States May Be Tested in Unprecedented Ways, September 17, 2018—S&P Global Ratings

We are not the first state to face challenges. Below are some measures that other state's have taken to address this issue:¹

1. Stress Test (require annual stress tests on plans to help: (i) assess contribution policies; (ii) provide an early warning, if problems arise; (iii) improve budgetary planning; (iv) allow better assessment of proposed plan changes; (v) avoid costly mistakes; and (vi) understand long-term constraints).
2. Rate of return adjustment (reduce assumed rate of return to realistic level).
3. Cost-sharing (increase contributions by state & participants).
4. Hybrid plans (honor obligations of existing participants but offer combination of defined benefit and defined contribution plans to new employees).

Doing nothing is just not an option.

¹ Information about steps other states have taken is derived from the PEW Charitable Trusts website, articles and reports. PEW, with one of its projects devoted to Public Sector Retirement Systems, has been a thought leader on these issues for some time now. For more information, go to <https://www.pewtrusts.org/en/projects/public-sector-retirement-systems>.