City of Burlington Vermont

BURLINGTON EMPLOYEES' RETIREMENT SYSTEM

James T. Strouse
Chairman of the Board
Robert Hooper
Vice-Chairman

Stephanie Hanker
Retirement Administrator
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CITY COUNCIL REPORT
FOR June 2015

- **MISSION**

The mission of the Retirement Board as defined by the Ordinance is to be trustees of the funds of the retirement system. The members have the authority to invest funds, determine asset allocation within guidelines, develop the guidelines, and hire such managers and consultants as may be needed. The members also set policy and oversee the general administration of, and have the responsibility for, the proper operation of the retirement system. The members make decisions on disability applications and follow-ups.

- **HIGHLIGHTS**

The Retirement Board has had a very busy year with several special meetings. In addition to the normal agenda items, there were in-depth discussions about our assumed actuarial rate of return, mortality table changes, funding methods and investments. The assumed actuarial rate of return – the return that is expected on our assets, on average, over many years – was discussed at many of our meetings. Our current expected return is 8% net of investment expenses. The discussions centered on the perceptions that this rate might be too aggressive. In the end we decided to stay with this rate both because we have not yet concluded discussions about possible changes to the investment portfolio which could impact projected returns and because we have been assured by our actuary that this is a prudent assumption for now.

Having been informed by our actuary that we would likely see further cost increases because of further mandated increases in mortality tables (people are clearly living longer) we directed him to develop a mortality table that not only looks at the general increases in life expectancy but that takes into account the experience of our Plan. He did that and we adopted new tables based on his input.

The consideration of actuarial methods for funding both the normal costs of the plan and for funding the amortization of the unfunded liability were discussed at great length as we endeavored to come to reasonable solutions that reflected the desires of the City Council's Retirement Task Force and our fiduciary duty to the Plan and its members. The actuary provided numerous spreadsheet refinements to guide us through this. The first consideration was whether to continue using the Projected Unit Credit (PUC) method of funding or switch to the Entry Age Normal (EAN) method. Simply put the PUC estimates the amount needed to fund a member's retirement and level funds that over the projected term until retirement. The EAN takes into account the member's age upon entry into the Plan and funds at a level percentage of pay throughout the member's career. We determined that the EAN more accurately allocates costs as they occur and, in addition, noted that the Government Accounting Standards Board (GASB) now requires the use of EAN for financial reporting and, for those reasons, voted to switch to EAN. Perhaps more difficult discussions were held around the concepts of Open Group Funding versus Closed Group Funding. Until this year the actuary could only let the existing group of members and their benefit structure be used in determining the cost of funding the Plan. GASB basically got out of the business of mandating the manner in which a plan would have to be funded. So, a method (the Open Group Method) was developed that allows the actuary to look at what the future membership in the Plan and what their benefits will be and develop costs based on that. In effect, this allows our Plan to take into account that future employees' benefits have been reduced and, therefore, will have reduced associated retirement costs. Our conclusion was that this was a more fair and equitable allocation of costs and we adopted the Open Group Method. In fact, it was quite a bit more complicated than that but in the interests of brevity this should provide a reasonable overview.

Several years ago, in order to reduce investment costs and at the behest of the City Council, the Board voted to allocate roughly 90% of our investment portfolio to be commingled with the Vermont Pension Investment portfolio and invested by the Vermont Pension Investment Committee (VPIC). Since then the portfolio returns have been erratic. In addition, VPIC has a very complicated portfolio with some investments that are difficult to understand. We must make the decision whether to stay with VPIC for the foreseeable future or not. If we are to leave VPIC we must understand the impact, if any, on our staff. We are thoroughly investigating the alternatives. Our Investment Consultant (currently Dahab Associates) has provided us with choices in this regard, the associated costs, performance expectations and a timeline. At this writing a decision is expected in the near future.

At the time of this writing there are 988 active members of the Retirement System, 601 retirees and beneficiaries, and 385 members who have left service with vested benefits. Pension benefits average about $942,000.00 per month.

The FY14 members of the Board are James Strouse, Robert Hooper and Jeffrey Wick, who are appointed by the City Council, Robert Rusten, Chief Administrative Officer, who is the Ex-Officio member, Lt. Benjamin O'Brien, Fire and Det. Cpl. Daniel Gilligan, Police who are elected by the Class "A" employees, and Munir Kasti and Matthew Dow, who are elected by the Class "B" employees.

Sincerely,

RETIREMENT BOARD

James T. Strouse, Chairman	Benjamin O'Brien
Robert Hooper, Vice-Chairman	Munir Kasti
Jeffrey Wick	Matthew Dow
Robert Rusten, CAO	Daniel Gilligan