buckconsultants

A Xerox Company

Report on the Actuarial Valuation of Post Retirement Benefits of the Vermont State Teachers' Retirement System

Prepared as of June 30, 2013

October 2013

TABLE OF CONTENTS

Section | Page

Introduction 1
Section I – Overview 4
Section II – Required Information 6
Section III – Membership Data and Medical Premium 8
Section IV – Required Supplementary Information 11
Section V – Net OPEB Obligation 13
Section VI – Actuarial Assumptions and Methods 14
Section VII – Consideration of Health Care Reform 18
Section VIII – Postretirement Benefit Plan Provisions 20
Section IX – Glossary of Terms 22

INTRODUCTION

The Board of Trustees of the Vermont State Teachers' Retirement System has engaged Buck to prepare an actuarial valuation of their OPEB (Other Post-employment Benefits, or, postretirement benefits other than pension) program as of June 30, 2013. The State Treasurer's Office provided the employee data and premium information used in the completion of this study.

The purposes of the valuation are to measure the current liabilities of the System for its post-retirement benefits program and to provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. In addition, the valuation provides information that may be used to determine the level of contributions recommended to assure sound funding of such benefits. This valuation report contains information that is required for compliance with the Governmental Accounting Standards Board's Statement 45, which relates to accounting and financial reporting for postemployment benefits other than pensions.

This valuation reflects a change to the way prescription drug benefits for Medicare-eligible retirees are structured. As of January 1, 2014, VEHI will provide these benefits under a Medicare Part D Employer Group Waiver Plan (EGWP) arrangement in coordination with Blue Cross Blue Shield of Vermont. Prior to this change, VSTRS was participating in the Retiree Drug Subsidy (RDS) program, in which the plan sponsor applies for a subsidy equal to 28% of gross Rx claims within certain parameters, typically representing subsidies equal to about 20% of gross Rx cost. Under the EGWP arrangement, the benefits available to participants do not materially change, but are provided through a plan which is directly contracted with Medicare and which receives several sources of subsidies. The three material subsidies are the Direct Subsidy to EGWP, Coverage Gap Discounts on brand drugs, and Federal Reinsurance. The total of these subsidies is of greater value than the RDS subsidies, typically equal to 30% to 40% of gross Rx cost.

In addition to the different financial arrangement, the EGWP arrangement is treated differently than the RDS for accounting purposes. GASB Technical Bulletin No. 2006-1 disallowed reflecting future RDS payments as an offset to GASB 45 liabilities, and so we have not reflected RDS payments in prior valuations. On the other hand, since the EGWP arrangement flows directly into reduced premiums, as opposed to the intra-governmental transfer of RDS, the subsidies received under the EGWP arrangement can be directly reflected in the GASB 45 calculations.

Thus, the change from EGWP to RDS represents a material reduction in the net cost to VEHI to provide these benefits, and we have reflected the savings in this valuation by assuming a reduction

in the fully-insured rates charged by VEHI in 2014. We estimated the total reduction in the cost to provide benefits using Buck's proprietary EGWP financial model fitted for VSTRS's prescription drug plan design. Moreover, the savings impact on the valuation is even larger, since the RDS amounts had not previously been reflecting. We assume that net Rx costs for Medicare eligible participants reduce gross spending (e.g. spending before recognizing RDS) by about 40% in 2014, resulting in a reduction in AAL of $203.6 million.

Assumptions related to decrement rates were updated for the June 30, 2011 valuation reflect the Experience Study of the State Teacher's Retirement System of Vermont, presented to and adopted by the Board on March 23, 2011. No assumption changes were made for the current valuation. The evaluation of the suitability of these assumptions for this GASB 45 valuation is beyond the scope of this assignment.

For this year's valuation, 411 active employees terminated on July 1, 2013 were assumed to cash out their retirement benefits within a year of termination and therefore not receive retiree medical benefits. In addition, members who terminated with five years of service within six years of the valuation date but have not cashed out their retirement benefits were assumed to cash out in the next year and not receive retiree medical benefits. At the direction of the System, these groups were not included in the valuation.

Please see the table in Section 1 for details on actuarial gains and losses experienced over the year.

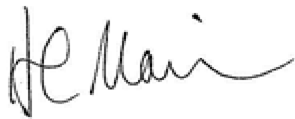
The valuation reflects the fact that there is currently no formal pre-funding policy, although pre-funding remains under consideration. Therefore, results are calculated using a 4.00% discount rate to reflect the assumption that benefits are expected to be financed from the state's general fund. A second scenario is provided which assumes the System's liabilities will be funded in a manner similar to that used for pensions, starting with the fiscal year beginning July 1, 2013. Results under this scenario reflect a discount rate of 7.90%, the single-equivalent rate which is consistent with the rate of return assumptions used for the pension valuation. Section II provides a summary of the principal valuation results in the form of the information required under GASB 45.

We are Fellows of the Society of Actuaries and Members of the American Academy of Actuaries. We meet the Qualification Standards of the Academy to render the actuarial opinions contained herein. David Driscoll meets the Qualification Standards in the pension areas of practice and has concentrated on the long term aspects of this analysis. Hope Manion meets the Qualification

Standards in the health area of practice and has concentrated on the short term aspects of this analysis. Both undersigned actuaries have reviewed the overall reasonableness and consistency of these results. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions concerning it.

Respectfully Submitted,

BUCK CONSULTANTS, LLC



Hope C. Manion, FSA, MAAA Principal and Consulting Actuary	10/23/2013 Date

David L. Driscoll, FSA, MAAA, EA Principal, Consulting Actuary	10/23/2013 Date

SECTION I – OVERVIEW

The System experienced a net decrease in its accrued liability for post-retirement benefits over the past year. The decrease in liability is primarily due to the decision to provide Medicare prescription drug benefits through an Employer Group Waiver Plan (EGWP) effective January 1, 2014. This decrease was mitigated by the following factors:

- Expected increases due to the passage of time;
- Impact of recent year's demographic experience;
- Increases in plan premiums larger than expected outside of the impact of adopting the EGWP arrangement.

There were no changes to the discount rate used for the pay-as-you go basis or to the healthcare trend rates. The discount rate assumed for the pre-funded basis alternative scenario reflects a single rate equivalent of the select and ultimate discount rates recommended by the Experience Study. Per capita costs were updated to reflect the most recent plan premiums in effect. No other assumption changes have been made since the last valuation. A summary of valuation assumptions is shown in Section VI.

GASB Staff Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, provides that GASB OPEB calculations cannot reflect offsets for future Medicare Part D Retiree Drug Subsidy payments. Instead, such payments are to be reflected when the drug subsidy is actually earned (i.e., when the drug benefit costs for which the subsidy is due have been incurred by the participants). Thus, our calculations do not reflect the value of future Retiree Drug Subsidy amounts for the period that the subsidy affects the plan, e.g. through December 31. 2013. Subsidy payments under the EGWP arrangement effective January 1, 2014 are reflected in the calculation.

We have made explicit adjustments to the values developed in this report for the future effects of the "Cadillac tax" introduced under federal healthcare reform legislation. We have not made adjustments for other potential effects of health care reform legislation on VSTRS liabilities. Please see Section VII for details.

Shown below is a reconciliation of the Unfunded Actuarial Accrued Liability from last year to this year under the 4% discount rate assumption (amounts in $millions).

6/30/2012 Unfunded Actuarial Accrued Liability		$ 827,180,098
End of year normal cost	$ 22,401,753	
Interest cost	32,612,252	
Expected Benefit Payments	(23,982,688)	
6/30/2013 Expected Unfunded Actuarial Accrued Liability		$ 858,211,415
Impact of recent year Demographic Experience	$ 19,076,143	
New per capita costs	38,380,643	
Other refinements	617,121	
Implementation of EGWP	(203,619,214)	
6/30/2013 Unfunded Actuarial Accrued Liability		$ 712,666,108

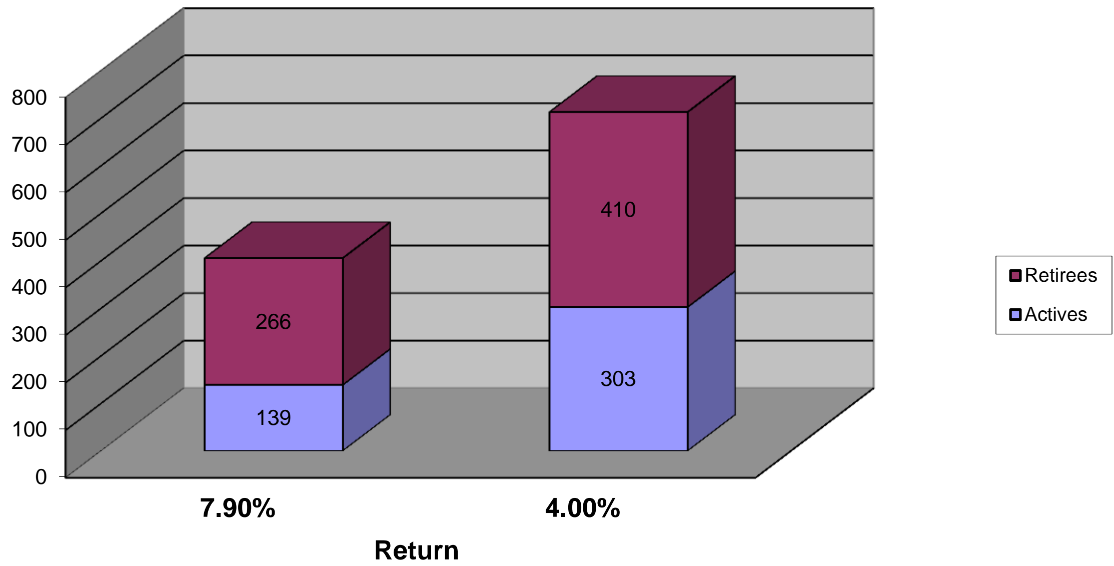
The fiscal 2014 Annual Required Contribution calculated on the pay-as-you-go basis at a discount rate of 4.00% is $39,238,510; we project the Annual Required Contribution calculated at 4.00% for the subsequent year (fiscal year ending June 30, 2015) to be $40,760,725.

SECTION II – REQUIRED INFORMATION

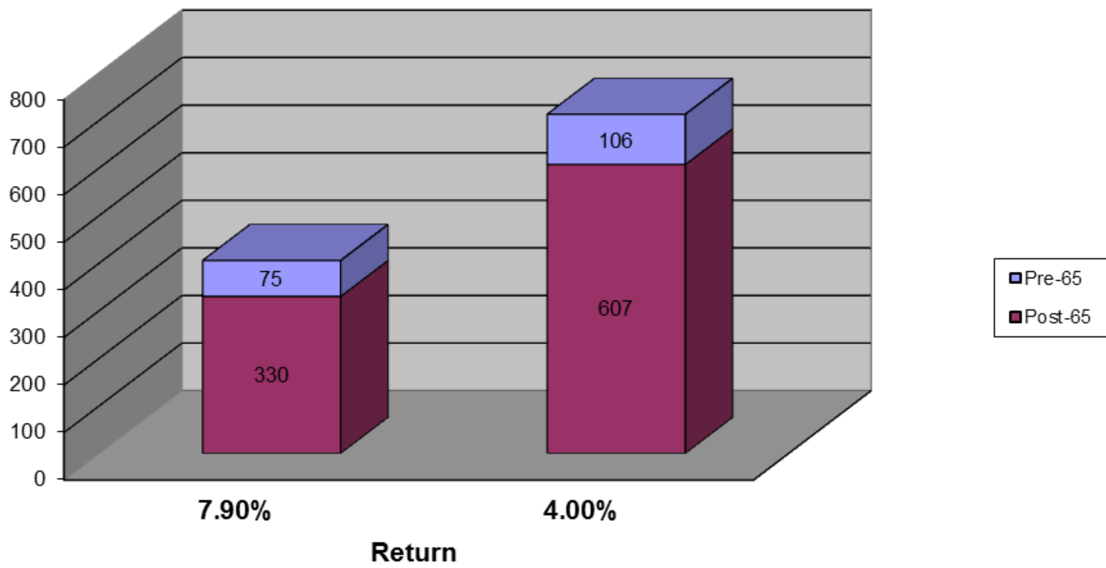
	Pre-Funding Basis	Pay-as-you-go Basis
a) Assumed discount rate	7.90%	4.00%
b) Actuarial value of assets	$ -	$ -
c) Actuarial accrued liability		
Active Participants	$ 138,629,980	$ 302,532,383
Retired Participants	$ 266,600,870	$ 410,133,725
Total	$ 405,230,850	$ 712,666,108
d) Unfunded actuarial liability (c. - b.)	$ 405,230,850	$ 712,666,108
e) Funded ratio	0.0%	0.0%
f) Annual covered payroll	$ 563,533,549	$ 563,533,549
g) Unfunded actuarial liability as a percentage of covered payroll	71.9%	126.5%
h) Normal cost for the 2014 fiscal year	$ 7,590,447	$ 18,631,512
i) Amortization of unfunded actuarial liability for the 2014 fiscal year (30-year)	$ 19,504,680	$ 20,606,998
j) Annual Required Contribution (ARC) for the 2014 fiscal year* (h. + i.)	$ 27,095,127	$ 39,238,510
k) Expected net retiree claims	$ 26,923,743	$ 26,923,743
h) Normal cost for the 2015 fiscal year	$ 7,969,969	$ 19,563,088
i) Amortization of unfunded actuarial liability for the 2015 fiscal year (30-year)	$ 20,093,642	$ 21,197,637
j) Annual Required Contribution (ARC) for the 2015 fiscal year* (h. + i.)	$ 28,063,611	$ 40,760,725

* Payment is assumed to be made at the beginning of the fiscal year.

Actuarial Accrued Liability in $millions – Actives versus Retirees



Actuarial Accrued Liability in $millions – Pre-65 versus Post-65



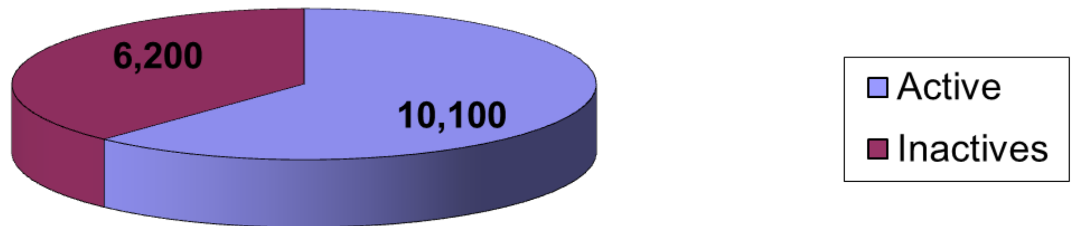
SECTION III – MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of participants included in valuation

	2013	2012
Actives	10,100	10,262
Inactives	6,200*	5,978*
Total	16,300	16,240

* Includes 750 and 793 terminated vested individuals in 2013 and 2012 respectively. In addition, the 2013 count includes 157 retirees who retired on July 1, 2013, and the 2012 count includes 214 retirees who retired on July 1, 2012.

Participants



THE NUMBER OF
ACTIVE MEMBERS DISTRIBUTED BY AGE AND SERVICE
AS OF JUNE 30, 2013

	0 to 4	*5 to 9*	*10 to 14*	*15 to 19*	*20 to 24*	*25 to 29*	*30 to 34*	*35 to 39*	*40 & up*	*Total*
AGE	No.	No.	No.	No.	No.	No.	No.	No.	No.	No.
Under 20	0	0	0	0	0	0	0	0	0	0
20 to 24	140	0	0	0	0	0	0	0	0	140
25 to 29	575	137	0	0	0	0	0	0	0	712
30 to 34	480	506	98	0	0	0	0	0	0	1,084
35 to 39	300	443	434	63	0	0	0	0	0	1,240
40 to 44	234	352	358	355	45	0	0	0	0	1,344
45 to 49	179	270	285	237	209	62	0	0	0	1,242
50 to 54	164	223	256	246	228	256	47	0	0	1,420
55 to 59	116	183	256	249	216	267	222	60	0	1,569
60 to 64	66	112	161	169	187	156	131	122	26	1,130
65 to 69	21	20	27	22	22	27	15	19	18	191
70 & up	4	5	5	2	2	1	1	4	4	28
TOTAL	2,279	2,251	1,880	1,343	909	769	416	205	48	10,100

13 of the 10,100 active participants are Group A, the remainder are Group C.

Monthly State Costs (including expenses) for 2013

Plan	State Share	Change from 2012	Participants
JY			
Retiree under 65	$510.99	10.0%	120
Retiree over 65	$380.50	10.0%	809
			929
$300 Comprehensive Plan*			
Retiree under 65	$510.99	10.0%	652
Retiree over 65	$380.50	10.0%	2,638
			3,290
Vermont Health Partnership			
Retiree under 65	$510.99	10.0%	727
Vermont Blue 65 Plan C			
Medicare Eligible, over 65	$175.77	10.0%	504

*Formerly $250 Comprehensive Plan

**Amounts shown above for over 65 do not reflect reduction in costs for the EGWP arrangement effective January 1, 2014.

SECTION IV – REQUIRED SUPPLEMENTARY INFORMATION

The Schedule of Funding Progress is required to be included in the State's Financial Statements.

SCHEDULE OF FUNDING PROGRESS

BASED ON CURRENT POLICY OF PAY-AS-YOU-GO FUNDING

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
June 30, 2013	$0	$712,666	$712,666	0%	$563,534	126.5%
June 30, 2012	$0	$827,180	$827,180	0%	$561,026	147.4%
June 30, 2011	$0	$780,032	$780,032	0%	$547,748	142.4%
June 30, 2010	$0	$703,751	$703,751	0%	$560,763	125.5%
June 30, 2009	$0	$872,236	$872,236	0%	$561,588	155.3%
June 30, 2008	$0	$863,555	$863,555	0%	$535,807	161.2%
June 30, 2007	$0	$820,212	$820,212	0%	$515,573	159.1%
June 30, 2006	$0	$952,526	$952,526	0%	$499,044	190.9%

Liabilities above were based on assumed discount rates of 3.75% prior to 2008 and 4.00% for 2008 and after.

SCHEDULE OF FUNDING PROGRESS

BASED ON A POLICY OF PRE-FUNDING STARTING JULY 1, 2013

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
June 30, 2013	$0	$405,231	$405,231	0%	$563,534	71.9%
June 30, 2012	$0	$827,180	$827,180	0%	$561,026	147.4%
June 30, 2011	$0	$780,032	$780,032	0%	$547,748	142.4%
June 30, 2010	$0	$703,751	$703,751	0%	$560,763	125.5%
June 30, 2009	$0	$872,236	$872,236	0%	$561,588	155.3%
June 30, 2008	$0	$863,555	$863,555	0%	$535,807	161.2%
June 30, 2007	$0	$820,212	$820,212	0%	$515,573	159.1%
June 30, 2006	$0	$952,526	$952,526	0%	$499,044	190.9%

Liabilities above were based on assumed discount rates of 3.75% prior to 2008, 4.00% for 2008 through 2012, and 7.90% for 2013.

SECTION V – NET OPEB OBLIGATION

GASB Statement No. 45 requires the development of Annual OPEB Cost and Net OPEB Obligation (NOO). This development is shown in the following table.

DEVELOPMENT OF OPEB COST AND NET OPEB OBLIGATION (NOO)

Year Ending June 30	Annual Required Contribution	Interest on NOO	Amortization of NOO	OPEB Cost (1)+(2)-(3)	Actual Contribution	Change in NOO (4)-(5)	NOO Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2008	60,220,989	0	0	60,220,989	0	60,220,989	60,220,989
2009	59,124,164	2,408,840	1,741,312	59,791,692	0	59,791,692	120,012,681
2010	58,966,227	4,800,507	3,470,210	60,296,524	0	60,296,524	180,309,206
2011	41,509,429	7,212,368	5,213,706	43,508,091	0	43,508,091	223,817,296
2012	43,410,732	8,952,692	6,471,758	45,891,666	0	45,891,666	269,708,962
2013	45,458,358	10,788,358	7,798,732	48,447,984	0	48,447,984	318,156,946
2014	39,238,510	12,726,278	9,199,623	42,765,165			

Benefit payments are made from the pension assets and recorded as an asset loss as part of the pension plan accounting. Therefore, pay-as-you-go costs are not included in the calculation of the NOO.

SECTION VI – ACTUARIAL ASSUMPTIONS AND METHODS

VERMONT STATE TEACHERS

Interest	4.00% per year, the assumed rate of return on general assets of the employer, for a pay-as-you-go plan. Alternatively, 7.90% per year, net of investment expenses for a fully pre-funded plan. Note that the fully funded discount rate is consistent with the single-equivalent rate used for the pension valuations.
Actuarial Cost Method:	Projected Unit Credit with benefits attributed from date of hire until expected retirement date.
Medical Care and State Share Inflation:	5.00% The assumption reflects the anticipated impact of the use of the surplus of Vermont Education Health Initiative to moderate the increase in rates over the short term.
Amortization period:	Thirty year amortization starting in state fiscal year 2014 with payments increasing 5% annually as is consistent with statutory guidelines regarding amortization of pension liabilities.
Grandfathering:	Participants who had attained 10 years of service as of June 30, 2010 are considered Grandfathered.

Separations before normal retirement: Representative values of the assumed annual rates of withdrawal, vested retirement, early retirement, disability and death are as follows.

Age	Withdrawal and Vested Retirement		Disability		Death	
	Males	Females	Males	Females	Males	Females
25	20.00%	20.00%	.010%	.015%	.02%	.02%
30	12.00	14.00	.015	.015	.02	.02
35	8.00	11.30	.020	.015	.02	.02
40	6.50	8.60	.030	.020	.05	.02
45	5.80	6.00	.052	.045	.05	.04
50	5.40	5.00	.067	.070	.07	.06
55	5.40	4.80	.088	.095	.07	.10
59	5.40	4.80	.234	.142	.09	.14
60	5.40	4.80	.294	.168	.09	.15
61	5.40	4.80	.366	.202	.30	.17

Participants are considered Grandfathered under the pension plan if they were within 5 years of the former Normal Retirement criteria (age 62 and 5 years of service, or completion of 30 years of service at any age) as of July 1, 2010. Retirement rates are then applicable as follows:

Age	Reduced Early Retirement		Full Early Retirement	
	Grandfathered (55 & 5)	Non-Grandfathered (55 & 5)	Grandfathered (62 & 5 or 30 YOS)	Non-Grandfathered (65 & 5 or Rule of 90)
50	-	-	40.00%	25.00%
55	8.75%	8.75%	20.00	20.00
56	6.25	6.25	10.00	10.00
57	6.25	6.25	10.00	10.00
58	6.25	6.25	10.00	10.00
59	6.25	6.25	10.00	10.00
60	12.50	12.50	30.00	17.00
61	12.50	12.50	17.00	17.00

Prior to age 65, 25% of Non-Grandfathered participants are assumed to retire the first year they satisfy the Rule of 90 eligibility criteria.

Service Retirements: Occur between ages 62 (60 for Group A) and 70. The assumed rates of service retirement are as follows:

Age	Annual Rate of Retirement	
	Grandfathered	Non-Grandfathered
62	25.0%	20.0%
63	20.0	20.0
64	20.0	20.0
65	30.0	30.0
66	30.0	30.0
67	30.0	30.0
68	20.0	20.0
69	30.0	30.0
70	100.0	100.0

Prior to age 65, 25% of Non-Grandfathered participants are assumed to retire the first year they satisfy the Rule of 90 eligibility criteria.

Deaths after Retirement:

For Group C service retirements: The 1995 Buck Mortality Tables, set back three years for males and one year for females.
For Group A service retirements: The 1995 Buck Mortality Tables set back one year for both males and females.
For the period following disability retirement: the RP-2000 Disabled Life Mortality Tables are used with mortality improvements projected to 2016 with Scale AA.

The tables used were selected to allow for a margin to reflect mortality improvement after the valuation date.

All mortality tables used in this valuation are consistent with the pension valuation per Title 16, Chapter 55, Section 1944 of the Vermont Statutes.

Per Capita Costs:

Current and future retirees are valued with a weighted-average premium. Premiums are assumed to include the cost of administering the medical benefits. The weighted-average premium is based on the medical plan coverage of current retirees. No age morbidity is assumed as the benefits are fully insured and the System is not liable for any hidden subsidies arising from blending active and retiree experience.

Estimated gross per capita costs for 2013-14 for pre- and post-Medicare coverage were $7,665 and $5,316 respectively, before reflecting percentage of state premium subsidy. It is assumed that future retirees are Medicare eligible. Per capita costs were developed from the State-provided monthly premiums. Claims information was not available. The plans are fully insured via the Vermont Education Health Initiative purchasing trust.

Effective January 1, 2014, the post Medicare coverage costs are assumed to be reduced to reflect anticipated reduction in premiums due to EGWP federal subsidy payments to VEHI. The estimated gross per capita cost are assumed to be reduced to $3,243 at the fiscal year 2013-2014 level, before reflecting percentage of state premium subsidy.

Future employee cost sharing is assumed to be a percentage of total costs based on plan provisions.

Coverage:

It is assumed that 60% of those eligible at retirement will elect medical coverage. It is assumed that 30% of terminated vested participants will elect medical coverage. Individuals are assumed to elect options in the same proportion as current retirees.

Premium Reduction Option

It is assumed that 50% of retirees covering spouses will elect the Premium Reduction Option at retirement. The Option is currently valued using a reduction factor of 92.5% of the single-life subsidy for which the retiree and spouse are eligible.

Marital status:

It is assumed the 85% of males and 70% of females will cover a spouse who is eligible for subsidized coverage at retirement. It is assumed that husbands are 3 years older than wives. Spouses are assumed to make coverage elections in the same proportions as retirees.

SECTION VII – CONSIDERATION OF HEALTH CARE REFORM

Summary of Effects of Selected Provisions

Removal of Lifetime Maximum – Effective 1/1/2011: As the plans offered by VSTRS do not have Lifetime Maximums, there is no effect on the liabilities.

Medicare Advantage Plans - Effective 1/1/2011: The law provides for reductions to the amounts that would be provided to Medicare Advantage plans starting in 2011. As VSTRS does not provide these plans to retirees, there is no impact.

Expansion of Child Coverage to Age 26 - Effective 1/1/2011: The plan does not subsidize the cost of children, and so there is no direct impact. We have assumed any impact on the VEHI rates charged to the plan are reflected in anticipated the state share increase rate.

Medicare Part D Subsidy - Shrinking Medicare Prescription Drug "Donut Hole"- Starting 1/1/2011– It is our understanding that Medicare prescription drug benefits will be offered through an Employer Group Waiver Plan (EGWP) effective January 1, 2014. Therefore, VSTRS will no longer seek reimbursement for the Retiree Drug Subsidy. The impact of the shrinking Medicare prescription drug benefit donut hole coverage gap on EGWP financing was considered in setting the trend assumption for this valuation. Because the improved coverage gap benefit results in lower reinsurance in the catastrophic layer of federal payments, no long term trend impact was assumed.

Excise Tax on High-Cost Employer Health Plans (aka Cadillac Tax) - Effective 1/1/2018 - There is considerable uncertainty about how the tax would be applied, and considerable latitude in grouping of participants for tax measurement testing purposes. We prepared a projection of the calculation based on a reasonable interpretation of the applicable legislation. The projection separately valued single and family premium costs for participants over age 65 from the premium costs for pre-65 participants, projecting these amounts by the medical cost increase factors in this valuation. The initial 2018 limits for calculating the tax were projected using the same cost increase factors as used for the valuation. The limits after 2018 were calculated using an assumed CPI of 3.0%. We adjusted healthcare cost trend to reflect the Tax. This increased overall results by about 0.5%.

Other: We have not identified any other specific provision of national health care reform that would be expected to have a significant impact on the measured obligation. The single payer system called Green Mountain Care to be established in Vermont has the potential of significant impact on the valuation. At this point, plans for implementation are just beginning, and would

be highly speculative to predict what that impact will be. As additional guidance on both the federal and Vermont legislation is issued, we will continue to monitor any potential impacts.

SECTION VIII – POSTRETIREMENT BENEFIT PLAN PROVISIONS

RETIREE MEDICAL BENEFITS

ELIGIBILITY AND PREMIUM SUBSIDY

·Retiree Coverage and Subsidy Level

Years of Service at June 30, 2010		
·10 or more:	80% Subsidy	
·Less than 10:	Less than 15 years:	0% Subsidy
	15-19.99 years:	60% Subsidy
	20-24.99 years:	70% Subsidy
	25 years or more:	80% Subsidy

· Spouse Coverage with 80% Subsidy

Years of Service at June 30, 2010	*Required Years of Service at Retirement*
·Less than 15:	25 years of service at retirement
·Between 15 and 24.99:	10 additional years from June 30, 2010
·Between 25 and 29.99:	35 years of service at retirement
·30 or more:	5 additional years from June 30, 2010

Premium Reduction Option

For retirements on or after January 1, 2007, members entitled to a VSTRS premium subsidy have a one-time option to reduce the percentage of VSTRS subsidy during the retiree's life, with the provision that a surviving spouse will continue to receive the same VSTRS subsidy for his or her lifetime. The reduction in VSTRS subsidy is intended to result in an actuarially equivalent benefit.

Terminated Vested Benefits ·

Members who terminate with 5 or more years of service but who are not yet 55 years old may elect to receive medical coverage at the time their retirement benefits would commence.

STATE OF VERMONT VSTRS MEDICAL PLANS

	JY Plan*	$300 Comprehensive Plan*	Vermont Health Partnership
Primary Care Physician	N/A	N/A	Select upon enrollment
Co-Pay	$20	N/A	$15 for PCP, $25 for Specialist
Deductible	N/A	$300	N/A
Coinsurance (Plan Pays)	100% of Allowed	80%	100% of Allowed
Out of Pocket Maximum	N/A	$600/$1,200	N/A
Lifetime Maximum	None	None	None
Prescription Drugs	Generic - $5 Preferred Brand - $20 Non-Preferred - $45 Out of Pocket Maximum - $600/$1,200		

Plans fully insured via VEHI purchasing partnership.

*For those eligible, benefits are coordinated with Medicare. Vermont Blue65 Plan C Medigap plan is also available. The Medigap plan does not include prescription drug coverage.

SECTION IX – GLOSSARY OF TERMS

Actuarial accrued liability
That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of OPEB benefits and expenses which is not provided for by future Normal Costs and therefore is the value of benefits already earned.

Actuarial assumptions
Assumptions as to the occurrence of future events affecting OPEB costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided OPEB benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

Actuarial cost method
A procedure for determining the Actuarial Present Value of OPEB benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial experience gain or loss
A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

Amortization (of unfunded actuarial accrued liability)
That portion of the OPEB plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

Annual OPEB cost
An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual required contributions of the employer (ARC)
The employer's periodic expense to a defined benefit OPEB plan, calculated in accordance with the parameters. It is the value of the cash contributions for a funded plan and the starting point in the calculation of the expense entry in the profit and loss section of the financial statements.

Closed amortization period (closed basis)
A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.
Covered payroll
Annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

Defined benefit OPEB plan
An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

Funded ratio
The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Funding policy
The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by an OPEB plan.

Healthcare cost trend rate
The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Investment return assumption (discount rate)
The rate used to adjust a series of future payments to reflect the time value of money.

Level dollar amortization method
The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

Level percentage of projected payroll amortization method
Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

Net OPEB obligation (NOO)
The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt. It will be included as a balance sheet entry on the financial statements.

Normal cost
That portion of the Actuarial Present Value of OPEB benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. It is the value of benefits to be accrued in the valuation year by active employees.

OPEB-related debt
All long-term liabilities of an employer to an OPEB plan, the payment of which is not included in the annual required contributions of a sole or agent employer (ARC) or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

Other postemployment benefits
Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Pay-as-you-go
A method of financing an OPEB plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Required supplementary information (RSI)
Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.