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

Prepared as of June 30, 2011

October 2011

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INTRODUCTION

The Board of Trustees of the Vermont State Employees' 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, 2011. The State Treasurer's Office provided the employee data and premium information used in the completion of this valuation.

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 Statements 43 and 45, which relate to accounting and financial reporting for post-employment benefits other than pensions.

We performed the calculations assuming that the System would continue its current practice of paying for the benefits on a pay-as-you-go basis, and contributing Medicare Part D refunds into a dedicated and irrevocable trust fund. This approach qualifies as partial prefunding under Governmental Accounting Standards, and it was determined that a 4.25% discount rate is reasonable for this purpose. As requested, we have also provided results under alternative scenarios that assume that the System's post-retirement medical benefits other than pensions are funded in a manner similar to that used for pensions and on a pure pay-as-you-go basis. Section II provides a summary of the principal valuation results in the form of the information required under GASB 45..

There were no plan changes reflected in this valuation. Provisions of national health care reform legislation taking effect after June 30, 2010, were reflected in the valuation made as of that date.

Assumptions related to decrement rates were updated to reflect the Experience Study of the State Teacher's Retirement System of Vermont, which was presented to and accepted by the Board on May 11, 2011. As a result of this study, updates were made to withdrawal, retirement, and mortality assumptions for each group as applicable. The combined effect of these changes was an increase in the Actuarial Accrued Liability. In addition, the fully-funded alternative scenario is being provided using a discount rate of 8.10% as is consistent with the single-rate equivalent recommended for the pension plan.

Please see the table in Section I for summary of change to the Unfunded Actuarial Accrued Liability experienced over the year.

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 are 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 Director and Consulting Actuary	October 21, 2011 Date
David L. Driscoll, FSA, MAAA, EA Principal, Consulting Actuary	October 21, 2011 Date

SECTION I – OVERVIEW

The System experienced a net increase in its Actuarial Accrued Liability for post-retirement benefits over the past year. The increase in liability is primarily attributable to the following factors:

- Expected increases due to the passage of time;
- Demographic experience different than expected;
- Updates to demographic assumptions as recommended by the Experience Study of the State Employees' Retirement System of Vermont, presented to the Board on May 11, 2011;
- Refinements to the way the impact of Health Care Reform is estimated;

Increases in net liabilities due to these factors were somewhat mitigated by increases in per capita healthcare costs that were smaller than anticipated, and a return on assets better than expected.

In order to be consistent with current actuarial practices and expectations, we have updated the following assumptions:

- Withdrawal rates for Groups A, D, and F were increased by 30%; the withdrawal rates for Group C females were increased by 100%.
- Retirement rates were increased for Group F participants between the ages of 50 and 55 (these increases are only applicable for participants who have attained 30 years of service.)
- Active service mortality was updated to the RP-2000 Combined Mortality Tables projected to 2016 using Scale AA.
- Mortality for service retirees was updated to the RP-2000 Combined Mortality Tables projected to 2010 using Scale AA
- Mortality for disabled retirees updated to the RP-2000 Combined Mortality Tables with a three-year set-forward.
- The fully funded alternative scenario is prepared using a discount rate of 8.10% which is consistent with the single-rate equivalent of the select-and-ultimate asset return assumption recommended for the pension valuation.

In addition, per unit per capita healthcare costs were updated based on recent plan premium equivalents and enrollment. All other assumptions, including the healthcare cost trend and assumed discount rate, were the same as those used in 2010. A summary of valuation assumptions is shown in Section VI.

All plan provisions were the same as those reflected in the 2010 valuation.

The asset return was about 8.76%, which was more than the expected 8.25%.

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 subsidy payments. Instead, the 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 directly reflect the value of future Retiree Drug Subsidy amounts. The commitment to contribute the future Retiree Drug Subsidy amounts represents a commitment to partial funding that has been reflected in the assumed discount rate.

We note that the System is participating in the Early Retiree Reimbursement Program (ERRP) created by the Patient Protection and Affordable Care Act of 2010. Due to the short term nature of payments expected to be received under the program, we do not reflect such payments when calculating the Actuarial Accrued Liability. In addition, we believe that the value of such payments should not be reflected based on an analysis similar to that applied to RDS amounts under GASB Technical Bulletin No. 2006-1. However, we did reflect that the ERRP payments receivable for fiscal 2011 are to be deposited in the OPEB trust when calculating estimated asset gains and losses.

We assume that the plan premiums developed by the insurance companies for 2011 reflect the required expansion of coverage to adult children under federal healthcare reform legislation. As the assumed per capita healthcare costs implicitly reflect the inclusion of children, we have not made an additional adjustment to the liabilities for this requirement this year.

Since the prior valuation, more analysis has been performed surrounding the implementation of the High Cost Premium Excise Tax ("Cadillac Tax"). Based on our current understanding of how the tax will be assessed, we have refined our estimate of the impact of this premium tax on GASB 45 liabilities. We estimate the tax to increase total liabilities by 3.0%.

We have not made adjustments for other potential effects of any future health care reform legislation changes on VSERS liabilities. Please see Section VII for details.

Shown below is a reconciliation of the funded status from last year to this year under the 4.25% discount rate assumption (amounts in $millions).

6/30/2010 Unfunded Accrued Liability		$917.3
End of year service cost	41.2	
Interest cost	38.7	
Benefit Payments	(30.9)	
Expected increase in assets	(2.2)	
6/30/2011 Expected Unfunded Accrued Liability		$964.1
Demographic experience different than expected	4.3	
New per capita costs	(8.6)	
New decrement assumptions	25.2	
Health Care Reform	14.7	
Asset gain	(1.1)	
6/30/2011 Unfunded Accrued Liability		$998.6

The expected increase in assets reflects expected RDS payments of $1.5 million and expected return on assets of $0.7 million. The asset experience gain is comprised of $0.5 million in RDS payments greater than expected, ERRP payments of $0.4 million, and investment income of $0.1 million greater than expected.

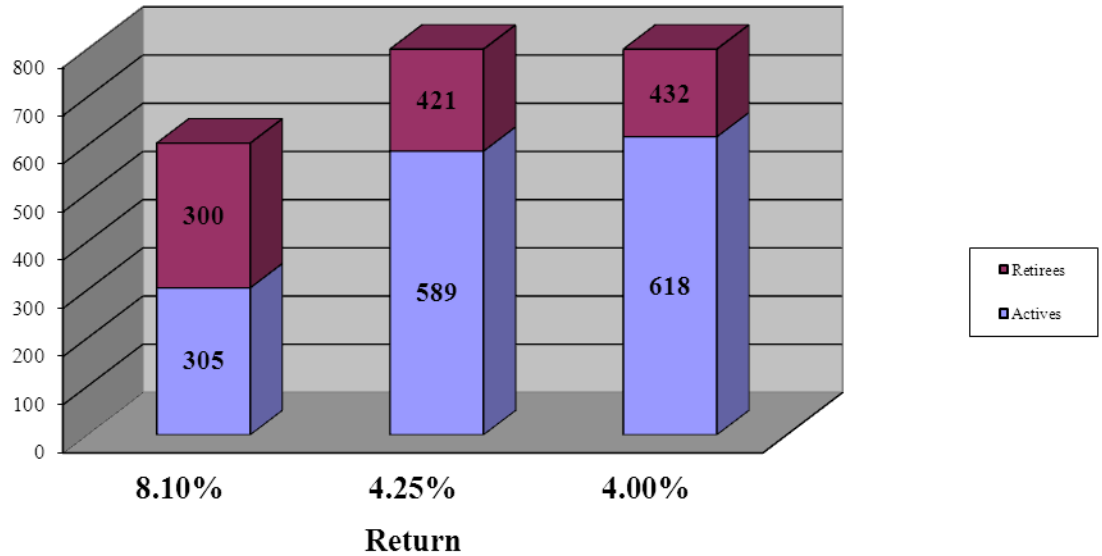
The fiscal 2012 Annual Required Contribution calculated on the partial funding basis at a discount rate of 4.25% is $69,880,277; we estimate the Annual Required Contribution calculated at 4.25% for the subsequent year (fiscal year ending June 30, 2013) to be $73,355,822.

SECTION II – REQUIRED INFORMATION

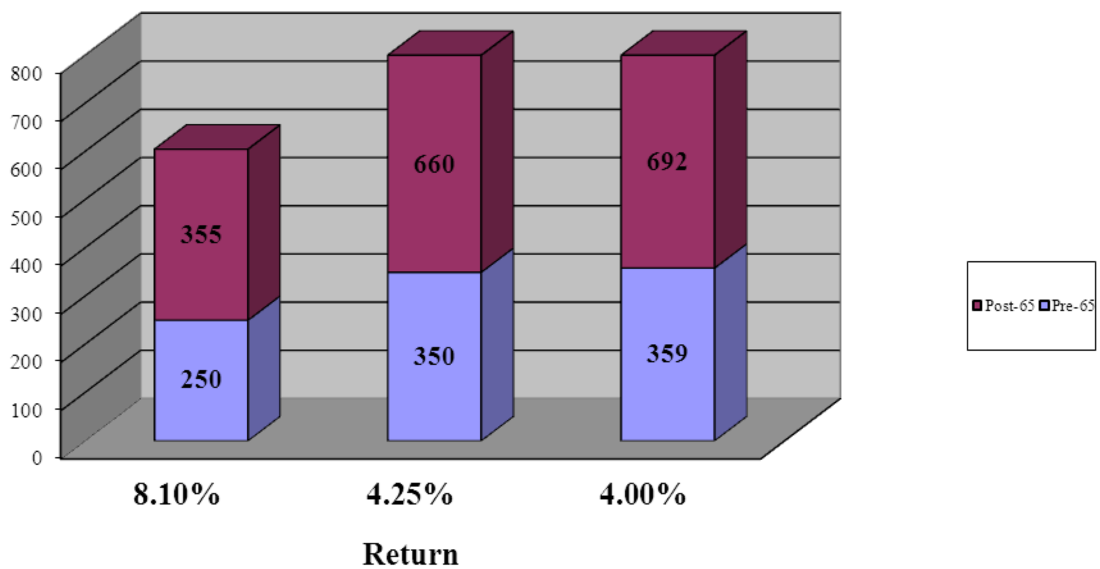
		Pre-Funding Basis	Partial-Funding Basis	Pay-as-you-go Basis
a)	Assumed discount rate	8.10%	4.25%	4.00%
b)	Actuarial value of assets	$ 11,215,536	$ 11,215,536	$ 11,215,536
c)	Actuarial accrued liability			
	Active Participants	$ 305,152,245	$ 588,716,974	$ 618,356,526
	Retired Participants	$ 299,914,028	$ 421,074,887	$ 431,978,889
	Total	$ 605,066,273	$1,009,791,861	$1,050,335,415
d)	Unfunded actuarial liability (c. - b.)	$ 593,850,737	$ 998,576,325	$1,039,119,879
e)	Funded ratio	1.9%	1.1%	1.1%
f)	Annual covered payroll	$ 420,321,080	$ 420,321,080	$ 420,321,080
g)	Unfunded actuarial liability as a percentage of covered payroll	141.3%	237.6%	247.2%
h)	Normal cost for the 2012 fiscal year	$ 17,926,475	$ 39,938,163	$ 42,388,590
i)	Amortization of unfunded actuarial liability for the fiscal year (30-year)	$ 29,248,112	$ 29,942,114	$ 30,046,527
j)	Annual Required Contribution (ARC) for the 2012 fiscal year* (h. + i.)	$ 47,174,587	$ 69,880,277	$ 72,435,117
k)	Expected net retiree claims	$ 34,046,207	$ 34,046,207	$ 34,046,207

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

Actuarial Accrued Liability in $ millions – retirees versus actives



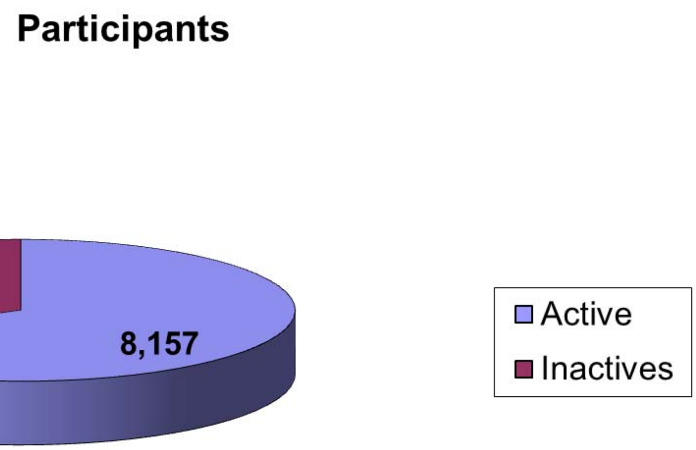
Actuarial Accrued Liability in $ millions – pre-65 versus post-65



SECTION III – MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of participants included in valuation

	Total
Active	
Group A	12
Group C	418
Group D	47
Group F	7,291
Defined Contribution	389
Total	8,157
Retired	4,011
Total	12,168



Monthly State Premium Costs (including expenses) Effective January 1, 2011

	State Share	Retirees	Dependents
Total Choice			
Retiree under 65	$614.82	192	0
2 Person under 65	$1,229.65	123	123
Family Retiree under 65	$1,690.77	25	25
Retiree under 65 and 1 over 65	$870.25	112	112
3 Person, Retiree and 1 under 65 and 1 over 65	$1,144.58	7	7
Retiree over 65	$255.42	1,569	0
2 Person over 65	$510.84	840	840
Retiree over 65 and 1 under 65	$870.25	225	225
Retiree over 65 and 2 or more under 65	$1,144.58	18	18
Retiree over 65 and 2 or more dependents, 1 Medicare eligible	$749.88	11	11
SelectCare POS			
Retiree under 65	$514.57	393	0
2 Person under 65	$1,029.12	362	362
Family (Retiree under 65)	$1,415.04	95	95
SafetyNet			
Retiree under 65	$360.51	2	0
2 Person under 65	$721.02	1	1
Family (Retiree under 65)	$991.40	0	0
HealthGuard			
Retiree under 65 and 1 over 65	$792.80	1	1
Retiree over 65	$241.34	11	0
2 Person over 65	$482.67	17	17
Retiree over 65 and 1 under 65	$792.80	7	7
Total		4,011	1,844

THE NUMBER OF
ACTIVE MEMBERS DISTRIBUTED BY AGE AND SERVICE
AS OF JUNE 30, 2011

	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	4	0	0	0	0	0	0	0	0	4
20 to 24	162	1	0	0	0	0	0	0	0	163
25 to 29	395	109	0	0	0	0	0	0	0	504
30 to 34	349	291	72	0	0	0	0	0	0	712
35 to 39	275	291	200	53	6	0	0	0	0	825
40 to 44	267	260	260	165	143	4	0	0	0	1,099
45 to 49	223	282	231	145	225	127	19	0	0	1,252
50 to 54	247	241	243	128	213	147	115	4	0	1,338
55 to 59	174	209	201	128	189	158	129	59	4	1,251
60 to 64	94	114	134	80	109	93	104	59	25	812
65 to 69	24	24	24	12	18	14	19	8	15	158
70 & up	4	3	14	3	4	1	3	2	5	39
TOTAL	2,218	1,825	1,379	714	907	544	389	132	49	8,157

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 WITH ASSUMPTIONS BASED ON CURRENT POLICY ON 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, 2011	$11,216	$1,009,792	$998,576	1.1%	$420,321	237.6%
June 30, 2010	$7,897	$925,183	$917,286	0.9%	$414,936	221.1%
June 30, 2009	$5,749	$780,748	$774,999	0.7%	$426,827	181.6%
June 30, 2008	$3,664	$754,690	$751,027	0.5%	$404,937	185.5%
June 30, 2007	$2,211	$606,499	$604,288	0.4%	$386,917	156.2%
June 30, 2006	$0	$552,152	$552,152	0.0%	$369,310	149.5%

These results are based on a discount rate of 3.75% for 2006 – 2007, 4.00% for 2007 – 2008 and 4.25% for 2009 – 2011.

If the State were to change its funding policy to pre-fund the entire calculated Annual Required Contribution, prospectively, the Schedule of Funding Progress would look as follows:

SCHEDULE OF FUNDING PROGRESS WITH ASSUMPTIONS BASED ON POLICY OF PRE-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, 2011	$11,216	$605,066	$593,850	1.9%	$420,321	141.3%
June 30, 2010	$7,897	$925,183	$917,286	0.9%	$414,936	221.1%
June 30, 2009	$5,749	$780,748	$775,000	0.7%	$426,827	181.6%
June 30, 2008	$3,664	$754,690	$751,027	0.5%	$404,937	185.5%
June 30, 2007	$2,211	$606,499	$604,288	0.4%	$386,917	156.2%
June 30, 2006	$0	$552,152	$552,152	0.0%	$369,310	149.5%

These results are based on a discount rate of 3.75% for 2006 – 2007, 4.00% for 2007 – 2008, 4.25% for 2009 – 2010, and 8.10% for 2011.

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	Annual OPEB Cost (1)+(2)-(3)	Actual Contribution	Change in NOO (4)-(5)	NOO Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2008	47,284,903	0	0	47,284,903	17,776,355	29,508,548	29,508,548
2009	58,666,959	1,180,342	853,250	58,994,051	19,893,129	39,100,922	68,609,470
2010	57,998,078	2,915,902	2,057,241	58,856,739	22,528,768	36,327,971	104,937,441
2011	67,030,307	4,459,841	3,146,528	68,343,620	27,394,474	40,949,146	145,886,587
2012	69,880,277	6,200,180	4,374,380	71,706,077			

The FYE June 30, 2011 actual contribution amount includes Medicare Part D Retiree Drug Subsidy amounts and Early Retiree Reinsurance Program amounts received by the State. These amounts were both treated as contribution amounts. However, we note that the Medicare Modernization Act which authorized the Retiree Drug Subsidy provided that the subsidy would be provided to the employer; while the more recent health reform legislation authorizing the Early Retiree Reinsurance Program provided that the ERRP amounts would be provided to the plan.

SECTION VI – ACTUARIAL ASSUMPTIONS AND METHODS

VERMONT STATE EMPLOYEES – ALL GROUPS

Assumed investment return

4.25% per year for a partially-funded plan based on a blend of 8.10% per year, net of investment expenses, the assumed rate of return on assets accumulated in the System's trust for benefit payments, and 4.00% per year, the assumed rate of return on general assets of the employer. In addition, two alternative scenarios are presented, using 8.10% for a pre-funded plan, and 4.00% for a non-funded plan. Note that the fully funded discount rate is consistent with the single-equivalent rate used for the pension valuations; last year, fully funded results were provided using a discount rate of 8.25%. Currently the assets of the Postemployment Benefit Trust are not invested in the same manner as the System, but it is assumed that the long term asset allocation will be the same as the System's overall asset allocation strategy.

Actuarial cost method:

Projected Unit Credit with benefits attributed from date of hire until reaching age 55 with at least 10 years of service.

Medical care and state share inflation:

Fiscal Year Ending	Medical Inflation Rate
2012	6.75
2013	6.50
2014	6.25
2015	6.00
2016	5.75
2018	5.50
2019	5.25
2020 +	5.00

The assumption reflects a blend of the medical benefit cost inflation for pre-Medicare and post-Medicare coverage.

Amortization period: Open basis, thirty-year amortization starting in the fiscal year starting in fiscal 2012 with payments increasing by 5% annually, as is consistent with statutory guidelines regarding amortization of pension liabilities. For the hypothetical unfunded scenario, the same method is used. For the hypothetical fully funded scenario, a similar method is used, but on a closed basis.

***Coverage*:** It is assumed that 80% of current active employees will elect retiree medical coverage. It is assumed that 70% of terminated vested participants will elect medical coverage when they start receiving pension benefits. It is assumed that deferred pension benefits will commence at age 50.

Administrative expenses: No provision made beyond healthcare administration; expenses of the System are paid by the State.

Medical plan costs: Estimated gross per capita incurred claim costs for 2011-12 at age 64 and 65 was $12,787 and $3,585, respectively. Per capita claims costs at other ages reflect estimated underlying costs based on Morbidity. It is assumed that future retirees are Medicare eligible at age 65. Per capita costs were developed from the monthly premium equivalents calculated by the State and are assumed to include administrative costs. The plans are self-insured. Per capita costs for pre-65 coverage include an implicit subsidy for covered children.

Retiree Contribution Basis Retiree contributions are valued with a weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees, and varies for pre-65 and Medicare-eligible coverage. Contributions for children are weighted in the pre-65 rates.

Age-based morbidity:

Per capita costs are adjusted to reflect expected cost increases related to age. Age-based morbidity factors were applied to pre-65 medical and prescription drug costs, and Medicare-eligible medical costs. Prescription drug costs are not assumed to increase with age above age 65. The increase in the net incurred claims was assumed to be:

Age	Annual Increase Medical Costs	Annual Increase Prescription Costs
49 and below	2.6%	2.6%
50-54	3.2%	3.2%
55-59	3.4%	3.4%
60-64	3.7%	3.7%
65-69	3.2%	0.0%
70-74	2.4%	0.0%
75-79	1.8%	0.0%
80 and over	0.0%	0.0%

Groups A, D, F, and Defined Contribution

Separations from service:

Representative values of the assumed annual rates of withdrawal, vested retirement, disability and death are as follows. Note that withdrawal, vested retirement, and death assumptions have changed since the prior valuation to reflect the Experience Study presented to the Board on May 11, 2011 . The active mortality is based on the RP-2000 Tables with mortality improvements projected to 2016 with Scale AA.

			Death	
Age	Withdrawal and Vested Retirement[1]	Disability	Men	Women
25	4.09%	.03%	.03%	.02%
30	3.27	.04	.04	.02
35	2.74	.05	.07	.04
40	2.53	.08	.10	.06
45	2.24	.13	.13	.09
50	1.87	.21	.16	.13
55	1.53	.35	.22	.22
59	3.26	.52	.34	.33
60	3.25	.57	.38	.36
61	3.24	.62	.42	.40

[1] Increased during first 10 years of service.

Retirement – Group F[2]					
Age	Rate (M/F, 30 Years)	Age	Rate (All)	Age	Rate (All)
49	0%/6%	55	7.0%	65	25.0%
50	20%/6%	56	14.0	66	15.0
51	20%/6%	57	28.0	67	17.5
52	10%/9%	68	17.5	68	17.5
53	10%/9%	69	17.5	69	20.0
54	10%/10%	62		70	100.0
		63			
		64			

[2] All Group A and D members are assumed to retire when first eligible.

Deaths after retirement:

Service Retirees and Beneficiaries: The RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries with mortality improvements projected to 2010 with Scale AA.

Disabled retirees: The RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries with a three-year set-forward.

Note that these assumptions represent changes from the prior valuation. The tables used were selected to allow for a margin to reflect mortality improvement through 2016. No further mortality improvement was assumed.

Spouse's age:

Husbands are assumed to be 3 years older than their wives.

Covered spouses:

75.4% (71.4% for Group F and Defined Contribution) of male members and 64.0% (63.1% for Group F and Defined Contribution) of female members are assumed to be covering spouses.

Group C

Separations before retirement:

Representative values of the assumed annual rates of withdrawal, vested retirement, disability and death are as follows. Note that withdrawal, vested retirement, and death assumptions have changed since the prior valuation to reflect the Experience Study presented to the Board on May 11, 2011. The active mortality is based on the RP-2000 Tables with mortality improvements projected to 2016 with Scale AA.

	Withdrawal and Vested Retirement[1]			Death	
Age	Men	Women	Disability	Men	Women
25	3.60%	7.20%	.15%	.03%	.02%
30	3.60	7.20	.20	.04	.02
35	3.60	7.20	.27	.07	.04
40			.40	.10	.06
45			.65	.13	.09
50			1.09	.16	.13
55			1.82	.22	.22
60			2.93	.38	.36

[1] Increased during first 5 years of service.

Early and normal retirement rates:

All members are assumed to retire when first eligible.

Deaths after retirement:

Service Retirees and Beneficiaries: The RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries with mortality improvements projected to 2010 with Scale AA.

Disabled retirees: The RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries with a three-year set-forward.

Note that these assumptions represent changes from the prior valuation. The tables used were selected to allow for a margin to reflect mortality improvement through 2016. No further mortality improvement was assumed.

Group C

Spouse's age: Husbands are assumed to be 3 years older than their wives.

Covered spouses: 75.4% of male members and 64.0% of female members are assumed to be covering spouses.

SECTION VII – CONSIDERATION OF HEALTH CARE REFORM

Summary of Effects of Selected Provisions

Early Retiree Reinsurance Program – Effective 6/1/2010: Due to the short-term nature of the payments expected to be received under this program, we have not reflected the impact of this program on long-term GASB 45 liabilities.

Removal of Lifetime Maximum – We expected that the elimination of the lifetime maximums as of January 1, 2011 would have a negligible impact on the retiree health plan obligations since the plans had relatively high lifetime maximums of $2 million. We assume that any impact is now reflected in the 2011 plan premium equivalents developed by the State.

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 the State does not provide these plans to retirees, there is no impact.

Expansion of Child Coverage to Age 26: We assume that the effect of this provision is reflected in the 2011 plan premium equivalents developed by the State and are therefore, any impact is already being recognized in the assumed per capita costs. In our previous valuation, we explicitly reflected an estimate of the increase in developing the per capita costs used in our calculations.

Medicare Part D Subsidy - Shrinking Medicare Prescription Drug "Donut Hole"- Starting 1/1/2011– Medicare Part D Retiree Drug Subsidy ("RDS") payments are not reflected as on ongoing offsetting item in GASB 45 valuations, and so no direct impact is reflected. The partial funding 4.25% discount rate is predicated on the commitment to continue to contribute the RDS amount into the plan. RDS actuarial equivalence testing does not reflect the new donut hold shrinking Part D benefits, and thus would not impact the available future RDS for partial funding. Further, the benefits provided to Medicare eligible Vermont retirees under this plan have enough subsidy provided by the plan that we do not anticipate that plan participation will be affected as the competing Part D benefits are improved. Thus, the changes to Medicare Part D have no impact on the calculations.

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 purposes. We prepared a projection of the calculation based on a reasonable interpretation of the applicable legislation, but a somewhat different interpretation than was used in the previous valuation, The projection separately looked at premium costs for participants over age 65 from the premium costs for pre-65 and active participants in the overall health plan, projecting these amounts by the medical cost increase factors in this valuation. The initial 2018 limits were increased based on higher overall anticipated increases in medical benefit costs in the short run for the federal Standard Blue Cross Blue Shield plan (since those costs will not reflect the anticipated slower growth of Medicare supplementary coverage included in the assumed medical benefit cost increase rate for the Vermont plan). The limits after 2018 were calculated using an assumed CPI of 3.0%. This projection indicates that the overall increase in Actuarial Accrued Liability could be approximately 3.0%. We have adjusted the results accordingly.

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 it is not possible 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

Group A:

Retirement	Earlier of (a) age 55 with 5 years of or (b) 30 years of service: 80% Subsidy

Group C:

Retirement	Earlier of (a) age 55, (b) age 50 with 20 years of service, or (c) 30 years of service: 80% Subsidy
Termination	Participants who terminate with 20 or more years of service may begin medical benefits upon commencement of retirement benefits: 80% Subsidy.

Group D:

Retirement	Age 55 with 5 years of service: 80% Subsidy

Group F and Defined Contribution:

Retirement	Earlier of (a) age 55 with 5 years of or (b) 30 years of service *Hired prior to July 1, 2008* - 80% Subsidy *Hired on or after July 1, 2008* Less than 10 years: 0% Subsidy 10-14 years: 40% Subsidy 15-19 years: 60% Subsidy 20 years or more: 80% Subsidy
Termination	Participants who terminate with 20 or more years of service may begin medical benefits upon commencement of retirement benefits: 80% Subsidy.

RETIREE CONTRIBUTIONS

Retirees must pay all premium costs in excess of the VSERS subsidy. The VSERS subsidy is equal to the retiree's subsidy percentage applied to the plan premium according to the plan and tier elected.

BENEFIT DURATION

Lifetime for retirees. Spouses of retirees who elect the joint and survivor pension option may continue coverage for their lifetimes but must pay 100% of the plan premium.

STATE OF VERMONT EMPLOYEE MEDICAL PLANS FOR ACTIVE EMPLOYEES AND UNDER-65 RETIREES
Effective January 1, 2011

Benefit/Feature	TotalChoice Plan	SelectCare POS Plan		HealthGuard PPO Plan		SafetyNet Plan
		In-Network	Out-of-Network	In-network	Out-of-Network	
Annual DEDUCTIBLE	$300 per person; $600 per family	none	$500 per person; $1,000 per family	$300 per person; $600 per family	$500 per person; $1,000 per family	$2,000 per person, no family maximum
MAXIMUM annual COPAYS (after deductible is met)	$750 per person; $2,250 per family	none	$2,000 per person; $6,000 per family	$2,000 per person; $6,000 per family	$4,000 per person; $12,000 per family	$6,000 per person, no family maximum
Maximum Lifetime Benefit Per Member	none	none	none	none	none	none
PERCENTAGE THAT THE PLAN PAYS						
Inpatient Hospital	90%	100% after $250 co-pay	70%	80%	60%	70%
Outpatient Hospital	80%	100%	70%	80%	60%	70%
Emergency Room	80%	100% after $50 co-pay (waived if admitted)	70%	80%	60%	70%
Physician Charges						
• **Office visit**	80%	100% after $15 copay	70%	80%	60%	70%
• **Surgery**	90% inpatient; 80% outpatient	100%	70%	80%	60%	70%
• **In-Hospital visit**	90%	100%	70%	80%	60%	70%
Diagnostic X-ray and Labs	80%	100%	70%	80%	60%	70%
Home Healthcare	80%	100%	70%	80%	60%	70%
COMMON BENEFITS IN ALL PLAN OPTIONS						
Preventive Exams & Tests-Program Benefits	1. Physicals (includes well child care). 2. Immunizations 3. Prostate & GYN exams. 4. Mammograms. Included as regular benefits subject to the plan deductible and coinsurance, or copay, if applicable. However, maximum out-of-pocket expense of $25 applies. 5. Colonoscopies. Included as regular benefits subject to the plan deductible and coinsurance, or copay, if applicable. However, maximum out-of-pocket expense of $100 applies. Benefits provided to all members, including dependents.					
Wellness Program Benefits	Available to all active employees and retirees in any of the four health plan options, at no charge to the employee or retiree					
COMMON BENEFITS IN ALL PLAN OPTIONS EXCEPT THE SAFETYNET PLAN						
Mental Health & Substance Abuse Program Benefits	In-Network: Paid at 100%. No predetermined visit or day limits. Out-of-Network: Visit & day limits apply. Deductibles & copay required.					Plan pays 70%

STATE OF VERMONT EMPLOYEE MEDICAL PLANS FOR ACTIVE EMPLOYEES AND UNDER-65 RETIREES (Continued)

Prescription Drugs • **Retail** • **Mail**	This is a prescription drug card plan, which combines both local retail and mail order drugs. There is an annual $25 per person/$75 family deductible. Individual pays 10% copay for generic drugs, 20% copay for preferred brand drugs, and 40% copay for non-preferred brand drugs. 40% copay drugs will **not** be counted toward the maximum out-of-pocket limit, except for Specialty drugs. Maximum out-of-pocket is $775 per covered member per year for both retail and mail order including the deductible.	Plan pays 70%
Routine Vision Care	The plan pays $100 every two years, with no deductible and coinsurance, or copay. Benefits available for every plan member, **including dependents.** Covers routine exams and/or lens changes.	Plan pays 70% of charge, after deductible, up to $100, every 2 years

STATE OF VERMONT EMPLOYEE MEDICAL PLANS FOR OVER 65 RETIREES
Effective January 1, 2011

Benefit/Feature	TotalChoice Plan	HealthGuard PPO Plan	
		In-network	Out-of-Network
Annual DEDUCTIBLE	$300 per person; $600 per family	$300 per person; $600 per family	$500 per person; $1,000 per family
MAXIMUM annual COPAYS (after deductible is met)	$750 per person; $2,250 per family	$2,000 per person; $6,000 per family	$4,000 per person; $12,000 per family
Maximum Lifetime Benefit Per Member	none	none	none
PERCENTAGE THAT THE PLAN PAYS			
Inpatient Hospital	90%	80%	60%
Outpatient Hospital	80%	80%	60%
Emergency Room	80%	80%	60%
Physician Charges			
• **Office visit**	80%	80%	60%
• **Surgery**	90% in patient; 90% outpatient	80%	60%
• **In _ Hospital visit**	90%	80%	60%
Diagnostic X-ray and Labs	80%	80%	60%
Home Healthcare	80%	80%	60%

STATE OF VERMONT EMPLOYEE MEDICAL PLANS FOR OVER 65 RETIREES (Continued)

COMMON BENEFITS IN ALL PLANS	
Preventive Exams & Tests- Program Benefits	1. Physicals (includes well child care). 2. Immunizations 3. Prostate & GYN exams. 4. Mammograms. Included as regular benefits subject to the plan deductible and coinsurance, or copay, if applicable. However, maximum out-of-pocket expense of $25 applies. 5. Colonoscopies. Included as regular benefits subject to the plan deductible and coinsurance, or copay, if applicable. However, maximum out-of-pocket expense of $100 applies. Benefit provided to all members, including dependents.
Wellness Program Benefits	Available to all active employees and retirees in any of the health plan options, at no charge to the employee or retiree
Mental Health & Substance Abuse Program Benefits	In-Network: Paid at 100%. No predetermined visit or day limits. Out-of- Network: Visit & day limits apply. Deductibles & copay required
Prescription Drugs • **Retail** • **Mail**	This is a prescription drug card plan, which combines both local retail and mail order drugs. There is an annual $25 per person/$75 family deductible. Individual pays 10% copay for generic drugs, 20% copay for preferred brand drugs, and 40% copay for non-preferred brand drugs. 40% copay drugs will **not** be counted toward the maximum out-of-pocket limit, except for Specialty drugs. Maximum out-of-pocket is $775 per covered member per year for both retail and mail order, including the deductible.
Routine Vision Care	The plan pays $100 every two years, with no deductible and coinsurance, or copay. Benefits available for every plan member, **including dependents.** Covers routine exams and/or lens changes.

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 calculations 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 a 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.