buckconsultants

A Xerox Company

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

Prepared as of June 30, 2010

October 2010

TABLE OF CONTENTS

INTRODUCTION

The Board of Trustees of the Vermont State Employees' Retirement System has engaged Buck to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2010. 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, to determine the level of contributions necessary to assure sound funding of such benefits and to provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. 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. Section VI provides a projection of expense and funding amounts.

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. 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

October, 22, 2010

Hope C. Manion, FSA, MAAA
Director and Consulting Actuary

Date

October, 22, 2010

David L. Driscoll, FSA, MAAA, EA
Principal, Consulting Actuary

Date

SECTION I – OVERVIEW

The plan experienced a net actuarial loss in its accrued liability over the past year. The net increase in liability was greater than expected, primarily due to the following factors:

- Demographic experience different than expected;
- Per capita claims cost increases in excess of expected;
- An update to the healthcare cost trend assumption;
- Expansion of coverage of adult children to age 26 as required under health care reform legislation.

Increases in liabilities due to these were somewhat mitigated by a change to the age-morbidity assumption. Assumptions changes are described in more detail below.

The asset return was about 7.3%, which was less than the expected 8.25%.

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

- *Healthcare cost trend rate* – we have extended the period until the ultimate trend rate is reached from 2 years to 8 years in order to reflect general market expectations and conventional actuarial practice;
- *Age morbidity factors* – we have eliminated assumed increase in cost for ages above 65 for prescription drug costs for Medicare-eligible participants in light of recent internal studies of claims experience for credible retiree populations comparable to the population covered by the System. Assumed costs for pre-65 medical and prescription drug and Medicare-eligible medical costs continue to reflect age adjustments.

All other assumptions, including the assumed discount rate, were the same as those used in 2009. All plan provisions were the same as those reflected in the 2009 valuation, including the cost-sharing amendment applicable to Group F and Defined Contribution employees hired on or after July 1, 2008.

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.

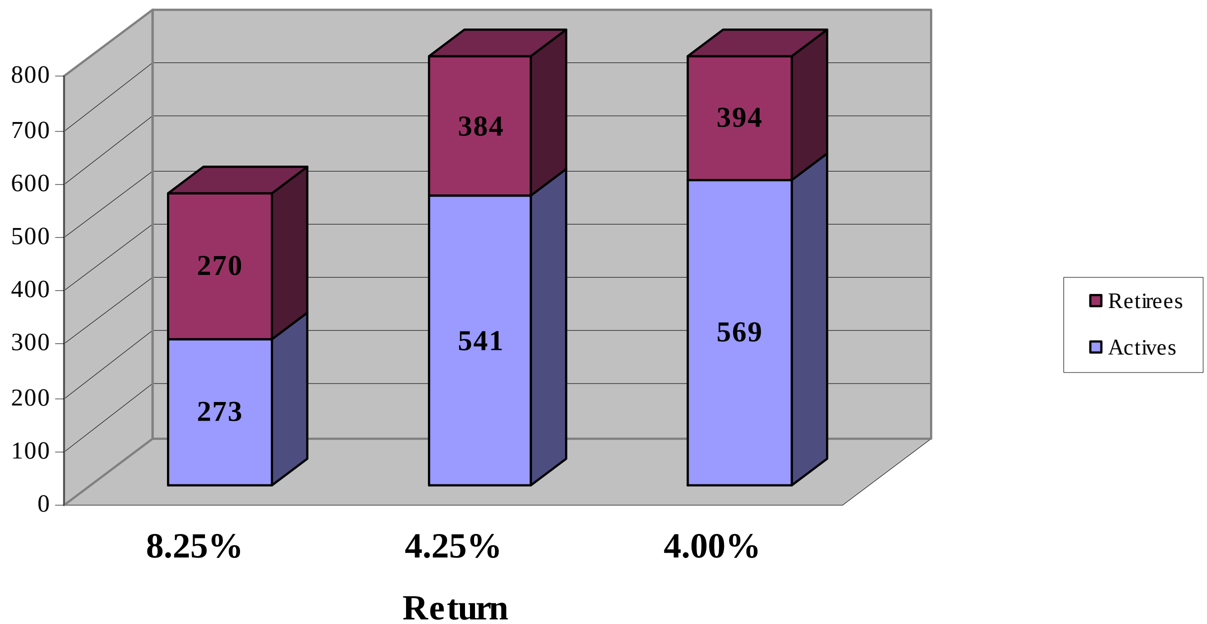
We have made explicit adjustments to the values developed in this report for the required expansion of coverage to adult children under federal healthcare reform legislation. We have not made adjustments for other potential effects of health care reform legislation on VSERS liabilities. Please see Section VIII for details.

SECTION II – REQUIRED INFORMATION

		Pre-Funding Basis	Partial-Funding Basis	Pay-as-you-go Basis
a)	Assumed discount rate	8.25%	4.25%	4.00%
b)	Actuarial value of assets	$ 7,897,382	$ 7,897,382	$ 7,897,382
c)	Actuarial accrued liability			
	Active Participants	$ 272,668,524	$ 541,295,399	$ 568,788,266
	Retired Participants	$ 270,475,130	$ 383,887,307	$ 393,829,995
	Total	$ 543,143,654	$ 925,182,706	$ 962,618,261
d)	Unfunded actuarial liability (c. - b.)	$ 535,246,272	$ 917,285,324	$ 954,720,879
e)	Funded ratio	1.5%	0.9%	0.8%
f)	Annual covered payroll	$ 414,936,034	$ 414,936,034	$ 414,936,034
g)	Unfunded actuarial liability as a percentage of covered payroll	129.0%	221.1%	230.1%
h)	Normal cost for the 2011 fiscal year	$ 17,307,828	$ 39,525,688	$ 41,942,692
i)	Amortization of unfunded actuarial liability for the fiscal year (30-year)	$ 26,815,127	$ 27,504,619	$ 27,606,099
j)	Annual Required Contribution (ARC) for the 2011 fiscal year* (h. + i.)	$ 44,122,955	$ 67,030,307	$ 69,548,791
k)	Expected net retiree claims	$ 30,881,697	$ 30,881,697	$ 30,881,697

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

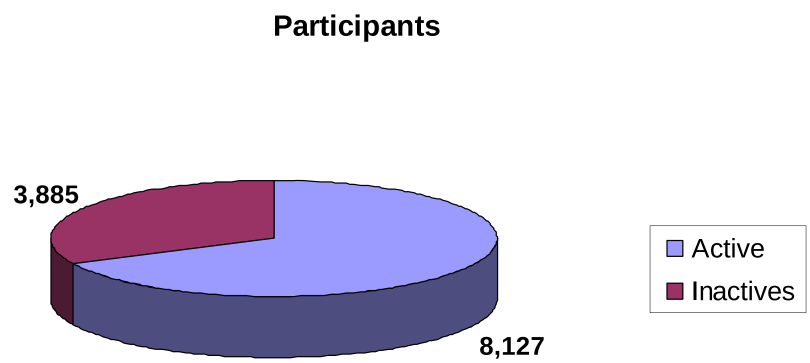
Actuarial Accrued Liability in $ millions



SECTION III – MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of participants included in valuation

	Total
Active	
Group A	13
Group C	413
Group D	48
Group F	7,308
Defined Contribution	345
Total	8,127
Retired	3,885
Total	12,012



Monthly State Premium Costs (including expenses) Effective January 1, 2010

	State Share	Retirees	Dependents
Total Choice			
Retiree under 65	$580.79	206	0
2 Person under 65	$1,161.58	141	141
Family Retiree under 65	$1,597.18	20	20
Retiree under 65 and 1 over 65	$822.07	98	98
3 Person, Retiree and 1 under 65 and 1 over 65	$1,081.22	9	9
Retiree over 65	$241.28	1,518	0
2 Person over 65	$482.56	815	815
Retiree over 65 and 1 under 65	$822.07	218	218
Retiree over 65 and 2 or more under 65	$1,081.22	13	13
Retiree over 65 and 2 or more dependents, 1 Medicare eligible	$708.37	10	10
SelectCare POS			
Retiree under 65	$486.08	369	0
2 Person under 65	$972.15	365	365
Family (Retiree under 65)	$1,336.71	67	67
SafetyNet			
Retiree under 65	$340.55	2	0
2 Person under 65	$681.10	1	1
Family (Retiree under 65)	$936.52	0	0
HealthGuard			
Retiree under 65 and 1 over 65	$748.91	1	1
Retiree over 65	$227.98	11	0
2 Person over 65	$455.95	16	16
Retiree over 65 and 1 under 65	$748.91	5	5
Total		3,885	1,779

TABLE 1
THE NUMBER OF
ACTIVE MEMBERS DISTRIBUTED BY AGE AND SERVICE
AS OF JUNE 30, 2010

	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	144	1	0	0	0	0	0	0	0	145
25 to 29	343	111	0	0	0	0	0	0	0	454
30 to 34	373	272	64	1	0	0	0	0	0	710
35 to 39	313	297	197	75	10	0	0	0	0	892
40 to 44	280	266	214	192	150	7	0	0	0	1,109
45 to 49	250	261	212	153	237	124	15	0	0	1,252
50 to 54	252	260	199	149	220	139	117	4	0	1,340
55 to 59	186	213	175	134	202	166	141	58	4	1,279
60 to 64	90	118	107	80	108	99	85	51	25	763
65 to 69	20	32	20	11	19	11	14	8	14	149
70 & up	3	4	9	3	2	2	1	3	3	30
TOTAL	2,258	1,835	1,197	798	948	548	373	124	46	8,127

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, 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%
June 30, 2005	$0	$529,027	$529,027	0.0%	$349,258	151.5%

These results are based on a discount rate of 3.75% for 2005 – 2007, 4.00% for 2007 – 2008 and 4.25% for 2009 - 2010.

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, 2010	$7,897	$543,144	$535,247	1.5%	$414,936	129.0%
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%
June 30, 2005	$0	$529,027	$529,027	0.0%	$349,258	151.5%

These results are based on a discount rate of 3.75% for 2005 – 2007, 4.00% for 2007 – 2008, 4.25% for 2009 and 8.25% for 2010.

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			

SECTION VI – FORECASTS

The Government Accounting Standards Board's Statements 43 and 45, which cover accounting and financial reporting for post-employment benefits other than pensions, outline various requirements of a funding schedule that will amortize the unfunded actuarial liability and cover normal costs. Amortization of the unfunded actuarial liability is to be based on a schedule that extends no longer than 30 years. The contribution towards the amortization of the unfunded actuarial liability may be made in level payments or in payments increasing at the same rate as assumed salary increases.

In the amortization schedule shown on the following pages, the amortization of the unfunded accrued liability is made in installments that increase annually by 5%. The normal cost is expected to increase at a rate that reflects both the assumed ultimate health care trend rate and the fact that employees hired after June 30, 2008, will be covered under a less generous plan. The contributions were computed assuming that the contribution is paid on July 1 (i.e., at the beginning of the fiscal year). Below is a comparison of the forecasted Annual Required Contributions, computed under discount rates of 8.25%, 4.25% and 4.00%.

Also included is a forecast of the pay-as-you-go amount. If the State chooses to not fund the obligation (and does not use any of the existing assets to fund current costs), the difference between the pay-as-you-go amount and the Annual Required Contribution (ARC) will be recorded as a liability on the financial statements. The liability will grow with interest and new net differences in successive years. The amount shown for the 4% and 4.25% scenarios reflect the difference between pay-as-you-go and the ARC as additional liability, which is reflected in the amortization of the Unfunded Actuarial Liability. Any future additional partial pre-funding, such as contribution of Medicare Part D Retiree Drug Subsidy received in the future, would serve to reduce the shown amortization.

FORECAST OF FUNDING AND GASB ARC UNDER A DISCOUNT RATE OF 8.25%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State ARC	Pay-as-you-go	Difference
2011	17,307,828	26,815,127	44,122,955	30,881,968	13,240,987
2012	18,173,219	28,155,883	46,329,102	33,426,480	12,902,622
2013	19,081,880	29,563,678	48,645,558	36,029,417	12,616,141
2014	20,035,974	31,041,862	51,077,836	38,638,418	12,439,418
2015	21,037,773	32,593,955	53,631,728	41,491,165	12,140,563
2016	22,089,662	34,223,652	56,313,314	44,100,116	12,213,198
2017	23,194,145	35,934,835	59,128,980	46,656,893	12,472,087
2018	24,353,852	37,731,577	62,085,429	49,157,820	12,927,609
2019	25,571,545	39,618,156	65,189,701	51,387,797	13,801,904
2020	26,850,122	41,599,063	68,449,185	53,685,068	14,764,117
2021	28,192,628	43,679,016	71,871,644	56,000,362	15,871,282
2022	29,602,259	45,862,967	75,465,226	58,425,851	17,039,375
2023	31,082,372	48,156,116	79,238,488	60,666,616	18,571,872
2024	32,636,491	50,563,921	83,200,412	62,838,832	20,361,580
2025	34,268,316	53,092,117	87,360,433	65,384,739	21,975,694
2026	35,981,732	55,746,723	91,728,455	67,752,150	23,976,305
2027	37,780,819	58,534,060	96,314,879	70,313,895	26,000,984
2028	39,669,860	61,460,762	101,130,622	72,904,497	28,226,125
2029	41,653,353	64,533,801	106,187,154	74,943,675	31,243,479
2030	43,736,021	67,760,491	111,496,512	77,107,488	34,389,024
2031	45,922,822	71,148,515	117,071,337	79,161,715	37,909,622
2032	48,218,963	74,705,941	122,924,904	81,064,028	41,860,876
2033	50,629,911	78,441,238	129,071,149	82,641,403	46,429,746
2034	53,161,407	82,363,300	135,524,707	84,183,400	51,341,307
2035	55,819,477	86,481,465	142,300,942	85,186,676	57,114,266
2036	58,610,451	90,805,538	149,415,989	85,190,378	64,225,611
2037	61,540,974	95,345,815	156,886,789	85,726,678	71,160,111
2038	64,618,023	100,113,106	164,731,129	85,839,033	78,892,096
2039	67,848,924	105,118,761	172,967,685	85,514,337	87,453,348
2040	71,241,370	110,374,699	181,616,069	85,527,304	96,088,765
2041	74,803,439	0	74,803,439	85,075,386	-10,271,947

Note: due to the volatile nature of the actuarial valuation of liabilities from year to year, these projections will no longer be shown in the valuation reports beginning with the 2011 valuation.

FORECAST OF FUNDING AND GASB ARC UNDER A DISCOUNT RATE OF 4.25%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State ARC	Pay-as-you-go	Difference
2011	39,525,688	27,504,619	67,030,307	30,881,968	36,148,339
2012	41,501,971	28,963,643	70,465,614	33,426,480	37,039,134
2013	43,577,070	30,468,551	74,045,621	36,029,417	38,016,204
2014	45,755,924	32,022,594	77,778,517	38,638,418	39,140,099
2015	48,043,721	33,630,917	81,674,637	41,491,165	40,183,472
2016	50,445,907	35,291,770	85,737,678	44,100,116	41,637,562
2017	52,968,203	37,018,427	89,986,629	46,656,893	43,329,736
2018	55,616,612	38,819,034	94,435,646	49,157,820	45,277,826
2019	58,397,444	40,702,387	99,099,831	51,387,797	47,712,034
2020	61,317,315	42,684,438	104,001,753	53,685,068	50,316,685
2021	64,383,181	44,771,667	109,154,848	56,000,362	53,154,486
2022	67,602,339	46,972,556	114,574,895	58,425,851	56,149,044
2023	70,982,456	49,293,354	120,275,810	60,666,616	59,609,194
2024	74,531,580	51,749,844	126,281,424	62,838,832	63,442,592
2025	78,258,160	54,355,174	132,613,333	65,384,739	67,228,594
2026	82,171,068	57,109,776	139,280,844	67,752,150	71,528,694
2027	86,279,622	60,031,284	146,310,907	70,313,895	75,997,012
2028	90,593,604	63,126,957	153,720,561	72,904,497	80,816,064
2029	95,123,284	66,409,736	161,533,020	74,943,675	86,589,345
2030	99,879,449	69,911,197	169,790,645	77,107,488	92,683,157
2031	104,873,421	73,643,897	178,517,318	79,161,715	99,355,603
2032	110,117,092	77,628,454	187,745,546	81,064,028	106,681,518
2033	115,622,946	81,888,027	197,510,973	82,641,403	114,869,570
2034	121,404,095	86,452,449	207,856,543	84,183,400	123,673,143
2035	127,474,298	91,344,363	218,818,661	85,186,676	133,631,985
2036	133,848,014	96,603,218	230,451,231	85,190,378	145,260,853
2037	140,540,415	102,284,697	242,825,113	85,726,678	157,098,435
2038	147,567,437	108,400,419	255,967,856	85,839,033	170,128,823
2039	154,945,808	114,992,279	269,938,087	85,514,337	184,423,750
2040	162,693,098	122,104,875	284,797,973	85,527,304	199,270,669
2041	170,827,754	129,761,532	300,589,287	85,075,386	215,513,901

Note: due to the volatile nature of the actuarial valuation of liabilities from year to year, these projections will no longer be shown in the valuation reports beginning with the 2011 valuation.

FORECAST OF FUNDING AND GASB ARC UNDER A DISCOUNT RATE OF 4%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State ARC	Pay-as-you-go	Difference
2011	41,942,692	27,606,099	69,548,791	30,881,968	38,666,823
2012	44,039,826	29,060,995	73,100,821	33,426,480	39,674,341
2013	46,241,817	30,562,120	76,803,937	36,029,417	40,774,520
2014	48,553,908	32,112,752	80,666,660	38,638,418	42,028,242
2015	50,981,604	33,718,004	84,699,608	41,491,165	43,208,443
2016	53,530,685	35,376,351	88,907,036	44,100,116	44,806,920
2017	56,207,219	37,100,754	93,307,973	46,656,893	46,651,080
2018	59,017,579	38,899,228	97,916,807	49,157,820	48,758,987
2019	61,968,459	40,780,407	102,748,866	51,387,797	51,361,069
2020	65,066,882	42,759,814	107,826,695	53,685,068	54,141,627
2021	68,320,226	44,843,831	113,164,056	56,000,362	57,163,694
2022	71,736,236	47,040,769	118,777,005	58,425,851	60,351,154
2023	75,323,048	49,356,789	124,679,837	60,666,616	64,013,221
2024	79,089,201	51,807,237	130,896,438	62,838,832	68,057,606
2025	83,043,662	54,404,903	137,448,565	65,384,739	72,063,826
2026	87,195,846	57,150,321	144,346,167	67,752,150	76,594,017
2027	91,555,639	60,060,610	151,616,249	70,313,895	81,302,354
2028	96,133,421	63,142,878	159,276,299	72,904,497	86,371,802
2029	100,940,092	66,409,707	167,349,799	74,943,675	92,406,124
2030	105,987,098	69,891,624	175,878,722	77,107,488	98,771,234
2031	111,286,453	73,600,785	184,887,238	79,161,715	105,725,523
2032	116,850,775	77,557,100	194,407,874	81,064,028	113,343,846
2033	122,693,313	81,782,901	204,476,215	82,641,403	121,834,812
2034	128,827,980	86,306,918	215,134,898	84,183,400	130,951,498
2035	135,269,378	91,150,907	226,420,285	85,186,676	141,233,609
2036	142,032,847	96,352,776	238,385,623	85,190,378	153,195,245
2037	149,134,491	101,966,002	251,100,493	85,726,678	165,373,815
2038	156,591,216	108,001,502	264,592,719	85,839,033	178,753,686
2039	164,420,777	114,499,348	278,920,125	85,514,337	193,405,788
2040	172,641,815	121,502,133	294,143,948	85,527,304	208,616,644
2041	181,273,907	129,031,870	310,305,777	85,075,386	225,230,391

Note: due to the volatile nature of the actuarial valuation of liabilities from year to year, these projections will no longer be shown in the valuation reports beginning with the 2011 valuation.

SECTION VII – 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 8.25% 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 8.25% for a pre-funded plan, and 4.00% for a non-funded plan. 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
2011	7.00
2012	6.75
2013	6.50
2014	6.25
2015	6.00
2016	5.75
2018	5.50
2019	5.25
2020 +	5.00

Amortization period:

Open basis, thirty-year amortization starting in the fiscal year starting in fiscal 2011 with payments increasing by 5% annually. 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 benefits.

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 2010-11 at age 64 and 65 was $12,461 and $3,384, 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 pre-65 medical plan costs reflect an assumed increase in cost due to coverage of adult children to age 26, as required under the national health care reform legislation. The plans are self-insured.

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:

Age	Withdrawal and Vested Retirement[1]	Disability	Death: Men	Death: Women
25	3.15%	.03%	.03%	.02%
30	2.52	.04	.04	.02
35	2.10	.05	.07	.04
40	1.95	.08	.10	.06
45	1.73	.13	.13	.09
50	1.44	.21	.18	.14
55	2.52	.35	.25	.23
59	2.52	.52	.37	.34
60	2.50	.57	.41	.37
61	2.49	.62	.46	.41

[1] Increased during first 10 years of service.

Retirement[2]					
Age	Rate	Age	Rate	Age	Rate
55	5.0%	60	7.0%	65	25.0%
56	4.2	61	14.0	66	15.0
57	5.6	62	28.0	67	17.5
58	6.3	63	17.5	68	17.5
59	7.0	64	17.5	69	20.0
				70	100.0

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

Deaths after retirement:

According to the RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries.

Groups A, D, F, and Defined Contribution

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:

			Death	
Age	Withdrawal and Vested Retirement[1]	Disability	Men	Women
25	3.60%	.15%	.03%	.02%
30	3.60	.20	.04	.02
35	3.60	.27	.07	.04
40		.40	.10	.06
45		.65	.13	.09
50		1.09	.18	.14
55		1.82	.25	.23
60		2.93	.41	.37

[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: According to the RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries.

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 VIII – 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 did not feel it would be appropriate to include the impact of this program on long-term GASB 45 liabilities.

Removal of Lifetime Maximum We expect that the elimination of the lifetime maximums would have a negligible impact on the retiree health plan obligations since the plans have relatively high lifetime maximums of $2 million.

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: Since few retirees cover children on retiree health plans, this provision will likely have a relatively small effect on the gross benefit cost. We have reflected an estimate of the amount of additional cost by assuming that the number of children covered will double, increasing the pre-65 average premium by about 3 ½%,

Medicare Part D Subsidy - Shrinking Medicare Prescription Drug "Donut Hole"- Starting 1/1/2011– 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. 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. Because a preliminary projection of the calculation on a blended pre-65/post-65 retiree coverage basis indicate that the overall increase in Actuarial Accrued Liability could be less than ¼%, we have not reflected any additional costs for the high cost plan excise tax.

Other: We have not identified any other specific provision of health care reform that would be expected to have a significant impact on the measured obligation. As additional guidance on the legislation is issued, we will continue to monitor any potential impacts.

SECTION IX – 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, 2010

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	$2 million	none	$2 million	$2 million	$2 million	$2 million
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 Speciality drugs. Maximum out-of-pocket is $750 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, 2010

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	$2 million	$2 million	$2 million
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 $750 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 X - 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.