



**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
RETIRED TEACHERS' HEALTH AND MEDICAL BENEFIT FUND**

Schedule of Collective Other Post Employment Benefit Amounts

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
RETIRED TEACHERS' HEALTH AND MEDICAL BENEFIT FUND**

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Independent Auditors' Report

The Board of Trustees
Vermont State Teachers' Retirement System:

We have audited the totals of the columns titled net Other Post Employment Benefit (OPEB) liability, total deferred outflows of resources, deferred inflows of resources, and total OPEB expense (specified column totals) included in the accompanying schedule of collective OPEB amounts of the Vermont State Teachers' Retirement System (VSTRS) Retired Teachers' Health and Medical Benefit Fund (the Plan) as of and for the year ended June 30, 2017, the column titled net OPEB liability (specified column total) included in the accompanying schedule of collective OPEB amounts of VSTRS as of June 30, 2016, and the related notes.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedule in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express our opinions on the specified column totals included in the schedule of collective OPEB amounts based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the specified column totals included in the schedule of collective OPEB amounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures for the specified column totals included in the schedule of collective OPEB amounts. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the specified column totals included in the schedule of collective OPEB amounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the specified column totals included in the schedule of collective OPEB amounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the specified column totals included in the schedule of collective OPEB amounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the schedule referred to above presents fairly, in all material respects, the total net OPEB liability, total deferred outflows of resources, deferred inflows of resources, and total OPEB expense of the Vermont State Teachers Retirement System Retired Teachers' Health and Medical Benefit Fund as of and for the year ended June 30, 2017 and net OPEB liability as of June 30, 2016, in accordance with U.S. generally accepted accounting principles.

Restriction on Use

Our report is intended solely for the information and use of VSTRS management and the VSTRS Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Colchester, Vermont
August 15, 2018

**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
 RETIRED TEACHERS' HEALTH AND MEDICAL BENEFIT FUND**

Schedule of Collective Other Post Employment Benefit Amounts

Years ended June 30, 2017 and 2016

| 2016 Net OPEB liability | 2017 Net OPEB liability | Deferred outflows of resources | | | Deferred inflows of resources | | | Total OPEB expense | |
|-------------------------------|-------------------------------|--|---------------------------|---|---|---|---------------------------|--------------------------|--|
| | | Differences between expected and actual experience | Changes in assumptions | Differences between projected and actual investment earnings | Total deferred outflows of resources | Differences between projected and actual investment earnings | Changes in assumptions | | Total deferred inflows of resources |
| \$ 930,425,914 | 932,290,475 | — | — | — | — | — | 25,543,807 | 25,543,807 | 51,247,326 |

See accompanying notes to schedule of collective other postemployment benefit amounts

**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
RETIRED TEACHERS' HEALTH AND MEDICAL BENEFIT FUND**

Notes to Schedule of
Collective Other Post Employment Benefit Amounts
June 30, 2017

(1) Plan Description

The Vermont State Teachers' Retirement System (VSTRS or the System) provides postemployment benefits to eligible VSTRS employees who retire from the System through a cost-sharing, multiple-employer postemployment benefit (OPEB) plan (the Plan).

The Plan covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the State Board of Education. Membership in the system for those covered classes is a condition of employment. During the year ended June 30, 2017, the Plan consisted of 266 participating employers.

Vermont Statute Title 16 Chapter 55 assigns the authority to VSTRS to establish and amend the benefits provisions of the Plan and to establish maximum obligations of the Plan members to contribute to the Plan. Management of the Plan is vested in the Vermont State Teachers' Retirement System (VSTRS) Board of Trustees, which consists of the Secretary of Education (ex-officio); the State Treasurer (ex-officio); the Commissioner of Financial Regulation (ex-officio); two trustees and one alternate who are members of the system (each elected by the system under rules adopted by the Board) and one trustee and one alternate who are retired members of the system receiving retirement benefits (who are elected by the Association of Retired Teachers of Vermont).

VSTRS retirees and their spouses are eligible for health coverage if the retiree is eligible for OPEB benefits. OPEB eligibility requirements are below:

- Group A – for public school teachers employed within the State of Vermont prior to July 1, 1981 and elected to remain in Group A
 - Retirement: Attainment of 30 years of creditable service or age 55
- Groups C – for public school teachers employed within the State of Vermont on or after July 1, 1990, or hired before July 1, 1990 and were a member of Group B at that time.
 - Retirement: Attainment of age 65 or age plus creditable service equal to 90 or age 55 with 5 years of creditable service

All assets of the Plan are held in a single trust and are available to pay OPEB benefits to all members.

(2) Basis of Presentation

The schedule of collective OPEB amounts (the Schedule) presents amounts that are attributable to the VSTRS Plan. The amounts presented in the Schedule are prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of VSTRS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature and uncertainty of these estimates, actual results may differ from those entities.

**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
RETIRED TEACHERS' HEALTH AND MEDICAL BENEFIT FUND**

Notes to Schedule of
Collective Other Post Employment Benefit Amounts
June 30, 2017

(3) Collective Net OPEB Liability

The components of the collective net OPEB liability as of June 30, 2017 are as follows:

| | | |
|----------------------------|----|---------------------------|
| Total OPEB liability | \$ | 905,632,829 |
| Plus fiduciary net deficit | | <u>26,657,646</u> |
| Net OPEB liability | \$ | <u><u>932,290,475</u></u> |

(a) Actuarial Assumptions

The total OPEB liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016 with update procedures used to roll forward the total OPEB liability to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

Discount Rate: 3.58%

Salary Increases: Representative values of the assumed annual rates of future salary increase are as follows:

| Age | Annual rate of salary increase |
|-----|--------------------------------------|
| 25 | 7.78 % |
| 30 | 6.47 |
| 35 | 5.60 |
| 40 | 4.92 |
| 45 | 4.43 |
| 50 | 4.09 |
| 55 | 3.85 |
| 60 | 3.75 |

Inflation: 2.75%

Health care trend rates Non-Medicare – 7.5% graded to 4.5% over 12 years
 Medicare – 7.75% graded to 4.5% over 11 years

Since the Plan is not prefunded, the discount rate used to measure the total OPEB liability was 3.58% and is based on the 20 year Bond Buyer GO index at June 30, 2017. The rate at June 30, 2016 was 2.85%.

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Collective Other Post Employment Benefit Amounts
June 30, 2017

(b) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 3.58%, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

| | 1% Decrease (2.58%) | Current discount rate (3.58%) | 1% Increase (4.58%) |
|--------------------|--------------------------------|--|--------------------------------|
| Net OPEB liability | \$ 1,071,120,094 | 932,290,475 | 817,506,440 |

(c) Sensitivity of the Net OPEB Liability to Changes in the Health Care Trend Rates

The following presents the net OPEB liability, calculated using the health care trend rates described above, as well as what the net OPEB liability would be if it were calculated using trend rates that is one percentage point lower or one percentage point higher than the current trend rate:

| | 1% Decrease | Current trend rate | 1% Increase |
|--------------------|--------------------|-----------------------------------|--------------------|
| Net OPEB liability | \$ 800,022,391 | 932,290,475 | 1,099,519,071 |

(4) Deferred Outflows and Deferred Inflows of Resources

The following table summarizes the changes in deferred outflows and deferred inflows of resources for the year ended June 30, 2017:

| | Years of deferral | Amortization period (yrs) | Balance July 1 | Additions | Deletions | Balance June 30 |
|--|------------------------------|--------------------------------------|---------------------------|---------------------|------------------|----------------------------|
| Deferred outflows (inflows) of resources: | | | | | | |
| Changes in assumptions | 2017 | 4.34 | \$ — | <u>(33,191,654)</u> | <u>7,647,847</u> | <u>(25,543,807)</u> |

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Notes to Schedule of
Collective Other Post Employment Benefit Amounts

June 30, 2017

(5) Collective OPEB Expense

The components of OPEB expense for the year ended June 30, 2017 are as follows:

| <u>Component</u> | <u>Amount</u> |
|---|----------------------|
| Service cost | \$ 32,511,242 |
| Interest cost on total OPEB liability | 26,424,854 |
| Other | (40,923) |
| Recognition (amortization) of deferred outflows and inflows of resources: | |
| Change in assumptions | <u>(7,647,847)</u> |
| Total | <u>\$ 51,247,326</u> |