JUNE 30, 2006
POST RETIREMENT BENEFITS ANALYSIS
OF
THE VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

October 2006

buckconsultants. an ACS company

TABLE OF CONTENTS

Section	Item	Page
SECTION I	OVERVIEW	2
SECTION II	REQUIRED INFORMATION	3
SECTION III	MEMBERSHIP DATA AND MEDICAL PREMIUMS	5
SECTION IV	REQUIRED SUPPLEMENTARY INFORMATION	7
SECTION V	FORECASTS	8
SECTION VI	ACTUARIAL ASSUMPTIONS AND METHODS	11

SECTION I - OVERVIEW

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, 2006. The State Treasurer's Office provided the employee data and premium information used in the completion of this study.

The purposes of the valuation are to measure the current liabilities of the System for its post-retirement benefits program, 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 will be required in future fiscal years for compliance with the Government 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 presented in this study on two bases. Under one, it is assumed that the System's post-retirement medical benefits other than pensions are funded in a manner similar to that used for pensions. Under the second, it is assumed that there is no pre-funding of such benefits. Section II provides a summary of the principal valuation results. Section V provides a projection of expense and funding amounts.

Respectfully Submitted,

Buck Consultants, LLC

October 27, 2006

____________________________ _______________

Daniel W. Sherman, ASA, MAAA, EA Date

Director and Consulting Actuary

October 27, 2006

____________________________ _______________

David L. Driscoll, FSA, MAAA, EA Date

Principal and Consulting Actuary

SECTION I - OVERVIEW

The plan experienced a net increase in the accrued liability over the past year primarily due to an increase of 5% in premiums for most covered participants (an 8% increase had been assumed in the prior valuation), and a net increase in participant population from 11,117 to 11,420.

The economic actuarial assumptions used in this valuation are the same as those used last year. All demographic assumptions are the same as those used in the pension actuarial valuation except for the retirement assumption for Group C. We have reflected the recent change in retirement eligibility for Group C, which allows participants to retire after 30 years of service, regardless of age. The results do not reflect any announced cost rates for 2007.

The costs developed in this report are reasonably close to those expected, based on last year's figures and anticipated trends.

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, was issued on June 30, 2006. The Technical Bulletin provides that GASB OPEB calculations cannot be reduced by future Medicare Part D 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.)

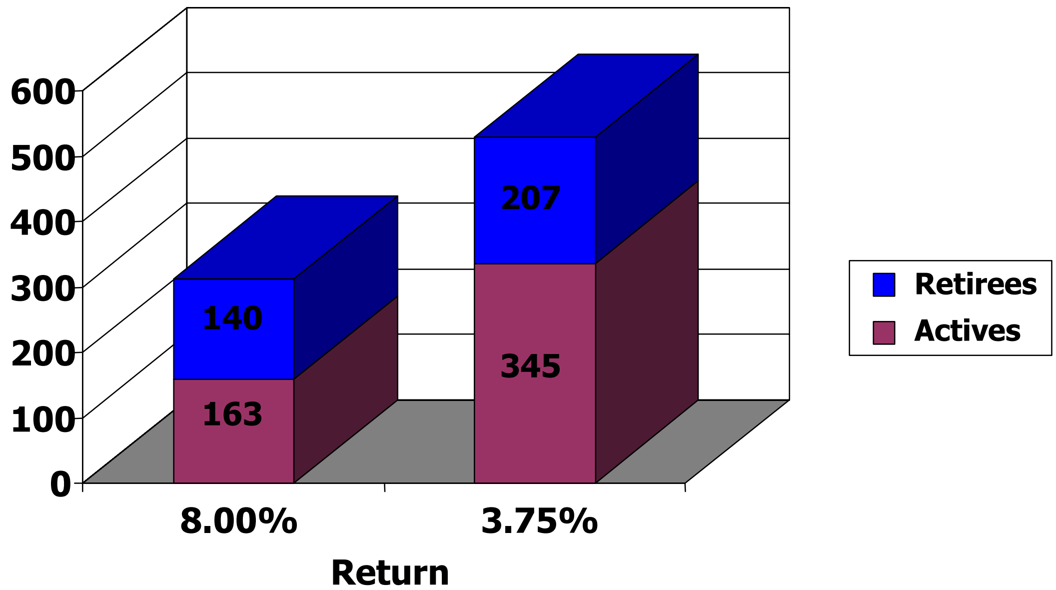
SECTION II – REQUIRED INFORMATION

		Pre-Funding Basis	Pay-as-you-go Basis
a)	Assumed discount rate	8%	3.75%
b)	Actuarial value of assets	$ 0	$ 0
c)	Actuarial accrued liability		
	Active Participants	$ 162,906,960	$ 344,735,632
	Retired Participants	140,585,005	207,416,549
	Total	$ 303,491,965	$ 552,152,181
d)	Unfunded actuarial liability (c. - b.)	$ 303,491,965	$ 552,152,181
e)	Funded ratio	0%	0%
f)	Annual covered payroll	$ 369,309,532	$ 369,309,532
g)	Unfunded actuarial liability as a percentage of covered payroll	82.2%	149.5%
h)	Normal Cost for the 2007 fiscal year	$ 10,489,428	$ 25,486,108
i)	Amortization of unfunded actuarial liability for the 2007 fiscal year (30-year)	$ 14,777,175	$ 15,388,257
j)	Annual Required Contribution (ARC) for the 2007 fiscal year* (h. + i.)	$ 25,266,603	$ 40,874,365
k)	Expected benefit payments	$ 14,966,546	$ 14,966,546
l)	Increase in annual cost to fund the Plan (j. - k.)	$ 10,300,057	N/A

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

SECTION II – REQUIRED INFORMATION

Actuarial Accrued Liability in $ millions

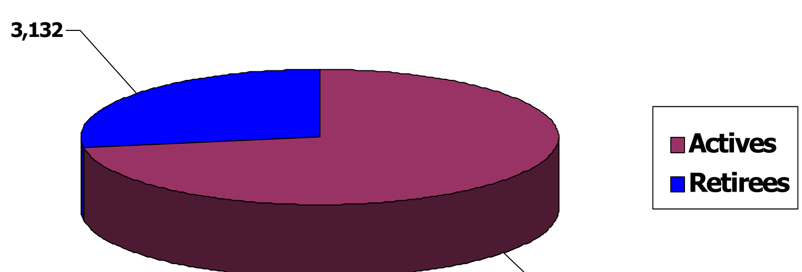


SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of participants included in valuation

	Total
Active	
Group A	29
Group C	377
Group D	51
Group F	7,831
Total	8,288
Retired	3,132
Total	11,420

Participants



SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Monthly State Costs (including expenses) Effective January 1, 2006

	State Share	Retirees	Beneficiaries
Total Choice			
Retiree under 65	$436.57	172	0
2 Person under 65	$873.14	129	129
Family Retiree under 65	$1,200.56	24	24
Retiree under 65 and 1 over 65	$617.94	59	59
3 Person, Retiree and 1 under 65 and 1 over 65	$812.74	0	0
Retiree over 65	$181.37	1307	0
2 Person over 65	$362.74	712	712
Retiree over 65 and 1 under 65	$617.94	183	183
Retiree over 65 and 2 or more under 65	$812.74	6	6
Retiree over 65 and 2 or more dependents, 1 Medicare eligible	$532.46	5	5
Health Guard PPO			
Retiree under 65	$390.62	1	0
2 Person under 65	$781.25	0	0
Family Retiree under 65	$1,074.22	0	0
Retiree under 65 and 1 over 65	$561.57	2	2
3 Person, Retiree and 1 under 65 and 1 over 65	$734.07	1	1
Retiree over 65	$170.94	5	0
2 Person over 65	$341.89	9	9
Retiree over 65 and 1 under 65	$561.57	2	2
Retiree over 65 and 2 or more under 65	$734.07		0
Retiree over 65 and 2 or more dependents, 1 Medicare eligible	$500.22	0	0
SelectCare POS			
Retiree under 65	$355.46	209	0
2 Person under 65	$710.91	235	235
Family (Retiree under 65)	$977.50	44	44
SafetyNet			
Retiree under 65	$250.97	3	0
2 Person under 65	$501.94	0	0
Family (Retiree under 65)	$690.16	0	0
Other		24	0
Total		3,132	1,411

THE NUMBER OF ACTIVE MEMBERS
DISTRIBUTED BY AGE AND SERVICE
AS OF JUNE 30, 2006

	Years of Service									
	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										
Under 20	3	0	0	0	0	0	0	0	0	3
20 to 24	198	1	0	0	0	0	0	0	0	199
25 to 29	430	94	0	0	0	0	0	0	0	524
30 to 34	411	232	56	6	0	0	0	0	0	705
35 to 39	371	301	177	155	7	0	0	0	0	1,011
40 to 44	365	262	153	229	141	20	0	0	0	1,170
45 to 49	307	259	140	227	175	179	12	0	0	1,299
50 to 54	282	244	152	208	182	225	112	7	0	1,412
55 to 59	186	181	128	161	169	235	172	83	2	1,317
60 to 64	68	71	48	74	68	74	50	53	15	521
65 to 69	10	24	9	13	5	10	7	5	6	89
70 & up	5	6	5	6	3	3	1	5	4	38
TOTAL	2,636	1,675	868	1,079	750	746	354	153	27	8,288

SECTION IV – REQUIRED SUPPLEMENTARY INFORMATION

The Schedule of Funding Progress will be required to be included in the State's Financial Statements beginning in Fiscal Year End 2008.

SCHEDULE OF FUNDING PROGRESS WITH ASSUMPTIONS BASED ON A 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, 2006	$0	$303,492	$303,492	0%	$369,310	82.2%
June 30, 2005	$0	$289,173	$289,173	0%	$349,258	82.8%

These results are based on a discount rate of 8%.

SCHEDULE OF FUNDING PROGRESS WITH ASSUMPTIONS BASED ON POLICY OF PAY-AS-YOU-GO FUNDING

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
June 30, 2006	$0	$552,152	$552,152	0%	$369,310	149.5%
June 30, 2005	$0	$529,027	$529,027	0%	$349,258	151.5%

These results are based on a discount rate of 3.75%.

SECTION V – 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 page, 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 a modest amount of growth in the active population for the next few years. 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 8.00% and 3.75%.

Also included is a forecast of the pay-as-you-go amount. If the State chooses to not fund the obligation, the difference between the pay-as-you-go amount and the actuarially determined contribution would be recorded as a liability on the financial statements. The liability will grow with interest and net new differences in successive years.

SECTION V – FORECASTS

FORECAST OF FUNDING AND GASB EXPENSE UNDER A DISCOUNT RATE OF 8%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State ARC	Pay-as-you-go	Difference
2007	10,489,428	14,777,175	25,266,603	14,966,546	10,300,057
2008	11,433,477	15,516,034	26,949,511	16,781,344	10,168,167
2009	12,348,155	16,291,835	28,639,990	18,562,179	10,077,811
2010	13,212,526	17,106,427	30,318,953	20,571,268	9,747,685
2011	14,005,278	17,961,748	31,967,026	22,440,443	9,526,583
2012	14,705,542	18,859,836	33,565,378	24,053,246	9,512,132
2013	15,440,819	19,802,828	35,243,647	25,581,808	9,661,839
2014	16,212,860	20,792,969	37,005,829	27,107,996	9,897,833
2015	17,023,503	21,832,617	38,856,120	28,571,383	10,284,737
2016	17,874,678	22,924,248	40,798,926	29,898,000	10,900,926
2017	18,768,412	24,070,461	42,838,873	31,226,912	11,611,961
2018	19,706,833	25,273,984	44,980,817	32,681,047	12,299,770
2019	20,692,175	26,537,683	47,229,858	34,202,896	13,026,962
2020	21,726,784	27,864,567	49,591,351	35,795,613	13,795,738
2021	22,813,123	29,257,795	52,070,918	37,462,498	14,608,421
2022	23,953,779	30,720,685	54,674,464	39,207,003	15,467,461
2023	25,151,468	32,256,719	57,408,187	41,032,745	16,375,442
2024	26,409,041	33,869,555	60,278,596	42,943,506	17,335,091
2025	27,729,493	35,563,033	63,292,526	44,943,244	18,349,282
2026	29,115,968	37,341,185	66,457,153	47,036,104	19,421,049
2027	30,571,766	39,208,244	69,780,010	49,226,421	20,553,589
2028	32,100,354	41,168,656	73,269,010	51,518,734	21,750,276
2029	33,705,372	43,227,089	76,932,461	53,917,793	23,014,668
2030	35,390,641	45,388,444	80,779,085	56,428,568	24,350,517
2031	37,160,173	47,657,866	84,818,039	59,056,261	25,761,777
2032	39,018,182	50,040,759	89,058,941	61,806,318	27,252,623
2033	40,969,091	52,542,797	93,511,888	64,684,436	28,827,452
2034	43,017,546	55,169,937	98,187,483	67,696,578	30,490,905
2035	45,168,423	57,928,434	103,096,857	70,848,986	32,247,871
2036	47,426,844	60,824,855	108,251,699	74,148,191	34,103,508
2037	49,798,186	0	49,798,186	77,601,029	-27,802,843

SECTION V – FORECASTS

FORECAST OF FUNDING AND GASB EXPENSE UNDER A DISCOUNT RATE OF 3.75%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State ARC	Pay-as-you-go	Difference
2007	25,486,108	15,388,257	40,874,365	14,966,546	25,907,819
2008	27,779,858	16,157,670	43,937,528	16,781,344	27,156,184
2009	30,002,247	16,965,554	46,967,801	18,562,179	28,405,622
2010	32,102,404	17,813,831	49,916,235	20,571,268	29,344,967
2011	34,028,548	18,704,523	52,733,071	22,440,443	30,292,628
2012	35,729,975	19,639,749	55,369,724	24,053,246	31,316,478
2013	37,516,474	20,621,736	58,138,210	25,581,808	32,556,402
2014	39,392,298	21,652,823	61,045,121	27,107,996	33,937,125
2015	41,361,913	22,735,464	64,097,377	28,571,383	35,525,994
2016	43,430,009	23,872,238	67,302,247	29,898,000	37,404,247
2017	45,601,509	25,065,850	70,667,359	31,226,912	39,440,447
2018	47,881,584	26,319,142	74,200,726	32,681,047	41,519,679
2019	50,275,663	27,635,099	77,910,762	34,202,896	43,707,866
2020	52,789,446	29,016,854	81,806,300	35,795,613	46,010,687
2021	55,428,918	30,467,697	85,896,615	37,462,498	48,434,117
2022	58,200,364	31,991,082	90,191,446	39,207,003	50,984,442
2023	61,110,382	33,590,636	94,701,018	41,032,745	53,668,273
2024	64,165,901	35,270,168	99,436,069	42,943,506	56,492,563
2025	67,374,196	37,033,676	104,407,872	44,943,244	59,464,628
2026	70,742,906	38,885,360	109,628,266	47,036,104	62,592,162
2027	74,280,051	40,829,628	115,109,679	49,226,421	65,883,258
2028	77,994,054	42,871,109	120,865,163	51,518,734	69,346,429
2029	81,893,757	45,014,665	126,908,422	53,917,793	72,990,629
2030	85,988,445	47,265,398	133,253,843	56,428,568	76,825,275
2031	90,287,867	49,628,668	139,916,535	59,056,261	80,860,273
2032	94,802,260	52,110,101	146,912,361	61,806,318	85,106,043
2033	99,542,373	54,715,606	154,257,979	64,684,436	89,573,543
2034	104,519,492	57,451,386	161,970,878	67,696,578	94,274,300
2035	109,745,467	60,323,956	170,069,423	70,848,986	99,220,437
2036	115,232,740	63,340,154	178,572,894	74,148,191	104,424,702
2037	120,994,377	0	120,994,377	77,601,029	43,393,348

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

VERMONT STATE EMPLOYEES – ALL GROUPS

Assumed investment return

8.0% per year, net of investment expenses, is the assumed rate of return on assets accumulated in the System's trust for benefit payments. 3.75% per year for a non-funded plan.

Actuarial Cost Method:

Projected Unit Credit

Medical Care and State Share Inflation:

Fiscal Year Ending	Inflation Rate
2007	8.0%
2008	7.0
2009	6.0
2010 & After	5.0

Amortization period:

Closed basis. Thirty-year amortization starting in the fiscal year ending in 2007 with payments increasing by 5% annually.

Retirement Eligibility:

At termination of employment, employee must be eligible for retirement as prescribed by the terms of the State Employees' Retirement System of Vermont to receive medical coverage:

Group A: Earlier of (a) age 55 with 5 years of service, and (b) 30 years of service.

Group C: Earlier of (a) age 55, (b) age 50 with 20 years of service, and (c) 30 years of service.

Group D: Age 55 with 5 years of service.

Group F: Earlier of (a) age 55 with 5 years of service, and (b) 30 years of service.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Groups A, D and F

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	Women
25	5.24%	.06%	.04%	.02%
30	4.20	.08	.04	.03
35	3.51	.10	.08	.05
40	3.25	.15	.11	.07
45	2.88	.25	.15	.11
50	2.40	.42	.21	.17
55	1.96	.71	.30	.25
59	1.93	1.03	.44	.36
60	1.92	1.14	.49	.39
61	1.92	1.25	.54	.43

[1] Increased during first 10 years of service.

Retirement[2]					
Age	Rate	Age	Rate	Age	Rate
55	5%	60	10%	65	25%
56	6	61	20	66	30
57	8	62	20	67	35
58	9	63	25	68	35
59	10	64	25	69	40
				70	100

[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, and according to the RP-2000 Mortality Tables for Disabled Lives for disabled retirees.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Administrative Expenses:	No provision made; expenses of the System are paid by the State.
Spouse's Age:	Husbands are assumed to be 3 years older than their wives.
Percent Married:	75.4% (71.4% for Group F) of male members and 64.0% (63.1% for Group F) of female members are assumed to be married.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Group C

Separations before Retirement: 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	Women
25	3.00%	.15%	.04%	.02%
30	3.00	.20	.04	.03
35	3.00	.27	.08	.05
40		.40	.11	.07
45		.65	.15	.11
50		1.09	.21	.17
55		1.82	.30	.25
60		2.93	.49	.39

[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, and according to the RP-2000 Mortality Tables for Disabled Lives for disabled retirees.

Future Expenses: No provision made; expenses of the System are paid by the State outside of the plan.

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

Percent Married: 75.4% of male members and 64.0% of female members are assumed to be married.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Health Plans:

Retirees without Medicare may select from four plans: Total Choice, Health Guard PPO, SelectCare POS and SafteyNet. Retirees with Medicare may select from two plans: Total Choice and Health Guard.

Pre-Age 65 Retirees:

Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65, at which time they enter the average plan provided to current post-65 retirees.

Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees under age 65. The weighted average premium includes an adjustment based on age to account for the implicit subsidy of older employees' true benefit cost.

At age 65, all participants are assumed to participate in post-65 plans in the same proportions as current retirees over age 65.

Retirees and beneficiaries remain in their current medical plan until death. Therefore, if the retiree predeceases the beneficiary, the beneficiary will continue to have coverage until his or her death. However, the State does not cover any of the costs of coverage.

Post-Age 65 Retirees:

Current retirees over age 65 remain in their current medical plan until death. Beneficiaries remain in their current medical plan until death. Therefore, if the retiree predeceases the beneficiary, the beneficiary will continue to have coverage until his or her death. However, the State does not cover any of the costs of coverage.

Coverage:

It is assumed that 80% of current active employees will elect retiree medical coverage.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

Medical Plan Costs:

Estimated net per capita incurred claim costs for 2006-07 at age 64 and 65 was $5,772 and $1,688, respectively. It is assumed that future retirees are Medicare eligible. Per capita costs were developed from the State developed monthly costs. Claims information was not available. The plans are experienced rated.

Future employee cost sharing is assumed to be a constant percentage of total costs.

Age-based Morbidity:

Per capita costs are adjusted to reflect expected cost increases related to age. The increase in the net incurred claims was assumed to be:

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