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

October 2006

buckconsultants. an ACS company

TABLE OF CONTENTS

SECTION I - OVERVIEW

The Board of Trustees of the Vermont State Teachers' 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 the System's post-retirement 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 Driscoll, FSA, MAAA, EA	Date
Principal, Consulting Actuary	

SECTION I - OVERVIEW

Before adjustment for a change in actuarial assumptions (see below), the system experienced a net increase in the accrued liability for post-retirement benefits over the past year primarily due to an increase of 8% in premiums for most covered participants (an 8% increase had been assumed in the prior valuation), and a net increase in the participant population from 13,898 to 14,034. Although some may elect coverage in the future, current terminated vested participants were excluded from the valuation. Using an 8% investment return, the accrued liability is about $8 million less than the expected actuarial accrued liability.

The economic actuarial assumptions used in this valuation are the same as those used last year except for the discount rate used in the pre-funding scenario. The discount rate has been raised from 8% to 8.25% to better reflect expected rates of return on assets. All demographic assumptions are the same as those used in the pension actuarial valuation. The results do not reflect any announced cost rates for 2007.

The change in discount rate created decreases in both accrued liability and service cost; the reductions in these amounts were $16,207,624 and $884,862, respectively.

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.)

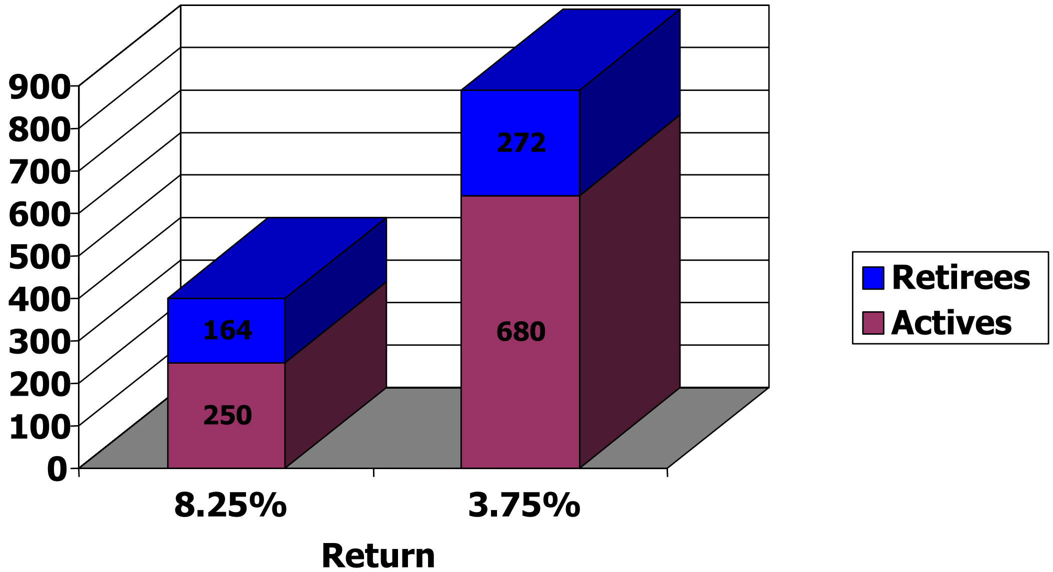
SECTION II – REQUIRED INFORMATION

		Pre-Funding Basis	Pay-as-you-go Basis
a)	Assumed investment return	8.25%	3.75%
b)	Actuarial value of assets	$ 0	$ 0
c)	Actuarial accrued liability		
	Active Participants	$ 249,806,226	$ 680,247,926
	Retired Participants	164,476,407	272,278,187
	Total	$ 414,282,633	$ 952,526,113
d)	Unfunded actuarial liability (c. - b.)	$ 414,282,633	$ 952,526,113
e)	Funded ratio (c. / b.)	0%	0%
f)	Annual covered payroll	$ 499,044,327	$ 499,044,327
g)	Unfunded actuarial liability as percentage of covered payroll	83.0%	190.9%
h)	Normal Cost for the 2007 fiscal year	$ 14,662,023	$ 49,527,893
i)	Amortization of unfunded actuarial liability for the 2007 fiscal year (30-year)	$ 20,755,009	$ 26,546,516
j)	Annual Required Contribution (ARC) for the 2007 fiscal year* (h. + i.)	$ 35,417,032	$ 76,074,409
k)	Expected benefit payments	$ 13,319,987	$ 13,319,987
l)	Increase in annual cost to fund the Plan (j. - k.)	$ 22,097,045	N/A

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

SECTION II – REQUIRED INFORMATION

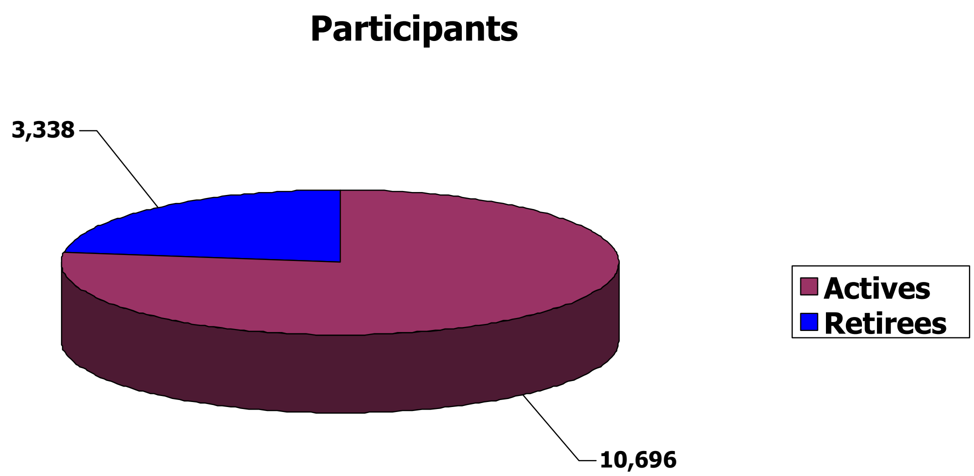
Actuarial Accrued Liability in $millions



SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of participants included in valuation

	2006	2005
Actives	10,696	10,735
Retired	3,338	3,163
Total	14,034	13,898



Monthly State Costs (including expenses) for the 2007 Fiscal Year

Plan	State Share	Increase from 2006	Participants
JY			
Retiree under 65	$374.88	8.0%	1100
Retiree over 65	$301.83	8.0%	2031
Retiree over 65 without Medicare	$374.88	8.0%	3
$250 Comprehensive Plan			
Retiree under 65	$374.88	8.0%	0
Retiree over 65	$301.83	8.0%	52
Vermont Health Partnership			
Retiree under 65	$374.88	8.0%	0
JY, Comp, MediComp Carveout	$374.88	8.0%	0
MediComp C Plan			
Medicare Eligible, over 65	$144.39	4.0%	101
Dependents	$144.39	4.0%	51

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

AGE	*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*
Under 20	2	0	0	0	0	0	0	0	0	2
20 to 24	113	0	0	0	0	0	0	0	0	113
25 to 29	614	143	0	0	0	0	0	0	0	757
30 to 34	476	478	68	0	0	0	0	0	0	1,022
35 to 39	348	417	316	67	0	0	0	0	0	1,148
40 to 44	313	307	267	221	73	0	0	0	0	1,181
45 to 49	326	349	252	275	293	81	1	0	0	1,577
50 to 54	246	349	314	373	304	440	132	1	0	2,159
55 to 59	165	223	251	359	317	345	330	33	0	2,023
60 to 64	52	76	58	121	111	74	81	39	5	617
65 to 69	13	11	9	14	13	7	8	5	3	83
70 & up	8	1	1	1	2	0	1	0	0	14
TOTAL	2,676	2,354	1,536	1,431	1,113	947	553	78	8	10,696

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

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	$414,283	$414,283	0%	$499,044	83.0%
June 30, 2005	$0	$401,680	$401,680	0%	$486,857	82.5%

Assuming a discount rate of 8.25%. The discount rate was changed from 8.00% to 8.25% effective June 30, 2006.

SCHEDULE OF FUNDING PROGRESS

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	$952,526	$952,526	0%	$499,044	190.9%
June 30, 2005	$0	$890,412	$890,412	0%	$486,587	182.9%

Assuming a discount rate of 3.75%.

SECTION V – FORECASTS

The Government Accounting Standards Board's Statements 43 and 45 on Accounting and Financial Reporting for Postemployment 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 8.25% 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 8.25%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State ARC	Pay-as-you-go	Difference
2007	14,662,023	20,755,009	35,417,032	13,319,987	22,097,045
2008	15,981,605	21,792,760	37,774,365	15,144,662	22,629,703
2009	17,260,133	22,882,398	40,142,531	17,142,424	23,000,107
2010	18,468,342	24,026,518	42,494,860	19,306,597	23,188,263
2011	19,576,443	25,227,844	44,804,287	21,487,905	23,316,382
2012	20,555,265	26,489,236	47,044,501	23,797,621	23,246,880
2013	21,583,028	27,813,698	49,396,726	26,065,637	23,331,089
2014	22,662,179	29,204,383	51,866,562	28,580,798	23,285,764
2015	23,795,288	30,664,602	54,459,890	31,113,696	23,346,194
2016	24,985,052	32,197,832	57,182,884	33,796,955	23,385,929
2017	26,234,305	33,807,723	60,042,028	36,467,676	23,574,352
2018	27,546,020	35,498,110	63,044,130	39,161,030	23,883,100
2019	28,923,321	37,273,015	66,196,336	41,948,576	24,247,760
2020	30,369,487	39,136,666	69,506,153	44,795,734	24,710,419
2021	31,887,961	41,093,499	72,981,460	47,928,446	25,053,014
2022	33,482,359	43,148,174	76,630,533	51,029,909	25,600,624
2023	35,156,477	45,305,583	80,462,060	54,332,219	26,129,841
2024	36,914,301	47,570,862	84,485,163	57,656,208	26,828,955
2025	38,760,016	49,949,405	88,709,421	61,111,740	27,597,681
2026	40,698,017	52,446,875	93,144,892	64,690,532	28,454,360
2027	42,732,918	55,069,219	97,802,137	68,270,228	29,531,909
2028	44,869,564	57,822,680	102,692,244	71,935,438	30,756,806
2029	47,113,042	60,713,814	107,826,856	75,797,421	32,029,435
2030	49,468,694	63,749,505	113,218,199	79,866,742	33,351,456
2031	51,942,129	66,936,980	118,879,109	84,154,532	34,724,577
2032	54,539,235	70,283,829	124,823,064	88,672,519	36,150,544
2033	57,266,197	73,798,020	131,064,217	93,433,063	37,631,154
2034	60,129,507	77,487,921	137,617,428	98,449,185	39,168,243
2035	63,135,982	81,362,317	144,498,299	103,734,607	40,763,693
2036	66,292,781	85,430,433	151,723,214	109,303,786	42,419,429
2037	69,607,420	0	69,607,420	115,171,956	-45,564,536

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	49,527,893	26,546,516	76,074,409	13,319,987	62,754,422
2008	53,985,403	27,873,842	81,859,245	15,144,662	66,714,583
2009	58,304,235	29,267,534	87,571,769	17,142,424	70,429,345
2010	62,385,531	30,730,911	93,116,442	19,306,597	73,809,845
2011	66,128,663	32,267,457	98,396,120	21,487,905	76,908,215
2012	69,435,096	33,880,829	103,315,925	23,797,621	79,518,304
2013	72,906,851	35,574,871	108,481,722	26,065,637	82,416,085
2014	76,552,194	37,353,614	113,905,808	28,580,798	85,325,010
2015	80,379,804	39,221,295	119,601,099	31,113,696	88,487,403
2016	84,398,794	41,182,360	125,581,154	33,796,955	91,784,199
2017	88,618,734	43,241,478	131,860,212	36,467,676	95,392,536
2018	93,049,671	45,403,552	138,453,223	39,161,030	99,292,193
2019	97,702,155	47,673,729	145,375,884	41,948,576	103,427,308
2020	102,587,263	50,057,416	152,644,679	44,795,734	107,848,945
2021	107,716,626	52,560,287	160,276,913	47,928,446	112,348,467
2022	113,102,457	55,188,301	168,290,758	51,029,909	117,260,849
2023	118,757,580	57,947,716	176,705,296	54,332,219	122,373,077
2024	124,695,459	60,845,102	185,540,561	57,656,208	127,884,353
2025	130,930,232	63,887,357	194,817,589	61,111,740	133,705,849
2026	137,476,744	67,081,725	204,558,469	64,690,532	139,867,937
2027	144,350,581	70,435,811	214,786,392	68,270,228	146,516,164
2028	151,568,110	73,957,601	225,525,711	71,935,438	153,590,273
2029	159,146,516	77,655,481	236,801,997	75,797,421	161,004,576
2030	167,103,842	81,538,256	248,642,098	79,866,742	168,775,355
2031	175,459,034	85,615,168	261,074,202	84,154,532	176,919,670
2032	184,231,986	89,895,927	274,127,913	88,672,519	185,455,393
2033	193,443,585	94,390,723	287,834,308	93,433,063	194,401,245
2034	203,115,764	99,110,259	302,226,023	98,449,185	203,776,838
2035	213,271,552	104,065,772	317,337,324	103,734,607	213,602,717
2036	223,935,130	109,269,061	333,204,191	109,303,786	223,900,405
2037	235,131,887	0	235,131,887	115,171,956	119,959,931

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

VERMONT STATE TEACHERS

Interest 8.25% per year, net of investment expenses for a funded plan. 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 FYE07 with payments increasing 5% annually.

Retirement Eligibility: Age 55 for Group A. Earlier of (a) age 55 with 5 years of service and (b) 30 years of service for Group C. Participants terminating prior to age 55 with at least 5 years of service, may elect medical coverage beginning at age 55.

Marital status: Active participants are assumed to keep their current marital status upon retirement.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

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

Age	Withdrawal and Vested Retirement		Disability		Death	
	Males	Females	Males	Females	Males	Females
25	5.40%	6.48%	.010%	.015%	.04%	.03%
30	5.40	5.40	.020	.015	.04	.03
35	4.86	4.32	.020	.015	.04	.03
40	4.05	3.60	.030	.020	.08	.03
45	3.60	3.15	.053	.045	.08	.05
50	3.60	2.70	.180	.180	.12	.08
55	3.60	2.70	.440	.390	.12	.12
59	3.60	2.70	1.170	.710	.15	.18
60	3.60	2.70	1.470	.840	.15	.19
61	3.60	2.70	1.830	1.010	.50	.22

Age	Reduced Early Retirement		Full Early Retirement	
	Males	Females	Males	Females
50	-	-	44.00%	40.00%
55	5.00%	8.75%	30.80	20.00
56	4.00	6.25	17.60	10.00
57	3.00	6.25	16.50	10.00
58	6.00	6.25	16.50	10.00
59	6.00	6.25	20.90	10.00
60	6.00	12.50	41.25	30.00
61	20.00	12.50	22.00	17.00

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

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

	Annual Rate of Retirement	
Age	Male	Female
62	35.2%	25.0%
63	26.4	20.0
64	27.5	20.0
65	41.8	30.0
66	33.0	30.0
67	39.6	30.0
68	26.4	20.0
69	33.0	30.0
70	100.0	100.0

Deaths after Retirement: The 1995 Buck Mortality Tables, set back one year, are used for the period after service retirement, while the RP-2000 Tables for Disabled Retirees are used for the period following disability retirement.

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

Percent Married: 85% of the male members and 35% of the female members are assumed to be married.

Health Plans: Retirees without Medicare may select from three plans: JY Plan, $250 Comprehensive, and Vermont Health Partnership. Retirees with Medicare may select from three plans: JY Carve-Out, $250 Comprehensive Carve-Out, and Medi-Comp C.

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.

SECTION VI - ACTUARIAL ASSUMPTIONS AND METHODS

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 part 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 part of the costs of coverage.

Coverage: It is assumed that 80% of current active employees with 10 years of service will elect retiree medical coverage.

Medical Plan Costs: Estimated net per capita incurred claim costs for 2006-07 at age 64 and 65 was $5,043 and $2,717, 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%