

VSTRS Employer GASB 75 Supplemental Information

Vermont State Teachers' Retirement System (VSTRS)

The schedule of employer allocations and schedule of OPEB amounts by employer are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The schedules present amounts that are elements of the financial statements of the VSTRS or its participating employers. VSTRS does not issue stand alone financial reports, but instead are included as part of the State of Vermont's Comprehensive Annual Financial Report (CAFR). The CAFR can be viewed on the State's Department of Finance & Management website at:

<http://finance.vermont.gov/reports-and-publications/cafr>

Plan Description

The Vermont State Teachers' Retirement 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, 2018, the plan consisted of 225 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 Board of Trustees, which consists of the Secretary of Education (es-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).

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

Summary of Plan

Eligibility:

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

Group A – 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

Group C – Public school teachers employed within the State of Vermont on or after July 1, 1990. Teachers hired before July 1, 1990 and were Group B members in service on July 1, 1990 are now Group

C members. Grandfathered participants are Group C members who were within five years of normal retirement eligibility as defined prior to July 1, 2010.

- Retirement Group C Grandfathered: Attainment of age 62, or 30 years creditable service, or age 55 with 5 years of creditable service.
- Retirement Group C Non-grandfathered: Attainment of age 65, or age plus creditable service equal to 90, or age 55 with 5 years of creditable service.

Vesting and Disability: 5 years of creditable service. Participants who terminate with 5 years of service under the age of 55 may elect coverage upon receiving pension benefits.

Benefit Types: Medical and prescription drug. Retirees pay the full cost for dental benefits.

Duration of Coverage: Lifetime.

Spousal Benefits: Same benefits as for retirees.

Spousal Coverage: Lifetime.

Retiree Contributions:

Retired before June 30, 2010:

Retirees with at least 10 years of service pay premium costs in excess of an 80% VSTRS subsidy. Retirees with less than 10 years of service do not receive any premium subsidy. Spouses do not receive any premium subsidy, regardless of the retiree’s service.

Retired after June 30, 2010:

Retirees pay premium costs in excess of the following VSTRS subsidy, based on service:

<u>Retiree Subsidy Level</u>	<u>Subsidy</u>
Years of Service at June 30, 2010	
10 years or more	80%
Less than 10 years	
Less than 15 years at retirement	0%
15-19.99 years at retirement	60%
20-24.99 years at retirement	70%
25 or more years at retirement	80%

Spouses of retirees can receive an 80% subsidy, if they meet the following requirements:

Spouse Coverage with 80% Subsidy

<u>Years of Service at June 30, 2010</u>	<u>Required Years of Service at Retirement</u>
Less than 10 years	25 years of service at retirement
Between 10 and 14.99 years	25 years of service at retirement
Between 15 and 24.99 years	10 additional years from June 30, 2010
Between 25 and 29.99 years	35 years of service at retirement
30 or more years	5 additional years from June 30, 2010

Spouses of retirees who do not meet the above requirements for an 80% subsidy can receive unsubsidized coverage.

Premium Reduction Option:

Participants retiring on or after January 1, 2007 with a VSTRS premium subsidy have a one-time option to reduce the VSTRS subsidy percentage during the retiree's life so that a surviving spouse may continue to receive the same VSTRS subsidy for the spouse's lifetime. If the retiree elects the joint and survivor pension option but not the Premium Reduction Option, spouses are covered for the spouse's lifetime but pay 100% of the plan premium after the retiree's death.

Actuarial assumptions

The Total OPEB Liability used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate: 3.87% based on the 20 year Bond Buyer GO index at June 30, 2018

Salary Increase Rate: Varies by age. Representative values of the assumed annual rates of future salary increases are as follows:

<u>Service</u>	<u>Annual Rate of Salary Increase (%)</u>
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%

Healthcare Cost Trend Rates: Non-Medicare – 7.15% graded to 4.50% over 12 years
Medicare – 7.15% graded to 4.50% over 12 years

Retiree Contributions: Equal to health trend

Mortality Rates: *Death in Active Service:*
All Groups - 98% of RP-2006 White Collar Employee with generational projection using Scale SSA-2017

Healthy Post-retirement:
All Groups - 98% of RP-2006 White Collar Annuitant with generational projection using Scale SSA-2017

Disabled Post-retirement:

RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017

The tables with the generational projection to the ages of members as of the measurement date reasonably reflect the mortality experience of the Plan as of the measurement date. The mortality tables were then adjusted to future years using a generational projection with Scale SSA-2017 to reflect future mortality improvement.

Actuarial Cost Method: Entry-Age Normal, Level Percentage of Pay

Asset Valuation Method: Market Value

Measurement Date: June 30, 2018

Actuarial Valuation Date: June 30, 2017

Per Capita Cost Development:

Medical and Prescription Drug

Per capita claims costs were based on claims for the period July 1, 2015 through June 30, 2018. Claims were separated by non-Medicare and Medicare retirees, and by claim type (medical vs. prescription drug). Claims were separated by plan year, then adjusted as follows:

- total claims were divided by the number of adult members to yield a per capita claim,
- the per capita claim was trended to the midpoint of the valuation year at assumed trend rates, and
- the per capita claim was adjusted for the effect of any plan changes.

Per capita claims for each plan year were then combined by taking a weighted average. The weights used in this average account for a number of factors including each plan year's volatility of claims experience and distance to the valuation year. Actuarial factors were then applied to the weighted average cost to estimate individual retiree and spouse costs by age and by gender.

Administrative Expenses

Per capita claims costs were based on expenses for the period July 1, 2015 through June 30, 2018. Expenses were separated by plan year, then adjusted as described above to yield a combined weighted average per capita claims cost.

Per Capita Health Costs:

Medical and prescription drug claims for the year beginning July 1, 2018 are shown in the table below for retirees and for spouses at selected ages. These costs are net of deductibles and other benefit plan cost sharing provisions.

Age	Retiree		Spouse		Retiree		Spouse	
	Male	Female	Male	Female	Male	Female	Male	Female
50	\$ 8,206	\$ 9,347	\$ 5,732	\$ 7,505	\$ 1,562	\$ 1,780	\$ 1,091	\$ 1,429
55	9,745	10,061	7,670	8,687	1,855	1,916	1,460	1,654
60	11,573	10,845	10,268	10,075	2,204	2,065	1,955	1,918
64	13,278	11,505	12,962	11,340	2,528	2,190	2,468	2,159
65	1,491	1,267	1,491	1,267	2,060	1,751	2,060	1,751
70	1,728	1,366	1,728	1,366	2,388	1,887	2,388	1,887
75	1,862	1,470	1,862	1,470	2,573	2,031	2,573	2,031

Administrative Expenses:

An annual administrative expense of \$558 per participant with health and welfare coverage increasing at 3.0% per year was added to projected incurred claim costs in developing the benefit obligations.

Health Care Cost Trend Rates:

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The rates shown below are “net” and are applied to the net per capita costs shown above. The trend shown for a particular plan year is the rate that is applied to that year’s cost to yield the next year’s projected cost.

Year Ending June 30,	Health Costs
2019	7.150
2020	6.925
2021	6.700
2022	6.475
2023	6.250
2024	6.025
2025	5.800
2026	5.575
2027	5.350
2028	5.125
2029	4.900
2030	4.675
2031 & Later	4.500

The trend rate assumptions were developed using Segal’s internal guidelines, which are established each year using data sources such as the 2019 Segal Health Trend Survey, internal client results, trends

from other published surveys prepared by the S&P Dow Jones Indices, consulting firms and brokers, and CPI statistics published by the Bureau of Labor Statistics.

Retiree Contribution Increase Rate:

Retiree contributions were assumed to increase with health trend. Retiree contribution rates were based on 2018 premiums. Plan premiums were weighted by actual retiree and dependent enrolment, separately for non-Medicare and Medicare.

Health Care Reform Assumption:

The Plan is assumed to be in compliance with the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA) of 2010 as of the valuation date. The valuation includes the projected effect of the Act's provision which imposes an excise tax on high cost employer-sponsored health coverage beginning in 2022. The excise tax limit is assumed to increase by 2.5% each year after 2018.