

## **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, 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 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:

<b><u>Retiree Subsidy Level</u></b>	<b><u>Subsidy</u></b>
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**

<b><u>Years of Service at June 30, 2010</u></b>	<b><u>Required Years of Service at Retirement</u></b>
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:** 3.58% based on the short-term bond rate

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

<b>Service</b>	<b>Annual Rate of Salary Increase (%)</b>
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 – 7.50% graded to 4.50% over 12 years  
Medicare – 7.75% graded to 4.50% over 11 years

**Retiree Contributions:** Equal to health trend

**Pre-retirement Mortality:** 98% of RP-2014 White Collar Employee with generational projection using Scale SSA-2017

**Post-retirement Mortality:** 98% of RP-2014 With Collar Annuitant with generational projection using Scale SSA-2017

**Disabled Mortality:** RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017

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

**Asset Valuation Method:** Market Value

**Measurement Date:** June 30, 2017

**Actuarial Valuation Date:** June 30, 2016

**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, 2017. Claims were separated by non-Medicare and Medicare retirees, and by medical and 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 claims for the period July 1, 2015 through June 30, 2017. Claims 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, 2017 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	Medical				Prescription Drugs			
	Retiree		Spouse		Retiree		Spouse	
	Male	Female	Male	Female	Male	Female	Male	Female
50	\$ 7,969	\$ 9,077	\$ 5,566	\$ 7,288	\$ 1,515	\$ 1,725	\$ 1,058	\$ 1,385
55	9,464	9,771	7,448	8,436	1,799	1,857	1,416	1,603
60	11,239	10,532	9,971	9,784	2,136	2,002	1,895	1,860
64	12,894	11,172	12,587	11,012	2,451	2,123	2,392	2,093
65	1,472	1,251	1,472	1,251	1,896	1,612	1,896	1,612
70	1,706	1,348	1,706	1,348	2,197	1,737	2,197	1,737
75	1,839	1,451	1,839	1,451	2,368	1,869	2,368	1,869

**Administrative Expenses:**

An annual administrative expense of \$526 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,	Rate (%)	
	Pre-Medicare Health Costs	Medicare Health Costs
2018	7.50	7.75
2019	7.25	7.45
2020	7.00	7.15
2021	6.75	6.85
2022	6.50	6.55
2023	6.25	6.25
2024	6.00	5.95
2025	5.75	5.65
2026	5.50	5.35
2027	5.25	5.05
2028	5.00	4.75
2029	4.75	4.50
2030+	4.50	4.50

The trend rate assumptions were developed using Segal’s internal guidelines, which are established each year using data sources such as the 2018 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 2017 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 2020. The excise tax limit is assumed to increase by 2.5% each year after 2018.