

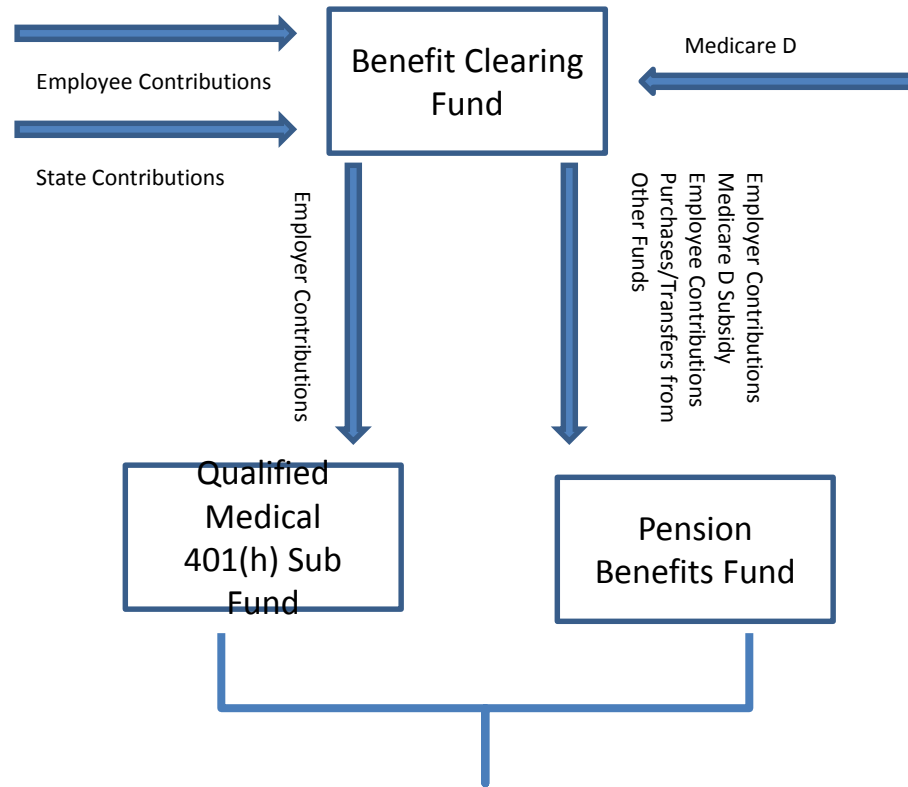
Teacher Health Care and Pensions

March 15, 2016

State of Vermont
Office of the Treasurer

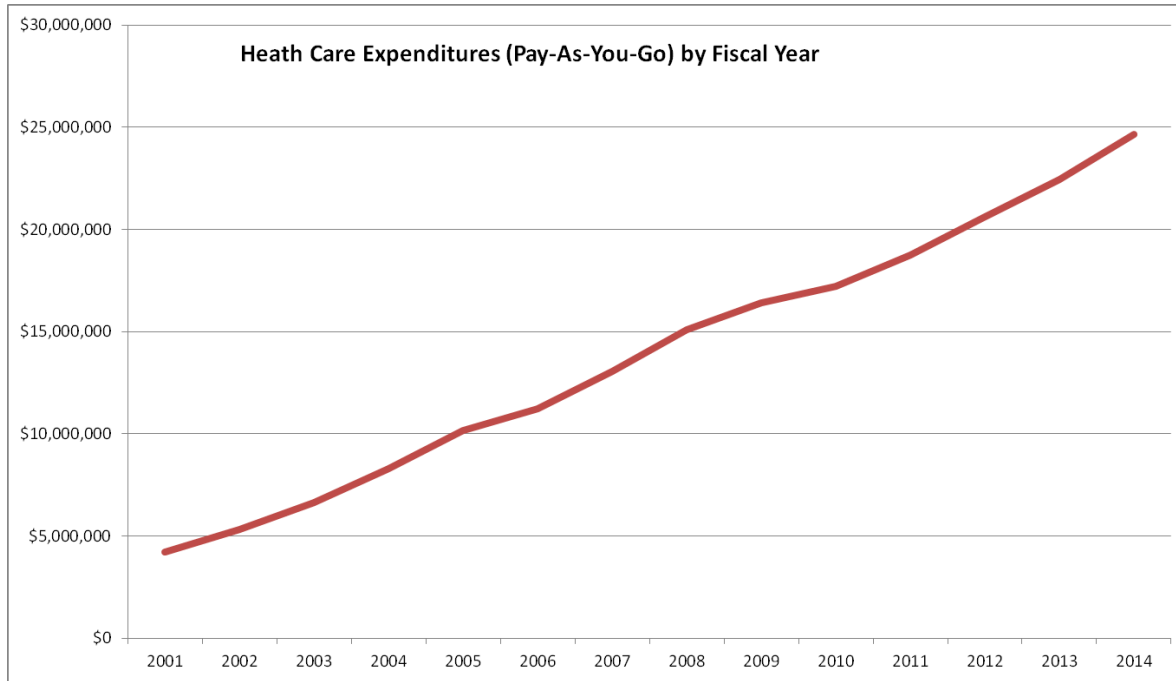


Pension Fund Structure Up to FY 2015



Both Comprise the Pension Fund

Health Care Expenses Are Rising



Health Care Expenses													
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
4,194,215	5,299,600	6,634,738	8,279,332	10,167,601	11,233,854	13,040,783	15,081,847	16,421,176	17,203,669	18,749,675	20,620,144	22,459,219	24,640,986

As retiree health care takes a bigger bite out of available funds, VSTRS's pension funded position is threatened and the annual actuarial required contributions (ARC) is rising at an accelerated rate.

Example Amortization of \$20 million of Retiree Healthcare Costs

Fiscal Year-End Date	Unfunded Liability Balance	"Select and Ultimate" Discount Rate	Interest on Unfunded Liability	Amortization Increasing at 5.00%
6/30/2012	20,000,000	6.25%	1,250,000	1,150,174
6/30/2013	20,099,826	6.75%	1,356,738	1,207,682
6/30/2014	20,248,882	7.00%	1,417,422	1,268,067
6/30/2015	20,398,237	7.50%	1,529,868	1,331,470
6/30/2016	20,596,635	7.75%	1,596,239	1,398,043
6/30/2017	20,794,831	8.25%	1,715,574	1,467,945
6/30/2018	21,042,459	8.25%	1,736,003	1,541,343
6/30/2019	21,237,120	8.25%	1,752,062	1,618,410
6/30/2020	21,370,772	8.50%	1,816,516	1,699,330
6/30/2021	21,487,957	8.50%	1,826,476	1,784,297
6/30/2022	21,530,137	8.50%	1,830,062	1,873,512
6/30/2023	21,486,686	8.50%	1,826,368	1,967,187
6/30/2024	21,345,867	8.50%	1,814,399	2,065,547
6/30/2025	21,094,719	8.50%	1,793,051	2,168,824
6/30/2026	20,718,947	8.50%	1,761,110	2,277,265
6/30/2027	20,202,792	8.75%	1,767,744	2,391,129
6/30/2028	19,579,408	9.00%	1,762,147	2,510,685
6/30/2029	18,830,869	9.00%	1,694,778	2,636,219
6/30/2030	17,889,428	9.00%	1,610,049	2,768,030
6/30/2031	16,731,447	9.00%	1,505,830	2,906,432
6/30/2032	15,330,845	9.00%	1,379,776	3,051,753
6/30/2033	13,658,868	9.00%	1,229,298	3,204,341
6/30/2034	11,683,825	9.00%	1,051,544	3,364,558
6/30/2035	9,370,812	9.00%	843,373	3,532,786
6/30/2036	6,681,399	9.00%	601,326	3,709,425
6/30/2037	3,573,299	9.00%	321,597	3,894,896
6/30/2038	0	9.00%	0	0

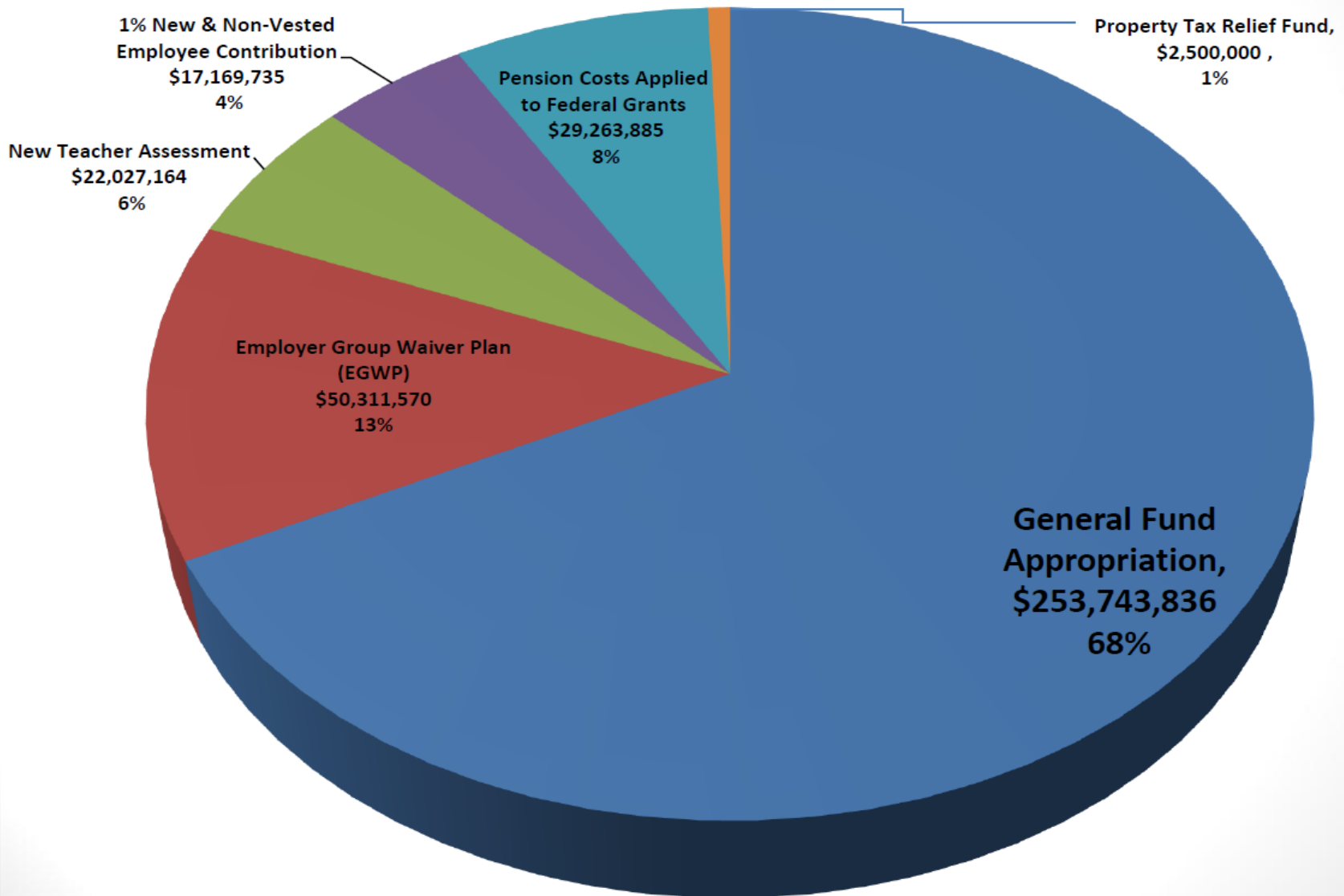
Total Amortization Payments:

58,789,350

Fundamental Changes to Health Care Funding *Effective 7/1/2014*

- The State has established and funded a separate trust to account for the assets and liabilities of the retiree medical benefit plan.
- Annual contributions to the Retiree Medical Plan are be separately identified in the State budget and not commingled with Retirement Plan contributions.
- A series of funding sources were put in place, replacing the “retroactive” funding approach.
- Will save \$480 million in interest through 2038.

Sources of Funds over Next 10 Years



New and Non-Vested Members of VSTRS

- **E.514.2**
- Supervisory Unions and School Districts employing Group C members of the VSTRS *having less than five years of membership service as of July 01, 2014* must withhold 6%, instead of 5%, of earnable compensation each payroll.
- **This was implemented by TRE for FY 2015**
 - TRE created data files based on years of service and employer location code for both 5% and 6% contribution rates by employer location. A new report, “Employee Contributions Rate report” was provided for each employer in the employer reporting system.
 - Teachers with less than 5 years service were notified in writing of the increase and any corrections to reporting were made based on verification of data.
 - Contribution rates were uploaded into each member file for LEA reporting purposes.
 - LEA now verifies any new hires, transfers not on either list to determine years of service and correct contribution rate.
 - Will need to reconcile FY 2015 data with June 30, 2015 reporting data provided through retirement employer reporting system.

New Teacher Assessment

§ 1944d. EMPLOYER ANNUAL CHARGE FOR TEACHER HEALTH CARE

The employer of teachers who become members of the State Teachers' Retirement System of Vermont on or after July 1, 2015 shall pay an annual assessment for those teachers' health and medical benefits. The assessment shall be the value, as approved annually by the Board of Trustees based on the actuary's recommendation, of the portion of future retired teachers' health and medical benefits attributable to those teachers for each year of service in the State Teachers' Retirement System of Vermont. The equivalent number for the June 30, 2013 valuation is \$1,072.00

- Equivalent number from June 30, 2014 valuation is \$1,097, to be used in FY 2016 budget. Same level for FY 2017.
- This is a per person charge for individuals new to the retirement system.
- This is an annual assessment on all members new to VSTRS starting in FY16 that is paid for the duration of their employment.
- TRE will download data from retirement system on new members by employer location code on basis of first quarter employer reporting and calculate any splits between location codes.
- TRE will convert data to invoice for LEA.
- This has been completed and billed; all receipts received

Federal Grants

§ 1944c. EMPLOYER CHARGES FOR FEDERAL GRANTS OR REIMBURSEMENTS

(a) Notwithstanding any provision of law to the contrary, effective on July 1, 2015, the employer retirement costs and administrative operating expenses related to the retirement plans applicable to those teachers whose funding is provided from federal grants or through federal reimbursement shall be paid by local school systems or educational entities that participate in the Vermont Teachers' Retirement Fund from those federal monies.

(b) The percentage rates to be applied shall be determined by an actuary approved by the Board of Trustees of the State Teachers' Retirement System of Vermont and shall be applied to the total earnable compensation of members prepared by the actuary in compliance with subsection 1942(r) of this title. The Secretary of Education shall annually provide an accounting of federal grants and federal reimbursements, by school system, upon which payment by the participating schools shall be determined.

(c) The State Treasurer and the Secretary of Education shall establish procedures for the collection and deposit of those monies in the State Teachers' Retirement System of Vermont. The Secretary of Education may delay implementation upon review of the federal grant program to permit timely and accurate claims for reimbursement of retirement expenses under a particular federal program in order to receive funding under that program. The Secretary of Education shall provide an annual report to the House and Senate Committees on Appropriations and on Education regarding progress in implementation of this section.

Federal Grants

- The rate assessed is 12.84% of payroll in FY 2016 and 13.92% for FY 2017
- The assessment is limited only to those personnel covered under the Vermont State Teachers' Retirement System.
- AOE will be collecting data on staff paid for by federal grants and supply in electronic format to the TRE.
- TRE will match AOE provided data to retirement system, reconcile differences.
- TRE will generate invoices on a quarterly basis, after the close of the employer reporting system.
- LEA will have opportunity to adjust invoice based on reimbursement documentation, subject to review.
- LEA will remit to TRE, with a copy of the report to AOE.
- First and second quarter invoicing expected to be complete by March 15th.