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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

To: Chair Sarah Copeland-Hanzas, Vice-Chair John Gannon and the Members of the House Committee on Government Operations

From: Treasurer Beth Pearce, Office of the State Treasurer, Retirement Division

Date: February 12, 2021

Re: Other Post-Employment Benefits (OPEB) for the State and Teacher Retirement Systems

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The Committee asked for an overview of other post-employment benefits for our state and teacher retirees. A brief description of health and dental insurance coverage and premium subsidies is provided herein for both the Vermont State Employees' Retirement System (VSERS) and the Vermont State Teacher's Retirement System (VSTRS).

<u>Health Insurance</u>

<u>VSTRS</u>

VSTRS offers health insurance coverage to its retirees through the Vermont Education Health Initiative/BCBS partnership. Teacher retirees have two open enrollment periods in the spring and fall.

As part of the pension restructuring changes adopted in 2010, the service eligibility requirements for health insurance coverage for teachers changed. Prior to the changes undertaken in 2010, teacher retirees were eligible for single coverage subsidized at 80%. The plan split in 2010 based on the years of service the member had at the time:

- For new hires and those with less than 10 years of service as of June 30, 2010
  1-14 years No subsidized coverage
  15 years 60% single
  20 years 70% single
  25 years 80% single + spousal coverage
- Existing members who had more than 20 years of service at June 30, 2010 remained eligible for 80% single coverage, the same as previously provided

The benefit restructuring in 2010 also allowed for teachers to earn spousal coverage with the following years of service:

- Those with more than 30 years of service on June 30, 2010 had to work another 5 years to be eligible for spousal coverage
- Those with 25 to 29.99 years of service on June 30, 2010 will have to work a total of 35 years
- Those with 15 to 24.99 years of service on June 30, 2010 will have to work 10 more years.
- Those with 10 to 14.99 years of service on June 30, 2010 will be eligible upon 25 years of service.

VSERS

State retirees are eligible for continued health insurance coverage if covered prior to retirement. The state currently offers two plans through Blue Cross Blue Shield, and premium subsidy depends on the member's date of hire and years of service depending on the Group the member is in. Group F members hired before July 1, 2008, Group C and Group D members are eligible for 80% premium subsidy upon retirement. As part of the benefit restructuring changes in 2008, new hires in Group F as of July 1, 2008 were transitioned to a tiered premium subsidy based on years of service as follow:

Group F (hired after July 1, 2008)

- 5- 9 years Buy-in (retiree pays the full premium)
- 10-14 years state pays 40%
- 15-20 years state pays 60%
- 20+ years state pays 80%

Dental Insurance

State, teacher and municipal retirees have a one-time option for dental insurance coverage at retirement and the retiree pays the full premium cost. The dental insurance is currently provided by Northeast Delta Dental.

If the Committee would like additional information about the other post-employment benefits offered to retirees, we are prepared to answer any questions.

Other Post Employment Benefits (OPEB) Primer

What is OPEB?

- Other Post Employment Benefits (OPEB) are benefits that employers provide to their retirees, other than pension benefits. They are usually composed of retiree health care benefits but can also include life insurance and other services.
  - Does not include pension plans or compensated absences

Who is covered through OPEB plans?

- VSTRS (RTHMB) and VSERS - Active employees eligible to receive those future benefits, terminated employees who have accumulated the benefits but are not yet receiving them, and retired employees (or their beneficiaries) currently receiving benefits.

How do we pay for it?

- Pay-As-You Go: No assets set aside. Instead benefits/premiums are paid by as they come due for payment. Generally paid out of current revenues.
- Pre-funding: Setting aside funds to pay for future benefits to employees. These assets are invested and the proceeds are used to pay benefits in the future.

While we have some accumulated assets for the OPEB's, we currently only Fund the Pay-Go

Pre-Funding has many benefits

- **Invest** - Assets in the trust can be invested and diversified for a potentially greater rate of return

- **Reduce Liabilities** - Actuaries can use a higher discount rate for prefunded assets when calculating the OPEB liability

- **Improve Credit -** Actively addressing future obligations can be a positive factor with Rating Agencies and credit ratings

- **Reduce Risk** - Prefunding can help hedge against health care inflation, longer life expectancies for retirees and the "baby boom" retirement surge

- **Plan for the Future** - Prefunding now means that future taxpayers/employees will not bear a disproportionate burden of the costs

- **Preserve Funding -** Funds put into an OPEB Trust are dedicated for future OPEB costs and protected from diversion for other uses

- **Strong Fiscal Management** - Prefunding is a fiscally prudent measure that is considered a "best practice" by Government Finance Officers Association

Adapted from https://www.pars.org/2019/04/top-10-reasons-to-prefund-your-other-post-employment-benefits-2/