

# VSERS and VSTRS OPEB Update

## Fiscal Year 2025

House Committee on Appropriations  
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Joint Fiscal Office  
January 8, 2026



**JFO**

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# About this update

- This document provides an overview of the status of the Vermont State Employees' Retirement System (VSERS) and Vermont State Teachers' Retirement System (VSTRS) OPEB funds as of FY 2025.
- OPEB = Other Post-Employment Benefits, mainly subsidized health care benefits for retirees.
- Unless otherwise noted, all data is from the GASB 74 valuations for the respective OPEB systems, and values are not adjusted for inflation. GASB 74 reporting began in 2017.
- GASB 74 valuations are available on the website of the Office of the State Treasurer.



# Before we dive in...

- Before FY 2023, OPEB was funded on a “pay-go” basis with minimal, ad hoc prefunding.
  - Only the current year premium costs were paid. Minimal opportunity to leverage investment growth to fund benefits.
- Act 114 (2022) established a prefunding policy for OPEB that is structured similarly to how the pension system funding is calculated.
- Like with pensions, the **OPEB Actuarially Determined Employer Contribution (ADEC)** has two components:
  - Normal cost and administrative expenses
  - Amortization payment on the unfunded liability
- Active employees do not contribute to OPEB. Instead, they pay a share of premium costs once enrolled in health care benefits in retirement. Subsidies are tiered based on years of service.
- The unfunded liability is calculated to be paid off by FY 2048, with payments increasing 3% annually.
- When all else is equal, the ADEC is expected to increase roughly in parallel with payroll growth (i.e., a stable percentage of payroll) due to the State’s funding methods.
- VSERS OPEB ADEC is funded across the funds that support the active payroll (approx. 40% from General Fund)
  - Embedded in the personnel budgets of State agencies and charged back through a payroll assessment.
- VSTRS ADEC is split – Normal Cost paid by Education Fund, Unfunded Liability paid by General Fund
  - Appropriated from the Ed Fund and General Fund in the Big Bill.
  - A portion is also paid by LEAs via an assessment for teachers hired after July 1, 2015



# Overview of FY 2025 Valuations

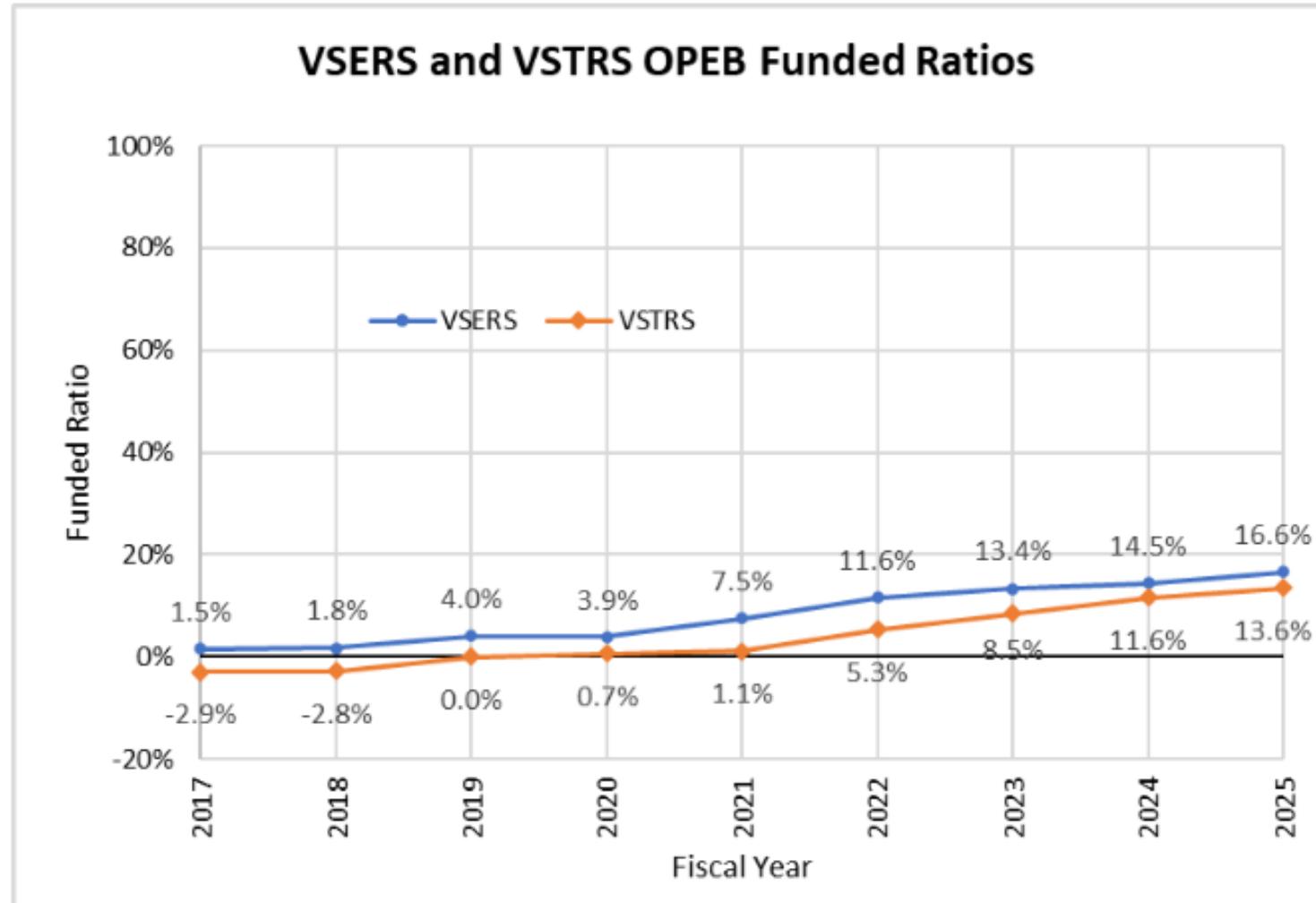
- The VSERS and VSTRS OPEB systems continued to improve their funded ratios during fiscal year 2025. Assets are steadily building up, but the systems are a long way from fully funded.
- Investment performance exceeded the 7% assumption for the third year in a row.
- Health care cost trend assumptions were revised upward, causing actuarial losses and an increase to funding requirements.
- Actuarially Determined Employer Contributions for fiscal year 2027:

	FY 2026	FY 2027	% Change YoY
VSERS OPEB	\$94,121,082	\$105,405,207	11.99%
VSTRS OPEB	\$79,952,589	\$99,834,595	24.87%

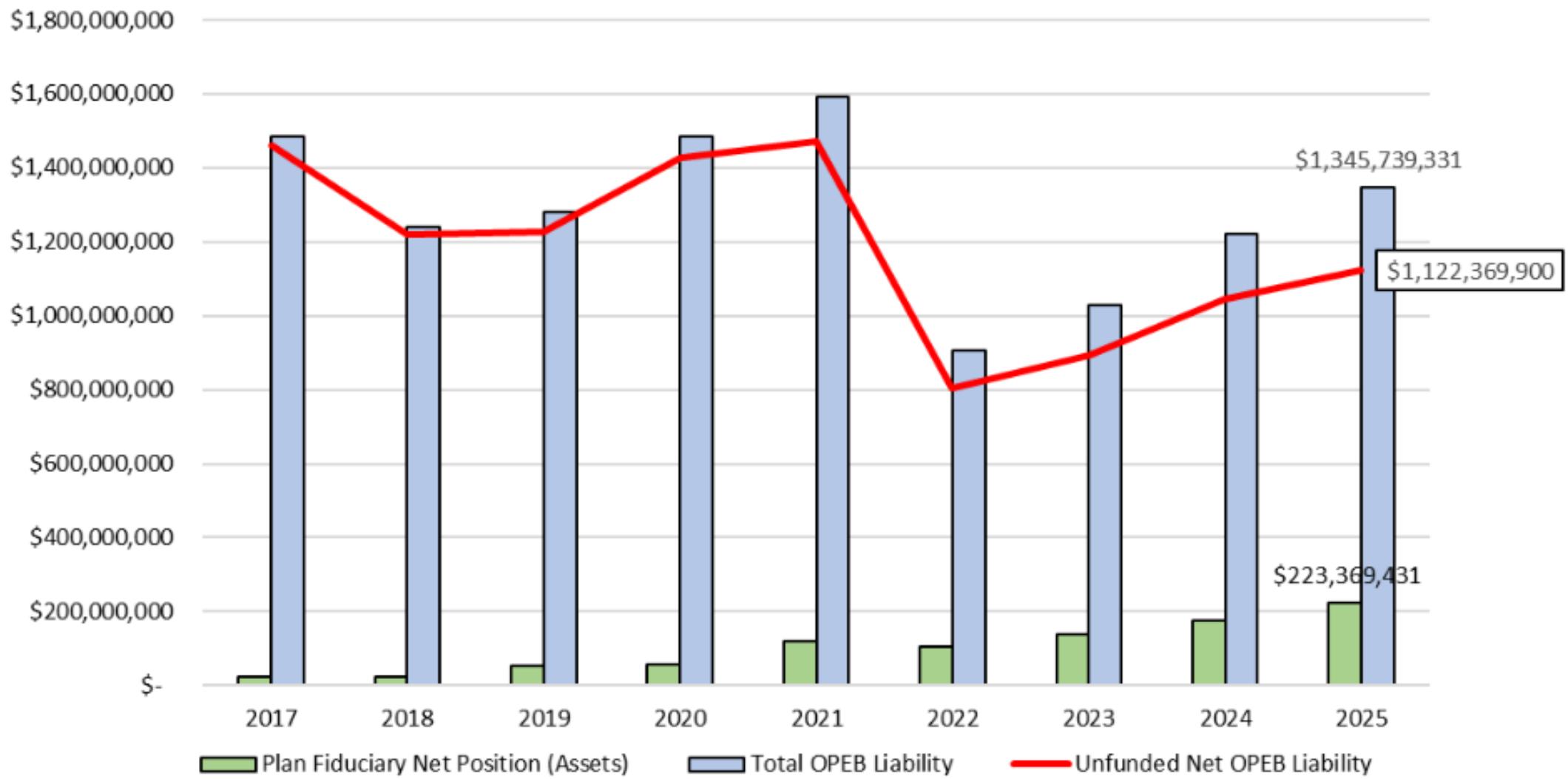


# Funded Status

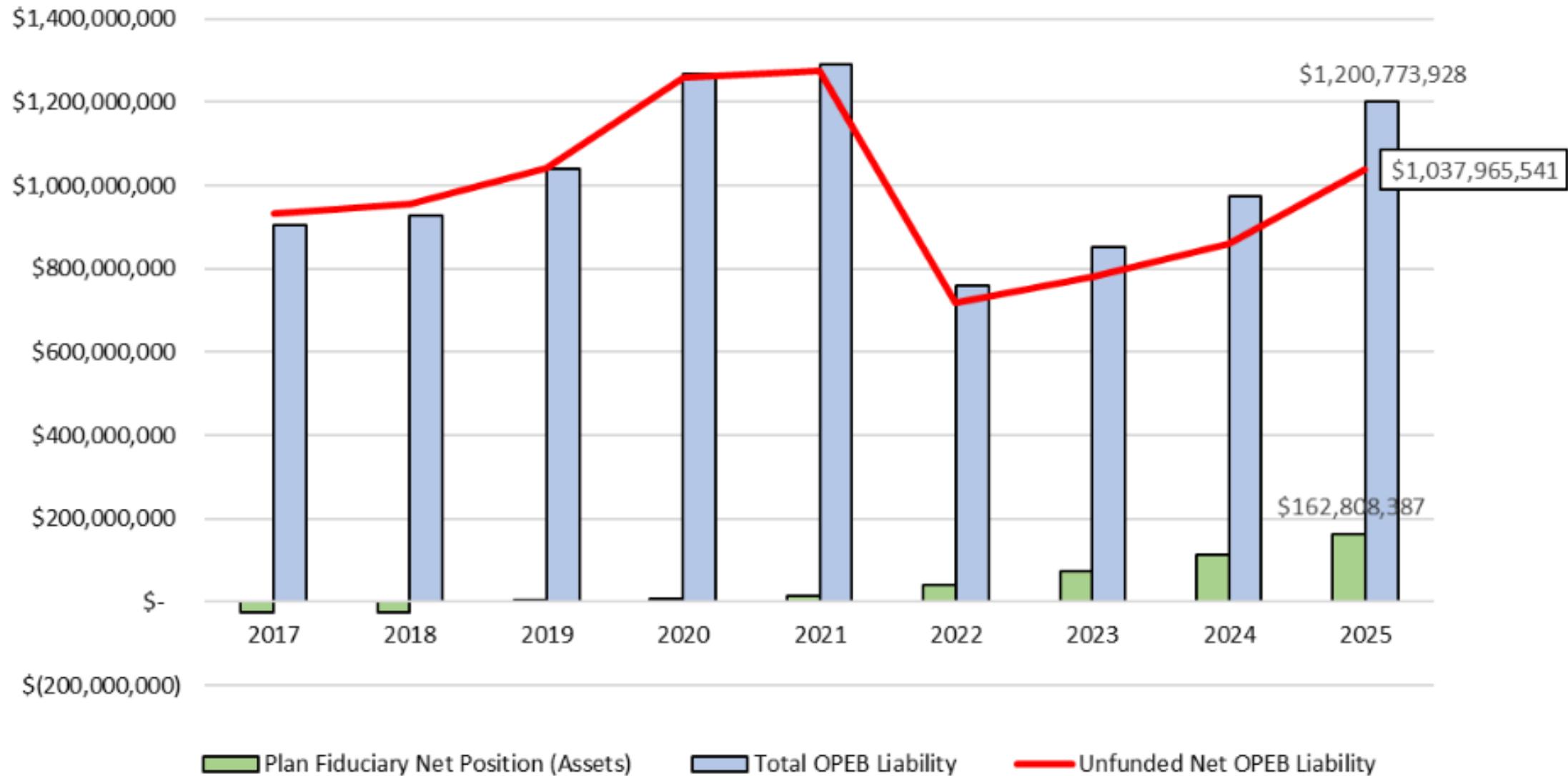
- Since prefunding OPEB began in FY 2023, the funded ratios for the two systems have steadily improved. However, a significant unfunded liability remains to be amortized.
- As of FY 2025, VSERS is 16.6% funded and VSTRS is 13.6% funded.
- Statutory funding policy calls for reaching 100% funded in FY 2048 – closed amortization.
- Funded ratio = plan fiduciary net position (assets)/ total liability



## VSERS OPEB Assets, Liabilities, and Unfunded Liabilities



## VSTRS OPEB Assets, Liabilities, and Unfunded Liabilities



# Gains and Losses During FY 2025

- Gains and losses occur when experience deviates from actuarial assumptions, plan provisions change, or actuarial assumptions change.
- Although their funded ratios improved, both OPEB systems increased their liabilities during FY 2025 – mainly due to higher health care cost trend assumptions.
- By prefunding, the OPEB systems generated \$37.48 million in net investment income to pay for future benefit costs.
- The systems are early in their amortization periods and the contributions into the systems are not yet large enough to fully offset accruing service cost and interest. Positive amortization (paying down the unfunded liability principal) will occur in future years as the ADEC increases with payroll growth.

OPEB Net Liability Drivers		
\$ millions	VSERS	VSTRS
	FY 2025	FY 2025
<u>Beginning Total OPEB Liability</u>	\$ 1,222.22	\$ 974.54
Service Cost	\$ 31.32	\$ 22.86
Interest	\$ 85.94	\$ 68.53
Change of Benefit Terms	\$ -	\$ (4.26)
Experience vs Assumptions	\$ (6.04)	\$ (6.61)
Changes to Assumptions	\$ 64.83	\$ 183.22
Benefit Payments and Refunds	\$ (52.53)	\$ (37.51)
<u>Ending Total OPEB Liability</u>	\$ 1,345.74	\$ 1,200.77
<u>Beginning Plan Fiduciary Net Position</u>	\$ 176.66	\$ 113.21
Contributions	\$ 78.30	\$ 70.58
Net Investment Income	\$ 20.95	\$ 16.53
Benefit Payments and Refunds	\$ (52.53)	\$ (37.51)
Admin Expense	\$ (0.01)	\$ (0.00)
Other	\$ -	\$ -
<u>Ending Net Position</u>	\$ 223.37	\$ 162.81
<u>Ending Net (Unfunded) Liability Balance</u>	\$ 1,122.37	\$ 1,037.97
<u>Funded Ratio</u>	16.6%	13.6%

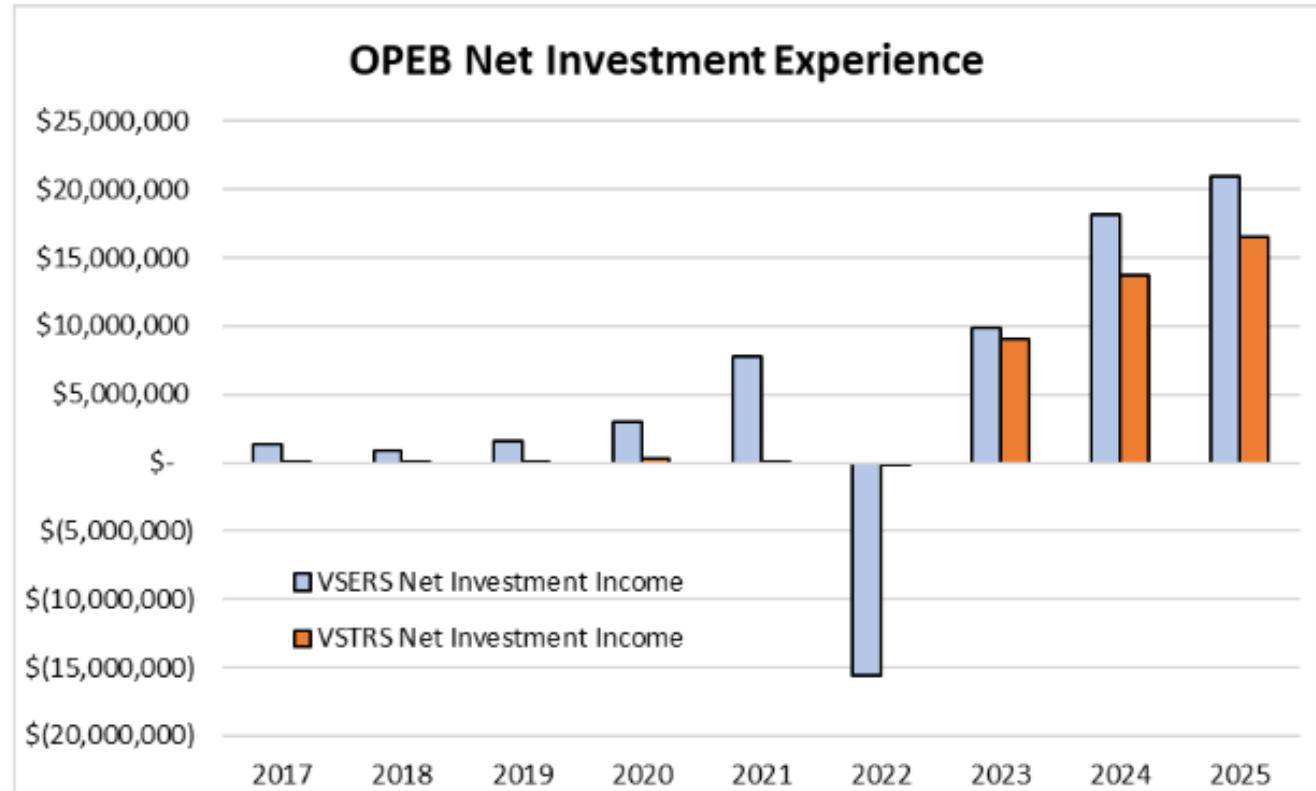
Source: JFO from GASB 74 valuations.



# Investment Performance

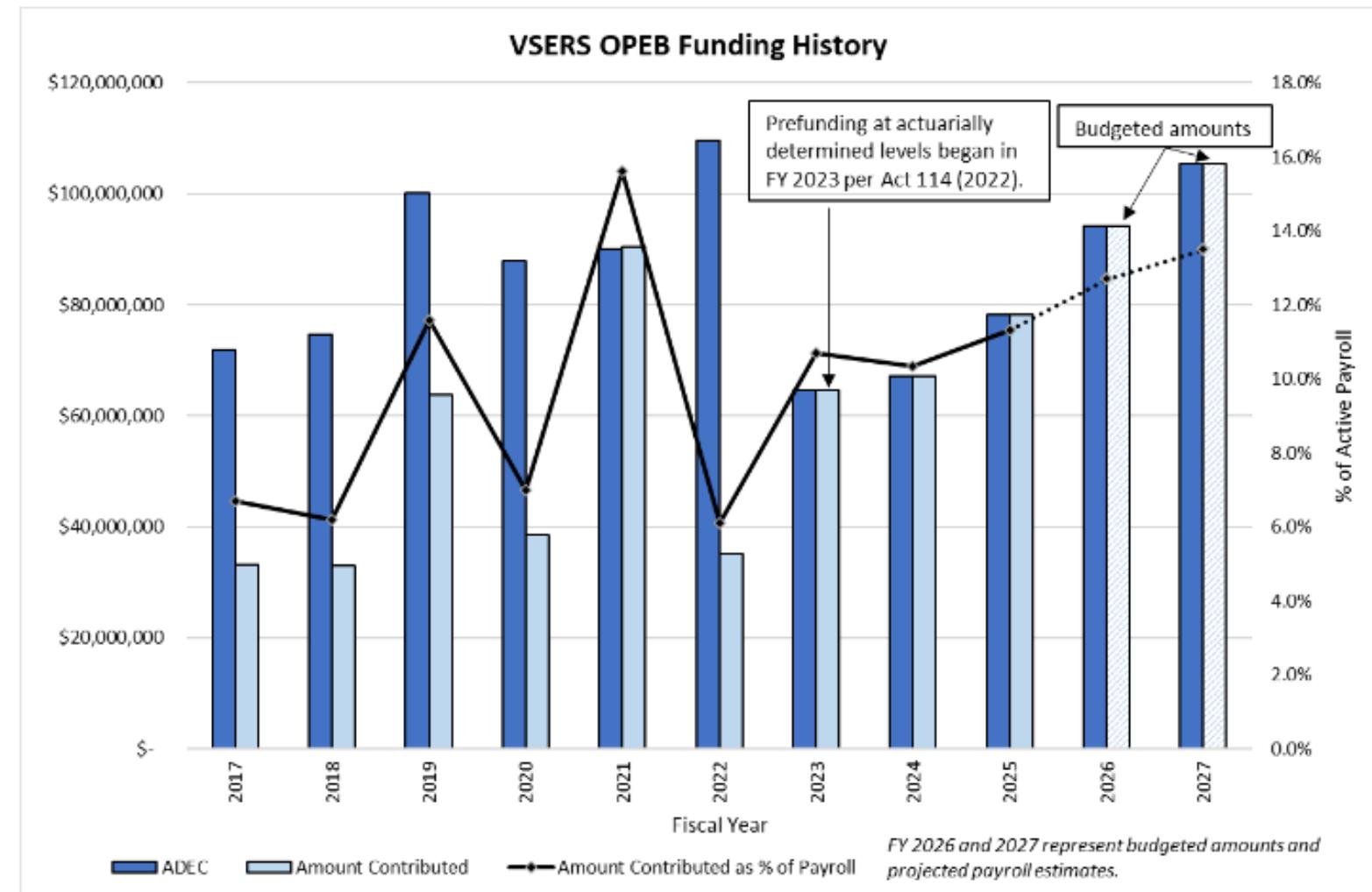
- Investments exceeded the 7% assumed rate of return for the third year in a row.
- Investments generated \$37.48 million in FY 2025 for the two OPEB systems combined.
- Investment gains/losses will be a more significant factor in future years as the balance of assets continues to increase over time.

OPEB Net Investment Experience				
Year Ending June 30	VSERS		VTRS	
	Net Investment Income	Rate of Return	Net Investment Income	Rate of Return
2017	\$ 1,372,446	6.5%	\$ 40,923	n/a
2018	\$ 872,659	4.0%	\$ 19,935	n/a
2019	\$ 1,554,329	6.9%	\$ 30,963	n/a
2020	\$ 3,029,909	6.2%	\$ 282,650	6.2%
2021	\$ 7,775,040	13.9%	\$ 53,350	0.3%
2022	\$ (15,580,304)	-13.1%	\$ (185,597)	-3.3%
2023	\$ 9,809,677	8.7%	\$ 9,042,656	11.9%
2024	\$ 18,157,437	12.5%	\$ 13,758,861	12.0%
2025	\$ 20,950,476	11.3%	\$ 16,533,950	10.2%



# Actuarially Determined Employer Contributions (ADEC)

- Prior to 2023, OPEB was not prefunded on an actuarial basis. Instead, only the cost of providing benefits to current retirees was funded on an annual basis.
  - Pre 2023, VSERS OPEB received occasional one-time funding from year-end General Fund surpluses.
- The ADEC represents the amount that must be paid by the employer to fully fund the normal cost, plus an amortization payment on the unfunded liability.
- If all assumptions are perfectly met with all else equal, the ADEC would increase by approx. 3% per year with payroll growth. Looking at contributions as a percentage of payroll controls for payroll growth.
- ADECs are calculated to fully fund the systems by FY 2048.



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