JUNE 30, 2005
POST RETIREMENT BENEFITS ANALYSIS
OF
THE VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

February 2006

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SECTION I - OVERVIEW

The Board of Trustees of the Vermont State Employees' Retirement System has engaged Buck to prepare an actuarial valuation of their post-retirement benefits program as of June 30, 2005. The State Treasurer's Office provided the employee data and premium information used in the completion of this study.

The purposes of the valuation are to measure the current liabilities of the System for its post-retirement benefits program, to determine the level of contributions necessary to assure sound funding of such benefits and to provide reporting and disclosure information for financial statements, governmental agencies and other interested parties. This valuation report contains information that will be required in future fiscal years for compliance with the Government Accounting Standards Board's Statements 43 and 45, which relate to accounting and financial reporting for post-employment benefits other than pensions.

We performed the calculations presented in this study on two bases. Under one, it is assumed that the System's post-retirement medical benefits other than pensions are funded on a basis similar to that used for pensions. Under the second, it is assumed that there is no pre-funding of such benefits. Section II provides a summary of the principal valuation results. Section V provides a projection of expense and funding amounts.

Respectfully Submitted,
Buck Consultants, LLC

Daniel W. Sherman

February 28, 2006

Daniel W. Sherman, ASA, MAAA, EA — Date
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February 28, 2006

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SECTION I - OVERVIEW

Before adjustment for a change in our interpretation of system provisions (see below) the plan experienced a net increase in the accrued liability over the past year primarily due to an increase of 12% in premiums for most covered participants (a 9% increase had been assumed in the prior valuation), and a net increase in participant population from 11,019 to 12,105.

The economic actuarial assumptions used in this valuation are the same as those used last year except for the discount rate used in the no pre-funding scenario and the healthcare cost inflation rates. The discount rate used for calculations that presume no pre-funding of benefits occurs has been raised from 2% to 3.75% to better reflect expected rates of return on short-term financial assets. Assumed rates of health care cost increases were raised by 1% for each of the next four years, which effectively pushed out the point at which the ultimate rate of 5% is reached by one year. All demographic assumptions are the same as those used in the pension actuarial valuation except for the retirement assumption for Group C. We removed the minimum age at retirement of 55 for males and 53 for females. We also modified the actuarial method of determining the liability attributable to spouses of current and future retirees. The previous method used the current premium for retirees electing family coverage and applied a probability to the continuation to the spouse at the lower rate. This year we determined the weighted average premiums for all participants and used the premium array to value spouse's benefits.

The costs developed in this report are substantially below those in last year's report due to a change in our interpretation of the eligibility condition for receipt of retiree medical benefits. Last year, the contingencies covered in the valuation included the chance that an employee would terminate with a vested pension benefit, prior to being eligible for retirement at the time of termination, and receive medical benefits at a later date. It has been called to our attention that system rules preclude this, and we have modified the valuation accordingly. This change reduced the accrued liability developed on an 8% assumed interest rate by about $45 million and the corresponding normal cost by about $6 million. The Annual Required Contribution was reduced by about $8.7 million.

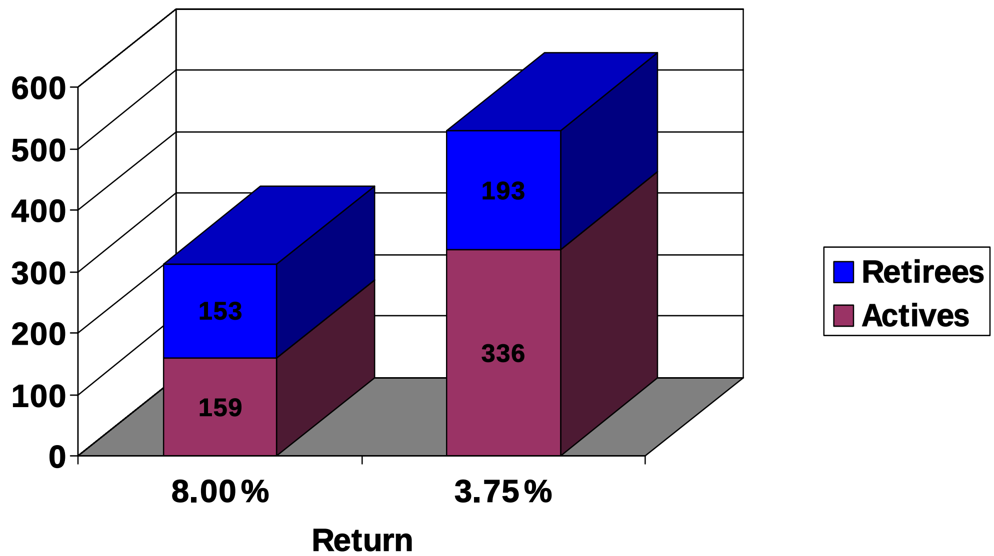
Our valuation does not include potential Medicare Part D subsidies. If it did, liabilities and costs would be lowered.

SECTION II – REQUIRED INFORMATION

		Pre-Funding Basis	Pay-as-you-go Basis
a)	Assumed discount rate	8%	3.75%
b)	Actuarial value of assets	$ 0	$ 0
c)	Actuarial accrued liability		
	Active Participants	$ 158,451,071	$ 336,319,354
	Retired Participants	130,721,770	192,707,924
	Total	$ 289,172,841	$ 529,027,278
d)	Unfunded actuarial liability (c. – b.)	$ 289,172,841	$ 529,027,278
e)	Funded ratio	0%	0%
f)	Annual covered payroll	$ 349,257,854	$ 349,257,854
g)	Unfunded actuarial liability as a percentage of covered payroll	82.8%	151.5%
h)	Normal Cost for the 2006 fiscal year	$ 10,023,364	$ 24,439,346
i)	Amortization of unfunded actuarial liability For the 2006 fiscal year (30-year)	$ 14,079,970	$ 14,743,776
j)	Annual Required Contribution (ARC) For the 2006 fiscal year (h. + i.)	$ 24,103,334	$ 39,183,122
k)	Expected benefit payments	$ 13,561,787	$ 13, 561,787
l)	Increase in annual cost to fund the Plan (j. – k.)	$ 10,541,547	$ n/a

SECTION II – REQUIRED INFORMATION

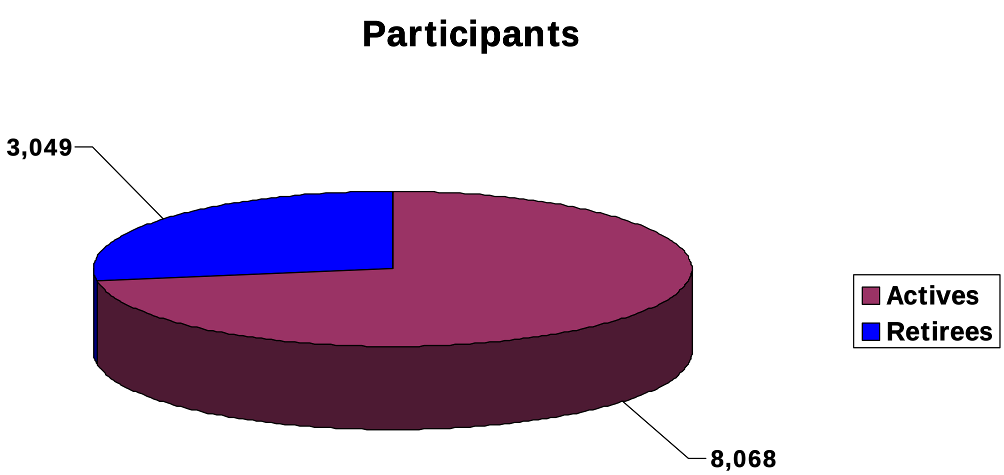
Actuarial Accrued Liability in $ millions



SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Number of participants included in valuation

	Total
Active	8,068
Retired	3,049
Total	11,117



SECTION III - MEMBERSHIP DATA AND MEDICAL PREMIUM

Monthly State Costs (including expenses) Effective January 1, 2005

	State Share
Total Choice	
Retiree under 65	$414.58
2 Person under 65	$829.15
Family Retiree under 65	$1,140.09
Retiree under 65 and 1 over 65	$586.81
3 Person, Retiree and 1 under 65 and 1 over 65	$771.79
Retiree over 65	$172.23
2 Person over 65	$344.46
Retiree over 65 and 1 under 65	$586.81
Retiree over 65 and 2 or more under 65	$771.79
Retiree over 65 and 2 or more dependents, 1 Medicare eligible	$505.64
Health Guard PPO	
Retiree under 65	$371.66
2 Person under 65	$743.33
Family Retiree under 65	$1,022.08
Retiree under 65 and 1 over 65	$534.31
3 Person, Retiree and 1 under 65 and 1 over 65	$698.44
Retiree over 65	$162.65
2 Person over 65	$325.40
Retiree over 65 and 1 under 65	$534.31
Retiree over 65 and 2 or more under 65	$698.44
Retiree over 65 and 2 or more dependents, 1 Medicare eligible	$475.94
SelectCare POS	
Retiree under 65	$343.59
2 Person under 65	$687.18
Family Retiree under 65	$944.88
SafetyNet	
Retiree under 65	$240.86
2 Person under 65	$481.71
Family Retiree under 65	$662.35

SECTION IV – REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS WITH ASSUMPTIONS BASED ON A POLICY OF PRE-FUNDING

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
June 30, 2005	$0	$289,173	$289,173	0%	$349,258	82.8%

These results are based on the use of a discount rate of 8%.

SCHEDULE OF FUNDING PROGRESS WITH ASSUMPTIONS BASED ON POLICY OF PAY-AS-YOU-GO FUNDING

(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
June 30, 2005	$0	$529,027	$529,027	0%	$349,258	151.5%

These results are based on the use of a discount rate of 3.75%.

SECTION V – FORECASTS

The Government Accounting Standards Board's Statements 43 and 45, which cover accounting and financial reporting for post-employment benefits other than pensions, outline various requirements of a funding schedule that will amortize the unfunded actuarial liability and cover normal costs. Amortization of the unfunded actuarial liability is to be based on a schedule that extends no longer than 30 years. The contribution towards the amortization of the unfunded actuarial liability may be made in level payments or in payments increasing at the same rate as assumed salary increases.

In the amortization schedules shown on the following pages, the amortization of the unfunded accrued liability is made in installments that increase annually by 5%. The normal cost is expected to increase at the same rate as the assumed ultimate health care trend rate. The annual required contributions were computed assuming that they are paid on June 30 (i.e., at the end of each fiscal year). Below is a comparison of the forecasted annual required contributions computed under discount rates of 8% and 3.75% to the pay-as-you-go amounts.

SECTION V – FORECASTS

FORECAST OF FUNDING AND GASB EXPENSE UNDER A DISCOUNT RATE OF 8%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State Contribution
2006	10,023,364	14,079,970	24,103,334
2007	10,925,467	14,783,968	25,709,435
2008	11,799,504	15,523,166	27,322,670
2009	12,625,469	16,299,325	28,924,794
2010	13,382,997	17,114,291	30,497,288
2011	14,052,147	17,970,006	32,022,153
2012	14,754,754	18,868,506	33,623,260
2013	15,492,492	19,811,931	35,304,423
2014	16,267,117	20,802,528	37,069,645
2015	17,080,473	21,842,654	38,923,127
2016	17,934,497	22,934,787	40,869,284
2017	18,831,222	24,081,526	42,912,748
2018	19,772,783	25,285,602	45,058,385
2019	20,761,422	26,549,883	47,311,305
2020	21,799,493	27,877,377	49,676,870
2021	22,889,468	29,271,245	52,160,713
2022	24,033,941	30,734,808	54,768,749
2023	25,235,638	32,271,548	57,507,186
2024	26,497,420	33,885,126	60,382,546
2025	27,822,291	35,579,382	63,401,673
2026	29,213,406	37,358,351	66,571,757
2027	30,674,076	39,226,268	69,900,344
2028	32,207,780	41,187,582	73,395,362
2029	33,818,169	43,246,961	77,065,130
2030	35,509,077	45,409,309	80,918,386
2031	37,284,531	47,679,774	84,964,305
2032	39,148,758	50,063,763	89,212,521
2033	41,106,196	52,566,951	93,673,147
2034	43,161,506	55,195,299	98,356,805
2035	45,319,581	57,955,064	103,274,645
2036	47,585,560	0	47,585,560

SECTION V – FORECASTS

FORECAST OF FUNDING AND GASB EXPENSE UNDER A DISCOUNT RATE OF 3.75%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State Contribution
2006	24,439,346	14,743,776	39,183,122
2007	26,638,887	15,480,964	42,119,851
2008	28,769,998	16,255,013	45,025,011
2009	30,783,898	17,067,763	47,851,661
2010	32,630,932	17,921,151	50,552,083
2011	34,262,479	18,817,209	53,079,688
2012	35,975,603	19,758,069	55,733,672
2013	37,774,383	20,745,973	58,520,356
2014	39,663,102	21,783,272	61,446,374
2015	41,646,257	22,872,435	64,518,692
2016	43,728,570	24,016,057	67,744,627
2017	45,914,999	25,216,860	71,131,859
2018	48,210,749	26,477,703	74,688,452
2019	50,621,286	27,801,588	78,422,874
2020	53,152,350	29,191,667	82,344,017
2021	55,809,968	30,651,251	86,461,219
2022	58,600,466	32,183,813	90,784,279
2023	61,530,489	33,793,004	95,323,493
2024	64,607,013	35,482,654	100,089,667
2025	67,837,364	37,256,787	105,094,151
2026	71,229,232	39,119,626	110,348,858
2027	74,790,694	41,075,607	115,866,301
2028	78,530,229	43,129,388	121,659,617
2029	82,456,740	45,285,857	127,742,597
2030	86,579,577	47,550,150	134,129,727
2031	90,908,556	49,927,657	140,836,213
2032	95,453,984	52,424,040	147,878,024
2033	100,226,683	55,045,242	155,271,925
2034	105,238,017	57,797,504	163,035,521
2035	110,499,918	60,687,380	171,187,298
2036	116,024,914	0	116,024,914

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

VERMONT STATE EMPLOYEES – ALL GROUPS

Assumed investment return 8.0% per year, net of investment expenses, is the assumed rate of return on assets accumulated in the System's trust for benefit payments. 3.75% per year, net of investment expenses for a non-funded plan.

Actuarial Cost Method: Projected Unit Credit

Medical Care and State Share Inflation:

Fiscal Year Ending	Inflation Rate
2005	9.0%
2006	8.0
2007	7.0
2008	6.0
2009 & After	5.0

Amortization period: Closed basis. Thirty-year amortization starting in the fiscal year ending in 2006 with payments increasing by 5% annually.

Retirement Eligibility: At termination of employment, employee must be eligible for retirement as prescribed by the terms of the State Employees' Retirement System of Vermont to receive medical coverage:

Group A: Earlier of (a) age 55 with 5 years of service, and (b) 30 years of service.

Group C: Earlier of (a) age 55, and (b) age 50 with 20 years of service.

Group D: Age 55 with 5 years of service.

Group F: Earlier of (a) age 55 with 5 years of service, and (b) 30 years of service.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

Groups A, D and F

Separations from Service: Representative values of the assumed annual rates of withdrawal, vested retirement, disability and death are as follows:

Age	Withdrawal and Vested Retirement[1]	Disability	Death	
			Men	Women
25	5.24%	.06%	.04%	.02%
30	4.20	.08	.04	.03
35	3.51	.10	.08	.05
40	3.25	.15	.11	.07
45	2.88	.25	.15	.11
50	2.40	.42	.21	.17
55	1.96	.71	.30	.25
59	1.93	1.03	.44	.36
60	1.92	1.14	.49	.39
61	1.92	1.25	.54	.43

[1] Increased during first 10 years of service.

Retirement[2]					
Age	Rate	Age	Rate	Age	Rate
55	5%	60	10%	65	25%
56	6	61	20	66	30
57	8	62	20	67	35
58	9	63	25	68	35
59	10	64	25	69	40
				70	100

[2] All Group A and D members are assumed to retire when first eligible.

Deaths After Retirement: According to the RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries, and according to the RP-2000 Mortality Tables for Disabled Lives for disabled retirees.

Administrative Expenses: No provision made; expenses of the System are paid by the State.

Spouse's Age: Husbands are assumed to be 3 years older than their wives.

Percent Married: 75.4% (71.4% for Group F) of male members and 64.0% (63.1% for Group F) of female members are assumed to be married.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

Group C

Separations before Retirement: Representative values of the assumed annual rates of withdrawal, vested retirement, disability and death are as follows:

Age	Withdrawal and Vested Retirement[1]	Disability	Death Men	Death Women
25	3.00%	.15%	.04%	.02%
30	3.00	.20	.04	.03
35	3.00	.27	.08	.05
40		.40	.11	.07
45		.65	.15	.11
50		1.09	.21	.17
55		1.82	.30	.25
60		2.93	.49	.39

[1] Increased during first 5 years of service.

Early and Normal Retirement Rates: All members are assumed to retire when first eligible, but not earlier than age 50.

Deaths After Retirement: According to the RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries, and according to the RP-2000 Mortality Tables for Disabled Lives for disabled retirees.

Future Expenses: No provision made; expenses of the System are paid by the State.

Spouse's Age: Husbands are assumed to be 3 years older than their wives.

Percent Married: 75.4% of male members and 64.0% of female members are assumed to be married.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

Health Plans:

Retirees without Medicare may select from four plans: Total Choice, Health Guard PPO, SelectCare POS and SafteyNet. Retirees with Medicare may select from two plans: Total Choice and Health Guard.

Pre-Age 65 Retirees:

Current retirees who are under age 65 are assumed to remain in their current medical plan until age 65, at which time they enter the average plan provided to current post-65 retirees.

Current active employees who are assumed to retire prior to age 65 are valued with a weighted-average premium. This weighted-average premium is based on the medical plan coverage of current retirees under age 65. The weighted average premium includes adjustment based on age to account for the implicit subsidy of older employees true benefit cost.

At age 65, all participants are assumed to participate in post-65 plans in the same proportions as current retirees over age 65.

Retirees and beneficiaries remain in their current medical plan until death. Therefore, if the retiree predeceases the beneficiary, the beneficiary will continue to have coverage until his or her death. However, the State does not cover any of the costs of coverage.

Post-Age 65 Retirees:

Current retirees over age 65 remain in their current medical plan until death. Beneficiaries remain in their current medical plan until death. Therefore, if the retiree predeceases the beneficiary, the beneficiary will continue to have coverage until his or her death. However, the State does not cover any of the costs of coverage.

Coverage:

It is assumed that 80% of current active employees will elect retiree medical coverage.

SCHEDULE A - ACTUARIAL ASSUMPTIONS AND METHODS

Medical Plan Costs: Estimated net per capita incurred claim costs for 2005-06 at age 65 was $2,072.04. It is assumed that future retirees are Medicare eligible. Per capita costs were developed from the State developed monthly costs.

Age-based Morbidity: Per capita costs are adjusted to reflect expected cost increases related to age. The increase in the net incurred claims was assumed to be:

Age	Annual Increase Retiree
49 and below	2.6%
50-54	3.2%
55-59	3.4%
60-64	3.7%
65-69	3.2%
70-74	2.4%
75-79	1.8%
80 and over	0.0%