

**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
RETIRED TEACHERS' HEALTH AND MEDICAL BENEFIT FUND**

Schedule of Collective Other Post Employment Benefit Amounts

June 30, 2018

(With Independent Auditors' Report Thereon)

**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
RETIRED TEACHERS' HEALTH AND MEDICAL BENEFIT FUND**

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Vermont State Teachers' Retirement System

Report on Schedule

We have audited the totals for the columns titled net other post employment benefit (OPEB) liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense as of and for the year ended June 30, 2018 (specified column totals), included in the accompanying schedule of collective OPEB amounts of the Vermont State Teachers' Retirement System (VSTRS) Retired Teachers' Health and Medical Benefit Fund (RTHMB) as of and for the year ended June 30, 2018, and the related notes.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the specified column totals included in the schedule of collective OPEB amounts based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the specified column totals included in the schedule of collective OPEB amounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures for the specified column totals included in the schedule of collective OPEB amounts. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of nonemployer allocations and the specified column totals in the schedule of collective OPEB amounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the specified column totals included in the schedule of collective OPEB amounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the specified column totals included in the schedule of collective OPEB amounts.

The Board of Trustees
Vermont State Teachers' Retirement System

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

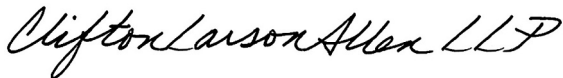
In our opinion, the schedule referred to above presents fairly, in all material respects, the total net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense of the Vermont State Teachers' Retirement System Retired Teachers' Health and Medical Benefit Fund as of and for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State of Vermont as of and for the year ended June 30, 2018, and our report thereon, dated December 21, 2018, expressed an unmodified opinion on those financial statements. RTHMB is reported as an OPEB trust fund in the financial statements of the State of Vermont.

Restriction on Use

Our report is intended solely for the information and use of the management of VSTRS, the VSTRS Board of Trustees, VSTRS employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Boston, Massachusetts
June 26, 2019

**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
 RETIRED TEACHERS' MEDICAL AND HEALTH BENEFIT FUND**

Schedule of Collective Other Post Employment Benefit Amounts
 Year ended June 30, 2018

	Deferred outflows of resources			Deferred inflows of resources			Total OPEB expense
	Differences between expected and actual experience	Differences between projected and actual investment earnings	Total deferred outflows of resources	Changes in assumptions	Differences between projected and actual investment earnings	Total deferred inflows of resources	
Net OPEB liability	32,822,932	—	32,822,932	56,549,478	2,706,469	59,255,947	51,225,319

See accompanying notes to schedule of collective other post employment benefit amounts

**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
RETIRED TEACHERS' MEDICAL AND HEALTH BENEFIT FUND**

Notes to Schedule of Collective Other Post Employment Benefit Accounts
June 30, 2018

(1) Plan Description

The Vermont State Teachers' Retirement System (VSTRS or the 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, 2018, the Plan consisted of 225 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 (VSTRS) Board of Trustees, which consists of the Secretary of Education (ex-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).

VSTRS retirees and their spouses are eligible for health coverage if the retiree is eligible for OPEB benefits. OPEB eligibility requirements as follows:

- Group A – for 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 – for public school teachers employed within the State of Vermont on or after July 1, 1990, or hired before July 1, 1990 and were a member of Group B at that time.
 - Retirement: Attainment of age 65 or age plus creditable service equal to 90 or age 55 with 5 years of creditable service

All assets of the Plan are held in a single trust and are available to pay OPEB benefits to all members.

(2) Basis of Presentation

The schedule of collective OPEB amounts (the Schedule) presents amounts that are attributable to the VSTRS Plan. The amounts presented in the schedule are prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of VSTRS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature and uncertainty of these estimates, actual results may differ from those entities.

**VERMONT STATE TEACHERS' RETIREMENT SYSTEM
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Notes to Schedule of Collective Other Post Employment Benefit Accounts
June 30, 2018

(3) Collective Net OPEB Liability

The components of the collective net OPEB liability as of June 30, 2018 are as follows:

Total OPEB liability	\$ 927,843,142
Plus fiduciary net deficit	<u>26,443,247</u>
Net OPEB liability	<u>\$ 954,286,389</u>

(a) Actuarial Assumptions

The total OPEB liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017 with update procedures used to roll forward the total OPEB liability to June 30, 2018. This actuarial valuation used the following actuarial assumptions:

Discount Rate: 3.87%

Since the Plan is not prefunded, the discount rate used to measure the total OPEB liability was 3.87% and is based on the 20 year Bond Buyer GO index at June 30, 2018. The rate at June 30, 2017 was 3.58%.

Salary Increases: Representative values of the assumed annual rates of future salary increase are as follows:

Age	Annual rate of salary increase
25	7.78 %
30	6.47
35	5.60
40	4.92
45	4.43
50	4.09
55	3.85
60	3.75

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Notes to Schedule of Collective Other Post Employment Benefit Accounts
June 30, 2018

Inflation: 2.75%

Health Care Trend Rates Non-Medicare - 7.15% graded to 4.5% over 12 years
 Medicare - 7.15% graded to 4.5% over 12 years

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 3.87%, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Net OPEB liability	\$ 1,106,574,235	954,286,389	830,493,213

(b) Sensitivity of the Net OPEB Liability to Changes in the Health Care Trend Rates

The following presents the net OPEB liability, calculated using the health care trend rates described above, as well as what the net OPEB liability would be if it were calculated using trend rates that is one percentage point lower or one percentage point higher than the current trend rate:

	1% Decrease Health Care Cost Trend Rates	Current Health Care Cost Trend Rates	1% Increase Health Care Cost Trend Rates
Net OPEB liability	\$ 811,075,086	954,286,389	1,136,992,646

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Notes to Schedule of Collective Other Post Employment Benefit Accounts
June 30, 2018

(4) Deferred Outflows and Deferred Inflows of Resources

The following table summarizes the changes in deferred outflows and deferred inflows of resources for the year ended June 30, 2018:

	<u>Year of deferral</u>	<u>Amortization period</u>	<u>Balance July 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30</u>
Recognition of Changes in Total Net OPEB Liability:						
Increase (decrease) in OPEB expense from recognition of effects of differences between projected and actual earnings on plan investments	2018	4.35 years	\$ -	42,620,822	(9,797,890)	32,822,932
Increase (decrease) in OPEB expense from recognition of effects of assumption changes	2017	4.34 years	(25,543,807)	-	7,647,847	(17,895,960)
	2018	4.35 years	-	(50,191,881)	11,538,363	(38,653,518)
Subtotal			(25,543,807)	(50,191,881)	19,186,210	(56,549,478)
Net difference between projected and actual investment earnings on investments	2018	5 years	-	(3,474,494)	768,025	(2,706,469)
Total			\$ <u>(25,543,807)</u>	<u>(11,045,553)</u>	<u>10,156,345</u>	<u>(26,433,015)</u>

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Notes to Schedule of Collective Other Post Employment Benefit Accounts
June 30, 2018

(5) Collective OPEB Expense

The components of OPEB expense for the year ended June 30, 2018 are as follows:

<u>Component</u>	<u>Amount</u>
Service cost	\$ 26,272,945
Interest cost on total OPEB liability	32,837,241
Contributions – member	—
Projected earnings on plan investments	1,992,031
Administrative expense	279,447
Other	
Expensed portion of current year changes	
Difference between projected and actual earnings on plan investments	(402,393)
Difference between expected and actual experience	9,797,890
Change in assumptions	(11,538,363)
Recognition of prior years' deferred outflows of resources	—
Recognition of prior years' deferred inflows of resources	<u>(8,013,479)</u>
Total	<u>\$ 51,225,319</u>