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Vermont Municipal Employees' Retirement System

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Retiring *TIMES*

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Legislation Changes Composition of VMERS Board *Seats filled through election and appointment process*

For the first time in its history, the composition of the VMERS Board of Trustees is changing. The board composition change was included within Act 139, a general retirement system bill passed by the State Legislature in the recently concluded session. The change eliminates the appointee of the Governor seat and replaces it with another employer representative position. The change ensures two board members are employee representatives and two are employer representatives.

The legislative change requires that two board members be employee representatives and two be employer representatives.

The board had been comprised of the State Treasurer, an appointee of the Governor, two municipal employee representatives and one employer representative elected by VMERS members. Under Act 139, the Treasurer remains a member. The legislation specified that employer rep-

resentatives must, during their time in office, be a member of a governing body, the chief executive officer, or a supervisor of an employer participating in the system. One employer representative is to be elected by the governing bodies of the participating employers. The other representative is appointed by the Governor from a list of at least three nominees jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association.

The new legislation also directed that employee representatives be contributing members of the system, have completed five years of creditable service, be elected by the membership of the system, and are not eligible to run for an employer representative seat.

The change prompted the VMERS board



**Board Chair
Steve Jeffrey**



**Board Member
James Quinn**

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Other Legislative News . . .

Current employee contribution rates and the long-term financial needs of VMERS were examined during legislative debate of H.778. Passed at the end of the session as Act 139, the bill specifically examined contribution rates for three of the four groups that make-up the defined benefit retirement plan. Contribution rate discussions were held for groups A, B, and C. Group D, a public safety plan, was not examined this year.

Recent investment losses experienced world-wide, have reduced the VMERS' system-wide funding level to 90.3 percent of its long-term needs. Although this reflects the first time in more than 15 years that the VMERS

has slipped below 100 percent funding, it is still a very healthy, robust plan and is better funded than the vast majority of other public retirement plans in the U.S. The VMERS Board of Trustees annually reviews the employer and employee contribution rates to determine if they are adequate to cover the future financial costs of the system. The employee contribution rates for groups A, B, and C were last changed in 2000 as a result of a legislative change recommended by the board.

"Ten years ago, the system was funded at 124.6 percent of what the actuaries said was needed to assure retirement benefits for participants for the life of the

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Investment Choices Expanded in Defined Contribution Plan

As the economic climate remains challenging for investors, the need to diversify asset allocations has never been more important. Recently, State and municipal employees who participate in the defined contribution plan saw their investment choices expanded. Five new funds were added to both the State and municipal DC plans.

As of March 31, the DC plans had a combined 1,191 participants and \$53.9 million in assets. The defined contribution plan is modeled after private sector 401(k) plans and is available to VSERS exempt employees and for employees of municipalities choosing this option within VMERS. Fund line-ups are negotiated by the Treasurer's Office for the VSERS employees and by the VMERS Board of Trustees for municipal members and are included in the contract with the plan administrator, Fidelity Investment.

"As we examined the investment choices for the DC plan participants, we wanted to give participants more choices and a greater opportunity to see their retirement investments grow," said Steve Wisloski, Director of Investment and Debt Management for the Treasurer's Office.

Choosing the right asset allocation is important because it impacts whether you meet your financial goals.

—Steve Wisloski, Director of Investment and Debt Management

Diversification is the practice of spreading money among different investments. By including asset categories and investment returns that move up and down under different market conditions within a portfolio, an investor can protect against significant losses. The DC plans available to State and municipal employees offer domestic and international equities, fixed income, balanced funds, target-date funds, and a stable value alternative. DC plan participants select from these alternatives based upon their tolerance for risk and their return objectives.

In April 2010, the State DC plan added three index funds (total bond market, balanced, total international stock market), a managed international fund, and a socially responsible investment (SRI) alternative. The specific funds added are: Vanguard Total Bond Market Index Fund, Vanguard Balanced Index Fund, Vanguard Total International Stock Index Fund, Columbia Acorn International Fund, and PIMCO Total Return Fund III (an SRI fund). Also in April, the municipal DC plan added three index funds (total bond market, extended domestic stock market, and total international stock market), a managed small-cap value stock fund, and a managed international fund. The specific funds added are: Vanguard Total Bond Market Index Fund, Spartan Extended Market Index Fund, Vanguard Total International Stock Index Fund, Lord Abbett Small-Cap Value Fund, and Columbia Acorn International Fund. The municipal DC plan also removed the Fidelity Fund and the Fidelity Growth Strategies Fund that had been providing below-average returns compared to similar funds in their respective classes.

Fidelity Investments offers web-based learning workshops and other retirement planning tools. Employees that are current or prospective members of the DC plans can get more information through the Fidelity web page at www.MySavingsAtWork.com.

UPDATES FROM THE RETIREMENT DIVISION: Retirement Numbers & Stipend Change

Record Number of System Employees Retire

The months of June, July and August are typically the busiest months of the year for the staff in the Retirement Division. This year looks to be exceptionally busy as we are anticipating having more than 500 individuals retiring effective July 1. Of this number, teachers make up the greatest share of new retirees at approximately 420, followed by 39 State employees and 50 municipal employees. One goal of the division is to process all retirements in a timely manner to ensure all new retirees receive their first pension payments by

July 31. To give you a perspective of the volume of retirees for the month of July, we are currently averaging 900 new retirees in total each year across all three systems. The 500+ retirees we have for July 1 account for approximately 55 percent of all new retirees in one year. In addition to processing new retirements, the staff also must close the fiscal year and record the current year contributions and corresponding service credit for all active employees in each of the three retirement systems. There are currently 781 reporting entities and more than 25,000 contributing employees in the three systems. Once the fiscal year has closed and all of the data has been posted, the priority of the division is to review and verify the actuarial data that is used to generate the annual benefit statements for active employees. With 45,000 active, vested and retired members, our staff-to-member ratio is one staff person for every 3,750 members.



Recent Retiree Update

	2010	2009	2008	2007	2006
JANUARY	12	12	16	8	3
FEBRUARY	3	8	6	10	5
MARCH	4	3	12	6	7
APRIL	7	14	13	9	3
MAY	9	5	10	7	10
JUNE	12	7	3	5	12
JULY		25	40	40	34
AUGUST		4	13	16	3
SEPTEMBER		24	11	13	8
OCTOBER		8	8	9	9
NOVEMBER		12	6	12	6
DECEMBER		9	2	5	5

Retiree Stipend Decreased — RETIREES TAKE NOTE!

For the first time since 2002, the VMERS board voted to reduce the monthly retiree stipend to \$25 beginning with the July 31, 2010 pension payments. The VMERS board has a long-standing practice of paying retirees a \$30 monthly stipend. The intent of the stipend was to assist retirees in paying for medical insurance or expenses in

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Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach



Our office spends a lot of time talking with members who are approaching retirement about what they can expect to receive in retirement. We provide an estimate of benefits that outlines what a member will receive on a monthly and annual basis under all of the five options available. However, that is only a part of the story.

The estimate of benefits that is sent to members looking to retire provides a quote of the gross amount available based on the member's group plan; total creditable service; final average salary; and age at retirement. For many members, the actual amount received on the last working day of each month in retirement may be considerably less, depending on what deductions they need and want.

What deductions may be taken out of a monthly pension?

Federal and State Taxes: The majority of the monthly pension payment will be taxable. The exception is money contributed by the member prior to 1998 when the mandatory contributions became

pre-tax deductions. If a member has already paid taxes on contributions, those contributions will not be taxed again in retirement. However, for most retirees, between 90 and 100 percent of their pension will be taxable. It is up to the retiree whether he or she wishes to have federal and state taxes withheld. The vast majority prefer to have taxes taken out monthly instead of running the risk of owing when tax returns are filed the following year. Tax withholdings may be changed at any time after retirement by completing new tax withholding forms.

Dental Insurance: Two dental plans are available to all retirees and their eligible dependents. Monthly premiums range from \$39.99 for single person coverage for Plan A to \$135.20 for family coverage for Plan B. If you want dental coverage, you must sign up for it at the time you retire. You can always drop the coverage after retirement, but you may not pick it up at a later date.

(Legislative Story Continued)

system," said Cynthia Webster, the Treasurer's Office Director of Retirement Policy and Outreach, and Executive Secretary of the Board. "At that time the board asked the State Legislature to lower the employee contribution rates from 3 to 2.5 percent for Group A; from 5 to 4.5 percent for Group B; and from 11 to 9 percent for Group C. The legislature subsequently approved the change for a five-year period. The board again approached the legislature in 2005 about extending the lower rates until 2010 and the extension was passed."

At the end of the last fiscal year, the actuary reported he did not believe rates needed to be immediately raised for members in groups A and B. The actuary believed the lower contribution rates already in place for these groups could be sustained for another year then re-evaluated for future funding needs. However, the actuary recommended that the contribution rate be raised 1.17 percent for the Group C plan in order to maintain the long-term sustainability of the higher benefit structure.

Following this recommendation, the VMERS board raised the employer contribution rate for Plan C by one-half of one percent and asked the legislature to raise the employee contribution rate by the same one-half of one percent the board had imposed on the employers. While the VMERS board may raise contribution rates for employers, the legislature must approve employee contribution rates changes.

"The VMERS board felt comfortable increasing the total rate for the Group C plan by 1 percent, given the expectation that the investment market will recover somewhat in the next few years," Webster explained.

Recent investment losses experienced world-wide have reduced the VMERS' system-wide funding level and prompted the board to examine employee contribution rates.

Retirement Board of Trustees

Steve Jeffrey, Chair, Employer Representative
Jeb Spaulding, Ex Officio Member, VT State Treasurer
Peter Amons, Vice Chair, Employee Representative
James Quinn, Employee Representative
Vacant, Appointed Employer Representative

Director of Retirement Policy and Outreach, Executive Secretary of the Board: **Cynthia Webster**; Director of Retirement Operations: **Michael Clasen**

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Following discussions with interested parties, the legislature approved an increase of 0.25 percent and kept the contribution rates for group A and B at their current level. The Group C employee contribution rate was raised to 9.25 percent starting July 1.

Act 139 also included a change to the cost of living adjustment or COLA feature of the pension plans. The COLA feature allows pension checks to reflect changes in the consumer price index (CPI). For the first time in January, retirees saw their pension checks decline when the CPI registered a negative percentage. State legislators wished to avoid a similar occurrence next year in pension checks based on a negative COLA. Act 139 disallows a downward adjustment to retiree pension checks in 2011 should a negative COLA again occur. The actuary did not believe the change would make a significant impact on the future financial health of VMERS.

Vermont's Economic Response

Fortitude and foresight required in solving our economic challenges

by Jeb Spaulding, Vermont State Treasurer

The last few years have been tough all around. Many Vermonters have lost their jobs; some their homes and businesses. Others have taken pay cuts, experienced reductions in government assistance, and watched their retirement savings take a nose dive.

On the State government front, the Governor and State legislators just tackled one of their toughest budget years. With fortitude and a commitment to finding workable solutions, they successfully developed a budget plan that closed a \$150 million hole in the budget for the fiscal year begun on July 1. They produced a plan for a balanced budget, cut spending while working to minimize cuts to the most vulnerable, fully funded the pension plans, made selective investments in future job creation, and utilized some rainy day funds while still maintaining additional reserves for future needs. I do not believe many, if any, other states passed a balanced budget this year, while still maintaining reserves and avoiding broad-based taxes. I commend them for their work.

It is essential that Vermont leaders and citizens coalesce around a long-term strategic economic plan that identifies the large-scale trends and conditions that will impact this state in the future.

I would also like to recognize State employees and teachers for similarly facing tough economic challenges and working toward solutions. State employees are now experiencing a three percent two-year pay reduction. Teachers are now working with revised pension and retiree health plans and contributing more of their pay for those plans. Those steps alone made a \$20 million dent in the \$150 million deficit that had to be addressed. I thank them for their sacrifice and commitment to resolving our fiscal challenges, and look forward to working together to meet the remaining challenges ahead.

Recently, Vermont's leading economists said that they believe our state is now out of recession. This recovery, however, has been tentative and fragile – and is largely dependent upon federal fiscal and monetary stimulus to date. State revenues appear to have stabilized and are projected to increase by some \$70 million this fiscal year and another \$80 million next year. Our official State unemployment rate is the fourth lowest in the country. Our home foreclosure rate is very low

(Board Changes Continued)

to quickly initiate an election process. A notice for candidate nominations for one employer representative and one employee representative seats was sent to all individual VMERS members and to the governing bodies within the system. After no employees filed to serve in the vacant trustee seat, the VMERS board solicited letters of interest from qualified employees. At their July 13 meeting the board voted to appoint James Quinn, a full-time Lieutenant with the Montpelier Fire and Ambulance Department. Quinn was the only person to submit a letter of interest for the employee seat.

Three candidates were nominated for the non-appointed employer representative seat. Steve Jeffrey, Executive Director of the Vermont League of Cities and Towns was elected to the board over candidates Thomas Golonka, a City Councilor with the City of Montpelier, and Terry Macaig, Chair of the Williston Selectboard and State Representative for the Chittenden-2 district. Jeffrey has served on the VMERS board since 1982, most recently as board Chair.

Both Quinn and Jeffrey will serve four-year terms on the board beginning this July. Governor appointee Stephen Rauh stepped down from the board effective June 30. Current employer board member and Shoreham Town Clerk Amy Douglas will step down when the Governor selects a new employer representative from the list submitted by the VLCT and the VSBA. It is anticipated that the new employer representative will be selected in the coming weeks.



comparatively and, in some parts of the state, there are signs of life in real estate and tourism markets. Vermont remains the only New England state with a triple-A bond rating.

With economic conditions slowly improving, it's tempting to assume that building a State budget for next year will be easier. Unfortunately, that will not be the case. The new Governor and legislature will be tackling their toughest budgetary challenges since the downturn in the economy. Why is that? The biggest reason is because hundreds of millions of dollars in temporary stimulus money from the federal government will end this year. These funds have strategically been used by Vermont to produce balanced budgets for the past two years. In addition, with reductions in capital gains taxes and implementation costs of federal health care reform, even with the inflow of State generated taxes on the upswing, Vermont will face a budget gap of approximately \$120 million next fiscal year. And closing next year's budget gap will be harder because, as the saying goes, all of the low-hanging fruit has been picked. Most constituencies already have been impacted by budget cuts. Additional savings or revenues will be harder to find.

If budget makers are able to produce a plan to balance expenditures and revenues next year, Vermont should then be on a more stable and positive financial trajectory. At the same time, it is also essential that Vermont leaders and citizens coalesce around a long-term strategic economic plan that identifies the large-scale trends and conditions that are going to affect us in the next five, 10, and 15 years. This plan must be focused, specific, widely understood, and supported. This plan must identify Vermont's assets and liabilities, as well as our relative market position and comparative advantages in the northeast, U.S., and the world. From such assessment, we can compose concrete actions that allow us to take advantage of economic opportunities and insulate ourselves from future economic threats. Vermonters have already demonstrated they have the fortitude and the willingness to sacrifice to achieve workable short-term solutions. Now, it's time to develop a strategy that works for the long run.

Choosing a retirement option

VMERS Retirees Choose From Five Options

We are often asked what retirement options are most popular with retirees in the Vermont Municipal Employees' Retirement System. When you retire you will be asked to choose how you would like to receive your retirement benefit. There are currently five payment options. Below is a brief description of each option and the percentage of retirees who have chosen that payment option at retirement.

72% Chose - Life Only Option (No Survivorship)

This option provides the largest benefit payment computed under the Standard Formula to the retiree for his or her lifetime. All payments cease upon the death of the retiree. When the retiree dies, a benefit is paid to the designated beneficiary based on the number of days the retiree was alive during the specific month the retiree passed away. In addition, the beneficiary is entitled to receive a lump sum payment equal to the amount of contributions left in the retiree's retirement account minus the total of the benefit payment that were already paid out prior to death. This option also allows the retiree to change who his or her beneficiary is during retirement. If the retiree lives longer than the accumulated contributions last, payments will continue until death, but there would be no balance payable to the beneficiary. This option does not provide for continuing monthly checks to the member's beneficiary.



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14% Chose - Option One 100 Percent Survivorship

This option provides for the retiree's beneficiary to receive the same monthly allowance for life that the retiree was receiving, should the member pre-decease his or her design-

nated beneficiary. However, in exchange for this option, the starting monthly retirement benefit is less than the life only benefit by an average of between 10 and 25 percent, depending upon the difference in age between the retiree and the beneficiary. The beneficiary designation by the retiree at the time of retirement CANNOT subsequently be changed.

5% Chose - Option Two 50 Percent Survivorship

This option differs from the 100 percent survivorship option in that the retiree's beneficiary receives 50 percent or half of the benefit that the retiree was receiving, should the member pre-decease his or her designated beneficiary. This option does not reduce the starting monthly retirement benefit as much as the 100 percent survivorship option does. On average, the benefit reduction from the life only benefit option is between 5 and 15 percent, depending on the difference in age between the retiree and the beneficiary. The beneficiary designated by the retiree at the time of retirement CANNOT subsequently be changed.

9% - Pop-Up Options

Each of options one and two can be elected with a pop-up feature. This provides that if the retiree's beneficiary dies first, the retiree's benefit will increase to the amount which would have been payable under the life only option. As a result, the reduction in the retiree's starting monthly benefit payment is slightly greater than it would be under the options without the pop-up feature. Six percent of retirees chose the option one pop-up and 3 percent chose the option two pop-up. This pop-up function may also apply in situations where there are court-ordered stipulations contained in a domestic relations settlement.

(Updates from the Retirement Division Continued)

Retirees annually are reminded there is no guarantee that the stipend will be paid in future years. Once the Annual Actuarial Valuation of the system has been completed and presented to the board, the board determines whether it is prudent to continue the stipend for another year, and if so, at what level. Due to the funded level of the system at the end of fiscal year 2009, the board felt it prudent to reduce the monthly stipend for next year. Now that Retiree Health Savings (RHS) accounts are available to assist retirees in meeting medical expenses after retirement, the board is discussing the possibility of merging the stipend allocation into the RHS program at some point in the future.

Health Savings Accounts Update

In July of 2007, the VMERS board established a new program designed to provide funds to assist members in coping with their medical expenses in retirement. The program, called the Retiree Health Savings (RHS) plan, is available to all members and retirees who have contributed five or more years into the VMERS (as of the June 30th immediately preceding an RHS

deposit). There have been three deposits made into the RHS accounts since inception, one in July of 2007, one in August of 2008 and the last one in February of 2009. It is unlikely there will be another deposit made into the RHS accounts for at least another year, possibly longer. When the plan was established, the board determined that distributions would only be made if the retirement system was over 102 percent funded. At the end of fiscal year 2009, the system had dropped to 90.3 percent funded—consistent with other pension plans in the recent economic downturn.

Once the board reviews the results of the fiscal year 2010 valuation, it will determine if and when a fourth distribution can be made. Retirees are encouraged to use the money in their accounts to reimburse out-of-pocket expenses, as well as medical premiums. It is important to know that even if all of the money is used in a retiree's RHS account, it will remain open and will receive additional money when the next distribution is made.



Vermont Municipal Employees' Retirement System

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Where do VMERS retirees live?

Dozens of municipal employees retire each year from their jobs. While the perception is that many retirees leave Vermont for warmer climates, the majority choose to remain in the Green Mountain state. At right is a map of the United States and the number of VMERS retirees living in each state. More than 87 percent of VMERS retirees claim Vermont as their permanent residence. The second most popular place of residence is Florida, followed by New Hampshire, New York, and North Carolina. It appears many retirees share the same warm sentiment expressed by President Calvin Coolidge about his home state, Vermont.



"I love Vermont because of her hills and valleys, her scenery and invigorating climate, but most of all because of her indomitable people." -- Calvin Coolidge