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Winter 2013

Retiring TIMES

Vermont State Employees' Retirement System

Is Your Home Ready for Retirement?

Drawing up a schedule of repairs and home updates before you retire may allow you to pay for "fixes" before your income becomes fixed!

AGING IN PLACE

Whether helping your parents or yourself, the best time to renovate is before retirement

Renovate or relocate? This question is best answered before you retire, where a steady income will help you pay for any needed home updates and repairs. According to a 2013 report released by the Joint Center for Housing Studies of Harvard University, the remodeling industry is pulling out of its economic downturn as the nation's housing stock is renewed. Older homeowners are numbered among those tackling renovations, as they retrofit their homes to accommodate their evolving needs.

"As baby boomers move into retirement, they are increasing the demand for aging-in-place retrofits," said Kermit Baker, director of Harvard's Remodeling Futures Program. "A decade ago, homeowners over 55 accounted for less than one third of all home improvement spending. By 2011, this share had already grown to over 45 percent."

To age-in-place, you will probably need to modify your house to increase access and safety.

The National Association of Home Builders recommends homeowners consider these questions when addressing retirement housing options.

- **How long do you plan to live in your current home?** Your answer will help you decide whether you should replace your appliances now; do more than just fix the leak in your roof; or upgrade your bathroom fixtures.
- **How should you modify your home to make it more comfortable?** To age-in-place, you should consider access and safety issues that might arise as you mature. Modifications may mean simply adding bathroom grab bars or more expensive renovations like creating a first-floor bedroom.
- **What are the most immediate improvements your home needs?** You may have a hot water heater that is near the end of its life expectancy or high fuel bills may mean you should consider adding insulation.

(continued pg. 4)

Take the Home Parts Longevity Quiz!

(1) Of the major appliances in a home, which has the longest life expectancy?

A. Refrigerator B. Gas Range C. Microwave

(2) Kitchen cabinets are expected to last . . .

A. A lifetime B. 10 years C. 50 years

(3) Which of the following types of flooring, on average, lasts between eight and 10 years?

A. Carpet B. Vinyl C. Linoleum

(4) Which type of water heater lasts the longest?

A. Tankless B. Electric or Gas

(5) What type of roof has the shortest life expectancy?

A. Wood Shakes B. Asphalt Shingles C. Copper

Answers on page 3. Source: National Association of Homebuilders, "Study of Life Expectancy of Home Components," 2007.

Constructive Engagement

Investors are Entitled to a Seat at the Table

by Beth Pearce, Vermont State Treasurer

Active and retired members of the municipal, State and teachers' pension systems work hard to earn their retirement benefits. As your State Treasurer, one of my duties is to match your commitment by maximizing the return on State pension investments. Some have asked how the State meets its investment targets while ensuring our partners live up to the Vermont values of corporate and social responsibility. We accomplish these goals through constructive engagement – using our investment relationships to promote Vermont values.

Investors are entitled to a seat at the table of corporate governance. This is true of individuals and institutions alike. From the State's perspective, our ability to engage with our investment partners is an important tool to direct larger issues of corporate responsibility. One of the ways Vermont communicates its values to companies it invests in is by casting proxy votes. Proxy voting is a form of corporate governance in which shareholders weigh in on matters affecting their investments. The outcome of the voting process informs corporate decisions through resolutions and directives designed to bring action.

The Vermont Pension Investment Committee (VPIC), on which I serve as a member, is governed by a proxy policy covering a broad range of topics. These guidelines are updated periodically to reflect the State's goals and values. In 2013 I voted with the VPIC board to strengthen our commitment to corporate accountability, updating our investment guidelines in important areas such as disclosure of environmental practices, risks and liabilities, reduction of greenhouse gas emissions and pollution, alternatives to hydraulic fracturing, and investments in green and sustainable energy technologies.

The environmental guidance provided to Vermont pension fund managers is complemented by a long record of Treasurer-led initiatives to engage fossil fuel and energy companies to adopt sustainable business strategies. In 2003 the State Treasurer's Office joined the Ceres' Investor Network on Climate Risk (INCR) to grow awareness of business models and their environmental impacts. This was followed in September 2013 when, in my capacity as State Treasurer, I joined with the VPIC board to sign onto Ceres' Carbon Asset Risk Campaign, an initiative to encourage oil/gas, coal, and utility companies to conduct risk assessments of fossil fuel extraction and its long-term implications.

The success of constructive engagement initiatives is evidenced in a number of successful initiatives undertaken by Ceres shareholders.

Vermont's partnership with Ceres has shown real results. In addition to generating widespread media attention in local, national and international markets, Ceres' shareholder actions have advanced proactive environmental positions that reflect the Vermont values of sustainability, responsible corporate decision making, and clean energy alternatives. The success of INCR and other constructive engagement initiatives is evidenced in the number of successful initiatives Ceres' shareholders undertook from 2008-2010: according to independent research, companies adopted Ceres' shareholder recommendations with a 65 percent rate of complete compliance; 80 percent complied in part.

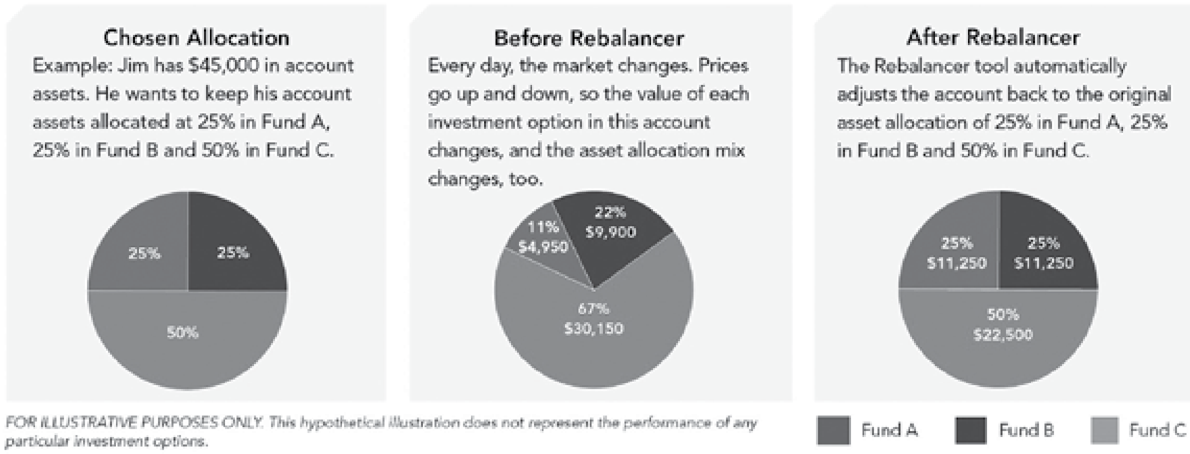
Vermont's ability to engage with national and global businesses is an important extension of our shared commitment to a sustainable future. Indeed, by working together to make VPIC's policies reflective of Vermont values, we have balanced our obligation to maximize returns on investments and advanced the State's environmental goals at the national and global levels. We are able to do so regardless of the fact that the assets held by Vermont are relatively small when compared to larger states. Limitations of scale are reduced when we partner with other engaged shareholders.

As the State's fiduciary, I strive to maximize value in areas that benefit active and retired employees whenever possible. But it is important to note that all Vermonters gain additional value when we use our pension assets to influence responsible environmental and corporate practices. Constructive engagement doesn't just work for you – it works for all Vermonters.

What is a rebalancer?

A rebalancer is a tool available to participants of the State of Vermont 457 deferred compensation plan. It is located on the 457 plan web site and allows investors to maintain the asset allocation they've chosen to meet their long-term objectives--automatically and at a frequency they select. Graphic below provided by Great-West.

HOW IT WORKS



(Investment Tools Continued pg. 6)

decided to place half of his money in a lower risk stable value fund and half in a high risk aggressive fund. Jim thought his investment was diversified since gains in the lower risk fund would hopefully counter any losses he experienced from investments in the aggressive fund. Over time, all of Jim's investments grew in value. However, his portfolio was no longer equally divided between low and high risk options. The aggressive fund grew more rapidly than expected—good news, except that now more of his retirement savings were exposed to a higher investment risk. As he nears retirement, Jim needs to protect more of his investment from potential loss because he will have less time to recover from a drop in his portfolio. Jim needs to rebalance his account.

Great-West provides investors with an on-line rebalancer tool through the plan's web site. The tool allows individuals to maintain a chosen asset allocation automatically and at a set frequency. Above is an illustration of how it works.

Another investment option offered by Great-West is to have individual investments managed through a Target Date Fund. Target Date Funds are mutual funds that invest with a particular withdrawal date in mind. It represents an approximate date when an investor would expect to start withdrawing his or her money or expects to retire, usually at age 65. Money in Target Date Funds are automatically diversified. The investment mix is also shifted from riskier higher yielding investments when someone is younger, to more conservative lower return options as an investor nears retirement.

Great-West retirement representatives are paid by salary and not commission. All fees are negotiated on behalf of the Vermont State Retirement System members by the Treasurer's office. For questions on your existing 457 plan account or to schedule an appointment, call 1 (800) 457-1028. Visit the Great-West web site at www.vermont457.com.

NEWS... FROM THE RETIREMENT DIVISION

COLA INCREASES EFFECTIVE JANUARY 1

Based on the Northeast Region Consumer Price Index for all urban consumers as of June 30, 2013, the cost-of-living adjustments (COLA) that will be applied to pension payments on January 1, 2014 are as follows: Groups A, B, C and D, 1.5 percent increase; Groups E and F (only F members NOT actively contributing on 6/30/08), 1 percent increase; Group F (only F members actively contributing on or after 6/30/08 and who retired on or after 7/1/08 will get the full percentage), 1.5 percent increase. In order to qualify for a COLA, you must have received at least 12 pension checks prior to January 1. Group F retirees who retired under an early retirement also must have reached age 62 prior to January 1.

(ANSWER KEY TO PAGE 1 QUIZ: B; C; A; A; B)

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Director's Corner

by Laurie Lanphear, Director of Retirement Operations

Effective January 1, 2014, Blue Cross/Blue Shield of Vermont will take over from Cigna as claims administrator for the medical plans offered to active and retired State of Vermont employees. It is anticipated this change will save the State millions of dollars over the course of the next few years, and is expected to have a positive impact in helping to keep medical premiums stable for all subscribers.

That being said, however, there always seems to be a level of anxiety whenever a change occurs. I would like to add my voice to those who have already communicated this change to everyone in the hope of alleviating your concerns. First, keep in mind that the actual plan benefits afforded to everyone are <u>not</u> changing. The benefit levels and deductions under each group plan will remain the same in 2014. As you have already heard, the actual premiums under each plan will also remain the same in 2014. The only change that is being made is in the company that is processing the claims incurred under each plan. As a result, you will receive a new insurance card in the mail within the next few weeks that will replace your current card reflecting Cigna as the claims administrator. *You do not need to do anything except begin using the new card for all expenses incurred after January 1, 2014.* The State of Vermont has contracted with Blue Cross/Blue Shield of Vermont in the past to process insurance claims and we've been very satisfied with their services. I want to assure you the commitment to provide excellent service to all subscribers of the medical plans will continue to be realized in the coming year.

(Aging-in-Place Continued pg. 1)

Home updates aren't limited just to those contemplating their own retirement. People in their 40s and 50s are looking for affordable housing options for their aging parents. Gene Hathaway is the President of the Homebuilders and Remodelers Association of Southern Vermont. He's operated Hathaway Construction for 26 years. He's recently worked with families who want to add an in-law apartment to their home to allow their parents to live with them.

"We've worked on projects where we have upgraded the bathroom to make it handicap accessible, including adding a taller, comfort-height toilet," said Hathaway. "In general, people are also looking at upgrading their heating systems to make them more efficient, including redoing their insulation and putting in newer windows."

The Harvard report notes that spending on energy-efficiency upgrades has continued to expand. The share of total market spending on energy-related projects rose sharply from 23 percent in 2007 to 33 percent in 2011. Approximately 25 percent of households undertaking home improvement projects in 2011 did so for energy efficiency purposes.

In Vermont, there are new financing options available for homeowners wanting to make energy efficient upgrades. During the last legislative session, State lawmakers established the Vermont Clean Energy Loan Fund to provide financing and encourage investment in sustainable energy, including home energy efficiencies. The new financing law authorized the Vermont Economic Development Authority to borrow up to $10 million from the State Treasury to establish two new commercial sector loan programs and up to $6.5 million to offer new residential energy efficiency loans, including a loan program through NeighborWorks of Western Vermont.

"The Treasurer's office partnered with the Governor, legislators, VEDA, and our Local Investment Working Group to create a cost-effective pathway to finance clean energy and energy efficiency projects at no risk to the taxpayer," said State Treasurer Beth Pearce.

Alan and Susan Shashok of Middlebury were the first to take advantage of the new residential energy efficiency loan. They borrowed money to weatherize and insulate their home and install solar panels. While they are not nearing retirement, the Shashoks believe the change will make their home more marketable in the future when they may want to sell it.

"The loan program made it affordable to us," explained Susan. "On a tight budget, it allows us to still be energy forward thinking."

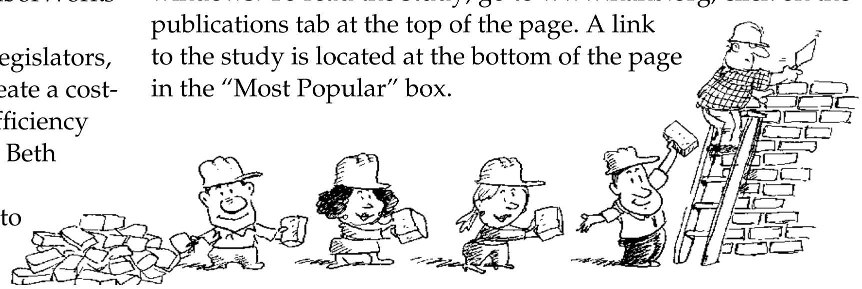
When Hathaway considers the updates Vermonters should consider first when preparing for retirement, he recommends homeowners complete an energy audit.

"An energy audit will give homeowners good information on what work specifically needs to be done on their home. By tightening up your home, you'll be more comfortable and save money on energy costs," said Hathaway.

Besides checking your roof and siding, Hathaway also recommends people take stock of the large trees on their property. Not only do trees pose a hazard to a home's roof, if a tree sickens and has to be removed, it can be a costly project for the homeowner.

The National Association of Home Builders released a study in 2007 on the life expectancy of housing components. The findings are based on input from manufacturers, trade associations and researchers. The study provides information on 25 categories of home items, from appliances to windows. To read the study, go to www.nahb.org, click on the publications tab at the top of the page. A link to the study is located at the bottom of the page in the "Most Popular" box.

NeighborWorks of Western Vermont is managing the residential energy efficiency loan application process. To learn more about the energy loan, go to: **heatsquad.org/affordable-financing** or call toll free 1 (877) 205-1147.
The loan is available to Vermonters statewide.



Understand Your 1099-R & Avoid These Tax Scams!

Make Sense of Your 1099-R Form

The tax statement for retirees that is generated and distributed in January is called a 1099-R. Every year, our office receives numerous questions regarding how to read the tax statement. This article is intended to assist retirees by explaining what each box on the 1099-R represents. The descriptions below only identify those boxes on the form that are used by the Vermont State Retirement System for reporting your pension to the IRS.

BOX 1 Displays the gross amount of the pension you have received during calendar year 2013, before any deductions have been withheld.

BOX 2a Displays the taxable amount of the pension you have received during calendar year 2013. In some cases, boxes 1 and 2a reflect the same amount. If the amount in box 2a is smaller than the amount in box 1, it means that you made contributions into the retirement system while actively employed that you paid taxes on, and therefore, those same already-taxed contributions will not be taxed again in retirement.

BOX 4 Displays the total amount that has been withheld for federal taxes, based on your filing status, during calendar year 2013. If the amount in box 4 is blank, then you have either elected not to withhold federal taxes, or your filing status results in a -0- withholding.

BOX 5 Displays the portion of the total pension reflected in box 1 that is not taxable. If box 5 is blank, it means that your pension is fully taxable. NOTE – this box can be confusing as it appears to indicate that insurance premiums should be displayed here. Our system does not use this box for insurance premiums, nor is it a deduction of any kind.

BOX 7 Displays the IRS code for a pension distribution.

BOX 12 Displays the total amount that has been withheld for Vermont State taxes, based on your filing status, during calendar year 2013. If the amount in box 12 is blank, then you have either elected not to withhold Vermont taxes, or your filing status results in a -0- withholding.

BOX 13 Displays the state to which the withholding was paid and the payer's federal identification number.

ACCOUNT NUMBER Displays your unique retirement system retirement number.

Be Alert and Avoid Tax Schemes

The Internal Revenue Service reminds taxpayers to use caution during tax season to protect themselves from a range of schemes from identity theft to return preparer fraud. Here are some top scams to be alert to:

- **Identity Theft:** Protect your social security number and other personal identifying information. An identity thief can use your identity to fraudulently file a tax return and claim a refund.
- **Phishing:** This scam is typically carried out through an unsolicited email or fake web site that poses as a legitimate site to lure potential victims into providing personal and financial information. The IRS does NOT initiate contact with taxpayers by email to request such information.
- **Return Preparer Fraud:** Use only tax preparers who sign the returns they prepare and enter their IRS Preparer Tax Identification Numbers. Some unscrupulous preparers prey on unsuspecting taxpayers to commit refund fraud or identity theft.
- **Promise of "Free Money" from the IRS & Tax Scams Involving Social Security:** Be wary of ads promising refunds to people who have little or no income and who normally don't have a tax filing requirement. Scammers build false hopes and charge people good money for bad advice.

Volunteer Advocates for Children Needed

Guardian Ad Litems needed for the Franklin Grand Isle Family Court. Be a judge-appointed advocate for children who need your help. For more information, contact Bruce Scott at (802) 527-4029 or email at papascott3@aol.com.

www.Vermont.Judiciary/GAL

Retiree Update

	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
2013	45	18	26	25	27	22	42	26	25	30	31	16
2012	51	24	15	18	37	25	32	30	34	23	22	23
2011	47	28	12	21	30	23	44	19	27	19	19	14
2010	75	16	25	27	23	33	35	36	22	24	20	19
2009	65	23	24	18	14	33	45	12	189	25	24	24

Vermont State Employees' Retirement System
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NOTICE: For the third year in a row, dental premium rates remain unchanged in calendar year 2014!

Tools Available to Diversify Your Retirement Investments

The old adage, "don't put all of your eggs in one basket," is a foundational principle in retirement savings. Investors who keep their savings, or eggs, in only a few asset classes risk financial losses if their chosen investment products drop in value. By taking advantage of a diversified investment approach, investors can guard against losses as their retirement savings are placed in different areas that would each react differently to the same event.

For example, suppose someone had a portfolio of only airline stocks. If it is publicly announced that airline pilots are going on strike and all flights are canceled, share prices of airline stocks will drop. The investor would see a noticeable drop in the value of the portfolio. However, if the same investor also had funds invested in a national car rental chain, those investments would be protected from the airline crisis and the value would likely grow as more people rent vehicles to get to their desired destination.

Of the 6,559 individuals who have funds in the State of Vermont 457 deferred compensation plan, 77 percent manage their own investment choices. The deferred compensation program has been available since 1979 as a savings option for State and municipal employees and for teachers who are a part of a supervisory union offering the 457 plan. The program is administered by Great-West Retirement Services. As a 457 plan, the portion of a person's salary that is deferred is not taxed until the person withdraws their investment at retirement.

If a person doesn't rebalance their investments, earnings over time can greatly unbalance an investor's portfolio.

"We encourage people to evaluate their investment choices at least once a year," said Great-West Retirement Plan Counselor Chip Sanville. "When someone first signs up and begins investing funds in the 457 plan they must decide where their money will be invested. Unfortunately, too many people don't revisit their initial investment decision and leave their money in only one mutual fund. They forgo the benefits of diversifying their investment."

While an individual's investment choices may not change over the years, investment earnings over that time can greatly unbalance that person's portfolio. For example, ten years ago "Jim" began saving through the 457 plan. He

(continued pg. 3)