VERMONT

Vermont State Employees' Retirement System

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Retiring TIMES

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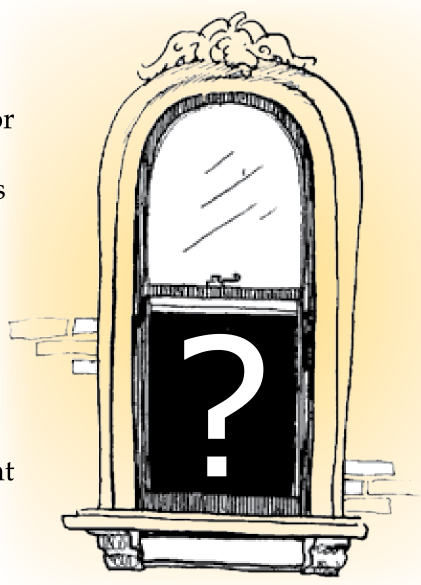
Looking Through the Retirement Window

What's the picture for Vermont State Retirement System members?

> **"Now, I am up at 5 a.m. and, after exercising, showering, eating breakfast, commuting to work, working all day and then commuting home, I have little time during the week to do much else. Once I retire, I am looking forward to getting up at a more reasonable time and being able to spend more time with my family, especially since my daughter is expecting our first grandchild next spring."**
>
> *-- A Municipal Employee*

From the simple to the spectacular, plans on how people hope to spend their retirement years are as varied as the individuals themselves. However, just as the municipal employee quoted above relates, most everyone is planning for a change of pace from the rigors of a 40-hour work week. Everyone also is hoping to have the finances in place to accommodate that change.

There are approximately 45,500 active and retired members in the Vermont State Retirement Systems (VSRS). The VSRS consists of the three largest pension systems in the state. The system provides retirement benefits to qualified and participating employees working for the State of Vermont, member municipalities, and Vermont teachers and administrators. In fiscal year 2010, $186 million in retirement benefits were paid to 12,991 retirees and their beneficiaries. For the 18,291 current active employee members in the state and teacher systems, the majority will be eligible for a normal retirement benefit at age 62. The normal retirement age for the 6,605 municipal employee members is roughly an even split between ages 62 or 65. While the presence of a pension benefit can be reassuring financially, many VSRS members don't believe their pension benefit alone will be enough to cover their retirement expenses.



"I feel reasonably confident about my retirement as both my wife and I have retirement investments separate and apart from the state retirement system and Social Security," said Shaun Donahue of the Department of Children and Families. "I recommend that people start planning for retirement early. A little bit now goes a long way in the future!"

Shifts in the Retirement Picture

Over the past 25 years, traditional pension coverage has been on the decline in the private sector. According to the

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NUMBER OF EMPLOYEES RETIRING BY SYSTEM

	Vermont State Teachers' Retirement System (VSTRS)	Vermont Municipal Employees' Retirement System (VMRS)	Vermont State Employees' Retirement System (VSERS)
*2010	566	147	335
*2009	361	122	472

* Dates are from January 1 to November 1 of each year.

A Changing of the Guard

Solid operational commitment will maintain service and performance

by Jeb Spaulding, Vermont State Treasurer

Shortly after I was first elected as Vermont's State Treasurer in 2002, the Treasurer's Office adopted this commitment statement to Vermonters.

"The State Treasurer's Office manages money that belongs to all citizens of Vermont. The treasurer and staff are committed to doing this honestly, efficiently, responsibly and professionally. The Treasurer's Office operates as a business, serving the needs of Vermonters while working to save the taxpayers money and earn the highest possible investment returns in its funds within acceptable risk parameters."

In January, I will step down as State Treasurer to assume the job of Secretary of Administration. It's a position that will allow me to build on my experience in this office to protect and improve the fiscal well-being of this state. I will be able to play a key role both in crafting the State's most immediate annual budget and in creating long-term economic prosperity for Vermont.

Meanwhile, the important work of the Treasurer's Office will continue. The commitment statement above truly reflects the quality of work that has, and continues to be, carried out daily by our staff. Within the Retirement Division, the staff annually provides retirement counseling to more than a thousand individuals. Last year, we calculated more than 7,200 retirement estimates for prospective retirees. The office currently processes the retirements of approximately 900 people each year across state, teacher and municipal systems.

The Treasurer's Office remains a vigilant caretaker of the more than $3.2 billion in pension assets. The investment performance of the assets has significantly rebounded from the global economic downturn of 2008. The return on investments has again risen into the double-digits. As of September 30, 2010, the composite investment returns for the three State retirement systems was 13.2 percent. Over the last few years, the Vermont Pension Investment Committee has been honed to a smaller, more efficient, more knowledgeable oversight group responsible for investing the billions of dollars in pension assets. The work of VPIC will continue, even as I step down from that committee.

The commitment to work for the good of all Vermonters is not simply the mission of the State Treasurer. Both retired and active State employees can be proud of their admirable record of working hard to deliver needed services to Vermonters statewide. I am pleased that I could serve as your State Treasurer for eight years and am proud of the work we did together to ensure that the State retirement system remains sustainable for years to come. In my new role, I look forward to working together to create a rewarding and productive work environment for State employees.

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(Health Insurance Continued)

ents after you retire, you must already have coverage for them prior to retirement. The only exceptions to this dependent coverage rule is a qualifying event such as (1) you acquire a dependent after retirement; or (2) your spouse loses coverage through job termination. Under either of these exceptions, you may add your dependent within 60 days of the qualifying event. Once you continue the medical coverage in retirement, you may always drop dependents or the entire coverage, with the understanding you may never pick it up again.

All four group insurance plans are available to retirees and their dependents who are non-Medicare eligible. However, once you become Medicare-eligible, which for most will be at age 65, you must sign up for Medicare Parts A and B as your primary carrier. Once Medicare becomes your primary carrier, the only group insurance plans available are Total Choice and Healthguard PPO. You will be notified a couple of months before you (or a covered dependent) turns 65, and advised of what you must do to continue your coverage as a secondary carrier. If an employee is retired and becomes eligible for Medicare prior to age 65 because of an award for Social Security disability benefits, the employee must notify the Retirement Division immediately so that a switch in medical coverage may be processed.

National Institute on Retirement Security, in 1975, among employees with a retirement plan at work, 88 percent were covered by a defined benefit pension plan. By 2005, that number had dropped to 33 percent. A defined benefit plan is best known as a traditional pension, whereby employees receive a defined monthly benefit check upon retirement that is usually based on salary level and corresponding contributions, years of service, and age at which the employee draws the benefit. Social Security is a defined benefit plan. The NIRS describes defined benefit plans as a critical source of reliable income for many Americans. A 2009 NIRS report cites poverty rates among older households lacking pension income are about six times greater than those with such income.

"When I first entered the workforce, perfect retirement for me was having enough resources to move to Australia and not have to work once I retire. Australia's out, Wyoming's in, and it may not be perfect, but I might work at least part-time." - Dave Colburn, Department of Labor

The age at which Americans expect to retire is gradually rising. In the 2010 Retirement Confidence Survey by the Employee Benefit Research Institute (EBRI), the national study indicated that only 28 percent of those surveyed planned to retire before age 65. That's a significant change from the 1991 survey where 50 percent of workers planned to retire before age 65. A challenging economy, uncertain job climate, and a lack of finances are the main reasons the EBRI cites for people postponing retirement. As some VSRS members refine their retirement plans, they're also choosing to work longer.

"I had originally believed I would be able to retire by my 55th birthday," said Paul Beyor of the Agency of Transportation. "However, I found out several years ago that I would need to continue to work until 62 as I would need extra money to support the amount of travel that I would like to enjoy in retirement."

On the opposite end of the retirement spectrum nationally are those workers retiring earlier than planned, often for negative reasons. The EBRI study found that 41 percent of retirees retired earlier than planned due to health problems or disability (54 percent) or company downsizing or closure (26 percent). However, VSRS has not seen an increase in early retirements.

"We haven't seen an increase in the number of people choosing to retire early," said Cynthia Webster, Director of Retirement Policy and Outreach for the Treasurer's Office. "Rather, we're talking to more people choosing to retire at full benefits now instead of working longer. For the teachers' system, legislative changes to contribution rates and a change in the normal retirement age prompted many to retire. In the State employees' system, the uncertainty regarding potential future changes to the retirement plan are motivating people to retire now before any changes are made."

In the municipal system, Webster said they have noticed a growing trend of people retiring because their employers have reduced their hours and they no longer qualify for the retirement plan. The teachers' and municipal systems both saw an increase in retirees in 2010 from previous years, while the State system saw a decline. However, the 2009 State retirement numbers were unusually high due to a one-time retirement incentive program offered that year.

The average age at which VSRS members choose to retire is 60. The average retirement age and years of service for retirees from each employee group are: State employees—age 59.46, 21.9 years of service; teachers—age 59.88, 22 years of service; and municipal—age 63.12, 15.5 years of service.

Income Sources in Retirement

Traditionally, retirement income has come from three main sources: the government, in the form of Social Security; employer-sponsored plans such as pensions; and personal savings that includes Individual Retirement Account–type plans. Recently, working full or part-time has emerged as a common source of income. The EBRI study shows that since 2003, approximately 70 percent of workers surveyed plan to work after they retire. Of those, three-quarters of workers say that employment will provide them and their spouse with a major (27 percent) or minor (50 percent) source of retirement income. Among current retirees who worked in retirement, their reasons for doing so were to remain active and involved and because they enjoyed working. However, almost all of the retirees who worked named at least one financial reason for doing so.

"I'm looking forward to having the choice of whether I want to work or not," said Heather Pembrook of the Department of Environmental Conservation. "I love my work and I hope to continue contributing to my state and community. Retirement for me means having the independence to make that choice."

When it comes to pensions as a source of income, the National Institute on Retirement Security reports that among Americans age 60 and older, in 2006 the average pension benefit was $15,784, and the median benefit was $11,467. In Vermont, pensions for retirees from the State and teacher systems are closely aligned with the national average. Fiscal year 2010 data indicates that the average annual retirement income for current retirees of the State system is $15,520; for retirees of the teachers' system the average annual pension is $15,565. Retirees of the municipal system receive on average a much lower annual pension than the other two systems, due to a variety of reasons including lower overall average salaries; lower benefit plan structure; and less service time prior to retirement. The average annual retirement income for a municipal system retiree is $6,453.

"While I can't predict the future economic situation, I believe I'm in a pretty good position. I will not be wealthy, and I will have less money than I do today, but I'll have fewer expenses too. I'll be okay." - Vicki Strobridge, Department of Finance & Management

Personal savings, whether through employer-sponsored savings plans, IRAs, or other investments is becoming a more important source of retirement income for workers nationally. The EBRI survey showed 78 percent of workers surveyed expected to rely on personal savings and investments as one of their sources of retirement income. In addition to the defined benefit pension plans, the VSRS administers two defined contribution plans. A defined contribution plan is a retirement plan in which a certain amount or percentage of money is set aside each year by the worker, the employer, or both, for the benefit of the employee. One of the VSRS plans, a 457 deferred compensation plan, allows State, teacher, and municipal employees to use pre-tax income to save for retirement. As of September 30, 2010, 6,380 employees were contributing to the plan, representing 32 percent of all active employees. Participation among the State employee member group is highest, with 65 percent of employees contributing to a deferred compensation account.

Dreams for the Future

"I'm still more than 15 years away from retirement, but it's important to get a clear picture of your retirement as early as possible," said Bud Fetterolf of Forest, Parks and Recreation.

That "picture" may mean having the funds set aside to allow for yearly travel or for a major relocation to another part of the country. A key to funding retirement dreams is to assign dollar amounts to future activities and events. Having specific dollar amounts in-hand allow workers to have a clearer idea of what their annual income needs will be in retirement.

"Envision your dreams, then be conservative and think of making your future dreams a reality. When I first entered the workforce, retirement was not something I considered. Instead, as of late, I feel my perfect retirement is more attainable than I thought possible," said Elementary School Teacher Theresa Giffin.

Key questions to examine individually to determine what annual income will be needed in retirement are:

- **What do I want to do in retirement?**
- **Where will I live in retirement?**
- **What healthcare and long-term care costs should I consider?**
- **Do I want to leave money to relatives, friends or a favorite charity?**

Merle Moore, an employee of the State's Department of Buildings and General Services, offers this advice, "Take the long view in life and do not simply live for today. Too many people want it all now and overspend, which prevents having extra funds available to set aside for retirement. Time does have a tendency to slip by quickly and it is gratifying to look and realize that you have saved and planned and that savings can add up."

The State Treasurer's Office offers a workshop that presents how to complete a retirement needs calculation. For more information on this free workshop, "Keeping the Gold in Your Golden Years," go to www.MoneyEd.Vermont.gov.

- by Lisa Helme, Retiring Times editor

What's in your medicine cabinet?

Medications like Oxycontin, Vicodin or Klonopin are relatively easy to obtain and cheap. They are often prescribed as pain killers after surgery or dental work. Frequently the prescription is for more than the person needs or uses and the extra is put in the medicine cabinet and forgotten. These medications are popular among drug addicts and teenagers. Many of the current B&E (breaking and entering) incidents in this state are actually people in search of drugs. Help protect your family members and neighbors by getting rid of all unused drugs.

Please take a look around your house and collect all the unused and outdated drugs and take them to the local police department. You can scrape the label off the container if you wish to remain anonymous. Do not flush drugs down your toilet as they end up in your water supply. Do not put them out with the trash as addicts go through trash looking for containers of drugs.

At the annual meeting of the Vermont Retired Teachers Association it was agreed that retired teachers will bring this topic to the attention of their local senior centers and churches and encourage everyone to dispose of the prescriptions and over the counter drugs in their homes safely.

- by Linda Deliduka, retiree alternate to the VSTRS board and legislative chair of the Vermont Retired Teachers Association.

Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach

All financial planners recommend that employees put money aside in a variety of investment vehicles during active employment in order to enjoy a financially secure retirement. Money set aside before federal and state taxes are withheld is particularly attractive in order to lower the taxable income for those employees who may be within their highest earning years, or when the mortgage is paid off and many other standard tax-deductible items have been eliminated. That is extremely sound advice, and the reason why many of the retirees I have the pleasure of speaking with tell me that they are actually better off in retirement than they were when actively employed. I think we all strive to enjoy that status in our later years.

Under current IRS regulations, withdrawals from tax-deferred savings accounts must begin in the year in which the original participant turns 70 ½. For example, if the participant turns 70 ½ in March, a "minimum distribution" must be taken by December 31 of that year. There is a one-time election to defer the first minimum distribution until the April following the year in which the participant turns 70 ½, but if elected, then a second withdrawal must be taken by December 31 of that same year. Thereafter, a minimum distribution must be taken by December 31 each year until the money is depleted. If the original participant dies before 70 ½, the spousal beneficiary on the account must take the minimum distribution based on when the original participant would have turned age 70 ½. This ensures that the money will be withdrawn during the expected lifetime of the participant who enjoyed the tax-deferred savings, and minimizes the time the government has to wait to receive their tax withholdings.

A minimum distribution is calculated by taking the account balance as of the previous December 31 and dividing it by the life expectancy of the participant. The amount of the minimum distribution changes each year as the account balance and age of the participant changes. All types of tax-sheltered accounts are subject to this minimum distribution rule, including the Vermont State Teachers' Retirement System 403(b) Program, the State of Vermont Deferred Compensation (457) Plan, and the Single Deposit Investment Account.

If you participate in one of the above plans and would like more information about how the minimum distribution rules affect you, please call Great West Retirement Services at (802) 229-2391.

UPDATES FROM THE RETIREMENT DIVISION: *COLA Update & New Roth IRA Option*

Update on January COLA

The cost-of-living adjustments that will be applied to pension payments on January 31, 2011 are as follows: Groups A, B, C, and D—1.1 percent increase; Groups E and F—1 percent increase. In order to qualify for a cost-of-living adjustment, you must have received at least 12 pension checks prior to January 1. Group E and F retirees who retired under an early retirement also must have reached age 62 prior to January 1.

Plan Ahead to Receive Retirement Estimate

If you are not retiring in the near future, but would like to receive a financial estimate of what your monthly and annual retirement benefit would be at a certain time in the future, please note—it may take 12 to 16 weeks to receive an individual report. Our retirement specialists must first give priority to fulfilling estimate requests for those system members closest to retiring.

457 Plan to Offer Roth IRA Option

The VSRS board recently approved the addition of a Roth IRA to the investments available within the State of Vermont Deferred Compensation (457) Plan. Recent changes in the Federal 457 guidelines made Roth IRAs available to 457 plans for the first time. The board expects the Roth IRA will be added to the plan investment options and ready for selection within the first quarter of calendar year 2011. Roth IRAs are a valuable retirement planning tool as they allow participants to defer money on a post-tax basis while they are still actively employed. The money may then be accessed tax-free in retirement, and if the money is invested for at least five years prior to withdrawal, all investment earnings may be withdrawn tax-free as well. As many retirees find themselves in the same tax bracket as they were prior to retirement due to sound retirement planning and wise investment practices, having access to tax-free money in retirement may be the final link to the best mix of resources to maximize income and minimize taxes. Look for more information about this exciting new option within the next few months. The State 457 Plan is available to all State employees and legislators and affords an opportunity to defer money on a voluntary, pre-tax basis from bi-weekly paychecks. As of September 30, 2010, the 457 Plan assets totaled $256.6 million with 6,380 participants. School district and municipal employees also are eligible to join the 457 Plan if offered by their employer. To learn more about the 457 Plan, contact Great West Retirement Services at their Montpelier office at (802) 229-2391.

Recent Retiree Update

	2010	2009	2008	2007	2006
JANUARY	75	65	52	59	51
FEBRUARY	16	23	11	23	14
MARCH	25	24	15	24	19
APRIL	27	18	21	28	20
MAY	23	14	17	16	28
JUNE	33	33	12	20	18
JULY	34	45	43	28	34
AUGUST	36	12	37	22	28
SEPTEMBER	22	189	26	22	30
OCTOBER	24	25	27	20	12
NOVEMBER	20	24	23	21	20
DECEMBER		24	12	19	22

Making 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 2010, before any deductions have been withheld.

BOX 2a Displays the taxable amount of the pension you have received during calendar year 2010. In some cases, boxes 1 and 2 reflect the same amount. If the amount in box 2 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 2010. 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 10 Displays the total amount that has been withheld for Vermont State taxes, based on your filing status, during calendar year 2010. If the amount in box 10 is blank, then you have either elected not to withhold Vermont taxes, or your filing status results in a -0- withholding.

BOX 11 Displays the state to which the withholding was paid and the payer's federal identification number.

ACCOUNT NUMBER Displays your unique Vermont State Retirement System retirement number.

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KEY QUESTIONS

What retirement health insurance coverage is available to me?

When considering expenses in retirement, medical costs remain a primary concern for both active and retired VSERS members. The good news is that health insurance coverage is available to all VSERS retirees and their eligible dependents. However, in the long-term, everyone needs to financially plan for covering out-of-pocket expenses, copayments, long-term care, and health insurance and Medicare premiums.

One of the more attractive benefits of being a member of VSERS is the ability to carry health insurance into retirement by continuing to pay some or all of the health insurance premium. An employee must be covered at retirement and may carry whatever coverage is in effect at that time into retirement. If an employee elects to drop coverage any time after retirement, either individual or for any dependents, the person cannot restart health insurance coverage at a later date.

According to 3 V.S.A., § 479, the amount a retiring employee pays for health insurance depends on when the employee joined the system and the amount of creditable service. Group F plan members who joined the system prior to July 1, 2008 are required to pay 20 percent of the insurance premium, as they did when working. State statute designates the following premium payment structure for Group F members who joined the system on or after July 1, 2008:

(i) a member who has completed five years and less than 10 years of creditable service at his or her retirement shall pay the full cost of the premium;
(ii) a member who has completed 10 years and less than 15 years of creditable service at his or her retirement shall pay 60 percent of the cost of the premium;
(iii) a member who has completed 15 years and less than 20 years of creditable service at his or her retirement shall pay 40 percent of the cost of the premium;
(iv) a member who has completed 20 years or more of creditable service at his or her retirement shall pay 20 percent of the cost of the premium.

It is critical to note that the above statute stipulates that a member must have coverage in one of the group insurance plans at the time of retirement in order to carry that coverage into retirement, and may only continue the coverage that exists at the time of retirement. In other words, if you wish to cover your spouse, civil or domestic partner, or other eligible depend-

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