Retiring Times

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The Newsletter of the Vermont State Employees' Retirement System

Message from Vermont State Treasurer James Douglas

You are probably aware that this past year has been quite a roller coaster ride in the financial markets. I would like to take this opportunity to put your mind at rest about the integrity of your pension system.

The pension fund is diversified over several different asset classes, such as stocks, bonds and real estate. These asset classes behave very differently from one another. Thus, some asset classes will grow rapidly in value while others are sluggish or even going down. Overall, however, the total value of the pension fund increases almost every year, exactly what we hope to achieve through diversification.

Diversification really does work. Despite the market volatility, your pension fund has performed well over time, even though the return for 2000 was -1%. However, that was nearly 3% higher than the fund's benchmark at –4%. The benchmark is the expected return if the funds were not managed by professionals, but rather simply invested passively in index funds that track the overall markets. Over the past five years, the average annual return has been 13%, which is a full 1% per year above the benchmark. At year's end, total assets in the fund were $1.02 billion. During the past fiscal year the fund distributed just over $35 million in benefit payments. Thus, the uncertainty in the capital markets is not affecting the security of pension benefits for State employees.

The funding level of your pension system has improved steadily over the past five years. I'm pleased that the general assembly has contributed the full amount recommended by the actuary and the Board of Trustees for three years running.

As you may know, legislation has been introduced to provide more choice among pension benefits. The bill provides for an optional defined contribution (DC) plan for all employees to be available in January 2003. Currently, only exempt state employees and some municipal employees have this option. The DC plan is a 401(a) plan, which is very similar to

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Message from Retirement Operations Director Cynthia L. Webster

I am pleased to report that this newsletter represents the first in our continuing series of quarterly newsletters that will be used to bring timely and useful information to you regarding the Vermont State Employees' Retirement System (VSERS).

Regular quarterly newsletters are now possible due to the creation of a new position within the State Treasurer's Office. I would like to welcome Joe Bahr, our new Information and Education Specialist who, among multiple other tasks, will be responsible for producing quarterly newsletters for all three retirement systems administered by our office. In his capacity as Editor, Joe will be bringing you news of current activity relating to the VSERS, as well as important on-going education on the various benefits available through your retirement plan. We hope to feature one to two specific benefit provisions each quarter and provide you with an in-depth explanation of how the benefit works and what it might mean to you as a VSERS member. We also intend to include a ***Question and Answer*** section as space permits where we will provide short,

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either a 401(k) or 403(b) plan, to which both the employer and the employee contribute. Those state employees who choose DC would control their own pension assets and thus have more responsibility for their retirement. A DC plan is also portable – if you leave your job, your retirement assets can continue to grow in a qualified investment plan. When you retire, these assets are yours.

In addition, legislation is pending to provide a stipend for Korean and World War II veterans who were ineligible for a grant of service credit prior to retirement. Other legislation will address the issue of which categories of employees are properly assigned to the various plans within the system.

I encourage every state employee to take advantage of our Deferred Compensation program. It affords an opportunity to save additional resources for retirement on a tax-deferred basis. I'm delighted that nearly half of all state employees participate. If you're not among them, I urge you to consider it.

The Treasurer's Office will keep you posted on new developments with your retirement plan, legislation and other matters of interest. Remember, we are here to help. You are always welcome to get in touch with us if we can be of any assistance.

James H. Douglas
State Treasurer

New "Air Time" Option for Earlier Retirement

Want to retire early? Then recent changes in the retirement program will interest you. Last year, the Legislature approved the purchase of up to five years of "air time" for anyone who had 25 or more years of retirement credits. The purchase of these years would allow a state employee to receive a normal retirement with 30 years of service, regardless of his or her actual age.

Here is how "air time" works. First, you must have at least 25 years towards retirement before you can purchase any "air time." You can earn these 25 years by working as a state employee in Vermont for that length of time. Or you can combine state government employment with the purchase of other types of service to obtain this 25-year plateau.

Among the types of service that are eligible for purchase are military service, the Peace Corps, VISTA, State or municipal employment, or teaching at any school. This includes time from a prior Vermont State Employees' Retirement System membership.

Two restrictions apply to this time. First, no individual can purchase more than 10 years of non-military service plus five years of military service. Second, you cannot purchase time for any previous employment that has benefits from another retirement system.

If any of these combinations of employment and service purchases give you 25 years of creditable time in the retirement system, then you can buy "air time." For "air time," you don't need any particular type of employment or service.
The cost of "air time" depends upon your age and annual salary. For this calculation, annual

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plain-English responses to frequently asked questions. I would like to encourage you to write to Joe and let him know what type of articles or specific questions you would like addressed in future newsletters. He may be reached at the following:

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Vermont State Treasurer's Office
133 State Street
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OR

e-mail: jbahr@tre.state.vt.us

Our goal is to make this newsletter as helpful and educational as possible for ***you***, our valued members.

Cynthia L. Webster
Director of Retirement Operations

Military Service Survey Results

Every member was mailed a survey on his or her military history in November. The results have now been tallied. These results include the State Employees', Teachers', and Municipal Employees' retirement systems.

Among active members, 577 people returned surveys. They had a total of 3,358 years of military service, including the national guard and reserves. Just over half of those years either are or could potentially go toward earning a military pension. Under current Vermont law, these years of military service cannot be used for a civilian government pension if they are already being used for a military pension.

Among retired members, 1,123 people returned surveys. They had a total of 5,498 years of military service, including guards and reserves. Just under half of all the years that were reported either are or could potentially go toward earning a military pension, and thus under Vermont law cannot be used for a civilian government pension.

The survey was one part of a comprehensive study by the Vermont State Treasurer's Office on credit for military service in the retirement system. This study was mandated by the 2000 Legislature to determine how much military service is being used for retirement credit in Vermont, how that compares with the rest of the country, and whether any adjustments to current law should be considered.

The study resulted in four recommendations from the State Treasurer's Office to the Vermont Legislature. First, Vermont law should be amended to permit individuals who served in the guards or reserves to earn credit towards both a military and civilian government pension for their military service.

Second, Vermont should provide a one-time stipend to beneficiaries of the State Employees' and Teachers' Retirement System who served in the military and met the legal eligibility criteria, but were unable to obtain credit prior to retirement.

Third, Vermont should give credit towards retirement for all periods of absence to serve in the military – regardless of when served – if the individual returns to work within a specified period of time after military service.

Fourth, Vermont should give members of the Municipal Employees' Retirement System an option to purchase military service comparable to the existing provisions for State employees and teachers, provided the option is cost-neutral to the retirement system. ("Cost neutral" means that the price of purchasing the military service credit would – with interest and other gains in value – be able to pay for the increased pension benefit to the member.)

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salary is the full-time equivalent of your income. Thus, if you work half time, you would double your pay as a state employee to get the full-time equivalent. Two examples will give you the general idea.

If your age is 50 and you have an annual salary of $40,000, then a single year of "air time" would cost about $6,600. The approximate cost of five years of "air time" would be $33,000. (To obtain the exact cost, you would have to speak with the retirement office.)

However, if your age is 45 and you have an annual salary of $40,000, then a single year of "air time" would be only $5,850. Five years would cost only $29,250. To purchase five years of "air time," this younger individual would pay almost $4,000 less.

The difference in the purchase price for "air time" is determined by actuarial estimates of the cost to the retirement system. Your purchase price – with interest and other earnings – must cover the full cost of the additional pension benefit that you will receive for early retirement.

The interest and other earnings make a huge difference in your purchase price. For example, you may buy five years of "air time" for $30,000. But if you receive $10,000 annually from your pension, then you will be paid $50,000 for the additional five years of retirement. The $20,000 difference between what you pay and what you receive in additional retirement benefits is the additional earnings on your purchase price.

Early retirement is not for everyone. The people who take it will usually start a new career in a different occupation. The option, however, is one more benefit of your retirement plan.

(For more information on "air time," please contact the retirement office.)

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