

Vermont State Employees' Retirement System

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DIRECTOR'S CORNER

I am excited to report that our office will be undergoing significant changes over the next few years. The Retirement Division of the State Treasurer's Office is at the beginning of a multi-year project to improve office efficiency and effectiveness by replacing our existing computer system with a new, state-of-the-art Line of Business (LOB).

There are multiple reasons for the upcoming changes. The most important is the fact that our current system was built in the mid-seventies, and with some minor updates has served us very, very well for almost thirty years. However, it is getting tired, and can no longer keep up with the daily demands being placed on it. Another primary reason is that our office has a staff of 12 to provide services to over 40,000 active and retired members. We need to build a system that can automate most of the processes we now do manually in order to be prepared to serve the wave of "baby-boomers" that are fast approaching retirement. Last, but certainly not least, is our goal of moving beyond

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Turning 65? Health Insurance Impact & Procedure

Medicare is federal health insurance for people age 65 and older, certain people with disabilities who are under 65, and people of any age who have permanent kidney failure or Lou Gehrig's disease. It provides basic protection for the cost of health care, but it doesn't cover all your medical expenses.

Medicare is divided into two parts: Part A and Part B. Medicare Part A helps pay for care in a hospital, skilled nursing facility, home health, and hospice care. There are no premiums to pay if you are eligible for Part A. Medicare Part B does have a premium and helps pay for doctors, outpatient hospital care, lab and x-ray services, durable medical equipment, ambulance services, home health care, blood, and medical supplies. Premiums for Medicare Part B are currently \$78.20 per month.

Once you turn 65, or become eligible due to disability, Medicare becomes your primary insurance carrier, when available.

The state employees' health plan follows generally accepted coordination of benefits rules found in the insurance industry. The state plan, like most other health plans, coordinates with other available coverage in such a way as to limit the plan's liability where there is other coverage. This means that the state plan coordinates benefits as though the individual has taken both Parts A and B of Medicare.

It is in the individual's interest to take Part B to avoid a gap in coverage, as retirees cannot continue the state's plan as a primary plan when they become eligible for Medicare. Medicare eligibility automatically triggers the state plan as secondary status, regardless of whether



the individual takes Part B of Medicare (Part A is automatic).

Cigna adjudicates claims in accordance with the plan's rules and the State's contract with them. Members are coded as "A" or "R" in Cigna's system. If a person retired at age 60, when Cigna receives the first claim after their 65th birthday, Cigna suspends the claim and sends a Coordination of Benefits letter asking the individual to provide Medicare information. If the individual does not respond, a second letter is sent at 60 days and a third at 90 days. The claim remains

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STRAIGHT FROM THE BOOK

MILITARY, LEGISLATIVE, OR JURY DUTY LEAVE CREDIT

If a member is required to take a leave of absence from his or her present employer to serve in the military, that individual is entitled to credit in the retirement system for that period of leave. If a member takes a leave of absence to serve in the Legislature or on jury duty, or due to a workers' compensation injury, he or she is entitled to credit in the retirement system, as well. Employers are notified that they must report such leaves to the system, but it is the responsibility of the employee to be sure that the proper credit is made.

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Director's Corner

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the existing level of services to provide full access to personal retirement account information for members and retirees through our website and other appropriate means.

This project has multiple stages. The first stage was to conduct a high-level management review of our workflow and processes. This management review was completed last Spring, and we are in the process of implementing many of the recommendations from the study. Once the study was completed, we hired a Project Manager whose sole responsibility is to oversee the remaining stages of the project.

The second phase is to electronically image all of our paper files. Our office currently maintains a paper file for each and every active and retired mem-

ber. We have estimated we have approximately 1.8 million pieces of paper in our office. Electronically imaging all of our paper files to allow a member's record to be viewed on our computer screens will not only save a significant amount of time, but will also be much more secure in the event of a fire or other type of disaster. A Request for Proposal (RFP) was recently posted on the web for a vendor to do our backfile conversion (imaging all paper files). We expect to contract with a vendor to complete the backfile conversion by the end of the Summer.

The final phase is the most significant – replacing our computer system. It is both exciting and scary. What an exciting opportunity for our staff to work together to build a new system that will address so many of our needs and assist us in better serving our members. It is also scary because it is such a monumental task and it is absolutely critical to “get it right.” Towards that end, we have hired an outstanding consultant team to assist us in completing our needs assessment study, draft the RFP for the new Line of Business (LOB), select a vendor for the LOB and negotiate the contract. The consultant team we hired have assisted in many similar system upgrades throughout the country, and bring a level of expertise and knowledge to the table that far exceeds our expectations. We hope to have the RFP for the LOB distributed before the middle of the summer. We fully expect once a LOB vendor is selected, building and implementing the new system will take between two and three years.

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SDIA NEWS

In 1981 when both the Teachers' and State Employees' Retirement Systems went from a contributory system to a non-contributory system, members had the option of making a one-time investment of some or all of their accumulated retirement funds into a *Single Deposit Investment Account*. The plan currently has approximately 2,729 members and beneficiaries and slightly over \$100 million in assets. As a result of federal legislation, active employees are may now use funds from their SDIA account to purchase eligible service into their retirement accounts prior to retirement.

If you would like more information about this option, please call the Retirement Office at 1-800-642-3191 (toll-free within VT) or 1-802-828-2305.

Visit us on the Web at
www.vermonttreasurer.gov

Your 1099-R tax Form

In January, the retirement office mailed 1099-R forms to benefit recipients. You will need this form when you file your income tax return. The 1099-R provides information for the 2004 calendar year, including (Box 1) *total gross distributions*, (Box 2A) *total taxable amount*, and (Box 5) *health insurance premiums paid*. Taxes withheld are listed in Boxes 4 and 10.

If you have questions, give us a call.

Turning 65?

suspended until the member responds to Cigna.

Your Medicare coverage is effective the first day of the month in which you turn 65. We encourage you to contact the Social Security Office (800-772-1213) as early as three months in advance of your 65th birthday to initiate the Medicare application process for both Parts A and B.

We encourage you to call the Benefits Division of the Department of Human Resources at 802-828-0648 if you have specific issues or questions regarding Medicare coverage and its relationship to the state's health plan.

Please notify the Retirement office if you become Medicare-eligible prior to age 65.

Deferred Comp Plan Changes—Update

Effective November 30, 2004, and after careful review of the 457 Deferred Compensation Plan, the Vermont State Employees' Retirement System (VSERS) Board added eight new investment options and discontinued five mutual funds and three profile portfolios. Participants in the eight discontinued investment options were then directed or “mapped” to the new replacement investment options.

The mutual funds were discontinued because of their long-term performance and other factors that no longer met the criteria established in the Board's *Investment Policy*. The profile portfolios were replaced because the Board felt that “age-based” lifecycle funds were more appealing to participants and better addressed asset changes as we grow older.

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STRAIGHT FROM THE BOOK (continued from page 1)

For example, if a member takes two weeks of leave without pay for military duty, the service credit that the member receives for that fiscal year may be reduced because of the off-payroll status unless the Retirement Office has received proper notification. **The annual statement should always be thoroughly reviewed, and if there appears to be a discrepancy or question about the service credit, the Retirement Office should be contacted immediately.**

APPROVED LEAVE OF ABSENCE

After July 1, 2000, if you take an approved leave of absence for purposes other than for professional study, service credit shall be restored upon payment of the contributions that you would have made into the system had you been employed during your absence.

If you have questions or require more information, please contact the Retirement Office at any time.

FY 2004 ACTUARIAL DATA

On October 25, 2004, the system's actuary, David Driscoll of Mellon Consultants, provided the Board of Trustees with a report of the FY'04 actuarial data.

Among other interesting facts about your retirement system, you might like to know there are 8,079 active members at the

average age of 44.37 years, with an average 11.97 years of service in the system. Retired members total 3,833, of which 314 are disability and 453 are beneficiaries of deceased members.

To view the entire report, please visit the Treasurer's Web site.

457 Changes (continued)

For some participants, another change occurred effective January 1, 2005. The investment advisory fees for the Plan's Stable Value Fund (SVF), which were previously paid from the annual administrative fee collected from **all** Plan participants, started being charged directly to only the SVF participants. The net fund operating expense to participants is 0.314%*.

In the past, the investment advisory fees were paid from Plan assets. The VSERS Board recognized that it is more equitable to have SVF participants in the plan bear the investment advisory fee burden. The new investment advisory fee funding is now consistent with all other investment choices offered in the Plan.

For more detailed information, or if you have any questions on this change, please contact a Great West Retirement ServicesSM representative at (800-457-1028).

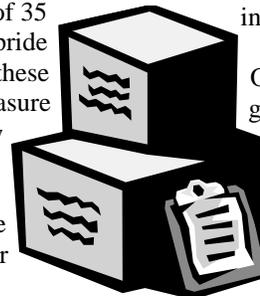
*The gross net annual total fees fund operating expense for this Fund is 0.39814%.

Project Gratitude

The employees and administration of the Vermont State Treasurer's Office are touched by the sacrifices made by Vermont service men and women on our behalf, so we decided to initiate our own "Project Gratitude." In June of 2004, five boxes filled with items including flea collars, foot powder, gum, batteries, and even a couple of water pistols were sent to members of the Vermont National Guard stationed in Iraq. Again, in December 2004, we mailed nine similarly packed boxes, which were planned to arrive in time for Christmas.

This is a small gesture of our appreciation, and it gives our group of 35 co-workers a sense of great pride and satisfaction knowing these items would bring some pleasure and comfort to our fellow Vermonters, so far away.

We're committed to the continued support of our



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Cynthia L. Webster
133 State Street, 2nd Floor
Montpelier, Vermont 05633-6901
828-2305 or 800-642-3191 (In-State)

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Editor: Donna Holden

troops until all our Vermont service men and women are home. If you and your co-workers would like to join us in the effort, please contact Donna Holden at 802-828-3708 for information.

Our hope is that these gifts, greeting cards, and notes make someone far away feel a little bit better and a little closer to home.

Vermont State Employees' Retirement System
Office of the State Treasurer
133 State Street, 2nd Floor
Montpelier, VT 05633-6901

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www.vermonttreasurer.gov

* We wish you all a safe, healthy, *
* and happy spring!! *

If you are planning for a year, sow
rice; if you are planning for a decade,
plant trees; if you are planning for a
lifetime, educate people.
Chinese Proverb

A Message from Jeb Spaulding, Vermont State Treasurer

Dear Colleague,

All of the debate about modifying Social Security to include private investment accounts reminds me of the wonderful opportunity we already have to save and invest for retirement through the Vermont 457 Deferred Compensation Plan. This plan allows us to save and invest using pre-tax dollars through convenient payroll deduction; as your account grows, you pay no taxes on earnings until you begin to withdraw money. If you are not currently participating, I strongly urge you to check out this opportunity at www.vermont457.com. You can sign in as a guest and look over the investment choices and process for enrollment. As detailed in a related article in this newsletter, a thorough review and revision of investment choices was recently completed to ensure high quality options. Please consider joining me, and thousands of your colleagues, in the Vermont 457 Deferred Compensation Plan.

Sincerely,

Jeb Spaulding

I will continue to keep you updated on this project through newsletter articles and special mailings, if warranted. I welcome your questions and comments. I can be reached by calling our toll-free number: 1-800-642-3191 (within Vermont) or via my direct line: (802) 828-2302. You may also send me an e-mail at cwebster@tre.state.vt.us.

Cynthia L. Webster