Retiring Times

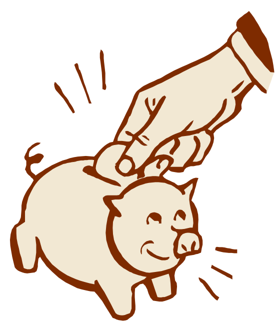
Volume 1 Number 2 Retired State Employees Summer 2001

The Newsletter of the Vermont State Employees' Retirement System

Message from Vermont State Treasurer James Douglas

We all hear about how little Americans save. Have you saved enough for retirement? I know, you have your pension plan and social security, but are they enough if you live another thirty years? A three-legged stool is often used to describe retirement needs for most individuals. The three legs consist of: 1) a pension plan, 2) social security and 3) personal savings. No stool will stand alone on only two of these three legs.

It is never to late to save, and I hope you have already invested in a tax-advantaged savings plan. Even with a defined benefit plan, it is possible to outlive your retirement benefit. Yes, your monthly check is adjusted yearly for inflation, but when inflation is very high or wages increase dramatically, and you live to be very old, it is possible that your check will not cover your basic needs. I urge you to plan ahead and continue to save even in your retirement. There are traditional IRA's if you are earning some extra money, and Roth IRA's for everyone. I hope you took advantage of the Deferred Compensation Plan that is available to all state employees while you were working; you can continue to manage your funds in that plan, even though you can no longer contribute to it. The plan administrator is Citistreet, and they have an office at 138 Main Street in Montpelier. Their phone number is (802) 229-2500 or toll-free at (800) 333-8701. If you have any questions, please give them a call and set up an appointment to discuss your options.



The Deferred Comp Plan has 18 different mutual fund investment options. Most of these are domestic stock funds, but there are international stock funds, bond funds and blended

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Message from Director of Retirement Cynthia L. Webster

It was a relatively quiet year up at the State House for active state employees. Nevertheless, we were able to pass the following legislative changes for active members:

- full retirement credit for active members who go on an approved leave of absence to serve in the military if they return to work within a specified period of time.
- up to three years of retirement credit for active members who served in the military during the Korean or Vietnam Conflict periods even if they are eligible to receive a military pension for *non-regular* military service. Non-regular military service is defined as guard or reserve duty. This provision brings Vermont into compliance with the federal law.

PLEASE NOTE: If you have a minimum of 15 years of creditable service in the retirement system, and served a minimum of one year of full-time service during the Korean or Vietnam

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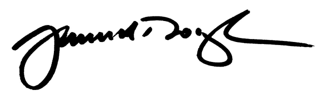
funds as well. If you feel insecure about investing, the folks at Citistreet will be glad to assist you. In addition, they offer three pre-assembled portfolios that have an asset mix all set for you. All you need to do is determine how long you want to stay fully invested and how much risk you are willing to assume. More risk usually means higher rates of return, but you have to be able to sleep at night too. Remember your deferred compensation savings will be part of your estate, so that your beneficiaries will inherit any remaining balance.

Do you think that you cannot afford to save? I bet you can. It can often be difficult to save something each month, but even a little bit of money put aside can grow to a tidy nest egg when compounded over time. If you save just $25 every month over a 15-year time horizon, you could have close to $10,000 after 15 years, if your investments compound at only 8%.

I urge all of you to continue to save now that you are retired. It is never too late and it can often provide a special treat or a safety net in your "golden years'. If you already have a savings plan, continue to manage it and make the most of those assets until you really need them.



Cost Of Living Increase

The Cost of Living increase for next year has been determined. For retirees in Groups A, B, C and D, it is 3.2%. For Groups E and F, it is 1.6%. These increases will be effective January 1, 2002.

Director's Message (continued from page 1)

Conflict periods, but were previously unable to receive a grant of credit because you were receiving or eligible to receive a military pension for guard or reserve service, you should contact the Retirement Division to apply for the grant at this time.

In addition, new legislation that affects retired state employees was also enacted:

► a retroactive adjustment to a retiree's pension if he served in the military during the conflicts in Korea or Vietnam. This pension adjustment only applies if the individual was not eligible for a Vermont State Employees' Retirement grant for this military service prior to his retirement because he was eligible to receive a military pension for *non*-regular military service. Non-regular military service is defined as guard or reserve duty.

► a one-time stipend of $500 for each year served, up to a maximum of 3 years, to state employees who retired prior to July 1, 1999, and who served in WWII, the Korean Conflict or the Vietnam Conflict, in recognition of their service to our country.

Cynthia L. Webster

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Military Stipend Checks

The Retirement Office has received close to 200 applications for the one-time military stipend. Veterans will receive $500 for each year of full-time military service during a recognized conflict period, up to a maximum of three years or $1,500.

The first checks should go out by the end of August. Payments will then be made in batches through September. Please do not contact the Retirement Office to see when you will be receiving your check- phone calls will only slow down the process of getting the stipend checks out.

These stipend payments were approved by the Legislature in its 2001 session. They are a one-time payment for veterans who meet these four criteria. First, they must have at least one year of full-time military service during the World War II, Korea, or Vietnam eras – combat service is not required. Second, the veteran cannot be receiving a pension for their military service, unless it is for service in the national guard or reserves. Third, the veteran must have at least 15 years of employment with the State of Vermont as a member of the Vermont State Employees' Retirement System (including any time purchased for other employment). Fourth, the veteran must have retired prior to July 1, 1999. (Anyone who retired after July 1, 1999 already has had an opportunity to receive credit for this military service.)

If you meet these criteria or have questions about the stipend, please contact the Retirement Office at 802-828-2305 or 1-800-62-3191 (toll free only within Vermont).

Improvements in Deferred Compensation

Your Deferred Compensation plan just got better. Congress approved the following changes as part of the Economic Growth and Tax Relief Act of 2001. The effective date of these changes is January 1, 2002, although many will gradually be phased in over five years.

In the next five years, the limit on annual contributions to a Deferred Compensation plan will gradually increase from $8,500 to $15,000. However, in the three years before retirement, you will be able to contribute up to $30,000 a year. This feature may be particularly useful to two-income families – one spouse's income could go toward retirement via Deferred Compensation while the other spouse's income could pay for current living expenses.

There had been a cap on contributions that was equal to one-third of your income. That cap has been eliminated – you may now contribute up to 100% of your income (with a maximum of $15,000 a year by 2006) to a deferred compensation plan. Again, this provision may be most useful to two-income families that could divert one income to Deferred Compensation and meet current living expenses with the other income.

A "catch-up" provision already allows people who are older than 50 to exceed their normal contribution limit. The idea is to give people who haven't saved enough a chance to put aside extra money in the years leading up to retirement. The limits on the "catch-up" provision will gradually rise from $1,000 per year to $5,000 per year. However, you cannot use both the "catch-up" provision and the $30,000 contribution provision that is available during the last three years before retirement – for any single year, you can use one of these two ways to increase your maximum contribution but not both.

The last change eliminates the requirement to select a payout option upon retirement. Currently, this payout option is irrevocable – once made, it cannot be changed. Under the new law, the irrevocable decision is eliminated and more payment choices will be available.

Citistreet, the contractor for the Deferred Compensation plan, will fully explain all of these changes in the newsletter that comes with your quarterly account statement in October.

Medical Plan Changes —Informational Meetings

As you know, the new state employees' contract will replace the current health care options with similar plans that are self-insured. Every retiree will have to select one of these new plans by October 31.

Packets with detailed information about the new plans will be distributed in September. In addition, the following sites will have information on the new plans. You can visit a site between 9:30 AM and 2:30 PM to obtain more information on your new health care choices.

October 2 and 3— Montpelier. Pavilion Building.
October 4 and 5—Waterbury. Cyprian Learning Center.
October 8 and 9—Burlington. Costello Court House, Champlain Room.
October 10—St. Albans. State Office Building.
October 11—St. Johnsbury. Comfort Inn.
October 12—Newport. Emory Hebard State Office Building.
October 15—Bennington. Veterans Home. Crispe Multipurpose Room.

If you have questions after attending one of these meetings, please call the Retirement Office at 828-2305 or 1-800-642-3191 (toll free in Vermont.) or the Employee Benefits Division at 828-3455. Please do not call the Retirement Office before October 15, as we may not have the information on the new plans until then.

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