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VERMONT

Vermont State Employees' Retirement System

July 2007

Retiring TIMES

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Legislators Pass Retirement Bill

Act 13 Creates "Spring Cleaning" Impact on State Statutes

Legislative leaders rolled up their sleeves and helped bring completion to a long overdue clean-up of language in state statutes related to the State Retirement System. Act 13 contains 49 sections that make technical changes to create consistent language. The Act also modifies state statutes to reflect ever-changing federal law requirements.

What does Act 13 do? It . . .

- Clearly defines the formula for calculating average final compensation.
- Defines how the average final compensation will be calculated for members who retire with service that has been accrued in more than one defined benefit plan, or in more than one group within a single plan.
- Eliminates the inability for an individual to belong to the State Retirement System if covered by the Teachers' Retirement System.
- Defines an individual's monthly pension check to equate to the maximum retirement option.
- Creates a new definition for "Fund."
- Establishes language to ensure no loss of creditable service if a member goes on a leave of absence as a result of a work-related injury and receives worker's compensation payments while on leave.
- Eliminates language relating to non-Social Security coverage under group C disability and death benefits.
- Caps the disability benefit at 50 percent when service is accrued in more than one group plan.

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Reflecting back on the 2007 legislative session, Cynthia Webster, the Director of Retirement Policy and Outreach for the State Treasurer's Office, said such clean-up work is important in clarifying how the retirement system works and in promoting clear communication.

"One painstaking area of change was to modify state statutes to reflect that funds were deposited to and administered out of a single fund for each of our three defined benefit pension plans--one for state employees, one for state teachers, and one for municipal employees," Webster explained. "Previously, our

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Paul Winters of the Department of Transportation (left) and State Patrol Officer Bruce Wolkenbrod (right) participated in a Pre-Retirement Issues session last month conducted by the Treasurer's Office Retirement Division. Looking at the future cost of homes, cars, and taxes, Wolkenbrod said he's most concerned about how to financially prepare for these costs in retirement. Winters said he also was planning ahead and particularly appreciated the update on Social Security.

Director's Corner

by Cynthia Webster
Director of Retirement Policy & Outreach

I am pleased to provide you with an update on the progress of our new automation process called VPAS or the Vermont Pension Administration System. The entire staff has worked diligently with representatives from Levi, Ray and Shoup, Inc. to document our current processes and design the "to-be" processes and procedures that the new system will be able to accommodate. As you may recall from a previous newsletter, the Treasurer's Office initiated this process out of a need to replace our current pension legacy system that is more than 30 years old. This new system will not only give members more ready access to retirement information, it will enable the Retirement Division to manage our large State Retirement System database more efficiently and allow for ongoing upgrades to our data management capabilities.

We will begin our transition on the active data in February 2008. Once the active members are transitioned, we will turn our attention to the retired members for transition approximately one year later.

A side benefit of going through this process is being able to spend time truly thinking about each and every aspect of the way we administer the plan benefits on a daily basis. A significant amount of the changes addressed in the comprehensive retirement bill summarized in this newsletter were a result of identifying areas where we needed to clarify certain processes or codify our existing practices. We will continue this important work over the next year with an eye to ensuring that the administration of the plan is well-defined by either statute or internal written procedures.

If you have specific ideas or suggestions of ways in which our office can improve the way we provide service to our members, communicate the benefits of the respective retirement plans, or extend our outreach activities to members and retirees around the state, please e-mail me at cynthia.webster@state.vt.us or call me at (802) 828-2302. I welcome and appreciate your input.

Retirements

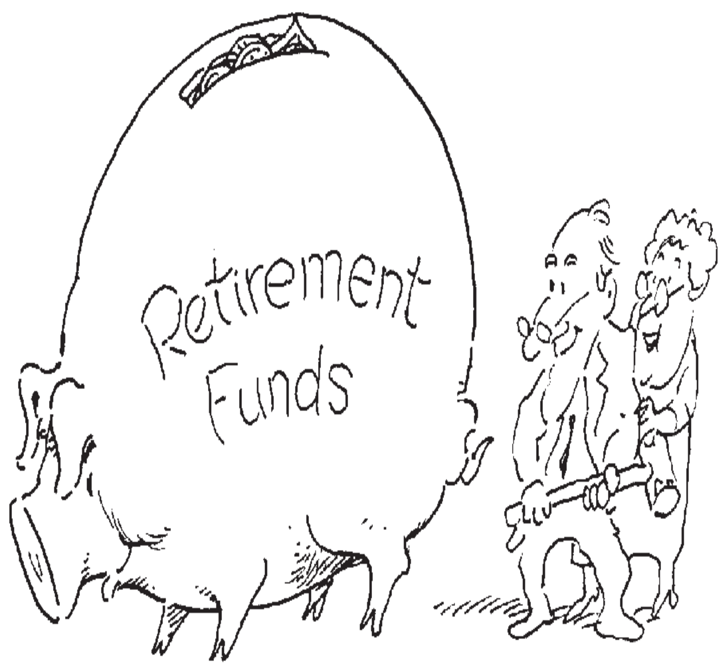
We would like to congratulate all of the employees of the Vermont State Employees' Retirement System who recently retired. Among those who retired with more than 35 years of service were **Scott Baker**, **Victoria Barney**, **Ennis Gidney**, **Robert Burnett Sr., Sumner Page** and **Gail Barrett.** Barrett worked her entire career at the Department of Liquor Control. She told *Retiring Times* that she has always enjoyed gardening and for the first time in many years her garden is weed free! Best wishes to all of you.

AT A GLANCE . . .

How many members are there in the Vermont State Employees' Retirement System? Take a look!*

Active Members	8,288	Retired	4,173
Inactive	1,111	Inactive Vested	805

** Totals above as of June 30, 2006, for a grand total of 14,377.*



Thinking about your retirement? We're happy to help you with questions on your pension funds. Call us at 1 (800) 642-3191.

Straight from the Retirement Book

What is the process for drawing my monthly pension benefit?

If you are contemplating leaving your current employment, it is important to understand how your retirement benefits will be impacted and what, if any, action you should take. Here are some important guidelines.

- If you separate from service and are eligible to immediately draw your retirement benefit, it is strongly recommended that you contact the Retirement Division for an estimate of benefits and the paperwork to complete. The earliest you can draw your retirement benefits is contingent on the group plan that you participate in. For Group F members, the earliest you can draw a benefit is age 55 with five years of service, or at any age upon attainment of 30 years of service. For Group C members, the earliest is age 50 with 20 years of service, or at any age upon attainment of 30 years of service. For Group D members, the earliest you can draw your retirement benefit is age 55 with five years of service. Important: Group F and D members must draw their benefit immediately following separation from service in order to continue medical coverage into retirement.

- If you are not eligible to draw your retirement benefit immediately following separation from service, but have over the required five years to be vested, you may allow your contributions to remain in the system and draw your vested, deferred benefit when you reach eligibility for an early or normal retirement. It is a good idea for you to contact the Retirement Division if you are eligible for a vested benefit at least three months prior to the date when you could begin to draw your benefit. This will allow the office to provide you with an estimate of benefits and the appropriate paperwork with which to file for your benefit. Important: unlike Social Security, your retirement benefit does not increase once you reach normal retirement age; therefore, there is no advantage to waiting to draw your benefit until a later date. Normal retirement age is 62 for Group F and Group D members and age 55 for Group C members.

- As a contributory member of the retirement system, you always have the option to request a refund of your contributions, plus accumulated interest, upon separation of service. If you have the required five years to be vested, withdrawing your contributions may not be your best option as you will forfeit your accrued service and all rights to a future retirement benefit as a result. If you have less than five years of service, you may withdraw your contributions immediately or allow them to remain in the system for up to three years before you will be required to withdraw them. This allowable absence period is valuable as it allows you three years to come back into state service before you lose your already accrued service.

For more information, please contact the Retirement Division at 1-800-642-3191.

State Deferred Comp Plan Offers New Investment Options

The good news is that Vermonters are living longer than ever. The bad news is that too many of us will not have adequate retirement savings to live comfortably in retirement. Fortunately, State employees have the ability to conveniently put aside, on a tax advantaged basis, a portion of their salary in the Vermont 457 Deferred Compensation Plan. Savings in this plan, through a simple payroll deduction at a level you can afford, could well make a significant improvement in your retirement years.

> **"It's important that those now in the workforce consider how they will fully fund their retirement years, so that they don't find themselves without adequate resources."**
>
> **-- Jeb Spaulding, State Treasurer**

The State's 457 plan now offers among its investment options three socially responsible fund choices.

The Vermont State Employees' Retirement System Board regularly reviews 457 Plan mutual fund investment options in order to make available funds determined to have shown superior investment performance, favorable costs and continuity in management. As a result of a recent review, three funds in two separate asset classes were replaced. The Templeton Foreign A Fund was replaced with the Dodge & Cox International Stock Fund, and the Templeton Developing Markets Fund was replaced with the Lazard Emerging Markets Institutional Fund. Also, the Domini Social Equity Fund was replaced with the Vanguard FTSE Social Index Fund. Costs on two existing investment options, the Calvert Income Fund and the Vanguard Mid-Cap Index Fund, were also reduced. This gives plan investors the same investment portfolio, but at a lower fund expense fee.

The Board also approved adding two new socially responsible investment options in SRI categories not previously available: the Pax World Balanced Fund and the Calvert Social Investment Bond A Fund. Along with Vanguard FTSE Social Index Fund, these new SRI funds together allow for SRI investing in large cap equities, Global stocks and bonds, and domestic bonds. All five new funds became available July 2, 2007, giving State employees a slate of 19 investment options. Any plan participant who would like to direct balances in funds being replaced, or to direct future contributions differently than to the new replacement funds, must take action prior to September 4, 2007. If no action is taken, both balances in and contributions to funds being replaced will be redirected to the replacement funds automatically. The adjustment to the fund expense fee also becomes effective on September 4. The State first offered employees a deferred compensation plan in 1980. Currently, approximately 50 percent of the State workforce now contributes to the plan. It is managed by Great-West Retirement Services.

"National statistics indicate that one-quarter of current retirees rely totally on Social Security for their income and have no outside resources. It's important that individuals now in the workforce consider how they will fully fund their retirement years, so that they don't find themselves at retirement without enough resources," said State Treasurer Jeb Spaulding. "The 457 Plan is one easy way State employees can boost their retirement savings."

For more information on the State Deferred Compensation Plan, contact your department's human resources officer, visit the web site at www.vermont457.com, or call the Montpelier office of Great-West at (802) 229-2391 to discuss your options.

VSERS Pension Plan Continues Strong Performance

Continued Collaboration Required to Ensure Long-Term Security

by Jeb Spaulding, Vermont State Treasurer

As a member of the Board of Trustees of the Vermont State Employees' Retirement System (VSERS) and custodian of the funds for this retirement plan, I appreciate the opportunity to provide a short status report to you. The Board of Trustees and this office encourage proactive adoption of practices to protect the long-term viability of the retirement plans for the benefit of current and future retirees. Pension benefits are essentially IOUs or promises to employees that accumulate while they are working and that are cashed in at the time of retirement. These benefits are also a partnership, with both employees and the State making ongoing contributions to the plan.

The VSERS pension plan is on sound financial ground. We continue to have excellent investment performance in the VSERS pension fund, posting returns of 11.9 percent for the 12-month period ending March 31, outperforming the national public pension fund median return of 10.9 percent and well above actuarial benchmarks of 8 percent. For the last completed fiscal year, the plan had a funded ratio of 99.3 percent, well above the median for public pension plans. A disciplined approach to benefit structure and management of pension assets combined with a strong commitment to funding retirement benefit liabilities has contributed to this success. I encourage you to look at the various financial reports on our web site at http://www.vermonttreasurer.gov/pension/stateReports.html.

Despite the positive position we are currently in, difficult challenges lie ahead. As people live longer, it is becoming increasingly common for them to draw benefits for a period longer than they spent in employment. With the current 30-year plan for State employees, it is not uncommon for people to begin drawing full benefits in their early fifties, sometimes even younger. This is a far different picture than when our retirement plans were enacted, and very expensive. For the last few years, pension and retiree health benefit payments have been increasing by roughly $5 million per year.

In addition, in the near future we must tackle new accounting rules that have long-term impacts on the retirement funds. These rules require states to account for retiree health benefits on an accrued basis in a manner similar to traditional pension benefits. Like most other systems that provide these benefits, Vermont's practice has been to handle the obligation for these benefits on a "pay-as-you-go" basis. That can no longer continue. If Vermont were to pre-fund for these obligations, as best practice dictates, at current benefit levels the additional cost is estimated to be more than $10 million per year.

In order to protect retirement benefits for current and future employees and in order to be able to assure taxpayers that these benefits are affordable and fair to all parties, we must take action soon to make sure pension and retiree health provisions will be appropriate and affordable far into the future. Finding fair and sustainable solutions to the above challenges will require a collaborative effort involving this office as well as the Administration, the Legislature, the Board of Trustees, and the VSEA. I look forward to the opportunity to work together to address these challenges in a manner that provides for the long-term benefit of our valued state employees and retirees.

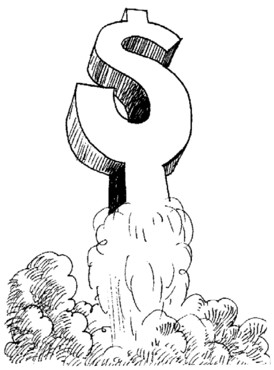
UPDATE:

Status of the Group F Cost of Living Increase

An important charge of a 2006 legislatively created Summer Study was to conduct a survey of members of the group F plan relating to post-retirement cost of living adjustments and to consult with the membership affected by any potential change. A survey was distributed to members of the group F plan in the spring asking, among other things, if they would be willing to pay (through higher retirement contributions) for the cost to increase the COLA from one-half of the Consumer Price Index (CPI) to the full CPI. Thirty-two percent of those receiving a survey responded. The results reflected a 2 to 1 vote in support of a full COLA and a willingness to pay a higher contribution to get it.

After the results of the survey were in, several members contacted the VSEA, the Retirement Office and their legislators expressing concerns about the significant member contribution rate increase that would occur if the full COLA were implemented. A public hearing was held to allow members to express their support or concerns about the COLA change. The testimony was split evenly for and against a legislative change. As a result of the divided census, the legislature extended the 2006 Summer Study Committee through the summer of 2007 with a specific charge to evaluate the post-retirement cost of living adjustment and funding options for the group F plan and to develop recommendations to report to the general assembly by December 15, 2007.

It's Your Money—CLAIM IT!



Within the past 12 months, the State Treasurer's Office has returned more than $3.6 million in unclaimed property to more than 6,000 people. A recent informational campaign by the office aimed to increase awareness among Vermonters about unclaimed property and, ultimately, reunite more people with their money. The state currently holds more than $42 million in unclaimed financial property.

Financial property, such as tax refunds, unclaimed paychecks, stocks and funds from inactive bank accounts, becomes "unclaimed" after a business or non-profit entity loses contact with a customer for a period of years. The property is sent to the Treasurer's Office to protect the funds and centralize search efforts for the original owners. The state never assumes ownership of the funds. The funds are held in trust and invested for the benefit of state residents until the rightful owner or heir is found.

Recent advertising helped publicize the web site and 800 phone number that are available for people to use to check for funds. Vermont residents are urged to search the unclaimed property web site listed below or call the toll-free in Vermont phone number, **1-800-642-3191**. For most financial properties, there is no time limit to file a claim, nor is there any fee for this service through the Treasurer's Office.

www.MissingMoney.Vermont.gov

(Retirement Bill Passed, Continued)

our state statutes referred to a wide range of sub-funds that did not accurately reflect the true fiscal accounting that was operating within the larger funds."

Webster also noted that Act 13 made no significant changes to the retirement system or the way benefits are calculated and administered.

"Such clean-up work is important in clarifying how the retirement system works and in promoting clear communication."

-- Cynthia Webster, Director of Retirement Policy & Outreach

"Act 13 also helped create needed guidelines in some areas of state statute that should enhance our ability to better serve our members," said Webster. "For example, prior to Act 13, if a member died and that person had not designated a beneficiary for their benefit payments, we were unable to easily transfer any appropriate funds to the closest next-of-kin. Within Act 13, guideline are now in place that allow us to do that."

In addition to the comprehensive retirement bill, the following acts were passed that contains language applicable to the State Retirement System:

Act 12 (formerly H.400): Group C members are those employees who work within the law enforcement area. This group had requested a change to the eligibility guidelines regarding obtaining medical coverage at retirement. Previously, if a Group C member retired and did not immediately draw upon their retirement, the medical insurance benefit was no longer available to them. This act now enables any Group C member who separates from service, prior to being eligible to draw their retirement benefit, to "recapture" or obtain medical insurance at the time their retirement commences and pay the same rate that they paid as an active employee. To compensate the system for the added costs of the recapture provision, the Group C retirement contribution rate will increase from 6.18 percent to 6.88 percent effective July 1, 2007.

Act 12 also contains language that allows a group F (most state employees) member who has accrued prior service in the group B plan to upgrade the B service to C service by paying the cost for the conversion directly to the retirement system. Group B is an older law enforcement plan that pre-dates Group C benefits.

Act 165 (commonly referred to as The Pay Act): This act contains language that provides for a new benefit calculation for State's Attorneys; extends the election period until June 30, 2008 for Group F members who have law enforcement powers to join the Group C plan; and creates a committee to evaluate the post-retirement cost of living adjustment and funding options for the Group F plan.

You may review the entire content of the above acts by going to www.leg.state.vt.us.

What does Act 13 do? Continued . . .

- Reduces the number of funds identified to be consistent with current accounting practices.
- Adopts current federal law requirements for public pension plans into state law.
- Establishes a maximum of five years over which equal annual payments for purchase of eligible credit may be made.
- Creates a separate account for the payment of retiree health benefits as required by federal law to prevent the mingling of retirement and health funds.
- Defines how the average final compensation will be calculated at retirement when members transfer a membership from one system to another.
- Establishes guidelines for the payment of benefits under and over $1,000 after an active member death or a retiree death in absence of a designated beneficiary.

Four Key Estate Planning Documents Identified at Seminar

Most people are not eager to think about end-of-life decisions. However, Barre Attorney Michael Caccavo tries to stick to the "basics" when discussing estate planning documents, making it easier to consider such issues.

"When I say everyone, I mean EVERY person over age 18 and able to sign a document should consider completing four basic life and estate planning documents," said Caccavo.

Caccavo recently discussed these documents with a group of more than 30 state employees as part of a Pre-Retirement Issues session conducted by personnel from the Retirement Division of the State Treasurer's Office. The all-day session covered a variety of topics including deferred compensation plans, the future of Social Security, and how Vermont's retirement system works.

The four essential estate planning documents listed by Caccavo were a will, a durable power of attorney, an advance health care directive, and a HIPAA release.

"I am seeing less reliance on wills as people take advantage of passing on their property through death and beneficiary designations now built-in to many financial products, such as life insurance and individual retirement accounts," explained Caccavo. "However, for property that does not have such designations, a will allows you to clearly indicate what you would like to have happen with your property after death."

A will only disposes of property that goes into a Probate Estate and not property owned jointly or with named beneficiaries. It does require a proceeding in Probate Court.

A durable power of attorney allows you to name someone as your agent to make business-related decisions for you. Caccavo said it's helpful for disability planning and as an alternative to a guardianship.

An advance health care directive allows you to appoint someone to make medical decisions for you when you can't make them yourself. It also can specify burial and funeral arrangements and replaces what used to be called a "Living Will."

"I am seeing less reliance on wills as people take advantage of passing on their property through death and beneficiary designations now built-in to many financial products."

-- Michael Caccavo, Counselor At Law

Finally, Caccavo recommended people fill out a HIPAA release. The release authorizes the hospital, doctor, and any other medical professional to share personal medical information and discuss your condition with those you specify in the document. He said this is particularly useful if you're not able to sign a release when admitted to a hospital. With the release in-hand, your family and other designated individuals would be able to legally receive information on your medical condition.

EDITOR NOTE: The Retirement Division asks a wide variety of speakers to present at their sessions, but does not endorse one representative over another. Please consult the attorney of your choice for estate planning questions.

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