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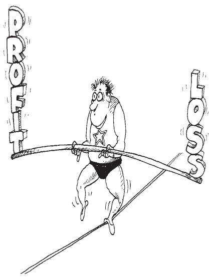

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VERMONT

Vermont State Employees' Retirement System

July 2008

Retiring TIMES

Volume 8, Issue 1

Full COLA Protects Buying Power of Future Retirees

Cost-of-living increase takes effect in 2014

It was years in the making, but according to many State employees, gaining a full cost-of-living increase in retirement was well worth the wait. Act 116 implements a cost-of-living adjustment equal to the full Consumer Price Index on pension benefits effective January 1, 2014. Previously, when State employees within the group F pension category retired, they only received a one-half COLA increase in their pension checks each year.

"We heard from State employees that they were concerned their pension checks would not keep up with the cost-of-living," said Cynthia Webster, Director of Retirement Policy and Outreach for the State Treasurer's Office. "The challenge for committee members working on revising a previous bill on this issue was to identify a fair and affordable means to fund a full COLA. By phasing in the full COLA, raising employee contributions and allowing those contributions to build up before they are disbursed, and adjusting benefits for new employees, we were able to forge a workable proposal."

Act 116 brings about significant changes in a way that protects the quality of the defined benefit plan for employees and is economically sustainable.

(continued pg. 2)

State Employees Comment Positively on Receiving Full COLA

State Employees who attended an April 16 public hearing held by the House Government Operations Committee overwhelmingly supported the full COLA proposal in Act 116. Approximately 70 people attended the hearing. Several comments from the floor referenced a previous bill that some felt placed an unfair financial burden on younger members to support a full COLA for older members. However, the overwhelming majority of employees who spoke at the hearing supported the restructured funding of the COLA, which kept the increase in contributions below 2 percent and phased-in the COLA. Here's a sampling of some of the remarks.

Herb Conly

"When I was a young State employee, retirement was far from my mind. I always thought there would be time in the future to plan for that. We are very fortunate that the system mandates membership in the retirement plan. I knew that when I started paying in, a portion of my contributions would support those who had retired. The young employees of today will very much appreciate a full COLA when they retire."

-- Herb Conly, Chief Environmental Enforcement Officer, ANR

"Of the phone calls I received prior to this hearing, two-thirds were from people who mistakenly believed we were still working with the first version of the bill. Once I explained to them the revised bill, they were in favor of it. It was difficult to come to a consensus on H.403 and we all breathed a collective sign of relief when it was done."

-- Ken Atkins, Vice Chairman, House Government Operations Committee

(continued pg. 2)

(Act 116 Story, Continued)

The annual maximum percentage increase for the COLA on pension checks remains capped at 5 percent, unchanged from what was previously in place. To be eligible for the full COLA, an individual must be actively working for the State and belong to group F as of June 30, 2008. Anyone who left State service, transferred to another group plan, or retired from the State prior to June 30 is not eligible for the increase. New employees are eligible for the full COLA.

In addition to maintaining the buying power of group F retirement benefits, Act 116 also doubled the life insurance benefit for retirees.

"This bill was the product of a lengthy process that encompassed two legislative sessions and public hearings," said State Treasurer Jeb Spaulding. "Act 116 brings about significant changes, but it does so in a way that will protect the quality of the defined benefit plan for employees and ensures the system is economically sustainable in the future."

Employee contributions will increase to fund the COLA. Starting July 1, 2008, employees will see a 1.75 percent increase in their contribution for retirement. That will make the total group F employee contribution rate for retirement 5.1 percent. That contribution level will be maintained through June 30, 2019, and will then drop to 4.85 percent thereafter.

"Another change current employees will notice is that the cost to purchase service credit will be going up," said Webster. "We will update the factors considered in determining the value of service credit, survivorship options, and level income considerations to reflect the increased worth of the retirement benefit due to having a full COLA applied."

In addition to maintaining the buying power of Group F retirement benefits, Act 116 also doubled the life insurance benefit for retirees from $5,000 to $10,000. No changes were made to the medical benefits for existing employees. Employees who are active group F members prior to June 30, will still be able to carry the State's group medical coverage at the time of retirement, provided they are covered immediately prior to retiring. The State will continue to pay 80 percent of the premium cost, with the retiring employee paying the remaining 20 percent.

New employees—individuals hired after July 1, 2008—will experience the greatest change in retirement benefits. The normal retirement age was raised for new employees from 62 to 65. They also may achieve full retirement benefits through the "rule of 87"— where a combination of their age and service years equals 87. Regarding credit for years worked, new employees now have the option of increasing their pension benefit by working beyond 30 years. While the maximum pension benefit for current employees is 50 percent of their Average Final Compensation, new employees may earn enough service credit to receive 60 percent of AFC. Early retirement reductions also were revised. Instead of the single reduction rate that now applies to existing members, reductions for early retirement will be scaled so that the reductions that are applied grow smaller based on an employee's increasing number of years of service.

What does the change in COLA mean to you?

To calculate how your increased contributions translate into dollars in your pension check over your retirement years, go to:

www.VermontTreasurer.gov
click on "COLA Calculator"

Act 116 also makes changes in health insurance coverage for new employees. A tiered retiree health care reimbursement scale is now in place. A new employee must work for the State at least 20 years to be eligible for the State to pay 80 percent of the health care premium. However, once a new employee reaches 20 years of service, the individual is eligible for medical insurance coverage in retirement whether or not there is a break in that coverage between leaving State employment and drawing retirement benefits. Employees working 15 to 20 years are eligible for a 60 percent State reimbursement and those working 10 to 14 years are eligible for the State to pay 40 percent of the premium cost. Employees working 5 to 9 years for the State have the option of retaining the State's group coverage, but they must pay the entire cost of the insurance premium.

A bill proposing a full COLA was first introduced in the State Legislature during the 2007 session. After receiving testimony and feedback on the initial proposal, the House Government Operations Committee formed a Retirement Plan Study Committee that began meeting last summer to redraft the bill known as H.403. The study committee submitted its recommendations to the General Assembly at the start of the 2008 session. Act 116 was signed into law by the Governor on May 5.

(Employees Comment on COLA, Continued)

"The committees that have revised H.403 have done an excellent job and produced a bill that is fair for all employees, regardless of age. Unlike the $160 billion federal stimulus bill, our grandchildren will not have to pay for this bill."

– John Guilmette, Senior Facilities Engineer, DEC

"I'd like to thank everyone for their hard work and support of this bill. It is hard to design a benefit plan that does the greatest good for the greatest number, but this bill does that."

– Jeff Briggs, Forester II & VSEA Legislative Committee Chair

"With only half a COLA, each year retired State employees fall economically further behind inflation. It's essential to have a full COLA in order to have some kind of financial security."

– Terry Lefebvre, Financial Resources Coordinator, State Health Dept.

Terry Lefebvre

Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach

Our office receives numerous calls each year inquiring about what is considered earnable compensation for retirement purposes and how Average Final Compensation is calculated at retirement. I would like to take this opportunity to clarify both issues for our members.

3 V.S.A. § 455(8) defines Earnable Compensation as "the full rate of compensation that would be payable to an employee if the employee worked the full normal working time for the employee's position." This definition is interpreted to mean that all compensation that is earned by an employee relating to his or her position including, but not limited to, overtime and additional compensation for being on-call, is reportable for retirement purposes.

3 V.S.A. § 455 (4) defines Average Final Compensation (AFC) according to each group plan. For example, AFC for group A and F members is defined as "the average annual earnable compensation of a member during the three consecutive fiscal years beginning July 1 and ending June 30 of creditable service affording the highest average, or during all of the years of creditable service if fewer than three years." For group C members, AFC is defined as "the average annual earnable compensation of a member during the two consecutive fiscal years beginning July 1 and ending June 30 of creditable service affording the highest such average, or during all of the years in the member's creditable service if fewer than two years." For groups A, F, and C members, the statute provides further guidance on how the AFC is calculated if a member retires within a fiscal year as opposed to the end of the fiscal year. The statute does not define AFC for group D members because the benefit for group D members is based on their final salary at retirement.

It is important to note that the statutory definition of AFC for groups A and C members includes additional recognition for one-half of the member's unused sick leave balance as a replacement for a comparable period of the lowest salary used in calculation of the AFC. The AFC definition also states, "for purposes of determining average final compensation for group F members, unused annual or sick leave, termination bonuses and any other compensation for service not actually performed shall be excluded." If you have questions relating to either of the above definitions and how they might impact you, please contact a retirement specialist at 1-800-642-3191.

DEFERRED COMPENSATION PLAN NEWS

Socially Responsible Options

As a state employee, *you have the opportunity to regularly put money away for retirement through the Vermont 457 Deferred Compensation Plan. Since the money invested in the plan is deducted before your taxable income is calculated, you are reducing your taxable income while increasing your retirement savings. The plan is managed for the State by Great-West Retirement Services.*

Among the investment options you may choose from are an expanded menu of socially responsible funds. In general, such funds invest in companies that operate ethically, provide social benefits, and are sensitive to the environment. A popular focus for such funds recently has been environmentally friendly or "green" companies and mutual funds, Sudan-free and Iran-free investments, and "terror-free" investments. Three socially conscious funds were added to the investment line-up last July. These funds were the Calvert Social Investment Bond A Fund, Vanguard FTSE Social Index Fund, and the Pax World Balanced Fund. If you're interested in learning more about socially responsible investing, the Internet can be a good resource. One web site to get you started is the Social Investment Forum at www.socialinvest.org. This national nonprofit membership organization is dedicated to the concept of socially responsible investing. For more information, call the local Vermont office of Great-West at 1-800-457-1028 and press option 2, or visit the plan's web site at www.vermont457.com.

Your Questions:
From the Retirement Book

Creditable Service, commonly referred to as Service Credit—what is it and how is it calculated? 3 V.S.A. § (6) defines Creditable Service as "service for which credit is allowed under section 458 of this title." If you go to Section 458, there are many kinds of service credit allowed, including service earned while a member of the system, various types of purchased service, granted service, restored service, or service rendered under a predecessor system. A member's total Creditable Service at retirement is an important component in the defined benefit formula that determines what the monthly pension allowance will be. The more years of Creditable Service a member has, the higher the retirement benefit will be until he or she reaches the maximum benefit under each applicable group plan.

The VSERS board is charged with determining how much service in any year is equal to one year of Creditable Service, but in no case will more than one year of service be creditable for all service in one calendar year. The current formula uses pay periods to calculate a year of Creditable Service. Each pay period results in 1/26 of a year of Creditable Service. If a member receives payment during each pay period throughout the year, a full year of service credit will be posted to his or her account, regardless of how many hours were actually worked during the pay period. Consequently, if a member works less than 40 hours per week on a regular or sporadic basis, he or she still receives a full year of credit providing a payment is received in each of the 26 pay periods. If a member does not receive a payment during one or more pay periods, the service credit will be pro-rated as a result.

UPDATES FROM THE RETIREMENT DIVISION: *Bill Changes & Benefits Reminder*

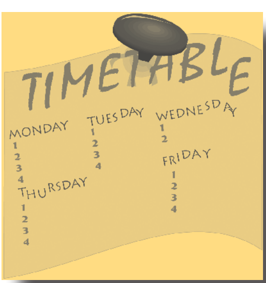
Team of the Year Named for Treasurer's Office

Monica Chiren (lower left) and Cheryl Taylor are recognized for their work at the May 5 annual State's Employee Recognition Luncheon. Joining them are Retirement Operations Director Michael Clasen (left) and Treasurer Jeb Spaulding.

Retirement Operations Customer Service Technicians Monica Chiren and Cheryl Taylor were named the Team of the Year for the Office of the State Treasurer. The recognition was part of the State's annual Public Service Recognition Week observance. "As the primary front-line service representatives for the Retirement Division, Cheryl and Monica excel at providing excellent and thorough customer service," said State Treasurer Jeb Spaulding. When you call in with a retirement question, join us in congratulating them for their good work!

Don't Miss These Upcoming Workshops!

The State Treasurer's Office offers two educational workshops to help Vermonters prepare for retirement. Our *Retirement Issues* seminar is an all-day workshop for retirement system members planning to retire within the next 10 years. We address financial planning, taxes, legal affairs, Social Security and employee retirement benefits. Upcoming workshops are planned for Sept. 10, Oct. 9, Nov. 19, and Dec. 11 at the Summit Center in Waterbury. Call 241-1114 to register. New this fall is *Keeping the Gold in Your Golden Years*. This free 90-minute community workshop teaches you how to get your personal finances on track to cover future retirement expenses. Call 828-3706 for more information. Also, the Retirement Division is pleased to speak to employee groups on requested topics. To request a topic, call 828-2302.



Update on Act 146 and Act 137

Act 146, formerly H.402, contained the following amendments to the Vermont State Retirement System:

- Allows County Sheriffs in the group F plan, with less than 30 years of State service, to retire at age 55 with no early retirement reduction;
- Allows exempt employees who elect to participate in the alternative defined contribution plan to carry medical coverage into retirement if they become disabled;
- Includes full-time members of the Capitol Police Force in group C with all other law enforcement employees; and
- Allows a one-year window for existing full-time members of the Capitol Police Force to elect to remain in the group F plan or move to the group C plan effective July 1, 2009.

Act 137, formerly H.883, provides for numerous technical corrections to the three public retirement systems in Vermont. These corrections include:

- Amends the definition of "actuarial equivalent" to remove reference to regular interest, and replaces it with a reference to the actuarial assumption for the rate of return on investments of the plan assets;
- Amends the language for transfer between systems to require actual employer contributions to be transferred to the new system, and to calculate the benefits according to the plan(s) under which they were earned; and
- Changes the eligibility for a death-in-service survivorship benefit from 20 years of service to 10 years of service. This monthly pension allowance is typically payable to a designated dependent spouse of a member whose death occurs while still actively employed by the State of Vermont.

A Timely Reminder on Benefits

Retirement benefits from the system do not start automatically. You must contact the Retirement Division in the State Treasurer's Office to complete needed paperwork before any benefits will begin. Also, unlike Social Security, your retirement benefits do not increase after *normal* retirement age if you are no longer working. The normal retirement age is typically age 62. In fact, if you terminate employment, and are beyond normal retirement age, you will lose money if you postpone the application process. Members nearing retirement may be interested in more detailed information regarding benefits, including optional forms of retirement benefits or early retirement options. The retirement office is happy to complete personal retirement estimates for you. Contact us at 1-800-642-3191 to schedule an appointment.

State Pensions a Boost to Vermont's Economy

The Vermont State Employees' Retirement System paid out more than $5.5 million in pension payments in May of this year. Those payments went to 4,532 State retirees and their surviving beneficiaries, the majority living in Vermont. Approximately $4.3 million was received by 3,669 Vermont residents. Projecting the monthly May pension disbursement over a 12-month period results in more than $51.7 million of income flowing into Vermont's economy each year.

Balancing Pension Portfolios in a Volatile Market

Long-term Perspective Guides Pension Asset Investments

by Jeb Spaulding, Vermont State Treasurer

"Volatile" and "roller-coaster ride" are both terms used a lot these days to describe the performance of financial markets. With more than $3 billion in combined assets within Vermont's three statutorily defined pension plans, the Vermont Pension Investment Committee and the Office of the State Treasurer have definitely been monitoring the markets and the impact such volatility is having on our investments. The sub-prime mortgage loan crisis, followed by a tightening of available credit and higher corporate interest rates, and rising energy prices have fueled the rapidly changing market prices. Despite such volatility, the long-term investment goals for Vermont's pension assets will allow us to safely weather such challenges.

Vermont's pension funds are invested in a diverse portfolio that includes stocks, bonds, and real estate securities. In the past decade, the Vermont Retirement Systems have added or increased commitments to global bonds, small company stocks, and high-yield debt. Recently, the Vermont Pension Investment Committee (VPIC) made a greater commitment to emerging market international stock portfolios to allow us to take advantage of this rapidly growing sector. This type of balanced portfolio reduces investment risk while increasing assets to cover the costs of the pension system.

The consolidated fund assets for the State Employees' Retirement System, State Teachers' Retirement System, and the Municipal Employees' Retirement System are administered by the VPIC. As State Treasurer, I serve on that committee. The VPIC has concurrent goals of both capital preservation, or safety, and return on investment. Investment decisions are carefully weighed against these goals. This approach to investment has helped the VPIC minimize losses such as those you may have read about recently related to the sub-prime mortgage loan crisis. While not immune from the impact the sub-prime credit crisis is having on the overall market, VPIC portfolios are largely composed of types of investments that have fared well in a volatile financial environment.

Nationwide, the 10-year domestic public pension fund median return on investment is 6.1 percent. The long-term weighted average performance of Vermont's combined retirement systems investments over the last ten years has exceeded that level. In the short term, the volatile market is impacting our rate of return. While our investment performance is currently below the acturial targeted return rate of 8.25 percent, the VPIC believes the current asset allocations in our portfolio will generate the required actuarial returns over the long term.

As we look at the impacts of the current market volatility, our pension investments track with our 10-year performance record.

The VPIC is staying with its long-term investment strategy. In keeping with that strategy, the VPIC has a policy of rebalancing the target asset allocation percents on a semi-annual basis. That means we look at the holding values of our different asset classes and add and subtract from each asset class as it falls or rises above targeted levels.

Historical downturns in the market are well documented. However, also well documented are the upturns in the market. Periodic downturns in investment marketplaces are an inevitable component of any investment program that seeks higher levels of total return over a long period of time. Vermont's pension fund assets are invested for the long term, consistent with the long-term obligations to pension fund participants. *Your pension benefit is contractually guaranteed to you through the retirement systems, whether the pension asset investments that support the systems are returning a high or low rate of return.* Each year the combined pension funds pay more than $140 million in benefits. The Vermont retirement systems are intended to function productively over many lifetimes. I am confident the current market volatility will, in time, become historically just one more challenge that the system vigilantly worked through to successfully manage the pension portfolios through change.

For more on the investment work by the State Treasurer's Office, go to www.VermontTreasurer.gov and consult the most recent annual report.

109 State Street, 4th Floor, Montpelier, Vermont 05609-6901, (802) 828-2305 or (800) 642-3191 (in-state) *Retiring Times* is published twice yearly by the Vermont State Employees' Retirement System. Editor: **Lisa Helme**

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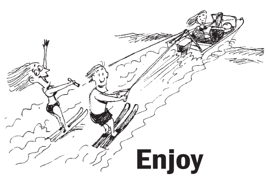
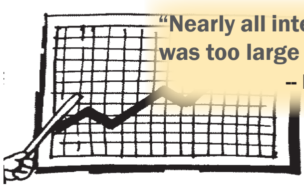


Enjoy your summer!

Legislature Approves Streamlined Pension Investment Committee



> **"Nearly all interviewees felt the current 17 person board was too large for effective investment decision-making.**
> **-- From VPIC: Effectiveness & Governance Report**

The Vermont Pension Investment Committee, responsible for investing the more than $3 billion in assets for the three state-level retirement systems, is being reduced in size from 17 to six. The change, approved by the State Legislature and the Governor in the recently concluded legislative session, is aimed at enhancing the investment decision-making process for the committee.

Act 100 redefines the membership of VPIC to six voting members and four alternates. The active and retired employee members of the Vermont State Employees' Retirement System and Vermont State Teachers' Retirement System boards of trustees each appoint one member and one alternate. The employee and municipal official members of the board of the Vermont Municipal Employees' Retirement System appoint one member and one alternate. In addition, two members and one alternate are appointed to the VPIC by the Governor. The sixth member is the State Treasurer or designee. In considering appointments, the legislation directs that the experience and knowledge of potential appointees be considered in light of the purposes of the committee. The members serve staggered four-year terms with no term limits.

"When the original VPIC was created by the Legislature in 2005, there was considerable controversy about the appropriate membership composition. In the end, it was decided to include all of the trustees from each retirement board on the committee," said State Treasurer Jeb Spaulding. "However, we found that such a large committee, 17 members, posed challenges with continuity in attendance and in timely decision-making. The smaller size will allow for board representation and diversity of membership, yet meet the need for more dynamic governance."

In accordance with the original VPIC enabling legislation, an independent consultant evaluated the effectiveness of the committee and submitted a report to the Vermont General Assembly in January. Among the report conclusions was the recommendation that the VPIC be reduced to a more manageable size of six to nine voting members. The report further recommended that financial expertise be explicitly included in the nomination, assessment, and appointment process. Consultants from Oxford University submitted the report.

Act 100 went into effect July 1. Individuals appointed to the committee are: Stephen Rauh, VMERS voting member; Steven Jeffrey, VMERS alternate; Jay Kaplan, VSTRS voting member; Joseph Mackey, VSTRS alternate; Richard Johannesen, Governor's appointee; Michael K. Smith, Governor's appointee; and Jeb Spaulding, State Treasurer. As of publication date, the VSERS board had yet to elect a voting member and alternate to the VPIC.

The reorganized VPIC will continue its original mission of making decisions that strive to maximize the total return on investments within acceptable levels of risk for public retirement systems. Such decisions are directed to be made in accordance with the standards of care established by the State's prudent investor rule, 9 V.S.A. § 4651.