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# Retiring TIMES

Winter 2013

Vermont State Teachers' Retirement System


## Is Your Home Ready for Retirement?

***Drawing up a schedule of repairs and home updates before you retire may allow you to pay for "fixes" before your income becomes fixed!***

# AGING IN PLACE

### Whether helping your parents or yourself, the best time to renovate is before retirement

**Renovate or relocate?** This question is best answered before you retire, where a steady income will help you pay for any needed home updates and repairs. According to a 2013 report released by the Joint Center for Housing Studies of Harvard University, the remodeling industry is pulling out of its economic downturn as the nation's housing stock is renewed. Older homeowners are numbered among those tackling renovations, as they retrofit their homes to accommodate their evolving needs.

**To age-in-place, you will probably need to modify your house to increase access and safety.**

"As baby boomers move into retirement, they are increasing the demand for aging-in-place retrofits," said Kermit Baker, director of Harvard's Remodeling Futures Program. "A decade ago, homeowners over 55 accounted for less than one third of all home improvement spending. By 2011, this share had already grown to over 45 percent."

The National Association of Home Builders recommends homeowners consider these questions when addressing retirement housing options.

- **How long do you plan to live in your current home?** Your answer will help you decide whether you should replace your appliances now; do more than just fix the leak in your roof; or upgrade your bathroom fixtures.

- **How should you modify your home to make it more comfortable?** To age-in-place, you should consider access and safety issues that might arise as you mature. Modifications may mean simply adding bathroom grab bars or more expensive renovations like creating a first-floor bedroom.

- **What are the most immediate improvements your home needs?** You may have a hot water heater that is near the end of its life expectancy or high fuel bills may mean you should consider adding insulation.

(continued pg. 4)

## Take the Home Parts Longevity Quiz!

**(1) Of the major appliances in a home, which has the longest life expectancy?**

A. Refrigerator B. Gas Range C. Microwave

**(2) Kitchen cabinets are expected to last . . .**

A. A lifetime B. 10 years C. 50 years

**(3) Which of the following types of flooring, on average, lasts between eight and 10 years?**

A. Carpet B. Vinyl C. Linoleum

**(4) Which type of water heater lasts the longest?**

A. Tankless B. Electric or Gas

**(5) What type of roof has the shortest life expectancy?**

A. Wood Shakes B. Asphalt Shingles C. Copper

**Answers on page 3.** Source: National Association of Homebuilders, "Study of Life Expectancy of Home Components," 2007.

# Constructive Engagement

## Investors are Entitled to a Seat at the Table

by Beth Pearce, Vermont State Treasurer

**Active and retired members** of the municipal, State and teachers' pension systems work hard to earn their retirement benefits. As your State Treasurer, one of my duties is to match your commitment by maximizing the return on State pension investments. Some have asked how the State meets its investment targets while ensuring our partners live up to the Vermont values of corporate and social responsibility. We accomplish these goals through constructive engagement – using our investment relationships to promote Vermont values.

Investors are entitled to a seat at the table of corporate governance. This is true of individuals and institutions alike. From the State's perspective, our ability to engage with our investment partners is an important tool to direct larger issues of corporate responsibility. One of the ways Vermont communicates its values to companies it invests in is by casting proxy votes. Proxy voting is a form of corporate governance in which shareholders weigh in on matters affecting their investments. The outcome of the voting process informs corporate decisions through resolutions and directives designed to bring action.

The Vermont Pension Investment Committee (VPIC), on which I serve as a member, is governed by a proxy policy covering a broad range of topics. These guidelines are updated periodically to reflect the State's goals and values. In 2013 I voted with the VPIC board to strengthen our commitment to corporate accountability, updating our investment guidelines in important areas such as disclosure of environmental practices, risks and liabilities, reduction of greenhouse gas emissions and pollution, alternatives to hydraulic fracturing, and investments in green and sustainable energy technologies.

The environmental guidance provided to Vermont pension fund managers is complemented by a long record of Treasurer-led initiatives to engage fossil fuel and energy companies to adopt sustainable business strategies. In 2003 the State Treasurer's Office joined the Ceres' Investor Network on Climate Risk (INCR) to grow awareness of business models and their environmental impacts. This was followed in September 2013 when, in my capacity as State Treasurer, I joined with the VPIC board to sign onto Ceres' Carbon Asset Risk Campaign, an initiative to encourage oil/gas, coal, and utility companies to conduct risk assessments of fossil fuel extraction and its long-term implications.

**The success of constructive engagement initiatives is evidenced in a number of successful initiatives undertaken by Ceres shareholders.**

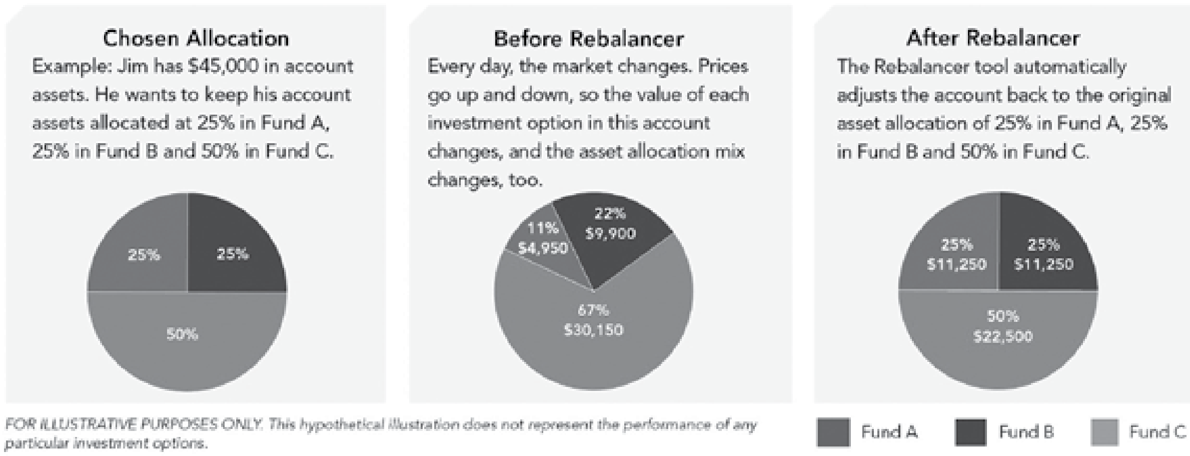
Vermont's partnership with Ceres has shown real results. In addition to generating widespread media attention in local, national and international markets, Ceres' shareholder actions have advanced proactive environmental positions that reflect the Vermont values of sustainability, responsible corporate decision making, and clean energy alternatives. The success of INCR and other constructive engagement initiatives is evidenced in the number of successful initiatives Ceres' shareholders undertook from 2008-2010: according to independent research, companies adopted Ceres' shareholder recommendations with a 65 percent rate of complete compliance; 80 percent complied in part.

Vermont's ability to engage with national and global businesses is an important extension of our shared commitment to a sustainable future. Indeed, by working together to make VPIC's policies reflective of Vermont values, we have balanced our obligation to maximize returns on investments and advanced the State's environmental goals at the national and global levels. We are able to do so regardless of the fact that the assets held by Vermont are relatively small when compared to larger states. Limitations of scale are reduced when we partner with other engaged shareholders.

As the State's fiduciary, I strive to maximize value in areas that benefit active and retired employees whenever possible. But it is important to note that all Vermonters gain additional value when we use our pension assets to influence responsible environmental and corporate practices. Constructive engagement doesn't just work for you – it works for all Vermonters.

# What is a rebalancer?

A rebalancer is a tool available to participants of the State of Vermont 457 and 403(b) deferred compensation plans. It is located on the Great-West plan web site and allows investors to maintain the asset allocation they've chosen to meet their long-term objectives--automatically and at a frequency they select. Graphic below provided by Great-West.




**(Investment Tools Continued pg. 6)**

decided to place half of his money in a lower risk stable value fund and half in a high risk aggressive fund. Jim thought his investment was diversified since gains in the lower risk fund would hopefully counter any losses he experienced from investments in the aggressive fund. Over time, all of Jim's investments grew in value. However, his portfolio was no longer equally divided between low and high risk options. The aggressive fund grew more rapidly than expected—good news, except that now more of his retirement savings were exposed to a higher investment risk. As he nears retirement, Jim needs to protect more of his investment from potential loss because he will have less time to recover from a drop in his portfolio. Jim needs to rebalance his account.

Great-West provides investors with an on-line rebalancer tool through the plan's web site. The tool allows individuals to maintain a chosen asset allocation automatically and at a set frequency. Above is an illustration of how it works.

Another investment option offered by Great-West is to have individual investments managed through a Target Date Fund. Target Date Funds are mutual funds that invest with a particular withdrawal date in mind. It represents an approximate date when an investor would expect to start withdrawing his or her money or expects to retire, usually at age 65. Money in Target Date Funds are automatically diversified. The investment mix is also shifted from riskier higher yielding investments when someone is younger, to more conservative lower return options as an investor nears retirement.

Great-West retirement representatives are paid by salary and not commission. All fees are negotiated on behalf of the Vermont State Retirement System members by the Treasurer's office. For questions on your existing 457 or 403(b) accounts or to schedule an appointment, call 1 (800) 457-1028. Visit the Great-West web sites at www.vermont457.com or www.vstrs403b.com.

# NEWS... FROM THE RETIREMENT DIVISION

## COLA INCREASES EFFECTIVE JANUARY 1

Based on the Northeast Region Consumer Price Index for all urban consumers as of June 30, 2013, the cost-of-living adjustment (COLA) that will be applied to pension payment on January 1, 2014 are as follows: Group A, 1.5 percent increase; Groups B and C, 1 percent increase. In order to qualify for a COLA, you must have received at least 12 pension checks prior to January 1. Group C members who retired under an early retirement also must have reached age 62 prior to January 1.

## TEACHER FISCAL YEAR 2014 EARNING CAP

Retired VSTRS members may generally earn other income without restrictions while receiving a retirement benefit. However, if a member retires and returns to work as a teacher or an administrator, the retiree can earn no more than 60 percent of the current average teacher's salary. Any retiree earning more than 60 percent will have their benefit "frozen" and will be required to return any pension payments made to them by the retirement system in that fiscal year. The average teacher's salary for fiscal year 2013 is $54,969.75. Sixty percent of this figure, rounded to the nearest $100, is $33,000. This means that a retiree can work as a teacher in a school that is under VSTRS and earn up to $33,000 for fiscal year 2014 without losing any monthly pension benefit.

**(ANSWER KEY TO PAGE 1 QUIZ: B; C; A; A; B)**

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# Director's Corner

**by Laurie Lanphear, Director of Retirement Operations**

The State Treasurer's Office, in conjunction with the Vermont NEA, has been working with the Vermont Education Health Initiative (VEHI) toward the goal of utilizing a new program to reduce costs and save money on prescription drug benefits for Medicare-eligible retirees. The program, called an Employer Group Waiver Plan (EGWP), is a Medicare Part D prescription drug plan. Employers, in this case VEHI, partner with a Pharmacy Benefit Manager that has contracted directly with Medicare to be a Part D provider. This plan differs from a pure Medicare Part D plan in that it is not open to individuals, but is rather a specific plan only available to employers. The value of participating in an EGWP is that it is a well-positioned solution to help employers keep costs down and offer valuable retiree benefits.

The good news is that the above organizations have been successful in realizing their goal and the EGWP plan will become an integral part of the prescription drug coverage offered under the available medical plans for Medicare-eligible subscribers effective January 1, 2014. A "wrap" was included with the move to EGWP, which guarantees that the level of benefits will be identical to that previously offered without the EGWP. This change will be seamless and invisible to impacted subscribers, as the real work goes on behind the scenes. Discounts on prescriptions are negotiated at the pharmacy level, potentially resulting in significant additional annual savings for each covered member. The expectation is that this move will help stabilize the rising costs of prescription drugs. In summary, if you are Medicare-eligible and are covered through one of the Blue Cross/Blue Shield plans purchased through VEHI that offer prescription drug coverage, *you do not need to do anything to be covered under EGWP after January 1, nor should you experience any change in your current level of coverage.*

## (Aging-in-Place Continued pg. 1)

Home updates aren't limited just to those contemplating their own retirement. People in their 40s and 50s are looking for affordable housing options for their aging parents. Gene Hathaway is the President of the Homebuilders and Remodelers Association of Southern Vermont. He's operated Hathaway Construction for 26 years. He's recently worked with families who want to add an in-law apartment to their home to allow their parents to live with them.

"We've worked on projects where we have upgraded the bathroom to make it handicap accessible, including adding a taller, comfort-height toilet," said Hathaway. "In general, people are also looking at upgrading their heating systems to make them more efficient, including redoing their insulation and putting in newer windows."

The Harvard report notes that spending on energy-efficiency upgrades has continued to expand. The share of total market spending on energy-related projects rose sharply from 23 percent in 2007 to 33 percent in 2011. Approximately 25 percent of households undertaking home improvement projects in 2011 did so for energy efficiency purposes.

In Vermont, there are new financing options available for homeowners wanting to make energy efficient upgrades. During the last legislative session, State lawmakers established the Vermont Clean Energy Loan Fund to provide financing and encourage investment in sustainable energy, including home energy efficiencies. The new financing law authorized the Vermont Economic Development Authority to borrow up to $10 million from the State Treasury to establish two new commercial sector loan programs and up to $6.5 million to offer new residential energy efficiency loans, including a loan program through NeighborWorks of Western Vermont.

"The Treasurer's office partnered with the Governor, legislators, VEDA, and our Local Investment Working Group to create a cost-effective pathway to finance clean energy and energy efficiency projects at no risk to the taxpayer," said State Treasurer Beth Pearce.

Alan and Susan Shashok of Middlebury were the first to take advantage of the new residential energy efficiency loan. They borrowed money to weatherize and insulate their home and install solar panels. While they are not nearing retirement, the Shashoks believe the change will make their home more marketable in the future when they may want to sell it.

"The loan program made it affordable to us," explained Susan. "On a tight budget, it allows us to still be energy forward thinking."

When Hathaway considers the updates Vermonters should consider first when preparing for retirement, he recommends homeowners complete an energy audit.

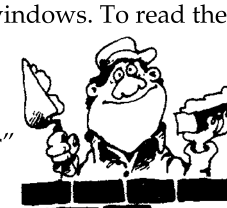
"An energy audit will give homeowners good information on what work specifically needs to be done on their home. By tightening up your home, you'll be more comfortable and save money on energy costs," said Hathaway.

**NeighborWorks of Western Vermont *is managing the residential energy efficiency loan application process.* To learn more about the energy loan, go to: heatsquad.org/affordable-financing or call toll free 1 (877) 205-1147.**

**The loan is available to Vermonters statewide.**

Besides checking your roof and siding, Hathaway also recommends people take stock of the large trees on their property. Not only do trees pose a hazard to a home's roof, if a tree sickens and has to be removed, it can be a costly project for the homeowner.

The National Association of Home Builders released a study in 2007 on the life expectancy of housing components. The findings are based on input from manufacturers, trade associations and researchers. The study provides information on 25 categories of home items, from appliances to windows. To read the study, go to www.nahb.org, click on the publications tab at the top of the page. A link to the study is located at the bottom of the page in the "Most Popular" box.



# Understand Your 1099-R

The tax statement for retirees that is generated and distributed in January is called a 1099-R. Every year, our office receives numerous questions regarding how to read the tax statement. This article is intended to assist retirees by explaining what each box on the 1099-R represents. The descriptions below only identify those boxes on the form that are used by the Vermont State Retirement System for reporting your pension to the IRS.

**BOX 1** Displays the gross amount of the pension you have received during calendar year 2013, before any deductions have been withheld.

**BOX 2a** Displays the taxable amount of the pension you have received during calendar year 2013. In some cases, boxes 1 and 2a reflect the same amount. If the amount in box 2a is smaller than the amount in box 1, it means that you made contributions into the retirement system while actively employed that you paid taxes on, and therefore, those same already-taxed contributions will not be taxed again in retirement.

**BOX 4** Displays the total amount that has been withheld for federal taxes, based on your filing status, during calendar year 2013. If the amount in box 4 is blank, then you have either elected not to withhold federal taxes, or your filing status results in a -0- withholding.

**BOX 5** Displays the portion of the total pension reflected in box 1 that is not taxable. If box 5 is blank, it means that your pension is fully taxable. NOTE – this box can be confusing as it appears to indicate that insurance premiums should be displayed here. Our system does not use this box for insurance premiums, nor is it a deduction of any kind.

**BOX 7** Displays the IRS code for a pension distribution.

**BOX 12** Displays the total amount that has been withheld for Vermont State taxes, based on your filing status, during calendar year 2013. If the amount in box 12 is blank, then you have either elected not to withhold Vermont taxes, or your filing status results in a -0- withholding.

**BOX 13** Displays the state to which the withholding was paid and the payer's federal identification number.

**ACCOUNT NUMBER** Displays your unique retirement system retirement number.

## Retiree Update

| | JAN | FEB | MAR | APRIL | MAY | JUNE | JULY | AUG | SEPT | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | 12 | 16 | 6 | 8 | 10 | 10 | 361 | 34 | 13 | 11 | 6 | 11 |
| 2012 | 13 | 12 | 6 | 9 | 2 | 4 | 405 | 28 | 12 | 13 | 13 | 14 |
| 2011 | 8 | 5 | 11 | 10 | 11 | 6 | 409 | 13 | 10 | 7 | 10 | 2 |
| 2010 | 14 | 15 | 6 | 10 | 7 | 18 | 437 | 22 | 17 | 12 | 12 | 9 |
| 2009 | 24 | 14 | 6 | 4 | 8 | 7 | 247 | 16 | 18 | 11 | 6 | 8 |

# Work Group Formed on Health Care

***Recommendations Under Consideration for Legislative Action***

How best to address the funding of teacher retiree health care costs is the focus of a work group organized by State Treasurer Beth Pearce. The group began meeting in late November following a renewed call by Pearce for the State to identify a dedicated source of funding. The expense for retiree health care cost is projected to rise to $28 million in fiscal year 2015.

"We started by identifying the problem—the historic underfunding of teachers' healthcare and its effect on the pensions as a whole—and then opened a dialogue so all parties had a say in the decision making process," said Pearce.


In addition to bringing legislative leadership and administration officials to the table for discussion, work group participants include representatives from the Vermont NEA, the Vermont League of Cities and Towns, and the Vermont School Boards' and Superintendents' Associations. The State Treasurer's Office, Agency of Education, and the Vermont Legislative Joint Fiscal Office are providing technical assistance.

"The way we currently pay for retired teacher health care is extremely expensive," said Pearce. "Since we are paying for health care over decades and not on an annual basis, every dollar paid today in premiums will cost the taxpayer three dollars in the future."

The working group's recommendations are now under consideration in the legislature. Pearce is optimistic that action will be taken.

# Trustee Board Seeks Alternate Member

***Excellent Opportunity for Active Member to Get Involved***

The VSTRS Board of Trustees is seeking an active member to serve a 4-year term on the board as the Active Alternate Member Representative. A Trustee serves as a fiduciary of the system and is responsible for governance of its operations. The alternate representative will serve as a voting trustee in the absence of the Active Member Representative.

"It is rewarding to serve in a position that contributes to the smooth operations of the teachers' retirement system," said Board Chair Jon Harris. "The board members and Treasurer's office staff are great people to work with."


Active members interested in serving should send a letter to the board. In the letter, describe your qualifications and explain the reasons why you wish to serve as an Alternate Trustee. Address letters to: Vermont State Treasurer's Office, Retirement Division, VSTRS Executive Secretary of the Board, 109 State Street, Montpelier, Vermont 05601.

Alternates are expected to attend all VSTRS board business meetings. In-house meetings are typically held quarterly and conference calls are held monthly during the interim months. For more information, contact the teachers' retirement system at 1 (800) 642-3191 (within Vermont only) or (802) 828-1266.

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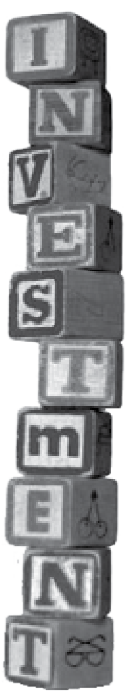
**NOTICE: For the third year in a row, dental premium rates remain unchanged in calendar year 2014!**

# Tools Available to Diversify Your Retirement Investments




**The old adage,** "don't put all of your eggs in one basket," is a foundational principle in retirement savings. Investors who keep their savings, or eggs, in only a few asset classes risk financial losses if their chosen investment products drop in value. By taking advantage of a diversified investment approach, investors can guard against losses as their retirement savings are placed in different areas that would each react differently to the same event.

For example, suppose someone had a portfolio of only airline stocks. If it is publicly announced that airline pilots are going on strike and all flights are canceled, share prices of airline stocks will drop. The investor would see a noticeable drop in the value of the portfolio. However, if the same investor also had funds invested in a national car rental chain, those investments would be protected from the airline crisis and the value would likely grow as more people rent vehicles to get to their desired destination.

Of the 6,559 individuals who have funds in the State of Vermont 457 deferred compensation plan, 77 percent manage their own investment choices. In the 403(b) State plan, approximately 30 percent of the 1,971 individual investors manage their own portfolios. The deferred compensation program has been available since 1979 as a savings option for State and municipal employees and for teachers who are a part of a supervisory union offering the 457 plan. The 403(b) plan was first offered to supervisory unions in 2009. Both plans are administered by Great-West Retirement Services.

"We encourage people to evaluate their investment choices at least once a year," said Great-West Retirement Plan Counselor Chip Sanville. "When someone first signs up and begins investing funds in the 457 and 403(b) plans they must decide where their money will be invested. Unfortunately, too many people don't revisit their initial investment decision and leave their money in only one mutual fund. They forgo the benefits of diversifying their investment."

**If a person doesn't rebalance their investments, earnings over time can greatly unbalance an investor's portfolio.**

While an individual's investment choices may not change over the years, investment earnings over that time can greatly unbalance that person's portfolio. For example, ten years ago "Jim" began saving through the 457 plan. He

(continued pg. 3)