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Summary 2014

Retiring TIMES

Vermont State Teachers' Retirement System

Do you have a retirement timetable? See our feature box for critical dates to keep in mind!

RETIREE HEALTH BENEFITS

New State Law Provides Long-Term Security for the System

A new state law, that provides a comprehensive financing plan for retired teachers' health benefits, went into effect in July. The law established a Retired Teachers' Health and Medical Benefit Fund dedicated to exclusively paying retired teacher health and medical benefits, including prescription drug benefits. Previously, teacher health benefit costs were paid from a pension fund sub-trust, with no explicit funding. Supporters of the law say providing a designated source for retiree health care funding is key to keeping both the pension system and retirees healthy.

"If we had not acted to implement a new financing plan, actuarial projections showed that a $20 million shortfall in teacher health benefits in 2015 would grow to a liability to the pension fund of more than $50 million in 2037. This is the result of just one year's underfunding," said State Treasurer Beth Pearce. "A shared concern for the long-term security of the system enabled us to persevere and come up with a proposal that begins to immediately address the funding shortfall."

Providing a designated source for retiree health care funding is key to keeping both the pension system and retirees healthy.

The law was the result of cooperative work between a variety of stakeholders including the State Treasurer's Office, legislative and administrative leaders, and the teachers' union. The creation of a dedicated fund and an infusion of more money will allow the State to pay retired teacher health care costs as they occur and not rely on borrowing from the pension fund to pay it.

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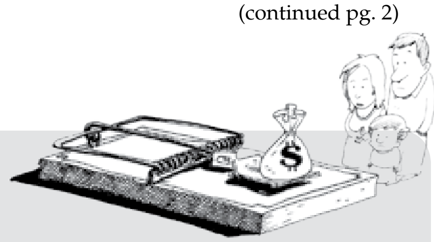
Pension Lending



Law Targets Predatory Financial Scams

A new pension lending regulation passed into law during the just concluded legislative session requires any lender offering a loan secured by a pension to be licensed with Vermont's Department of Financial Regulation. The bill, S.223, is the first of its kind to pass a state legislature in the nation.

"This law helps protect Vermonters from being exploited by companies that work to persuade pensioners to sign over the rights to some or all of their future monthly payments in return for a lump-sum amount," said State Treasurer Beth Pearce. "By regulating the practice, companies will be subject to the State's consumer protection laws
and can face fines up to $10,000 per violation for any unlicensed loans or solicitations."

According to the U.S. Securities and Exchange Commission there is a growing problem nationwide of people entering into such loans and being charged exorbitant interest and fees. The lump-sum amount that these companies offer is frequently significantly lower than the present value of that future income stream. Given the business model of these companies, it is unlikely such lenders can become licensed in Vermont. The State's strong consumer protection laws will subject

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Director's Corner

by Laurie Lanphear, Director of Retirement Operations

Statistics tell us that two-thirds (65 percent) of workers plan to work for pay in retirement, compared with just 27 percent of retirees who report they have actually worked for pay in retirement. Ninety percent of those who plan to work after retirement cite the primary reason is to stay active and involved, closely followed by a desire to have money to buy extras, and to make ends meet.

The good news is that employment with any employer except a public school or participating independent school in the State of Vermont has absolutely NO impact on continued receipt of your teachers' pension. You may even return to work in a public or independent school in any capacity other than as a teacher. The law allows a retired teacher to return to service as as teacher provided the total compensation received is not in excess of 60 percent of the average compensation for VSTRS members. For the 2013-14 school term, retirees could earn up to $33,000 in a teaching position and still continue to receive their retirement allowance.

If you are a retired teacher and earn in excess of the allowable earning in any fiscal year and you resume qualifying service, your monthly pension is impacted in several ways. First, your pension will be suspended at the beginning of the fiscal year in which you resumed service. If you do not exceed the allowable earning until later in the school year, your pension will be suspended retroactively to July 1. You must either return the total of benefits received during that fiscal year or your pension will be suspended for a period needed to reimbuse the system for the pension received during the fiscal year in which you resumed service.

Secondly, you will be enrolled as a contributory member of the VSTRS under a new membership effective July 1. Long-term, if you work for a minumum of five years after your new membership is established, you will be entitled to a second pension based on your total creditable service and highest three consecutive years of earnings when you once again terminate employment. If you work less than five years under the new membership you will receive a return of your contributions plus accumulated interest after separation from service.

When you terminate your post-retirement work within a school system, your suspended (original) pension will resume once again and, if eligible, you will receive regular cost-of-living adjustments. However, you will not be able to change your survivorship option or beneficiary on the first retirement. If your post-retirement work resulted in a second VSTRS membership, a retirement specialist will go over your options with you for the second account.

(Retiree Health Benefits Continued pg. 1)

"This approach allows us to avoid paying interest on the funds borrowed to pay for health care. If this law had not passed, actuarial figures indicate the State could potentially pay as much as $480 million in interest payments by 2038," explained Pearce.

The General Assembly intends future shortfalls to be covered through increases in general fund appropriations, increased contributions from non-vested Vermont teachers and newly hired teachers, increased contributions from school districts from federal grants funding teacher positions, and annual savings from the Employer Group Waiver Plan for retired teachers on Medicare. The following measures went into effect July 1, 2014:

- An appropriation of $10.35 million toward teacher health care, representing $3.1 million in new General Fund dollars;
- $2.5 million from the Supplemental Property Tax Relief Fund;
- The realization of an estimated annual savings of $4 million in Medicare retiree prescription drug costs resulting from the implementation last year of an Employer Group Waiver Plan; and
- A 1 percent increase in the contribution rate for non-vested teachers.

Under the new law, the contribution rate for teachers who are not vested as of this July will change from 5 percent to 6 percent of their salary. Teachers already vested in the system are not affected. A vested teacher has five years of service credit in the retirement system as of July 1, 2014. The Treasurer's office has sent letters to all teachers identified as subject to the new 6 percent contribution rate. These teachers were given the opportunity to confirm their service credit and challenge any error they believe was made in the vesting calculation. These teachers also were given the opportunity to purchase or restore service credit as they were eligible to by June 30, 2014.

Retired teacher Linda Deliduka is relieved to see the funding issue addressed. As a member of the Board of Directors for the Vermont Retired Teachers Association and an alternate member on the VSTRS Board of Trustees, Deliduka believes the financial instability caused by the lack of dedicated funds for retiree health care placed the entire retirement system in jeopardy.

We can rest easier knowing that there's now a funding plan in place that is sustainable for the long-term.

"Retired teachers based their retirement on having health care and being able to afford it. Now we can rest easier knowing that there's now a funding plan in place that is sustainable for the long-term," Deliduka said.

Effective July 1, 2015 the law requires school districts that use federal dollars to pay for teacher salaries to include long-term pension costs for those positions in the grant. School districts also are required to prefund the health benefits for new teachers. That payment will be calculated annually. For fiscal year 2016, it is estimated that this will garner an estimated $1,072 per teacher for a statewide contribution of $375,200. The Treasurer's office will work with school officials on any additional coordination needed to ensure these payments meet the provisions of the law.

FOSSIL-FREE INVESTMENT OPTION

There is a new fossil-free mutual fund investment option for employees contributing to the State's deferred compensation plan. The 457 plan is a supplemental retirement savings option that allows an individual to save money for retirement by havings the funds contributed to the plan before taxes. Employees interested in Socially Responsible Investments (SRI) may now choose from five investment options. The new SRI option is the Pax World Global Environmental Markets (PGINX), which excludes fossil-fuel companies from the fund portfolio. SRIs are specialized funds that invest only in companies that meet a defined criteria of ethical operations, social benefits and environmental standards. Other SRI fund options employees may choose from are: Calvert Bond Portfolio A (CSIBX), Vanguard FTSE Social Index Institutional (VFTNX), Pax World Balanced (PAXWX) and the PIMCO Total Return III Institutional (PTSAX). Contributions employees elect to make to the deferred compensation plan are in addition to the defined benefit pension program. The Vermont State Retirement System makes available a 457 plan to eligible employees within the State, municipal and teachers' systems.

The same fossil-free mutual fund investment option is also available to participants in both the State and municipal defined contribution plans. Defined contribution plans are modeled after private sector 401(k) plans. A defined contribution plan is offered to State and municipal employees within the Vermont State Retirement System who are either ineligible to participate in a traditional defined benefit pension plan or are in positions where they elect to place their retirement savings in the plan.

SRI funds are one of many investment options individuals may choose to invest in within the 457 plan or defined contribution plan.

MEET WITH A 457 PLAN REPRESENTATIVE

Retirement planning doesn't stop the day you walk into your post-working years. Whether you're retired or still working, meeting with a deferred compensation plan counselor can help ensure your money is invested wisely. Great-West Retirement Services manages the State's plan. Call their local office at 1 (802) 229-2391 to schedule an appointment. There's more information at **www.vermont457.com**.

WELCOME NEW STAFF MEMBERS

The Retirement Division is pleased to welcome two new staff members to our office. Josh McCormick assumed the newly created position of Administrative Services Coordinator. He oversees the front desk in retirement and also supports the retirement boards and the disability retirement review process. Angella Mitchell is a financial administrator and works on a wide range of accounting duties for the retirement system. Welcome to the Retirement Division team!

Legislative Newsbriefs from the 2014 Session

- **Act 179:** Formerly H.885 contains a section that creates an Interim Study on the Feasibility of Establishing a Public Retirement Plan. A seven-member committee chaired by the State Treasurer is charged with collecting and evaluating data to determine whether a state-wide public retirement plan for all Vermont residents is needed and evaluate the availability of retirement options and alternatives for Vermont citizens. Information the committee will review will include types and access to current employer-sponsored retirement plans, amount of savings and resources needed for a financially secure retirement, actual amount of savings and resources currently available to Vermont residents, and current incentives and effectiveness of incentives to encourage retirement savings. The committee will also look at other programs or incentives the State could pursue in combination with, or instead of, a retirement plan. The committee is charged with filing a report to the General Assembly of its findings and any recommendations for legislative action by January 15, 2015.

VSTRS Members Have Questions on Medicare & Social Security

The Retirement Division staff receives questions weekly from system members about Medicare and Social Security. In VSTRS, once a retiree or dependent becomes eligible for Medicare he/she must pick up Medicare A and B as their primary carrier. The system's medical plan then becomes the secondary carrier. Here's a few of the most common questions we receive. For more detailed information on Medicare, go to **www.medicare.gov** or call their toll-free number at 1-800-633-4227. For information on Social Security, go to **www.socialsecurity.gov** or call toll-free 1-800-772-1213.

When should I apply for Medicare?

Three months before you turn age 65 you should sign up for Medicare. If you do not sign up then, you risk experiencing a lapse in your medical coverage. (see chart below) Also, if you do not enroll in Medicare Part B during your initial enrollment period your premium will increase 10 percent for each 12-month period you were eligible to enroll. If you are 65 or older and are covered under a group health plan, either from your own or your spouse's ***current*** employment, you have a **"special enrollment period"** in which to sign up for Medicare Part B. This means that you may delay enrolling in Part B without having to wait for a general enrollment period and paying the 10 percent premium surcharge for late enrollment.

YOU SHOULD SIGN UP FOR MEDICARE THREE MONTHS BEFORE YOU TURN AGE 65.

Time of Enrollment	Part B Medicare Coverage Start Date
One to three months before you reach age 65	The month you reach age 65
The month you reach age 65	One month after you reach age 65
One month after you reach age 65	Two months after the month of enrollment
Two or three months after you reach age 65	Three months after the month of enrollment

One frequently asked question about Medicare is when someone should sign up. This chart shows when your Medicare Part B becomes effective based on when you enroll. (Chart courtesy Social Security)

The rules allow you to:

- Enroll in Part B any time while you are covered under the group health plan based on current employment; or
- Enroll in Part B during the eight-month period that begins following the last month your group health coverage ends, or following the month employment ends—whichever comes first.

How does a pension impact Social Security?

If you get a pension from work where you paid Social Security taxes, that pension will not affect your Social Security benefits. However, if you get a pension from work that was not completely covered by Social Security—for example, the federal civil service, some state or local government, or work in a foreign country—your Social Security benefit may be reduced.

How can I view my account?

Workers age 18 and older can go online, create a personal account and request their Social Security statement. Go to **www.socialsecurity.gov/myaccount** to review your account.

(Lending Law Continued pg. 1)

these companies to enforcement action if they continue to do business in Vermont without a license.

"We are very pleased to see Vermont take the lead as the first state in the county to essentially ban this unscrupulous practice," said Greg Marchildon, AARP Vermont state director.

The Financial Industry Regulatory Authority and SEC also warns people to steer clear of investing in these products. These pension purchasing or structured settlement companies, sometimes called factoring companies, may package these loans as income streams to retail investors with commonly advertised yields from 5.75 percent to 7.75 percent. However, these products may have excessive commissions. Since the investment may not be a registered security with the SEC it is difficult to find reliable information about these products. These products are illiquid, which means that they could be difficult to sell and the investors' "rights" to the income stream they purchased could face legal challenges.

"To me this law is about doing the right things for our retirees and doing the right thing for Vermont. I'm very proud that we were able to support this bill," said Pearce.

DO WE HAVE YOUR CURRENT ADDRESS?

If you are a retiree receiving a monthly benefit, you must notify the Retirement Division in writing of any change in address.

The Retirement Bubble

What it means to you

by Beth Pearce, Vermont State Treasurer

If you research retirement savings options, the odds are you'll find references to something called the "retirement bubble." The retirement bubble describes the correlation between American's personal saving habits and the possibility that many retirees will not have adequate money on hand to meet all of their needs after exiting the workforce. Some speculate that widespread under-saving could cause an economic bubble to form and burst, forcing retirees to look beyond their personal nest eggs to make ends meet.

Several Vermonters have asked whether there is any truth to the notion that we face a retirement bubble that jeopardizes retirement security. First, let me state that your pension benefits are safe. We recognize the value of your public service and are committed to matching it with adequate and reliable dollars in retirement. That is our promise. While there is work to be done to improve personal finance and money management skills at the state and national level, we are taking proactive steps to make Vermont a leader in financial education.

Our commitment to retirement security for all Vermonters is not without challenges. State population characteristics show an upward trend in the number of individuals entering retirement. Vermonters are older than the national average for age by state. By 2030, it is projected that at least 29 percent of Vermont's population will be age 60 or older. Some might assume that growth of this magnitude could cause or exacerbate a retirement bubble. At the Treasurer's office we regularly monitor the membership of Vermont's retirement systems and make periodic adjustments to keep the funds stable. Plan participants will receive their benefits regardless of upward population pressures.

State population characteristics show an upward trend in the number of individuals entering retirement.

The measure of the Treasurer's office's success is not limited to benefits paid out to retirees. We believe that the best defense against the retirement bubble is for Vermonters of all ages to create and implement a personalized savings plan. It is well documented that Americans do not put aside enough money for retirement. The Social Security Administration finds that 53 percent of married couples and 74 percent of unmarried persons receive 50 percent or more of their income from Social Security. In 2012, the average monthly Social Security benefit received by Vermonters was $1,263; approximately $733 (37 percent) below the 2012 Vermont Livable Wage.

For many, Social Security and pension benefits alone are not adequate to cover the day-to-day costs of retirement. Retirement system participants can prepare for future needs by taking advantage of the State's deferred compensation and defined contribution plans to build their savings. We encourage consideration of this option as a practical step to growing your nest egg. You can also check with your financial advisor to decide what savings options fit your short, medium and long-term goals. If you have questions about saving for retirement, you're not alone. There are many resources available to assist you in making smart money decisions. The Treasurer's office provides tools to assist Vermonters of all age groups to learn useful money management skills. Visit our website and click on the "financial literacy" link. You can access resources to help you use a budget or plan for monthly spending; learn how to regularly save some of today's money for tomorrow's needs; manage credit use to avoid over-extending yourself; and invest funds to allow your money to grow.

The Treasurer's office is committed to providing each and every Vermonter with reliable, adequate income and a secure retirement. We've already made great strides through our plan options and educational efforts. But to take the air out of the retirement bubble once and for all, we need to continue our advocacy until every Vermonter has the tools and knowhow to retire with dignity. That's our pledge, and we look forward to working with you to make it a reality.

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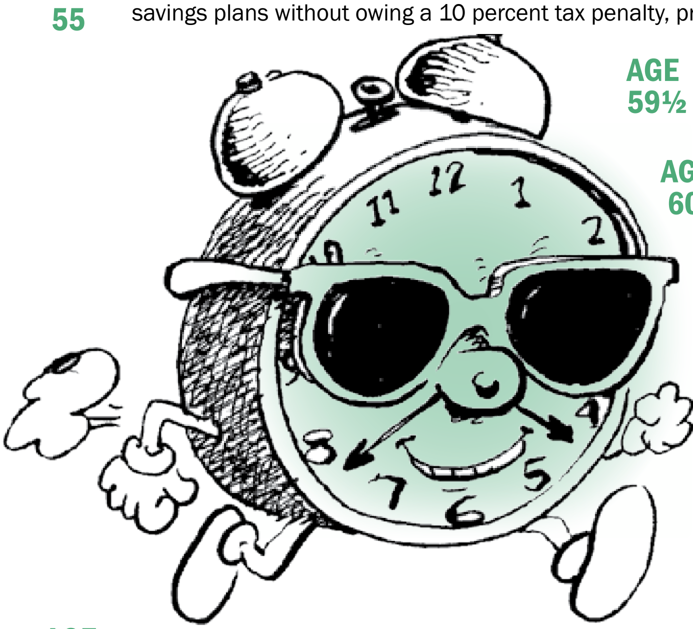
Retirement Timetable - Keep These Critical Ages in Mind!

AGE 55 You can retire early. If you retire, quit or are fired from your job starting the year you turn 55, you might be able to withdraw from tax-deferred savings plans without owing a 10 percent tax penalty, provided you qualify for one of the exceptions spelled out in federal tax code.



AGE 59½ You can generally withdraw money from your personal tax-deferred savings plans (IRAs, annuities) and from your employer-sponsored savings plans if you've retired from the job without owing a 10 percent tax penalty.

AGE 60 You can receive Social Security benefits if you are a widow or widower.

AGE 62 You may be eligible for full pension benefits from your employer, depending on the plan. You can begin to receive reduced Social Security benefits if you choose. Your Social Security benefits will increase, however, with every year you wait to collect them.

AGE 65 You can receive full pension benefits from most employers, as well as full Social Security benefits if you were born in 1937 or earlier. If you are a widow or widower, you can receive full Social Security benefits if you were born before January 2, 1940. If you were born later than 1937, you reach what's called full retirement age based on the year of your birth. If you were born between 1938-1942, it's 65; 1943-1954, it's 66; 1955-1960, it increases annually from 66 and two months to 67. If you were born in 1961 or later, your full retirement age is 67. At 65, you normally also qualify for Medicare benefits.

AGE 70 You should begin to collect your Social Security benefits if you haven't already, because your benefit has reached its maximum.

AGE 70½ You must begin withdrawals from your traditional IRAs, but not from Roth IRAs. You must also begin withdrawals from employee-sponsored retirement plans, such as a 401(k), unless you're still working!

SaveAndInvest.org. @2014 FINRA Investor Education Foundation. This timeline is general in nature and is not specific to VSTRS. For details on your plan, go to www.VermontTreasurer.gov.