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VERMONT

Vermont State Teachers' Retirement System

December 2009

Retiring TIMES

Volume 9, Issue 2

Commission Considers Benefit and Contribution Changes

Retirement Commission meetings prompt discussion and concern

EDITOR NOTE: Due to extensive interest in the work of the Retirement Commission, in this newsletter we wanted to provide information to members and beneficiaries on what the commission is considering and why. The explanation below is a background paper produced by the commission for a public hearing held on December 3. As this newsletter went to press, no final recommendations had been agreed to. Meeting minutes and other related documents may be viewed on-line at VermontTreasurer.gov. Recommendations from the commission will be forwarded to the State Legislature for consideration.

The Challenge:

The Commission was created by the Vermont Legislature to review and report on the design and funding of retirement and retiree health benefit plans for the state employees' (VSERS) and teachers'(VSTRS) retirement systems. The Legislature and Governor are concerned about the affordability and long-term sustainability of the retirement plans, pension and retiree healthcare, and expect recommendations from the Commission addressing the situation.

Similar efforts are occurring across the country because the costs of maintaining retirement programs have been increasing faster than states' ability to pay for them. In Vermont, the State's combined actuarially required contribution this year is $73.5 million and, without changes being implemented, will be $103.5 million next year. That is a $32 million one year increase in a year the State is facing at least a $90 million deficit – the increase for retirement plans is not included in that projected deficit figure.

	VSTRS Employer ARC*	VSERS Employer ARC*
FY 2009	$37,077,050	$25,333,307
FY 2010	$41,503,002	$32,013,894
FY 2011	$63,501,220	$41,581,656

*refers to the actuarially required contribution recommended in October as part of the annual valuation.

Why the dramatic increase? Certainly the serious implosion of the financial markets in 2008 and the first quarter of 2009 is the largest factor this year. But, demographics and workplace trends also play an important role over time. There are 2,800 more retired teachers and state employees this

(continued pg. 3)

Recent Retiree Update

	2009	2008	2007	2006
JANUARY	24	9	18	10
FEBRUARY	14	13	13	9
MARCH	6	8	14	5
APRIL	4	7	5	4
MAY	8	6	13	21
JUNE	7	3	6	22
JULY	247	317	327	263
AUGUST	16	17	35	21
SEPTEMBER	18	16	19	18
OCTOBER	11	11	15	12
NOVEMBER	6	15	11	16
DECEMBER		7	10	11

We are frequently asked to report on the number of members who are retiring each month. Historically, most teachers tend to retire effective July 1, following the close of the school year. Listed on the left is the number of new retirees for the last four years.

Economic Impact of Pensions

Pension benefits positively stimulate local spending

by Jeb Spaulding, Vermont State Treasurer

Amid the discussion about how to best ensure the solvency and sustainability of retirement plans for public employees, we should not lose sight of the significant economic value of these programs to our state and communities.

This year the Vermont teachers' and State employees' retirement plans will pay approximately $172 million in pension benefits to more than 11,000 retirees and beneficiaries. That provides a major boost to our economy. When retirees spend their pension benefits to buy products, go to a movie, weatherize their home, or have a prescription filled, that supports local businesses and enables them to create jobs. A recent report by the National Institute on Retirement Security estimated that retiree expenditures stemming from state and local pension plan benefits supported close to 1,400 jobs in the state. That report stated that retirement benefits have a large multiplier effect, too. Each taxpayer dollar invested in Vermont's public pensions supported $5.54 in total economic activity, while each dollar paid out in benefits supported $1.27 in economic activity. To read more, go to http://www.nirsonline.org/storage/nirs/documents/factsheet_VT.pdf.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a multiplier effect.

–National Institute on Retirement Security

Not only do pension benefits provide direct support to our economy, it is also worthwhile to keep in mind that retirees pay state income tax on their retirement benefit payments. That adds millions of dollars in revenues to the General Fund, which in turn supports important services to Vermonters. Certainly, Vermont policymakers must ensure our public retirement plans are fair and affordable, now and in the future, but let's not forget how much of an economic benefit we all enjoy from these programs.

403(b) PLANS HELP PARTICIPANTS REACH RETIREMENT GOALS

It has been almost a year since the world of 403(b) plans changed in school districts across Vermont. Because of the new federal regulations effective in January of 2009, school districts became directly responsible for selecting and administering the 403(b) plan(s) offered to their employees. Despite the fact that the changes were difficult for school districts to implement, many were long overdue and, for the most part, have resulted in higher quality and more affordable 403(b) plans being offered to educators across the state.

If you currently participate in the 403(b) Investment Program offered by the State Teachers' Retirement Board and wish to make changes to your contributions or investment options, or if you are interested in learning more about the program, please contact Great West Retirement Service at (802) 229-2391. A representative serving your area will be pleased to assist you and answer any questions you may have.

Every school district has at least one 403(b) plan available to employees; many have more than one. Participation in a 403(b) plan is an important component of pro-active and effective retirement planning. The retirement office continues to strongly encourage teachers to take advantage of the plan available through their school district, even if contributions are small in the beginning. Hopefully, over time the amount of those contributions will increase. The younger a person is, the more valuable early contributions become as the compounding effect of interest on investments has a longer period of time to make that investment grow.

If you were contributing through a 403(b) vendor prior to January of 2009, and that vendor is no longer available, please make sure you select a new vendor that has been endorsed by your school district. You may elect to leave your prior contributions with your previous vendor, or you may roll them over to the new 403(b) provider. Either way, it is extremely important that you do not stop making contributions because of a change in vendors. Retirement approaches much faster than we anticipate, and the additional savings you might have in your 403(b) plan to supplement your other retirement income will be very welcome to ensure a comfortable lifestyle during your retirement years.

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 Teachers' Retirement System. Editor: **Lisa Helme**

year than there were in 2003. Pension benefit payouts for state employees and teachers have been increasing by roughly $10-11 million each year in recent years and, going forward, are projected to increase by $15-16 million each and every year. It is not uncommon to have employees begin drawing their pension and retiree health benefits in their early to mid fifties. With increasing life expectancies, these people may well receive retirement benefits for more years than they spent in employment for the State or school districts.

Even if investment returns experience a sustained recovery, the current level of growth in the required contributions to fund the pensions exceeds historical growth of the past 15+ years or any current long-term revenue growth projections. The independent actuary, assuming a 15% positive investment return this year, projects, based on current benefits and assumptions, the employer ARC for VSTRS will continue to escalate from $63.5 million in FY 2011 to $70.3 million in FY 2012 and for VSERS it would escalate from $41.5 million in FY 2011 to $45.5 million in FY 2012. Payments for the 80% employer share for retiree health insurance premiums also are escalating by several million dollars a year.

	VSTRS Retiree Health Payment	VSERS Retiree Health Payment
FY 2008	$15.08 million	$16.37 million
FY 2009	$16.42 million	$17.89 million
FY 2010	$18 million estimated	$22 million estimated

The Commission recognizes that the benefit and contribution levels for both systems are modest when compared to public systems in other states. It also recognizes that the relative competitiveness of public benefits should not only be compared against other state systems, but also to what is competitive within Vermont and for the many thousands of workers in the private and other non-profit sectors. Most private and non-profit sector employers and members of the public do not have comparable benefits. Total compensation (salary and benefits) must be considered when making comparisons between the public and private sectors.

The ideas and scenarios in this document are not final recommendations. There may be other options that will result in a realistic scenario for ensuring the sustainability of these benefit plans, while meeting the objective of providing quality retirement plans for our public employees. Suggestions from any and all parties are welcomed and appreciated.

What we <u>are not</u> considering:

- Changes to pension or retiree health benefits for those already retired.
- Changes to pension or retiree health benefits for anyone close to retirement - within five or ten years of retirement eligibility.
- Ending the current defined benefit plan and moving to a defined contribution plan.
- Making the basic provisions (maximum benefit, multiplier, COLA, etc.) of our plan significantly less competitive or generous than those of other state public systems.

What we <u>are</u> considering on the pension side:

Revisions to normal and early retirement ages:

State Group F and Teachers' Group C:

- Raise normal retirement age from 62 or 30 years at any age to 65 or rule of 90 (combination of age and years of service) for those more than five or ten years from normal retirement eligibility.
- Raise the early retirement age from 55 to 58 for those more than five or ten years from early retirement eligibility.

State Group D:

- Raise normal retirement age from age 62 to age 65 for those more than five or ten years from normal retirement eligibility.

State group C:

- Raise the early retirement age to 52 from 50 for those more than five or ten years from early retirement eligibility.

Lengthening the salary compensation period:

State Group F and Teachers' Group C:

- Use a five year compensation period instead of a three year period to calculate benefits for those more than five or ten years from retirement eligibility.

State Group C:

- Use a three year compensation period instead of a two year period to calculate benefits for those more than five or ten years from retirement eligibility.

State Group D:

- Use a two year compensation period instead of final salary to calculate benefits for those more than five or ten years from retirement eligibility.

Possibly increasing the maximum benefit from 50% to 60% of final compensation for State Group F and Teachers' Group C. This would provide an opportunity for increased benefits to employees who work longer.

Reviewing contribution rate ratios for employer and employees:

Implementing a proportional linkage (50/50, 60/40) between the employer and employee contributions so that employer and employee contributions rise and fall in tandem, to accomplish a partnership – share the gain, share the pain. This could be accomplished by a sharing of the total annual contribution developed by the actuary or on a going-forward basis using FY 2010 as a baseline. For demonstration purposes, assuming no changes on the benefit side and on a 50/50 going-forward basis, preliminary estimates show this would increase the FY 2011 VSERS employer contribution percentage to 8.7% from 7.57% and increase the Group F and D employee contribution to 6.23% from 5.1%. For VSTRS this would increase the employer contribution percentage to 9.28% from 7.41% and increase the employee contribution to 5.27% from 3.4%.

Employer/employee contribution levels as a percentage of payroll:

	TEACHERS		STATE EMPLOYEES	
	Employee	Employer	Employee	Employer
FY 2009	3.4%	6.88%	5.10%	6.27%
FY 2010	3.4%	7.41%	5.10%	7.57%
FY 2011	3.4%	10.82%	5.10%	9.84%

The cost-sharing approach would result in increased contributions for both the State and employees, but preserve the fundamental structure of benefits. While sharing would increase the contribution rates now for both parties, it provides the opportunity to both parties to benefit with reductions in rates should financial markets experience a sustained recovery and/or plan costs are reduced. For example, if the contribution rates are adjusted in combination with the scenarios described earlier in this document, using the five year window, the necessary increase in the rate would be much less, with an employee contribution rate of approximately 5.67%, instead of 6.23%, for VSERS, and 4.74%, instead of 5.27%, for VSTRS.

What we <u>are</u> considering on the retiree health insurance side:

One proposal under consideration by the Commission is a tiered medical premium copayment structure based on length of service. Instead of the current straight 80/20 split of retiree health insurance premiums, a new tiered system would apply to all of those not within five or ten years of eligibility to draw this benefit.

The new employer share for the tiered system would be:

30% - 10 yrs 50% - 15 yrs 70% - 20 yrs
or
40% - 10 yrs 60% - 15 yrs 80% - 20 yrs

Provide ability to "recapture" health benefit with 20 years of service upon drawing benefits.

Possibly add spouses to coverage for VSTRS members (this would require an increase in employee contribution to make this work).

VSTRS only—Reconfigure funding source of employer share for pension and/or retiree health insurance:

Currently, the "employer" share of the pension contribution is made by the State. The 80% "employer" share of retiree health insurance is paid from the pension fund. There is no local contribution for either pension or retiree health insurance. However, local decisions and compensation levels do have an effect on the costs.

In order to improve transparency for total educational expenditures, increase accountability between incurrence of liabilities and responsibility to pay, and to improve the likelihood of full funding on a consistent, dependable basis, one scenario the Commission has reviewed would:

- Continue to pay for unfunded pension liabilities (about 2/3 of the total contribution) from General Fund and would transfer normal costs to Education Fund or directly to local districts with multi-year phase-in.
- Continue paying the employer share of VSTRS retiree health insurance for those already on job as is. For new hires, districts would be assessed on a prefunding actuarial basis with the proceeds deposited in a dedicated trust fund to pay for future health care.
- Revise VSTRS Board Governance by increasing membership from six to seven, adding a school board member and a superintendent and removing the BISHCA Commissioner or designee.

It is important to note that the ideas and scenarios in this document are under discussion by the Commission, but have not been voted on as recommendations. Your reaction to the ideas and scenarios within, as well your suggestions for other ideas to meet the challenge, are welcomed and important as we develop final recommendations.

U. S. Census Bureau:
Interesting Facts About Retirement*

Is the proportion of seniors as part of the general population growing?
Yes. In 2050, it is projected that seniors age 65 and older will make up 21 percent of the total population.

Where is the population of seniors projected to grow?
In 2030, ten states are projected to have more people 65 and older than people under the age of 18. Those states are Vermont, Delaware, Florida, Maine, Montana, New Mexico, North Dakota, Pennsylvania, West Virginia, and Wyoming.

What gender is living longer?
The ratio of senior men to senior women is 72 men to every 100 women. The estimated number of centenarians (people age 100 or older) is also projected to grow. In 2040, it is estimated that there will be 580,605 centenarians living in the United States.

What activities were most popular with seniors?
Exercise walking is by far the most popular sports activity for seniors (and also for younger adults), followed by exercising with equipment, net fishing, camping, golf, and swimming.

**Facts courtesy of the U.S. Census Bureau.*

Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach

The majority of benefits that are afforded to school district employees are determined through the collective bargaining process (i.e., salary, medical, dental, life insurance, leave accruals, etc.) Retirement benefits are one of the few that are not bargained, but rather outlined in statute. The "roadmap" for calculating and administering the Vermont State Teachers' Retirement System benefits is found in 16 V.S.A., Chapter 55. Retirement benefits are statutorily driven and cannot be changed except through the legislative process. This article is intended to give you a broad overview of how that legislative process unfolds.

A proposed change in existing statute may originate in a variety of places, including from a union or organization, a department, an individual VSTRS member, a board or administration, or through the work of a study committee. Any proposal to change existing statute must be sponsored at a minimum by one legislator before it can be drafted into a bill. The more legislators that sign on to a bill, the better chance the bill has to move forward. Once a sponsored bill has been drafted, it will be sent to the appropriate committee for consideration. If the bill is sponsored by a member of the House, the bill will be sent to the House Government Operations Committee for action. If the bill is sponsored by a Senator, it will be sent to the Senate Government Operations Committee for review.

It is up to the discretion of the respective Government Operations Committee whether the bill is given any consideration or not. In fact, many bills that are introduced never come under consideration by a legislative committee. Generally, it is the responsibility of the originator to work with the committee to ensure the bill receives the appropriate attention. If the bill contains a significant change or changes to the existing benefits of the retirement system, the committee will make every effort to provide an opportunity for all interested parties or members who might be impacted by the proposed changes to comment. If the bill is voted out of the Government Operations Committee, and it has a financial impact to the State of Vermont, it must then be reviewed and voted on in the Appropriations Committee. If it makes it through both the Government Operations and Appropriations Committees, it then goes to the floor of either the House or the Senate, depending on where it originated, to go through three readings. If the bill receives a majority vote from the floor, it will then move to the other chamber to repeat the process. Assuming it makes it through the next body, the bill will be sent to the Governor for his signature, and only then will it be enacted into law. With very few exceptions, most bills that are enacted are effective the following July 1.

Needless to say, it is not a simple process to make changes to existing retirement benefits, and there are many opportunities throughout the process for affected members to make their views known to their legislators.

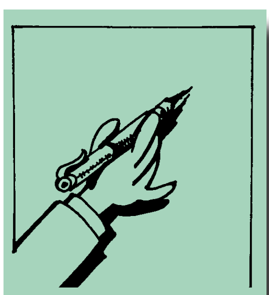
Board Welcomes New Trustee

The VSTRS Board of Trustees recently welcomed Tom McConnell to the board. McConnell has worked as a secondary teacher of mathematics for 22 years. For the last nine years he has worked at Essex High School in Essex Junction, Vermont. "I firmly believe access to a quality retirement program serves more than the interests of our members," said McConnell. "It is a critical component of Vermont's need to recruit and retain those talented educators who give so much to our communities both in and out of the classroom. I ran for this seat on the board to realize that belief. As a board member, I will bring all of my energy, technical skills, and integrity to fulfill the fiduciary responsibility binding each trustee. I also hope to play an educational role helping our members take control of their financial futures."

Tim McConnell

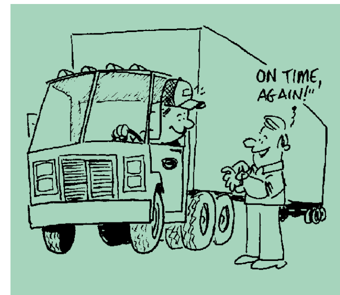
Be on the Lookout for Your 1099-R Form

We will soon update the federal and state tax tables to be effective for the January 2010 pension payments. The majority of your pension is considered taxable income. For some who made contributions into the system prior to the contributions becoming a pre-tax deduction, a very small percentage of the pension payment is excluded from taxes. Everyone is required to complete a form for federal and state tax withholdings, even if you don't want to have taxes withheld. This is an ideal time to look at your tax withholdings and make sure you are having the correct amount withheld from your monthly pension. If you would like to change your withholdings, please call our office at 1-800-642-3191 (within Vermont only) or 828-2305 and we would be happy to send you new withholding forms. Both the federal and state withholding forms are also on our website at: http://www.vermonttreasurer.gov/retirement/forms. Forms received by the 15th of the month will be processed for that month's pension payment. In January, our office will mail 1099-R forms to benefit recipients. You will need this form when you file your income tax return. The 1099-R provides information for the 2009 calendar year, including total gross distributions, total taxable amount, and federal and state tax withholdings.



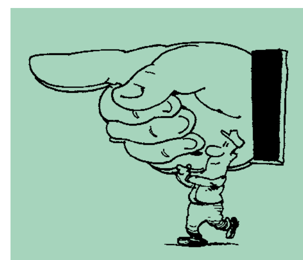
Do We Have Your Current Address?

The Retirement Division receives a significant amount of returned mail due to incorrect addresses. The costs associated with the returned mail are considerable for processing again by a staff person and the postage costs of re-sending the information. Additionally, employees may not receive important information in a timely manner. Active VSTRS member addresses are updated via the quarterly reporting system from each employer's payroll officer. If you are an active VSTRS member who has recently changed your mailing address, please inform your payroll officer of the change of address so that they can update your information via the web-based quarterly reporting system. If you are a retiree receiving a monthly benefit you must notify the retirement office in writing of any change in address.



Retirees to Receive Negative COLA

Retirees eligible to receive a cost-of-living adjustment (COLA) in January will experience a decrease due to a negative rate of inflation reflected in the Consumer Price Index (CPI). The CPI on June 30, 2009, was a negative 1.4 percent. Group A retirees will experience a negative 1.4 percent adjustment in their January pension payments. For example, a retiree currently receiving a monthly pension benefit of $750 will receive $10.50 fewer dollars to reflect the decrease in the COLA. Retirees in Group B and C will receive the minimum statutory adjustment of negative 1 percent in January as required by 16 V.S.A., § 1949. For example, a retiree from these groups who receives a monthly benefit of $750 will receive $7.50 fewer dollars. It is important to note that retirees receiving their first COLA in January of 2010 will not be impacted as the statute mandates that a retiree's allowance never go below the amount of the original benefit payable at retirement.



Insurance Coverage Reminder for Retirees

If you are retired and are covered by the Vermont Health Partnership Plan, please be aware that you must continue to access your medical care through your primary care physician, even if you are out-of-state for a period of time. The only exception would be if you encounter an emergency situation, in which case you should take care of your emergency first. Afterwards, contact your primary care physician as soon as possible to ensure you will have coverage for your medical expenses. If you actually move out-of-state, you should consider changing to another plan, unless you move to an area that has a provider that participates in the BC/BS Vermont Health Partnership Plan. All other medical plans available to retired teachers will cover expenses incurred outside of Vermont.

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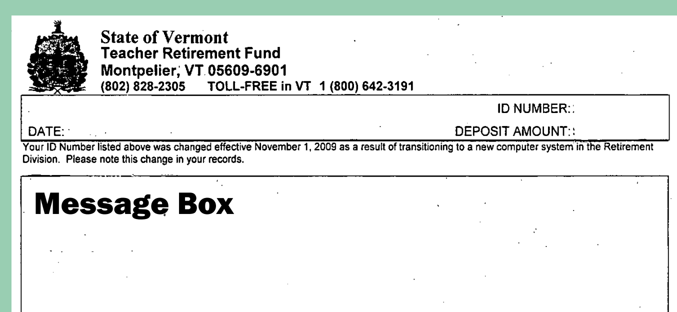
New VPAS Benefit Payments Implemented

The staff in the Retirement Division have spent the last three years working on the development and implementation of a new computer system, referred to as VPAS (Vermont Pension Administration System). In many cases, the staff have devoted considerable time to the VPAS project while still managing to complete the work associated with their ongoing "day jobs." When fully operational, VPAS will replace the division's 30-year-old legacy computer system. The VPAS project is structured in three phases: imaging phase; retiree benefit payment phase; and the active member salary, contributions, and service credit phase. The imaging phase has substantially been completed. The retirement benefit payment phase became operational beginning with the November 2009 pension payroll. Most of the changes are internal and allow for more efficient and faster processing of new retirements and changes to existing retiree accounts. The VPAS also houses all of the data in one system that is backed up on a daily basis. The current plan is to begin rolling out the active member functionality in phases, to be completed by the end of the fiscal year. This phase will also house all data in the VPAS and allow for automation of a number of different business processes such as benefit estimate calculations and annual benefit statement production. Future enhancements to VPAS will include a web-based member self-service feature that will allow active employees, as well as retirees, the ability to review their accounts on-line.

NEW LOOK FOR RETIREE MONTHLY STATEMENTS


State of Vermont
Teacher Retirement Fund
Montpelier, VT 05609-6901
(802) 828-2305 TOLL-FREE in VT 1 (800) 642-3191

ID NUMBER:
DATE: DEPOSIT AMOUNT:

Your ID Number listed above was changed effective November 1, 2009 as a result of transitioning to a new computer system in the Retirement Division. Please note this change in your records.

Message Box

Many of you may have noticed that the statements issued to retirees for the November 30 monthly pension payments had a new look. The reason is due to the implementation of the new Vermont Pension Administration System (VPAS). In addition to the new look, the statements have several helpful features. The first is a large box at the top of the statement that will be used to relay timely messages to retirees. Another change is reflected under the Gross Payment Box, where we now list both pension and annuity amounts. The gross monthly pension has always been comprised of these two components, but we have never broken them down on the statements before. The annuity portion simply represents that portion of the gross monthly pension that is paid from your contributions made prior to retirement. Questions? Please give us a call.