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VERMONT

Vermont State Teachers' Retirement System

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Retiring TIMES

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Teachers' Retirement Plan Undergoes Change

Act 74 reflects compromise between benefits and contributions

Change to the Vermont State Teachers' Retirement System was a focus of much debate during the 2010 State legislative session. Passage of Act 74 (formerly H.764) brought about change aimed at financially fortifying the system for the long-term while, at the same time, remaining responsive to the needs of current and future retirees. An agreement was reached between the Vermont NEA, the State Treasurer's Office and the Administration. The Act became effective on July 1, 2010.

"The changes can be broken down into two categories," said Cynthia Webster, Director of Retirement Policy and Outreach for the Treasurer's Office. "Category one changes apply to VSTRS members who are within five years of normal retirement as of June 30, 2010. Normal retirement is age 62 or 30 years of service. Category two changes apply to members who are not within five year of normal retirement as of the end of June."

Members who had 10 years or more of creditable service on June 30, 2010 will continue to be eligible for 80 percent of their health care premium—based on the standard plan—at retirement.

Pension Benefit Changes

Act 74 contains numerous changes to the pension benefit. Overall all members, whether in category one or two, will have their contribution rate increased from 3.4 percent to 5 percent of gross salary. This became effective July 1.

For members in category one, normal retirement will remain at age 62 or 30 years of service, whichever is earlier. However, if the member has chosen to continue working after June 30, 2010, the maximum allowable benefit will increase from 50 percent of average final compensation (AFC) to 53.34 percent. The amount of the annual benefit a retiree will receive is based on the top three highest consecutive years of compensation and cannot exceed the maximum allowable benefit. By putting in additional years on the job, members in this category may be eligible for a greater benefit for work performed after June 30. Work performed prior to June 30 is capped at the 50 percent rate.

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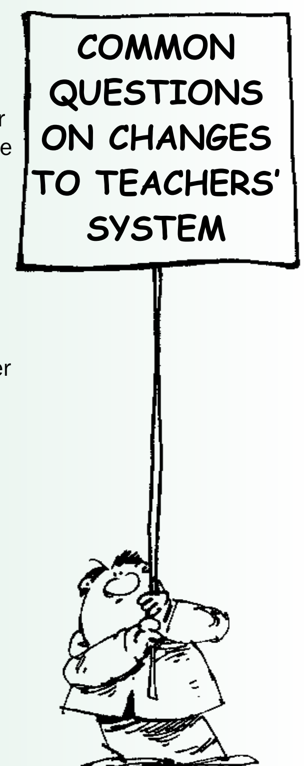


Q. I had 30 years of service on June 30, 2010; may I purchase two years to bring my maximum benefit to the new 53.34 percent?

A. No. Service purchase, granted, restored or transferred after July 1, 2010 cannot count toward the increased maximum. The intent is that members must actually work another two years as a contributing member under the new contribution rate to be eligible for the higher benefit.

Q. When I retire, may I purchase the additional years required to obtain the spousal subsidy?

A. No. You must actually work the required number of years and contribute at the higher rate in order to be eligible for the spousal subsidy when you retire.

Q. I am within five years of normal retirement, but I intend to work several more years and would then like to be eligible for the increase in the maximum benefit to 60 percent. Is that possible?

A. Unfortunately, the answer is no. There are no provisions for being able to pick and choose which of the benefit changes will impact your pension benefits.

Q. I turned 57 on July 1, but did not have 25 years of service. Will I still be able to retire at age 62 with no penalty?

A. No. You must have been at least age 57 OR have had 25 years of service ON JUNE 30, 2010 to be within five years of normal retirement.

(continued pg. 4)

UPDATES FROM THE RETIREMENT DIVISION: *Record Number to Retire in July*

Record Number of System Employees Retire

The months of June, July and August are typically the busiest months of the year for the staff in the Retirement Division. This year looks to be exceptionally busy as we are anticipating more than 500 individuals retiring effective July 1. Of this number, teachers make up the greatest share of new retirees at approximately 420, followed by 39 State employees and 50 municipal employees. One goal of the division is to process all retirements in a timely manner to ensure all new retirees receive their first pension payments by July 31. To give you a perspective of the volume of retirees for the month of July, we are currently averaging approximately 900 new retirees in total each year across all three systems. The 500+ retirees we have for July 1 account for approximately 55 percent of all new retirees in one year. In addition to processing new retirements, the staff also must close the fiscal year and record the current year contributions and corresponding service credit for all active employees in each of the three retirement systems. There are currently 781 reporting entities and more than 25,000 contributing employees in the three systems. Once the fiscal year has closed and all of the data has been posted, the priority of the division is to review and verify the actuarial data that is used to generate the annual benefit statements for active employees. With 45,000 active, vested and retired members, our staff-to-member ratio is one staff person for every 3,750 members.

Recent Retiree Update

	2010	2009	2008	2007	2006
JANUARY	14	24	9	18	10
FEBRUARY	15	14	13	13	9
MARCH	6	6	8	14	5
APRIL	10	4	7	5	4
MAY	7	8	6	13	21
JUNE	18	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		8	7	10	11

Adult Children to Maintain Health Benefit Longer

If you have dependents under the age of 26 not currently covered by your medical plan, you may add them effective October 1—if they are not eligible for other group coverage. Contact BCBSVT member service at 1-800-247-2583 for more details.

(Act 74 Continued)

There are numerous changes to retirement benefit calculations for members of category two. Here are the main changes.

- **Normal retirement is age 65 or the Rule of 90 (combination of age and years of creditable service).**
- **Early retirement will stay at age 55, but will have an actuarial reduction applied instead of the previous 6 percent per year reduction. An actuarial reduction is a calculation based on the cost to VSTRS of having a retiree draw a pension early. In most cases, that will mean members choosing early retirement will experience a decrease in their pension benefit of greater than 6 percent.**
- **The maximum allowable benefit will increase from 50 percent to 60 percent of AFC.**
- **The value of each year of service (called the multiplier) will increase from the current 1.67 percent per year to 2 percent per year for each year accrued after reaching a total of 20 years of service. If a member already has 20 or more years of service on June 30, 2010, the 2 percent multiplier will be applied for all years accrued after July 1.**

The final change contained in Act 74 regarding the pension benefit impacts how AFC is calculated. There is now a fixed 10 percent cap on the amount that a member's annual salary can increase during the three year average final compensation determination period. For example, if one of the years of work used to calculate the AFC is more than 10 percent above the previous year, it will be "capped" at 10 percent. As the calculation is made, that year of higher salary will only be considered for the dollar amount that equals the previous year's salary plus 10 percent. This change was made to ensure that one year of extraordinarily higher pay (for whatever reason) did not artificially inflate the final retirement benefit calculation. The final retirement benefit is intended to represent a percentage of the retiree's normal annual salary.

Retiree Health Care Coverage

Unlike the changes to the pension benefits, the changes to health care coverage in retirement impacts everyone according to the number of years of service they had on June 30, 2010. Members who had 10 or more years of creditable service on June 30 are vested in the 80 percent health care subsidy and will continue to be eligible for 80 percent of their health care premium (based on the standard plan) paid after retirement. However, for members who did not have 10 or more years of creditable service as of June 30, there are several changes that will be applied based on total creditable service at the time of retirement.

- **Members retiring with less than 15 years of service will have no subsidized coverage.**
- **Members retiring with between 15 and 19.99 years of service will have 60 percent of their health care premium paid after retirement.**
- **Members retiring with between 20 and 24.99 years of service will have 70 percent of their health care premium paid after retirement.**
- **Members retiring with 25 or more years of service will have 80 percent of their health care premium and their spouses' health premium paid after retirement.**

Spousal health care coverage is available to all members in retirement who have at least 10 years of creditable service. However, Act 74 requires that members must work the following additional years to have access to subsidized spousal coverage.

YEARS OF SERVICE	ADDED YEARS TO WORK TO ACCESS SUBSIDIZED SPOUSAL COVERAGE
30+ years	5 years
25-29.9 years	must work to 35 years of service
15-24.9 years	10 years
10-14.99 years	eligible after 25 years of service

Other Legislative News . . .

Act 139 (formerly H.778), commonly referred to as the miscellaneous retirement bill, also contained various amendments to the Teachers' Retirement System. Some of these provisions are outlined below.

- **Eligibility for increased maximum retirement benefit percentage and spousal subsidy in retirement:** Confirms that service that is purchased, granted, restored or transferred after July 1, 2010 will not count toward the number of years required to qualify for the increased maximum benefit of 53.34 percent or the spousal subsidy after retirement. In both cases, the member must actually work the additional years required.

- **COLA for early retirements:** Removes the language that allows an early retirement to qualify for a cost-of-living-adjustment upon attainment of the rule of 90. Retirees in category two only receive a COLA upon attainment of age 65.

- **Independent schools:** Codified action taken by the VSTRS Board of Trustees last Spring that required teachers in independent schools to be licensed in order to be members of the VSTRS. Those teachers already in the system, but not licensed, were grandfathered into the system.

- **Creditable service grant:** Grants members who have 24.9 years or more of service, but less than 25 years of service as of June 30, 2010, a full 25 years if the member agrees to the grant. Also grants members who are age 62 or older and have 9.9 years or more of service, but less than 10 years as of June 30, 2010, a full 10 years, provided the member agrees to the grant.

Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach

Our office spends a lot of time talking with members who are approaching retirement about what they can expect to receive in retirement. We provide an estimate of benefits that outlines what a member will receive on a monthly and annual basis under all of the eight options available. However, that is only a part of the story.

The "Estimate of Benefits" that is sent to members looking to retire provides a quote of the gross amount of funds available based on the member's group plan; total creditable service; final average salary; and age at retirement. For many members, the actual amount received on the last working day of each month may be considerably less in retirement, depending on what deductions they need and want.

What deductions may be taken out of a monthly pension?

Federal and State Taxes: The majority of a member's monthly pension will be taxable. The exception is money contributed by the member prior to 1992 when the mandatory contributions became pre-tax deductions. If a member has already paid taxes on contributions, those contributions will not be taxed again in retirement. However, for most retirees, between 95 and 100 percent of their pension will be taxable. It is up to the retiree whether he or she wishes to have federal and state taxes withheld. The vast majority prefer to have them taken out monthly instead of running the risk of owing when they file their taxes the following year. Tax withholdings may be changed at any time after retirement by completing new tax withholding forms.

Medical Insurance: The same medical plans available to teachers in school districts are available to VSTRS retirees. For non-Medicare eligible retirees and/or dependents, the plans available are J Plan, $250 Comp Plan, and Vermont Health Partnership. The three plans available for Medicare-eligible retirees and/or dependents are J Carve-out, $250 Carve-out, and Vermont Blue 65. Retirees may elect to be covered under one of the medical plans at retirement or may pick-up coverage during one of the open enrollment periods thereafter. If a member chooses medical coverage, the appropriate medical premium will be deducted from the monthly pension. VSTRS currently pays 80 percent of retirees' premiums only, based on the $250 Comp plan.

Dental Insurance: Two dental plans are available to all retirees and their eligible dependents. Monthly premiums range from $39.99 for single person coverage for Plan A to $135.20 for family coverage for Plan B. If a retiree wants dental coverage, he or she must sign up for it at retirement. Coverage may always be dropped after retirement, but you may not pick it up at a later date.

Vermont's Economic Response

Fortitude and foresight required in solving our economic challenges

by Jeb Spaulding, Vermont State Treasurer

The last few years have been tough all around. Many Vermonters have lost their jobs; some their homes and businesses. Others have taken pay cuts, experienced reductions in government assistance, and watched their retirement savings take a nose dive.

On the State government front, the Governor and State legislators just tackled one of their toughest budget years. With fortitude and a commitment to finding workable solutions, they successfully developed a budget plan that closed a $150 million hole in the budget for the fiscal year begun on July 1. They produced a plan for a balanced budget, cut spending while working to minimize cuts to the most vulnerable, fully funded the pension plans, made selective investments in future job creation, and utilized some rainy day funds while still maintaining additional reserves for future needs. I do not believe many, if any, other states passed a balanced budget this year, while still maintaining reserves and avoiding broad-based taxes. I commend them for their work.

It is essential that Vermont leaders and citizens coalesce around a long-term strategic economic plan that identifies the large-scale trends and conditions that will impact this state in the future.

I would also like to recognize State employees and teachers for similarly facing tough economic challenges and working toward solutions. State employees are now experiencing a three percent two-year pay reduction. Teachers are now working with revised pension and retiree health plans and contributing more of their pay for those plans. Those steps alone made a $20 million dent in the $150 million deficit that had to be addressed. I thank them for their sacrifice and commitment to resolving our fiscal challenges, and look forward to working together to meet the remaining challenges ahead.

Recently, Vermont's leading economists said that they believe our state is now out of recession. This recovery, however, has been tentative and fragile – and is largely dependent upon federal fiscal and monetary stimulus to date. State revenues appear to have stabilized and are projected to increase by some $70 million this fiscal year and another $80 million next year. Our official State unemployment rate is the fourth lowest in the country. Our home foreclosure rate is very low comparatively and, in some parts of the state, there are signs of life in real estate and tourism markets. Vermont remains the only New England state with a triple-A bond rating.

With economic conditions slowly improving, it's tempting to assume that building a State budget for next year will be easier. Unfortunately, that will not be the case. The new Governor and legislature will be tackling their toughest budgetary challenges since the downturn in the economy. Why is that? The biggest reason is because the hundreds of millions of dollars in temporary stimulus money from the federal government will end this year. These funds have strategically been used by Vermont to produce balanced budgets for the past two years. In addition, with reductions in capital gains taxes and implementation of federal health care reform, even with the inflow of State generated taxes on the upswing, Vermont will face a budget gap of approximately $120 million next fiscal year. And closing next year's budget gap will be harder because, as the saying goes, all of the low-hanging fruit has been picked. Most constituencies already have been impacted by budget cuts. Additional savings or revenues will be harder to find.

If budget makers are able to produce a plan to balance expenditures and revenues next year, Vermont should then be on a more stable and positive financial trajectory. At the same time, it is also essential that Vermont leaders and citizens coalesce around a long-term strategic economic plan that identifies the large scale trends and conditions that are going to affect us in the next five, 10, and 15 years. This plan must be focused, specific, widely understood, and supported. This plan must identify Vermont's assets and liabilities, as well as our relative market position and comparative advantages in the northeast, U.S., and the world. From such assessment, we can compose concrete actions that allow us to take advantage of economic opportunities and insulate ourselves from future economic threats. Vermonters have already demonstrated they have the fortitude and the willingness to sacrifice to achieve workable short-term solutions. Now, it's time to develop a strategy that works for the long run.

(Q & A Continued)

Q. Do I still have the ability to purchase service such as air time after July 1, 2010, or was that changed with the new legislation?

A. Yes. You may still purchase all of the same types of service that were available prior to the passage of the new legislation.

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**

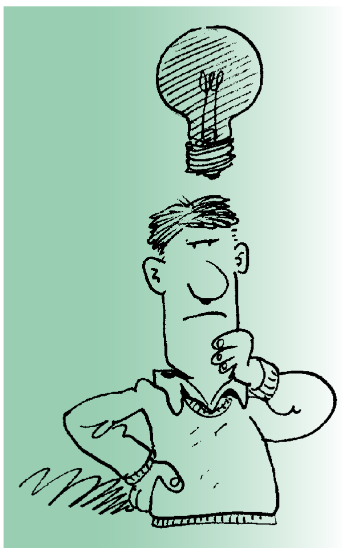
Choosing a retirement option

VSTRS Retirees Choose From Eight Options

We are often asked what retirement options are most popular with retirees in the Vermont State Teachers' Retirement System. When you retire you will be asked to choose how you would like to receive your retirement benefit. There are currently eight payment options. Below is a brief description of each option and the percentage of retirees who have chosen that payment option at retirement.

48% Chose - Option One Maximum Benefit (Basic)

The basic or maximum benefit, is payable for your life with no benefit or refund of contributions to a designated beneficiary at your death. This option provides the highest starting monthly benefit payment for a retiree of all of the options. This option will automatically be applied to individuals who do not choose a retirement option by the time they are 70 1/2 years of age and are vested and are not working as a teacher.



20% Chose - Option Two Guaranteed Return

In a contributory system, there will always be accumulated member contributions in your account. A contribution refers to the money you personally contribute towards retirement. That amount is usually automatically deducted from your regular paycheck. By choosing option one, the guaranteed annuity return, you receive a monthly benefit that is slightly lower than the basic benefit described above. However, upon your death, your beneficiary will receive a lump sum payment equal to the amount of contributions left in your retirement account minus the total of the annuity payments that already have been paid to you prior to death. This option generally results in a payment to your beneficiary if you die within 13 or 14 years after retiring.

4% Chose - Option Three 50 Percent Survivorship

This option gives your beneficiary 50 percent or half of the benefit that you were receiving, should you die before your designated beneficiary. This option does not reduce your starting monthly retirement benefit as much as the 100 percent or 75 percent survivorship options. On average, the benefit reduction from the basic benefit option is between 5 and 15 percent, depending on the difference in your ages. The beneficiary designated by the retiree at the time of retirement CANNOT subsequently be changed.

1% Chose - Option Four 75 Percent Survivorship

This option is similar to option three, but your beneficiary receives 75 percent of the benefit that you were receiving if you die first. Since the beneficiary's benefit is greater than in option three, the reduction in your starting monthly benefit is also greater. The reduction averages between 7 and 20 percent, depending on the differences in your ages. The beneficiary designated by the retiree at the time of retirement CANNOT subsequently be changed.

3% Chose - Option Five 100 Percent Survivorship

This option is also similar to option three, but your beneficiary receives 100 percent of the benefit that you were receiving if you die first. Since the beneficiary's benefit is greater than in option three or four, the reduction in your starting monthly benefit is also greater. The reduction averages between 10 and 25 percent, depending on the differences in your ages. The beneficiary designated by the retiree at the time of retirement CANNOT subsequently be changed.

24% Chose - Pop-Up Options

Each of options three, four, and five can be elected with a pop-up feature. This provides that if your beneficiary dies first, your benefit will increase to the amount which would have been payable under the basic option. As a result, the reduction in the retiree's starting monthly benefit payment is slightly greater than it would be under the options without the pop-up feature. Twelve percent of retirees chose the option three pop-up, 4 percent chose the option four pop-up, and 8 percent of retirees choose the option five pop-up. This pop-up function may also apply in situations where there are court-ordered stipulations contained in a domestic relations settlement.

From the Retirement Book

A purchase of service is a valuable tool that may assist some members in being able to retire earlier and with a higher pension benefit. There are several types of allowable service that may be purchased for credit in VSTRS. Eligible service that may be purchased include teaching in a public or private school in Vermont or another state; state or municipal employment in Vermont or another state; restoration of a prior membership; and military, VISTA or Peace Corps service with a minimum of 15 years of creditable service. "Air time" (not representing any type of service) may be purchased once you have attained 25 or more years of service. In all cases, you cannot purchase service if you have a benefit available to you from another system for that same service. Service may be granted if you were on an approved leave of absence for professional study or acceptance of an exchange position, military duty, or out on an approved workers' compensation claim. You also may restore service credit lost while on an approved leave of absence for any other reason if it occurred after July 1, 1991. All service, with the exception of "air time" must first be verified before it can be purchased. You may download an "Application to Purchase Service" form on our web site at www.VermontTreasurer.gov/retirement/teachers-vstrs. Click on FORM in the right-hand side menu.

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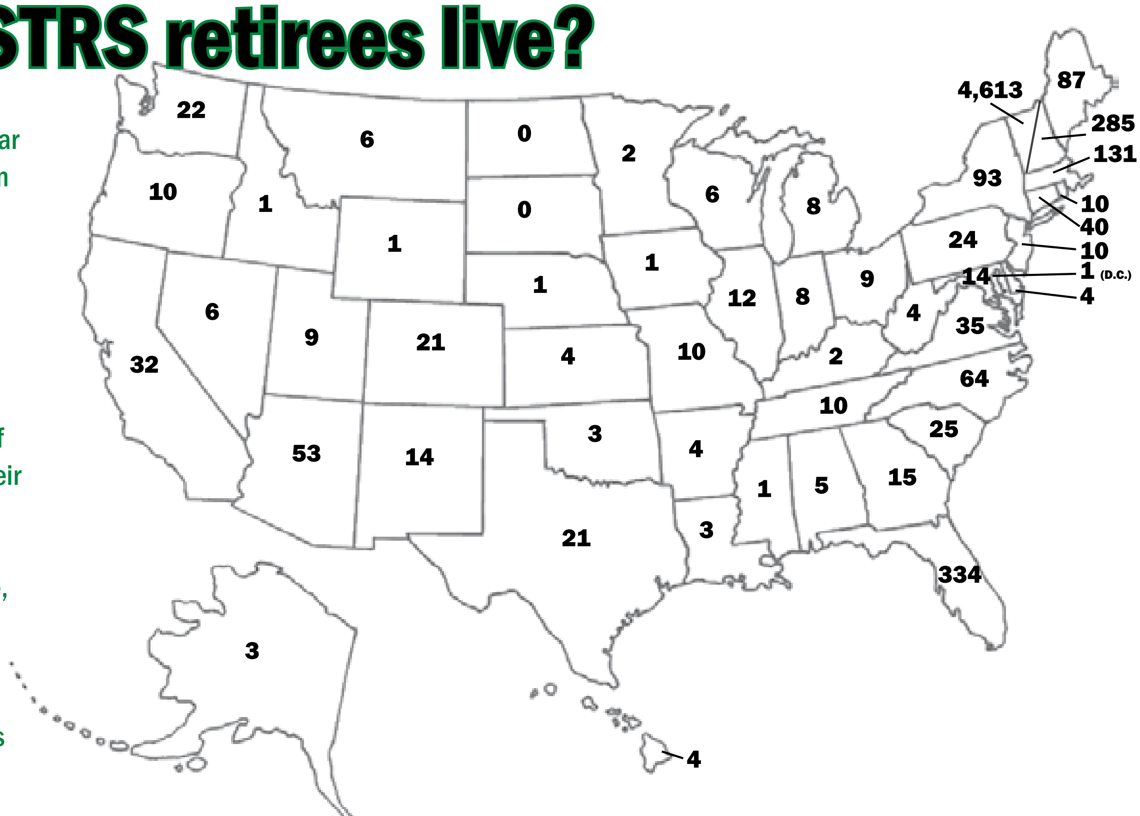
Where do VSTRS retirees live?

Hundreds of teachers retire each year from their jobs. While the perception is that many retirees leave Vermont for warmer climates, the majority choose to remain in the Green Mountain state. At right is a map of the United States and the number of VSTRS retirees living in each state. More than 75 percent of VSTRS retirees claim Vermont as their permanent residence. The second most popular place of residence is Florida, followed by New Hampshire, Massachusetts, and New York. It appears many retirees share the same warm sentiment expressed by President Calvin Coolidge about his home state, Vermont.



"I love Vermont because of her hills and valleys, her scenery and invigorating climate, but most of all because of her indomitable people." -- Calvin Coolidge