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Social Security Turns 80!

Ida May Fuller of Ludlow, Vermont was the first person to ever receive a monthly benefit check on January 31, 1940.

Retiring TIMES

Summer 2015



Vermont State Teachers' Retirement System

UPDATE ON PENSIONS

An Overview of How Your Retirement Benefit is Funded

Pensions are in the news. Whether it's a story on how plans are grappling with funding issues or studies reporting on the need for more Americans to save for their retirement – the issue of retirement and pensions are a daily news item. Such news coverage may prompt VSTRS members to wonder how their system is doing. *Retiring Times* would like to provide this overview of how your benefit is funded and what challenges lie ahead.

Defined Benefit Plan

Your pension plan is a defined benefit (DB) plan. In a DB plan, assets are pooled and professionally managed, achieving better investment returns, on

average and over time, and at a lower cost. The Treasurer's office continues to view DB plans as the most cost effective

A disciplined approach to containing costs and a healthy stock market both contribute to a stable pension system.

way to provide retirement benefits, for both the member and the taxpayer.

Pension Funding Model

There are three main sources of funds for VSTRS pensions: State general fund contributions; employee contributions; and investment earnings. Pension plans are "prefunded," which means that regular contributions for employees are made into a retirement fund during the course of their careers. Roughly 70 cents out of every dollar paid to retirees comes from investment income. As of June 30, 2014 the market value of the VSTRS pension fund was approximately \$1.7 billion. The annual retirement benefit payments to beneficiaries for the system last year were more than \$138 million paid to 8,806 retirees and beneficiaries.

There are currently 9,952 active employees contributing to the system. There has been a steady

(continued pg. 2)

Happy Birthday to Social Security



Today, more than 40 million retired workers and their dependants receive Social Security benefits of more than \$50 billion a month. In Vermont, benefits were paid to 140,634 people in 2014. This number included 94,631 retired workers who were paid an average monthly benefit of \$1,333. Social Security was created in response to widespread poverty among the elderly, which had grown dramatically as a result of the Great Depression. The goal of the program was to provide a dignified source of retirement benefit for America's workers. How has the program evolved over the years? This timeline chronicles the milestones in the program.

Aug. 14, 1935

President Franklin D. Roosevelt signs the Social Security Act.

March 11, 1937

Ernest Ackerman receives the first one-time lump-sum Social Security benefit.

Aug. 10, 1939

A change in the law adds survivors benefits & benefits for spouses and children.

(continued pg. 6)

(Update on Pensions Continued pg. 1)

decline in the number of active members contributing to the system, down by about 7.8 percent from its peak in 2009. At the same time, there has been a growing number of retirees. The ratio of active members to retirees was 1.25 in 2014.

Funding Status

While new rules for accounting of pensions were put into place by the Governmental Accounting Standards Board (GASB), GASB recognizes that states will continue to use other tools to address funding needs. Vermont, and other fiscally responsible states, continue to make funding decisions based on calculations of the funded status of the plan and the use of annual actuarial required contributions (ARC). The ratio of a plan's current assets to the liability determined by the actuary is one such indicator. VSTRS is currently 59.9 percent funded. This does not compare favorably to the other pension systems (State employees at 77.9 percent and municipal plan at 86.2 percent). VSTRS was not as well funded as the State or municipal plans going into the Great Recession, because of significant periods of underfunding of the actuary's recommended contributions in the 1990s and early 2000s, as well as the impact of paying health care from the pension fund without explicit funding sources.

What is the ARC?

The ARC, or the annual actuarially required contribution, is the amount of money that must be contributed on an annual basis as part of a funding plan to prefund pension liabilities and eventually pay off the unfunded liability. The ARC equals normal cost – cost of pension benefits being accrued in the current year – plus a payment to amortize the unfunded liability over an extended period of time. In the case of the Vermont plans, including the teachers, the unfunded liability is to be retired by 2038.

It is important to note that although paying the ARC represents a sound funding policy, funding of the ARC does not guarantee achievement of a 100 percent funding ratio. Differences between actuarial predictions and actual experience can occur. That is why it is so important to continue to monitor actuarial assumptions and update them, something Vermont does on a regular basis through what is called an experience study. That said, timely appropriation of the ARC is the key to success in funding your pensions.

Significant benefit changes and increases in employer and employee contributions have been made over the last several years to put the plans on a path to achieve full funding. This has involved efforts by employees and taxpayers alike.

"We appreciate the teachers working with us to make the necessary changes to achieve greater financial security for our systems and the efforts by the Governor and the legislature to fully fund the ARC since 2007," said State Treasurer Beth Pearce.

Positive Steps Forward

The State Treasurer's Office, administration, legislature and Vermont NEA have worked in partnership on several initiatives in the past few years to address the ARC, funded ratio and unfunded liability. These include:

- In 2010, changes made to the system saved more than \$15 million in annual ARC payments. Teachers stepped up-to-the-plate to help and the legislature continued to fund the ARC, despite post-Great-Recession budgetary pressures.
- Health care coverage in retirement also was adjusted in 2010 with the institution of tiered levels of subsidized health care premiums based on years of service. Spousal coverage also was made available for the first time.

- In 2013, an Employee Group Waiver Plan for retirees on Medicare was approved by the board of trustees. Retirees kept their same prescription drug benefit, but this change reduced the unfunded liability related to long-term health costs by as much as 19 percent. It will also bring in as much as \$4 million per year in federal cash payments.
- In 2014, the State Legislature passed a law that created a dedicated fund for teacher retiree health care costs, allowing the State to pay an increasing amount of health care costs each year and eliminate the growing liability to the system. This will save \$480 million in interest through 2038 and eliminate the financial drag placed on the pension under the previous funding model.

What's Ahead?

Pension plans provide a stable source of income for hard-working men and women who personally contribute to the plans—both financially and through years of service. Secure, reliable and adequate pensions also serve as an economic generator—retirees who buy goods and services support the local economy and help create jobs. The Treasurer's office remains committed to working with our partners to ensure the stability and security of the pension system.

NEWS... FROM THE RETIREMENT DIVISION

GREAT WEST CHANGES NAME

As a part of the Vermont State Teachers' Retirement System, employees have the opportunity to save additional money for retirement through tax-deferred 457 (b) or 403 (b) plans. These plans, offered through the State of Vermont, are managed by Great-West Retirement Services. In January, 2015, Great-West was renamed Empower Retirement. The Empower name unites the retirement business of Great-West Financial, Putnam Investments, and Great West Financial Retirement Plan Services. The services that VSTRS members receive through the 457 (b) and 403 (b) plans will not change. Members may still access their account information by going to www.vermont457.com. Members using the URL www.gwrs.com, will be automatically redirected to the new URL www.empowerretirement.com/participant. While the phone response greeting will include a new Empower greeting, the numbers remain the same: toll free (800) 457-1028; Vermont direct line (802) 229-2391; and fax to (802) 229-2637.

BOARD SEEKS ALTERNATE MEMBER

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. If interested, send a letter to the board with your qualifications and explain why you wish to serve. Address letters to: VT State Treasurer's Office, Retirement Division, VSTRS Executive Secretary of the Board, 109 State Street, Montpelier, Vermont 05609.

Director's Corner

by Laurie Lanphear, Director of Retirement Operations

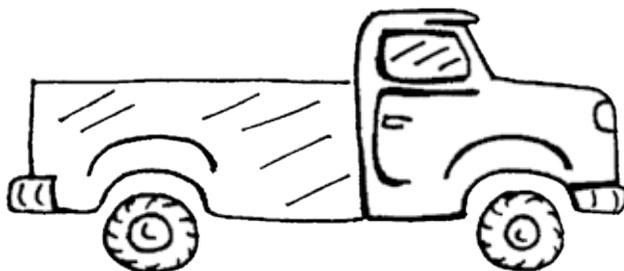
With the news that Social Security turned 80 years old this year, I was inspired to look into the history of the VSTR system. While not quite as old as Social Security, at 68 years old, VSTRS has still experienced many notable changes. Here are just a few of the historic highlights.



- **July 1, 1947** – The State Teachers' Retirement System of Vermont, a contributory, defined benefit plan, was established to provide a state-wide retirement system to teachers and administrators in public schools in Vermont. The state-wide system replaced a previous retirement plan called the Vermont teachers' retirement system. Teachers enrolled in the previous system were automatically enrolled in the new plan, with no loss of accrued creditable service or benefits. Approximately 2,200 active members were enrolled in the plan. By the end of the first fiscal year, that number had grown to 2,389, and had doubled by the end of the first five years. On July 1, 1952 there were 4,655 members in the plan. Historical records reveal 130 active members retired within the first twelve months, many of them having accrued the majority of their service in the predecessor system. We now formally refer to this system as the Vermont State Teachers' Retirement System (VSTRS). For many years, VSTRS was the only defined benefit plan offered to teachers, as they did not become eligible for Social Security coverage until the early 1960's. All members were provided with the same benefit structure that allowed for service retirement to begin as early as age 60 or upon attainment of 30 years of creditable service. Although there were numerous minor changes to the benefits and options for VSTRS members over the ensuing years, the first major change came in 1981.
- **July 1, 1981** – An alternative non-contributory defined benefit plan was introduced. Active members were offered an opportunity to transfer to the lower-benefit, non-contributory plan and receive a refund of their previously accrued contributions with interest. In lieu of receiving a full refund, members who elected to transfer could opt to invest some or all of their accrued contributions and interest into a newly created single deposit investment option that carried a guaranteed investment return of 15.24 percent for a 10-year period. More than 90 percent of the contributory members opted to transfer to the non-contributory plan, although not everyone took advantage of the new investment option. It is important to note that a 15.24 percent return back in 1981 was not as attractive as it would be today, as CDs were offering similar return rates. How times have changed!
- **July 1, 1990** – After nine years, members in the lower benefit, non-contributory plan began to realize that having to teach for 40 years to reach their maximum benefit was too long and they began to ask for an option to return to a 30-year plan. Legislators heard their request and passed legislation effective July 1, 1990 that effectively moved all members from the non-contributory plan back into a 30-year contributory plan. Under this plan normal retirement was allowed at age 62 or upon attainment of 30 years of service, whichever came first. At the same time, the benefits of the "old" contributory plan were enhanced in fairness to those members that elected to remain in that plan and continue making contributions during the interim.
- **January 1, 2009** – The VSTRS Board of Trustees, that has oversight responsibilities for the administration of the system, established a 403(b) plan that is available to all school districts. The goal was to provide an affordable yet comprehensive investment program to assist teachers and administrators in saving for retirement on a pre-tax basis.



Today, VSTRS continues to provide security and stability for thousands of teachers and administrators in public schools in Vermont. As of June 30, 2014, there were 9,952 active members enrolled in the system. The market value of the VSTRS assets totaled \$1,705,364,604, from which comes the annual retirement benefit payments totaling \$138,484,665 that were paid to 8,806 retirees and beneficiaries between July 1, 2013 and June 30, 2014.



If you are a retiree & receive a monthly benefit, you must notify the retirement office in writing of any address change.

INVESTMENT QUESTION

What is Asset Allocation?

If you are saving money for retirement as part of the defined contribution plan or through a supplemental plan like a 457, understanding asset allocation is important to making sound investment decisions.

Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds and cash. The asset allocation that works best for each individual largely depends on the person's time horizon and ability to tolerate risk. Time horizon refers to the expected number of months, years or decades that a person plans to invest funds to reach a particular financial goal. Risk tolerance is the ability and willingness to lose some or all of an original investment in exchange for greater potential returns. By including asset categories with investment returns that move up and down under different market conditions within a portfolio, an investor can protect against significant losses. Historically, the returns of the three major asset categories (stocks, bonds, cash) have not moved up and down at the same time.

(Source: U.S. Securities & Exchange, <http://www.sec.gov/investor/pubs/assetallocation.htm>)



Retirement Issues in the News!

Whether you are retired now or looking forward to stepping out of the work force in the future, the stories below were taken from recent news headlines to help you be better informed about topics related to your retirement investment.

Retirees Delay Claiming Social Security Benefits

May 12, 2015, CENTER FOR RETIREMENT RESEARCH — More people are claiming retired-worker benefits at a later age. This pattern is consistent with increased labor force participation at older ages and the rise in the average retirement age. With lower Social Security replacement rates, vanishing traditional pensions, and longer lifespans, many people will need to work longer to ensure a secure retirement. Working longer directly increases current income; it avoids the actuarial reduction in Social Security benefits; it allows people to contribute more to their 401(k) plans; and it shortens the period of retirement. For both women and men, claiming their Social Security benefit before they reach full retirement age has dropped, while claiming at or above the full retirement age has increased. The percentage of those waiting until their full retirement age, or the age at which they're entitled to full benefits, rose from 17.5 percent in 1996 to 28.1 percent in 2009 for both men and women. Workers claiming benefits at the age of 62 dropped from 56 percent in 1996 to 35.6 percent in 2013 for men and from 62.8 percent in 1996 to 39.5 percent in 2013 for women. Nevertheless, in 2013 more than a third of insured workers claimed Social Security benefits as soon as they became eligible. The question is whether this decision appropriately reflects the individual and family circumstances of these individuals.

EDITOR NOTE: Social Security notes that if a worker begins receiving benefits before his/her full retirement age, the worker will receive a reduced benefit. A worker may choose to retire as early as age 62, but doing so may result in a reduction of as much as 30 percent.

Fed Issues Report on Economic Well-Being

May 27, 2015, FEDERAL RESERVE SYSTEM — The Federal Reserve Board's latest survey of the financial and economic conditions of American households finds that individuals' optimism about future financial prospects has increased significantly. The 2014 Survey of Household Economics and Decisionmaking, provides new insights into American's economic

security. Sixty-five percent of adult respondents consider their families to be either "doing okay" or "living comfortably" financially, an increase of 3 percentage points from the 2013 survey. Looking forward, households are increasingly optimistic. Twenty-nine percent of survey respondents say they expect their income to be higher in the year following the survey, compared to 21 percent of 2013 respondents. The survey results also suggest that many individuals are not adequately prepared for retirement. Thirty-one percent of non-retirees have no retirement savings or pension, including nearly a quarter of those older than 45. Even among individuals who are saving, fewer than half of adults with self-directed retirement savings are mostly or very confident of their ability to make the right investment decisions when managing their retirement savings.

EDITOR NOTE: The State Treasurer's Office has an investment education page with in the financial literacy section of the web site. Go to www.MoneyEd.Vermont.gov and click on the Investment Ed Resources link on the right. On that page is a link to a beginning guide to investing from the U.S. Securities & Exchange Commission.

Fine Tune Your Skills to Spot Investment Fraud

June 10, 2015, FINANCIAL INDUSTRY REGULATORY AUTHORITY — The FINRA Investor Foundation, in collaboration with Doorways to Dreams (D2D) Fund, has launched a new educational tool in the form of an interactive game to help investors spot the psychological persuasion tactics used by con artists. The game, available for play on desktop or by downloading the phone or tablet mobile application, is designed to help investors outsmart investment fraud criminals. According to the Financial Fraud Research Center, Americans lose up to \$50 billion per year to fraud. To play the game, go to:

<http://www.conemifyoucan.org>



RETIREMENT SECURITY

Support of the Retirement Fund is a Shared Responsibility

by Beth Pearce, Vermont State Treasurer



The State Treasurer's Office is dedicated to providing retirement security to the 48,000 retired and active members of the Vermont Retirement System. As Treasurer it is my goal to make sure that fees and costs are reasonable and that retiree contributions and taxpayer dollars are managed in a way that is both prudent and cost-effective. Most importantly, I am committed to ensuring that all members can retire with dignity and security.

As we look at trends nationally, Vermont is not alone in dealing with recent difficult economic realities or in confronting tough budgets. What makes Vermont special

is that we come together to meet challenges and focus on innovative solutions rather than avoiding responsibility or kicking funding decisions down the road. By focusing on solutions that are inclusive and working through our partnerships with employee groups and other stakeholders, we can continue to get things done the right way in Vermont. That's the Vermont way of tackling tough issues.

I am committed to a strategy of fiscal prudence with the aim of providing long-term retirement security and pension systems that are affordable.

As Treasurer, I am committed to a strategy of fiscal prudence with the aim of providing long-term retirement security and pension systems that are affordable to both taxpayers and our members. Retirees who are secure in retirement buy goods and services and support our local economy. In short, a strong and well-funded pension system is good for Vermont's economy and retirees.

With investment earnings comprising approximately 70 percent of the retirement fund income, the importance of the State Legislature making the full actuarial appropriation is critical to ensuring the financial stability of the State employees' and teachers' systems. It was a challenging budget year. I want to thank the Governor and the State Legislature for funding the Actuarial Required Contribution (ARC) consistently since 2007.

As a State, we assume a shared responsibility to support our retirement system with Vermont's teachers, State employees, and municipal employees when they sign up to teach our kids, plow our roads, protect our streets, and fix our bridges. I have a duty as a fiduciary to be a steward of their retirement dollars. It is a privilege and honor to serve as Vermont's State Treasurer. I look forward to working with you to preserve retirement security and to continue to address the financial challenges that lie ahead. Thank you for your service to the State and your communities.

Retiree Update

JAN FEB MAR APRIL MAY JUNE JULY AUG SEPT OCT NOV DEC

2015	13	12	4	13	7	7	422					
2014	14	8	9	8	9	9	346	22	20	5	11	4
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

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Social Security Turns 80 . . . Jan. 31, 1940

(Continued from pg. 1)



This classic poster was distributed in 1936 during the initial issuance of Social Security numbers through U.S. post offices and with the help of labor unions. (Image courtesy SSA)

Ida May Fuller of Vermont receives the first monthly benefit check in the country from Social Security for \$22.54. During her lifetime, she collected \$22,888 in benefits.

Aug. 1, 1956

Monthly benefits for the permanently and totally disabled are available.

July 30, 1965

Medicare is signed into law, providing health insurance for the elderly.

Oct. 30, 1972

Supplemental Security Income (SSI) is established. The SSI payment is made on Jan. 1, 1974.

Oct. 1, 1988

Social Security implements its nationwide 800-number telephone service. By calling 1-800-772-1213, you can use their automated telephone services to get recorded information and conduct some business 24 hours a day.

May 1, 2012

my SocialSecurity launches, making the Social Security statement available online. Go to www.ssa.gov/myaccount to create a secure online account to track your earnings, get an estimate of your future benefits and make changes.

August 14, 2015

Social Security turns 80 years old! Today, an estimated 165 million workers are covered under Social Security.