



- **Good Planning Helps Focus Your Retirement Picture**
- **Designating a Beneficiary for Your Retirement Account**
- **Make an Investment in Financial Education**
- **New Wellness Program for Retired Teachers**

Vermont State Teachers' Retirement System

December 2007

# Retiring *TIMES*

Volume 7, Issue 2

## **There's Life After Work**

***Will your finances be in place for your retirement years?***

Preparing for retirement isn't one-size-fits-all planning. Financial experts estimate the average American will need at least 70 percent of today's income in retirement to maintain their current stand-

ard of living. That raises a lot of personal questions regarding exactly what the perfect retirement picture will look like. And the answers are as diverse as the people asking the questions.

One way to answer these questions is to look at your current lifestyle and the amount of income it requires. Consider how many of your existing expenses you'll still have to pay in retirement. How many new



*Photo by Dennis Curran*

*Above, visitors at Sandbar State Park enjoy a free concert. Vermonters, and most Americans, are living longer and have high hopes for how they will spend their retirement years. However, plans to enjoy "life after work" may become uncertain without a firm plan on how to make your retirement investments last. State employees took advantage of recent "Save for Retirement Week" activities to learn more about building additional retirement resources. Close to 200 employees visited retirement information booths at events in Montpelier and Waterbury. Many of the free resources distributed by the State Treasurer's Office are available at [www.MoneyEd.Vermont.gov](http://www.MoneyEd.Vermont.gov).*

**Stop worrying and start figuring.  
51 percent of people who examined their  
financial futures ended up changing  
their retirement plans.**

**– 2006 Employee Benefit Research Institute Survey**

expenses might you have—particularly ones associated with your medical care? National human resource specialists estimate that, on average, 20 percent of a retiree's income is spent on health care. If you plan to travel, how many trips would you ideally like to take each year? If you envision spending quality time with your grandchildren that may include entertainment and gifts, what might that cost?

### **Plan Now, Play Later**

Whether you're already retired or planning for future retirement, knowing where you are currently spending your money is a good idea. You cannot accurately determine the financial resources you'll need in the future without knowing what things cost today.

(continued pg. 5)

# Make an Investment in Financial Education

## Increasingly Complex Financial Systems Require Greater Knowledge and Skill

by **Jeb Spaulding**, Vermont State Treasurer

Most of us make “management” decisions each day regarding our finances. As you prepare for work, you decide you can afford to eat out that day and so you don’t pack a lunch. As you fill up your car with gas, you quickly decide whether the funds should come out of your checking account or that you’ll pay with a credit card. Throughout the day you evaluate credit offers that come your way through the mail, you decide how much you can spend supporting your child’s school fund-raising event, and you select the home heating oil provider that is most affordable to your needs. Just how financially wise these decisions are is directly impacted by the level of knowledge and skills you habitually apply to managing your money. Are you financially literate?

**The return on an investment in financial literacy can be very positive. Studies show financial education positively increases knowledge and changes behavior.**

There are national trends that suggest too many of us struggle with issues of personal financial literacy. Consider that the nation’s personal savings rate is now at its lowest rate since the Great Depression -- a negative one percent. Household debt as a percentage of income hovers at record levels. The ratio of household debt to personal income has risen from 60 percent of personal income to 100 percent. Too many Americans are spending more money than they bring home in income. When it comes to saving for retirement, most elderly Americans today are relying on Social Security as their major source of income. In this state, the average monthly benefit for a Vermont worker is approximately \$950.

Being “financially literate” means you have the knowledge, skills and habits to successfully manage your money. I believe that empowering every person in the State of Vermont with an understanding of how to plan his or her financial future is one of the best investments we can make. My office recently joined 35 other State Treasurer’s Offices in the country in making a commitment to financial literacy. As individuals increase their understanding of and practice of sound money management skills, the financial well-being of both the individual and the state will improve.

The return on an investment in financial literacy can be very positive. Studies show financial education positively increases knowledge and changes behavior. For example, studies show that individuals who complete homeownership counseling prior to purchasing a home had loan delinquency rates 34 percent lower than those who did not get such training. Households having financial difficulties because they have over-extended themselves experience fewer loan delinquencies and have better credit risk scores after participating in credit education and counseling. Employees who attend training workshops about retirement savings options offered by their employers often increased their participation in the companies’ 401(k) plans.

In advocating for financial literacy, the Treasurer’s Office joins a network of committed Vermonters already working within non-profit, community, governmental and financial institutions statewide. My office recently placed online a new database called the Vermont Financial Education Resource Clearinghouse. The clearinghouse features forty unique listings of Vermont-based organizations that offer free or low-cost instruction and resources. Services are accessible by county to allow people to identify resources in their local area. The clearinghouse may be accessed by going to [www.MoneyEd.Vermont.gov](http://www.MoneyEd.Vermont.gov), where you will find a new financial literacy section on the State Treasurer’s web site. There also is information there for teachers and community educators on teaching financial concepts; resources for saving for retirement; information on budgeting and managing credit; and a page for parents and kids.



Being “financially literate” has never been more important. As our financial markets become increasingly complex and consumer choices grow, we can quickly find ourselves off-track financially as we make money management decisions not in our best interest. It’s time to make an investment in financial education. I hope you’ll take the time to assess your personal skills and knowledge and then take advantage of the resources available to you. It’s one investment in time that’s guaranteed to bring you a positive return.

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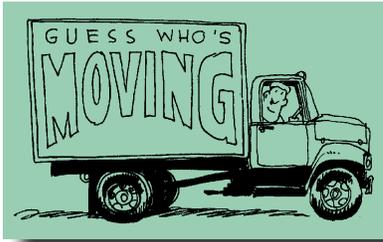
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*Retiring Times* is published twice yearly by the Vermont State Teachers’ Retirement System. Editor: **Lisa Helme**

# UPDATES FROM THE RETIREMENT DIVISION: A word on benefits, taxes, COLAs & address changes

## Address Changes in Writing, Please!



This is the time of year that we like to remind our “snow birds” that all address changes need to be received in writing. You need to send us a written address change when you leave Vermont and again when you return in the spring or summer. Written address changes received by the 15th of the month will be processed for that month.

## Wellness Program Available to Retired Teachers

The BC/BS insurance plans that are available to all retired teachers are purchased through the Vermont Education Health Initiative (VEHI). VEHI developed a 10 Week Wellness Program that was initially only available to active employees within targeted school districts. The program has been so successful that they have opened it up to retired teachers as well. Retirees should have received a recent mailing from VEHI describing the PATH (Planned Action Toward Health) initiative and the new 10 Week Wellness Program called Fantastic Human-Voyage. The program promises to be educational, a LOT OF FUN, and affords the opportunity to win a variety of prizes.....all for a mere \$10 entry fee. Everyone is strongly encouraged to sign up at [www.tomypath.com/vehi](http://www.tomypath.com/vehi) and begin your PATH to a healthier life.

## Vermont Teachers' Retiree Dental Plan Established

Two new dental plans will be available to all retirees of the Vermont State Teachers' Retirement System on March 1, 2008. A contract has been offered to Northeast Delta Dental to provide two levels of dental plan benefits to existing and future retirees and their eligible dependents. Existing retirees are being given a one-time option to elect coverage under one of the plans. Coverage must be elected no later than February 15, 2008. Employees retiring on or after March 1, 2008 will have the option to elect the coverage at the time they retire. Participation in one of the dental plans is a one-time option, and cannot be picked up at a later date. If you are a current retiree or beneficiary of a retiree, you should receive your enrollment materials the last week of December. If you do not receive your enrollment materials, you may go to our web site at [www.vermonttreasurer.gov](http://www.vermonttreasurer.gov) and click on “New Vermont Teachers' Retiree Dental Plan” to print out the enrollment materials, or you may call the Retirement Office at 1-802-828-2305.

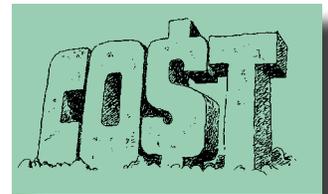
## Tax Withholdings on Retirement

Most of your retirement income from the Vermont Retirement Systems (VRS) is taxable, but an exclusion ratio will be applied so that a specified amount will be excluded from tax if you made contributions prior to July 1, 1992 on an after-tax basis. This exclusion ratio is based on the total after-tax contributions that you made during employment, or from a pre-tax purchase of service credit prior to retirement. When you retired, you were provided with specific information regarding the taxability of your benefit. In most cases, once you have received the total amount of the contributions you paid into VRS while you were working, your retirement benefit will become all taxable. While you were working, you received a W-2 form from your employer reporting your salary earned for that year. As a retired member, you will receive a 1099-R tax form from VRS to be used in preparing your income tax return. VRS will mail your 1099-R form by the end of January of each year. Whether you should have taxes withheld depends upon your personal financial situation. Some retirees do not have monthly deduc-

tions taken from their monthly retirement income because they make quarterly estimated tax payments directly to the IRS. You have the option of having federal and Vermont state income taxes withheld from your monthly benefit payment. To estimate your federal income tax withholding, please refer to the “MONTHLY PAYROLL PERIOD” tables in the IRS Federal Tax Guide. At the time of your retirement, VRS had you complete a “Form W-4P” (Withholding Certificate for Pension or Annuity Payments). You may change your tax withholding election at any time, and as often as you wish; simply complete a new “Form W-4P.” Changes in tax withholding must be received in the VRS office by the 15th of the month to be effective for the next month's benefit payment. If you are satisfied with your current withholding, no action is required. To change your withholding, complete a Withholding for Pension Payments form (IRS W-4P). You must indicate the number of withholding allowances and your marital status on the form. Under current law, you cannot designate a specific dollar amount to be withheld. However, you can designate additional amounts to be withheld. Please note that questions about the amount of taxes to withhold or the need for tax deduction should be directed to a professional tax consultant.

## Cost of Living Adjustment Effective January 2008

Retirees will receive a COLA (Cost-of-Living Adjustment) in January of 1.35% for those retired from Group B or C and 2.7% for those retired from group A. To receive the COLA, you must have received at least 12 pension checks. If you have not yet received your first 12 pension checks, you will not receive a COLA until January of 2009. Retirees who retired under an early retirement are not eligible for a COLA until the January following their 62nd birthday.



## Turning 65? What About Health Insurance?

If you are retired, or covered by a retired member's health insurance, you are required to pick up Medicare Part A and B as your primary carrier when you turn 65. You will receive a letter from our office approximately 2 months prior to your 65th birthday with a reminder to pick up the Medicare coverage effective the month in which you turn 65. You will also receive a BC/BS Medicare Supplemental form to convert your medical coverage to one of the three plans available for Medicare-eligible retirees/dependents. The BC/BS form must be returned to the Retirement Office along with a copy of your new Medicare card promptly in order to make the adjustment in your medical premium effective in your pension payment at the end of the month preceding the month in which you turn 65.

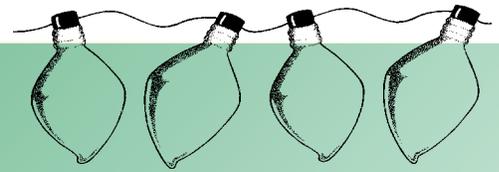


## Membership in the Vermont Retired Teachers' Association

The Vermont Retired Teachers' Association (VRTA) is an exciting group of retired teachers with a wide variety of interests and activities. Sandra R. Veilleux has volunteered to be VRTA's new Membership Chairperson. Please contact Sandra at 642 Texas Hill Road, Hinesburg, Vermont 05461 if you are interested in becoming a member of this very worthwhile and rewarding association.

# Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach



I have used this space in the last several newsletters to provide you with an update on the many changes that have been occurring in the Retirement Division. Because Project Manager Marge Sweeney has written an article for this newsletter on the status of VPAS, our new pension system project, I will take this opportunity to write about another subject that I believe is of the utmost importance to both active and retired members.

## BENEFICIARY DESIGNATIONS

**Fact** – Of the 10,237 active State members, only 6,351 have designated a beneficiary(ies) on their retirement account. That leaves 3,886 with NO beneficiary listed. If you are an active member, it is very important to have a current and appropriate beneficiary designated on your retirement account. The reason for this is two-fold:

1. The retirement office is holding money on your behalf. As a contributory member, you make contributions each pay period into your retirement account. Your contributions earn annual interest at the rate of 4.8%. If you should die, this money will be paid to your primary beneficiary(ies). If you do not have a beneficiary designated, the money will be paid to your estate, which must be probated before it will get to your loved ones.
2. In lieu of a return of your contribution balance, there is a survivorship benefit available for your designated primary beneficiary if you have a minimum of 20 years of service, or if you have five years of service and are at least age 55. This is an extremely valuable benefit that could provide an income stream to your spouse or civil union partner in the event of your death while still actively employed.

If you have not already done so, I strongly recommend that you take the time to ensure your designated beneficiary is up-to-date. If you are married with children, the ideal designation is your spouse as your primary, and your children as your contingents. Although you may name anyone you wish as your beneficiary, the survivorship benefit is only payable to a dependent designated beneficiary. If your beneficiary is not a dependent, a lump sum payment of your contributions with accumulated interest would be made. If you are unsure who you have as your designated beneficiary, or whether you have established a beneficiary, please review your Annual Benefit Statement that was mailed to you during the middle of October. The statement will reflect your primary beneficiary only. If the statement reflects ESTATE, you do not have a designated beneficiary on file (beneficiary forms filed after June 30, 2006, would not be reflected on the Annual Benefit Statement).

If you are a retired member, it is still important to keep your beneficiary updated as circumstances change. You were required to establish a beneficiary at the time you retired, regardless of the option you selected. If you elected a life-only option (Maximum or Guaranteed Return), you may change your beneficiary whenever you choose. If you elected one of the Survivorship Options, you cannot change your beneficiary unless that beneficiary dies. At that time, you may designate a new beneficiary to receive the proportionate amount of your benefit payable for the month in which your death occurs. You may not designate a new beneficiary to receive the survivorship option after your death. Please contact us at 1-800-642-3191 or 828-2305 if you need further information, or would like a form to update your beneficiary.



## Plans Call for Launch of Active Member Phase in February

The Vermont Retirement Division is now testing the State's new Vermont Pension Administration System (VPAS). The new software system will replace the current pension data management system that's been in place for more than 25 years. VPAS features a fully integrated browser-based pension system. The new system will allow members access to their information via the web. It's estimated that web-based access will be available early in 2009.

Work now underway includes a "cleaning" of the data to ensure accuracy and the performance of the new system. The first phase of a two-phased approach to install the pension software is expected to "go live" this February. Phase one, the active members phase, involves the activities dealing with a member prior to retirement and includes employer reporting, annual statements, estimates and retirement planning, and purchases of service

credit. The second phase, the retired member phase, deals with the activities of members once retired and includes pension payments, tax withholdings, and insurance deductions. The benefit phase is expected to "go live" in January 2009.

Retirement division staff began training on the system in November. Next, staff will operationally test VPAS using a wide-range of user scenarios. Training for payroll officers for the Municipal and Teachers' systems will begin in February and March of 2008.

During this peak implementation period, retirement division staff will work to balance member requests for information with the VPAS phase-in. Staff will prioritize requests for information based on the time urgency of the need, such as members closest to filing for retirement. Division staff will do their best to respond in a timely fashion.

## (Retirement Planning, Continued)

If you don't have a budget or spending plan in place, it's time to create one. A simple budget will list all of your monthly recurring bills such as your mortgage or rent payment, car payment, and utility bills. Your budget should include estimates of monthly expenses for items where costs can vary such as food, clothing and gas for the car. Your budget also must include your monthly income. If you have questions about drafting a budget or tracking monthly expenses, the Treasurer's Office has a new financial literacy web site. You may get more information by going to [www.MoneyEd.Vermont.gov](http://www.MoneyEd.Vermont.gov).

Now that you have an idea of what it costs to maintain your current standard of living, you need to consider how these expenses might change. One big consideration is the impact of inflation. Inflation refers to the anticipated rise in the cost of goods and services, particularly as it relates to your income. If the cost of buying a car goes up 5 percent, your wages would also need to rise 5 percent to keep the same level of purchasing power you had before prices rose. Consider the cost of inflation on food. In the first four months of 2007, food inflation was at 6.7 percent. At that rate, a one dollar loaf of bread would nearly double in 10 years to cost \$1.91. That may not seem like a big deal, but if you examine your total yearly expense for food, it can add up. The example below indicates how much you might spend on food for two people over a 15-year period.

**\$5 a meal X two people X three meals a day X 365 days a year**



**= \$10,950**

**Spend 15 years in retirement**

**= \$164,250 for food!**

## I'm Already Retired--What Are My Options?

The average life expectancy for someone who is 65 years old today is now 17.5 years--six years longer than it was in 1935. A major challenge for current retirees is making sure the income they do have lasts throughout their lifetime. A growing number of retirees are opting to "semi-retire" and continue working part-time. Earning new wage income allows you to reduce the amount of money you need to withdraw from retirement investments to supplement Social Security and a pension. Assume someone is 65 years old and is about to retire and collect Social Security. The person has saved \$100,000 and needs \$24,000 a year to live on and will receive \$12,000 from a small pension and Social Security. This means the retiree will need to withdraw \$12,000 from retirement savings each year. If the individual withdraws \$12,000 each year, by age 75 the retiree will have less than \$20,000 in savings and be in danger of outliving his or her investments.

In their guidebook for late savers, the National Endowment for Financial Education suggests a safer option is to withdraw \$4,000 a year, representing 4 percent of the \$100,000 nest egg, and make up the difference through self-employment. A number of recent studies suggest that retirees should not annually withdraw more than 4



*Despite persistent rains, close to 100 people stopped by a "Save for Retirement Week" booth in Montpelier in late October. Above, Retirement Specialist Tina Kawecki and Great-West Retirement Representative Chip Sanville prepare to speak with booth visitors.*

to 4.5 percent of their base investment. If the semi-retired worker earns a higher rate of return than 4 percent on the nest egg, the account balance will continue to grow and provide a cushion against inflation. Assuming that half the investment is in stocks and the retiree only withdraws 4 percent of the funds, there has never been a 25-year period since 1925 when an investor would have run out of money.

Current retirees may also find additional income by making sure they are fully leveraging all assets. For example, if you own your own home you might consider accepting a boarder who will pay you monthly rent. Reverse mortgages also can help you convert home equity into spendable income without having to move. A reverse mortgage is a special type of home loan that allows a homeowner to convert a portion of the equity in the home into cash. The U.S. Department of Housing and Urban Development (HUD) offers free information and counseling for people interested in evaluating this option.

## Take Advantage of Savings Opportunities

In planning for your retirement, make sure you are taking advantage of all retirement savings opportunities through your workplace. The State offers employees a 457 Deferred Compensation Plan that enables participants to reduce their taxable income and grow additional funds for retirement. Be aware of what your Social Security benefit may be at retirement and, if you are within two years of retiring, consult with a retirement specialist in the State Treasurer's Office to determine what your monthly benefit might be. The Treasurer's Office also has a free packet of retirement planning material available to anyone wanting more information on saving for retirement. You may request the materials on-line through the Treasurer's Office web page on "Saving for Retirement" or call 1-800-642-3191 to have a packet sent to you. By planning for your future now, you will hopefully have fewer unanswered questions unexpectedly arising to spoil your unique retirement picture.

## (Retirement Benefits Funding, Continued)

concerning certain events that will affect pension costs. The actuarial valuation assesses the financial health of a pension plan. This assessment examines such things as potential salary growth, interest, investment earnings, and mor-



tality rates. State contribution rates are determined each year based on the valuation. State contributions must be sufficient to provide the funds from which the promised pensions can be paid when due.

## Vermont State Teachers' Retirement System

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### A DISCUSSION ON . . .

## *How are my future retirement benefits funded?*

**Pension benefits** are essentially IOUs to employees that accumulate while they are working and that are cashed in at the time of retirement. These benefits also represent a partnership, since employees make ongoing contributions to the plan with the expectation that the State will meet its obligations. The Vermont State Teachers' Retirement System (VSTRS) is a defined benefit system. As a defined benefit plan, VSTRS promises to provide its members with a monthly benefit beginning at each member's retirement. The benefit continues until the death of the member and is based on the retirement options selected. If a survivorship option is selected, the member's benefit also will continue through the life of the designated beneficiary.

**As more members approach retirement, and lifespans increase, it's anticipated that significant increases in benefit payouts will occur.**

Benefit payments continue to increase from \$50.4 million in FY 2003, to \$55.2 million in FY 2004, \$60.1 million in FY 2005, and \$66.3 million in FY 2006. VSTRS paid out nearly \$74.4 million in benefits to retired members in FY 2007. In order to fulfill the promise of paying employees future retirement benefits, VSTRS has developed a funding plan. This plan aims at accumulating funds that when properly invested will fund member retirements. The funds come from three sources.

**Employee Contributions:** Plan members made approximately \$22.5 million in contributions during the fiscal year ending June 30, 2007.

**State Contributions:** In fiscal year 2007, VSTRS collected \$37.3 million in State contributions. Additional revenues include approximately \$1.2 million in federal reimbursement from the Medicare D program.

**Investment Returns:** Interest earned on investments from the retirement fund are the largest source of funds used to pay benefits. After all investment expenses were deducted, the fund earned \$244.4 million in FY 2007. Investments vary from year to year and are based on market conditions. Investments consistently produce interest income to fund retirement benefits and remain the number one funding source.

As more members approach retirement, and lifespans increase, it is anticipated that significant increases in benefit payouts will occur. VSTRS must accumulate funds now to meet future funding needs. This is an ongoing challenge for the system.

A key to determining how much money VSTRS should have in the retirement fund to pay current and future benefits is the recommendation made by an actuary. An actuary is a specialist in the mathematics of risk in which assumptions are made and evaluated

(continued pg. 5)