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Vermont State Teachers' Retirement System

July 2008

# Retiring *TIMES*

Volume 8, Issue 1

## State to Offer New Retirement Investment Program *Legislation authorizes VSTRS to create a 403(b) program*

Changes in federal law are altering the traditional landscape for supplemental retirement savings programs for Vermont's public school districts and their employees. These supplemental retirement savings programs, typically referred to as 403(b) plans, have undergone changes in recent years that reflect updates in the Internal Revenue Code and increased choice within the financial services area.

In the 2008 legislative session, the State Legislature passed Act 162 which authorizes the creation of a new statewide 403(b) Investment Plan. The bill is intended to encourage saving for retirement and assist school districts in addressing changes in federal tax laws.

"I am pleased that VSTRS has stepped up with plans to offer school districts an option for providing employees with a supplemental retirement savings

**The VSTRS board is committed to offering a high-quality, low-cost investment program that is easy to understand and utilize.**

plan that addresses new IRS fiduciary requirements," said State Treasurer Jeb Spaulding.

The bill was submitted by the State Treasurer's Office in response to requests from several school districts and organizations. Previously, federal law

(continued pg. 2)

## "This legislation provides peace of mind . . ."

The goal of bill S.354 was to make a high-quality, low-cost optional supplemental retirement investment program available to Vermont teachers. The bill was supported by the State Treasurer's Office, the Vermont Superintendents' Association, the Vermont Association of School Business Officers, and the Vermont NEA. Below are a few comments on the legislation.

"This legislation helps provide peace of mind to the supervisory union that must now assume fiduciary responsibility for all of the 403(b) plans offered within their district. I know that the State Treasurer's Office and the retirement board will perform extreme due diligence in evaluating the investment products that will make up the State 403(b) plan. It will be a benefit to our employees and I believe more people will participate and begin saving additional money for retirement."

-- **Tom Petit, Operations Officer, Caledonian North Supervisory Union**

"As employer responsibilities are being ratcheted up, school districts would be wise to ensure that the required operational services are in place, and serviced to the extent possible by the vendors named in each district's plan. The State Treasurer's 403(b) product may be helpful to Vermont school districts to consider, among other products, for inclusion in their Plan Document."

-- **Mike Deweese, Superintendent, Chittenden Central Supervisory Union**



Above, Chittenden Central SU Superintendent Mike Deweese and Assistant Superintendent Judith Prince-DeNova. At left, Caledonian North SU Operations Officer Tom Petit.

## DEFERRED COMPENSATION PLAN NEWS

### *Socially Responsible Options*

As a member of the VSTRS, you have the opportunity to regularly put money away for retirement through the Vermont 457 Deferred Compensation Plan. Since the money invested in the plan is deducted before your taxable income is calculated, you are reducing your taxable income while increasing your retirement savings. The plan, available to all school districts, is managed for the State by Great-West Retirement Services. However, not all employers choose to adopt the plan.

Among the investment options you may choose from are an expanded menu of socially responsible funds. In general, such funds invest in companies that operate ethically, provide social benefits, and are sensitive to the environment. A popular focus for such funds recently has been environmentally friendly or "green" companies and mutual funds, Sudan-free and Iran-free investments, and "terror-free" investments.

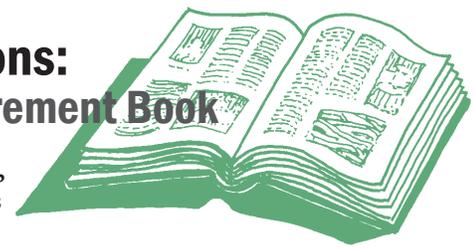
Three socially conscious funds were added to the investment line-up last July. These funds were the Calvert Social Investment Bond A Fund, Vanguard FTSE Social Index Fund, and the Pax World Balanced Fund.

If you're interested in learning more about socially responsible investing, the Internet can be a good resource. One web site to get you started is the Social Investment Forum at [www.socialinvest.org](http://www.socialinvest.org). This national non-profit membership organization is dedicated to the concept of socially responsible investing.



For more information, call the local Vermont office of Great-West at 1-800-457-1028 and press option 2, or visit the plan's web site at [www.vermont457.com](http://www.vermont457.com). Also, speak to your employer if the plan is not available to you.

## Your Questions: From the Retirement Book



**Creditable Service**, commonly referred to as Service Credit—what is it and how is it calculated? A member's total Creditable Service at retirement is an important component in the defined benefit formula that determines what the monthly pension allowance will be after retirement. The more years of Creditable Service a member has at retirement, the higher the retirement benefit will be until the member reaches his or her maximum benefit allowed by statute. In general, a member receives one year of retirement service credit for each year he or she is employed as a full-time teacher and is an active member in the system. If the member works part-time, he or she receives partial credit based on the percentage of full-time pay received. Creditable Service also may include various types of allowable service which has either been purchased into the system or has been granted by the VSTRS Board of Trustees.

The board is charged with determining how much service in any year is equivalent to one year of Creditable Service. The board adopted a policy effective July 1, 1992, that states, "A member who teaches a minimum of 175 full days will receive a full year of retirement service credit. If a member teaches less than a full 175 days, the creditable service credit will be pro-rated accordingly."

Creditable Service is found in statute at 16 V.S.A. § 1931. If you have questions regarding whether a specific type of service qualifies, or if you want more information on how part-time service is calculated, call the retirement office at 1-800-642-3191.

### (New Investment Program, Continued)

did not require school districts to assume fiduciary responsibility for all of the 403(b) plans offered within their district. School employees could sign on with whatever plan provider they wanted. If the employee experienced problems with the plan, the school district was not responsible. After 2008, new federal law provisions required school districts to select appropriate investments for their employees. It was within this context that the Vermont Superintendents' Association approached the State Treasurer's Office and requested that the State consider providing a 403(b) investment product.

**Investment policy guidelines will ensure all of the funds offered are of the highest quality in their respective asset classes.**

Under Act 162, the new 403(b) Investment Program will be administered by the Vermont State Teachers' Retirement Board of Trustees. A 403(b) Investment Program allows employees to deduct money from their wages on a tax-deferred basis that may be invested in a variety of mutual funds during the employees' working years. Contributions made to a 403(b) reduce an employee's taxable wages during employment and the money accumulates tax-free until withdrawn after retirement.

"The VSTRS board is committed to offering a high-quality, low-cost investment program that will be easy to understand and utilize," said Cynthia Webster, Director of Retirement Policy and Outreach for the Treasurer's Office. "A unique feature of the program will be the total transparency of all fees associated with the program. Employees electing to participate in the plan will know up-front what fees they will be paying for the management of the

mutual funds, as well as any administrative fees."

Nationwide, investors in some 403(b) investment products have expressed frustration over fees charged to manage retirement savings accounts and fees being hidden within investment returns. The VSTRS board is committed to ensuring that participants understand all fees associated with an investment program in order to make an informed decision regarding the most appropriate program for them.

Another unique feature of the VSTRS' 403(b) Investment Program will be the on-going monitoring of the mutual funds available through the plan. Investment policy guidelines will be established to ensure that all of the funds offered are of the highest quality in their respective asset classes and that the funds continue to meet the performance criteria contained in the guidelines.

"As the VSTRS board is not looking to make a profit, the board will not hesitate to replace an under-performing fund with another in its class that better meets the investment policy guidelines," Webster explained.

The VSTRS board has issued a Request for Proposals to solicit bids from vendors who wish to offer a selection of mutual funds and act as third-party administrator to provide recordkeeping, enrollment and marketing services for the new program. The board expects to select a vendor by the end of July, and have the new Investment Program ready to market to school districts by early September. The new program will be accepting contributions beginning on January 1, 2009. More complete information about the VSTRS 403(b) Investment Program will be available on the Treasurer's web site in early September. Complete details about the plan also will be distributed to school districts and supervisory unions in the fall.

# Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach



**Our office receives** many calls each year inquiring how Average Final Compensation is calculated at retirement. I would like to clarify this important issue for our members.

**16 V.S.A. § 1931(4) defines Average Final Compensation (AFC)** as “the average annual earnable compensation of a member during the three consecutive fiscal years beginning July 1 and ending June 30 of creditable service affording the highest average.” This section goes on to define how a member’s AFC will be calculated should the member retire during a fiscal year. The AFC definition includes the following provisions:

- Members who work less than full-time shall have their reported earnable compensation annualized for purposes of determining their AFC.
- An increase in compensation in excess of 10 percent in any of the years used to calculate AFC will be considered to be designed to unjustifiably inflate the member’s retirement benefits and will be excluded unless the board determines that such compensation was paid for significant additional duties. For purposes of this provision, “senior teacher programs” and similar arrangements do not constitute significant additional duties. For purposes of calculating AFC for any

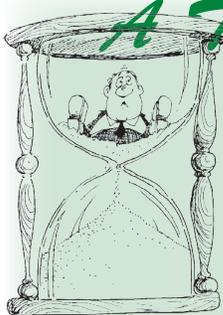
member, payments made in lieu of benefits as defined by the board will not be considered part of a member’s AFC. For purposes of determining AFC for group C members, unused annual or sick leave, termination bonuses, and any other compensation for service not actually performed will be excluded.

In order to fully comply with the intent of the AFC definition provisions detailed above and still leave room to recognize the earnings paid for substantial additional duties, the VSTRS Board of Trustees adopted the following policy on May 29, 2008, to be effective July 1, 2008: *School districts must submit to the Vermont State Teachers’ Retirement System’s Board of Trustees individual requests to include any compensation in excess of 10 percent for each participating member by May 31, or later for cause shown, for the coming school year. Excess compensation must represent payment for significant additional duties.*

Each individual request must include a detailed list of the additional professional duties to be performed by the participating member. Each specific duty must include an estimate of the total number of hours expected to be performed to complete the task over the course of the school year. The Retirement Division does understand that this is just an estimate and that the actual hours spent on each duty may vary from the estimate over the course of the year. The total additional compensation that will be paid to the participating member for the additional professional duties must be included with the submission. Finally, compensation for hours worked may not exceed the normal contracted hourly rate for the teacher (i.e., normal hourly rate equals annual teaching/administrator contract divided by 7.5 hours per day and divided by the 175 days in a school year).

The VSTRS Board of Trustees will notify school districts within 60 days of submission of the request whether the additional compensation may be included in the AFC for the member. For specific questions regarding what is considered earnable compensation for retirement purposes, please contact Wendy Lee at 1-802-828-5190 for clarification.

## A Timely Reminder



Retirement benefits from the system do not start automatically. You must contact the Retirement Division in the State Treasurer’s Office to complete needed paperwork before any benefits will begin. Also, unlike Social Security, your retirement benefits do not increase after normal retirement age if you are no longer working. The normal retirement

age is typically age 62. In fact, if you terminate employment, and are beyond normal retirement age, you will lose money if you postpone the application process. Members nearing retirement may be interested in more detailed information regarding benefits, including optional forms of retirement benefits or early retirement options. The retirement office is happy to complete personal retirement estimates for you. Contact us at 1-800-642-3191 to schedule an appointment.

## Workshops Assist in Retirement Planning

**The retirement office** participates in workshops sponsored by VT-NEA throughout the state in the fall of each year, as well as provides one-on-one counseling sessions to interested members at the annual VT-NEA conference in October. We also travel to various locations in the state to conduct mini workshops or presentations about the benefits and structure of the VSTRS. Please contact our office at 1-800-642-3191 if you would like someone to come to your location to explain the VSTRS to interested teachers or administrators. New this fall is *Keeping the Gold in Your Golden Years*. This free 90-minute community workshop teaches you how to get your personal finances on track to cover future retirement expenses. Call 828-3706 for more information. Also, the Retirement Division is pleased to speak to employee groups on requested topics. To request a topic, call 828-2302.

# UPDATES FROM THE RETIREMENT DIVISION: *Health Insurance News & Update on H.883*

## Team of the Year Named for Treasurer's Office



Monica Chiren (lower left) and Cheryl Taylor are recognized for their work at the May 5 annual State's Employee Recognition Luncheon. Joining them are Retirement Operations Director Michael Clasen (left) and Treasurer Jeb Spaulding.

Retirement Operations Customer Service Technicians Monica Chiren and Cheryl Taylor were named the Team of the Year for the Office of the State Treasurer. The recognition was part of the State's annual Public Service Recognition Week observance. "As the primary front-line service representatives for the Retirement Division, Cheryl and Monica excel at providing excellent and thorough customer service," said State Treasurer Jeb Spaulding. When you call in with a retirement question, join us in congratulating them for their good work!

## Teacher Pensions a Boost to Vermont's Economy

The Vermont State Teachers' Retirement System paid out more than \$6.85 million in pension payments in May of this year. Those payments went to 5,525 retired teachers and their surviving beneficiaries, the majority living in Vermont. Approximately \$5.06 million was received by 4,164 Vermont residents. Projecting the monthly May pension disbursement over a 12-month period results in more than \$60.72 million of income flowing into Vermont's economy each year.



## H.883 Cleans Up Retirement System Language

In addition to the passage of Act 162, detailed on page one of this newsletter, the Legislature passed several additional provisions that impact the retirement system. Act 137, formerly called H.883, was enacted to allow numerous technical corrections to the three



public retirement systems in Vermont. The majority of the amendments clarified or codified current practices in the system. There was one change that affects eligibility for survivor benefits if a member's death occurs while actively employed. A summary of the provisions contained in Act 137 affecting the Teachers' Retirement System is

below.

- Amends the definition of "actuarial equivalent" to remove reference to regular interest, and replaces it with a reference to the actuarial assumption for the rate of return on investments of the plan assets.
- Changes the eligibility for a death-in-service survivorship

benefit from 20 to 10 years of service.

- Adds an alternate member for active and retired board members, and provides the authority for the alternate to vote as the absent trustee.
- Changes the maximum number of years that a service purchase may be spread over from three to five years.

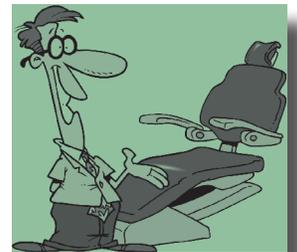
If you have questions regarding how the above amendments may impact you, please call the Retirement Division at 1-800-642-3191.

## Health Insurance Rates Update

Effective July 1, 2008, the health insurance rates for retired teachers increased an average of just 5 percent for non-Medicare-eligible group members. The rates for Medicare-eligible members remain unchanged from the prior year. According to the Vermont Education Health Initiative, the organization that negotiates the health insurance rates with Blue Cross Blue Shield of Vermont, the 2008-2009 premium renewal figures are the lowest increase since 1998-1999. Additionally, this is the third consecutive year, and the fifth in the last seven years, that rate increases have been less than 10 percent. This is significant given the skyrocketing insurance rates that have been occurring at the state and national level over the past 10 years. The actual insurance rates can be found on the Treasurer's web site at: <http://www.vermonttreasurer.gov/retirement/teacher/insurancePremiums.html>.

## 24 Percent of Retirees Participate in New Dental Plan

As a result of numerous and frequent requests from retirees, legislation was passed during the 2007 session that allowed the VSTRS Board of Trustees to offer a dental plan to existing and future retirees. The board issued a Request for Proposals last fall, and was successful in contracting with New England Delta Dental to provide two levels of dental plan coverage. Effective March 1, 2008, anyone retiring on or after March 1 had a one-time option to join one of the dental plans at retirement. Retirees could opt to cover themselves and all eligible dependents. At the time of the initial enrollment, more than 1,300 existing retirees elected to pick up the dental coverage for themselves and their dependents. The vast majority chose the higher benefit plan that provided the most comprehensive coverage for a few extra dollars per month. The retirement office has received very favorable comments from those using the plans. It is expected that most new retirees will elect to continue their dental coverage into retirement. Also, it is important to clarify an exception to the one-time option to elect coverage. The exception applies to retirees who already have dental coverage, either through their own active employment or their spouse's active employment. If either is the case, a retiree may elect not to pick up the coverage when it first becomes available and wait until the existing coverage is no longer available due to termination of employment. At that time, a retiree has 60 days during which to obtain coverage through the VSTRS. If that election period expires, there would be no other opportunity to obtain dental coverage at a later date.



# Balancing Pension Portfolios in a Volatile Market

## Long-term Perspective Guides Pension Asset Investments

by Jeb Spaulding, Vermont State Treasurer

“Volatile” and “roller-coaster ride” are both terms used a lot these days to describe the performance of financial markets. With more than \$3 billion in combined assets within Vermont’s three statutorily defined pension plans, the Vermont Pension Investment Committee and the Office of the State Treasurer have definitely been monitoring the markets and the impact such volatility is having on our investments. The sub-prime mortgage loan crisis, followed by a tightening of available credit and higher corporate interest rates, and rising energy prices have fueled the rapidly changing market prices. Despite such volatility, the long-term investment goals for Vermont’s pension assets will allow us to safely weather such challenges.



Vermont’s pension funds are invested in a diverse portfolio that includes stocks, bonds, and real estate securities. In the past decade, the Vermont Retirement Systems have added or increased commitments to global bonds, small company stocks, and high-yield debt. Recently, the Vermont Pension Investment Committee (VPIC) made a greater commitment to emerging market international stock portfolios to allow us to take advantage of this rapidly growing sector. This type of balanced portfolio reduces investment risk while increasing assets to cover the costs of the pension system.

The consolidated fund assets for the State Employees’ Retirement System, State Teachers’ Retirement System, and the Municipal Employees’ Retirement System are administered by the VPIC. As State Treasurer, I serve on that committee. The VPIC has concurrent goals of both capital preservation, or safety, and return on investment. Investment decisions are carefully weighed against these goals. This approach to investment has helped the VPIC minimize losses, such as those you may have read about recently related to the sub-prime mortgage loan crisis. While not immune from the impact the sub-prime credit crisis is having on the overall market, VPIC portfolios are largely composed of types of investments that have fared well in a volatile financial environment.

Nationwide, the 10-year domestic public pension fund median return on investment is 6.1 percent. The long-term weighted average performance of Vermont’s combined retirement systems investments over the last ten years has exceeded that level. In the short term, the volatile market is impacting our rate of return. While our investment performance is currently below the actuarial targeted return rate of 8.25 percent, the VPIC believes the current asset allocations in our portfolio will generate the required actuarial returns over the long term.

**As we look at the impacts of the current market volatility, our pension investments track with our 10-year performance record.**

The VPIC is staying with its long-term investment strategy. In keeping with that strategy, the VPIC has a policy of rebalancing the target asset allocation percents on a semi-annual basis. That means we look at the holding values of our different asset classes and add and subtract from each asset class as it falls or rises above targeted levels.

Historical downturns in the market are well documented. However, also well documented are the upturns in the market. Periodic downturns in investment marketplaces are an inevitable component of any investment program that seeks higher levels of total return over a long period of time. Vermont’s pension fund assets are invested for the long term, consistent with the long-term obligations to pension fund participants. *Your pension benefit is contractually guaranteed to you through the retirement systems, whether the pension asset investments that support the systems are returning a high or low rate of return.* Each year the combined pension funds pay more than \$140 million in benefits. The Vermont retirement systems are intended to function productively over many lifetimes. I am confident the current market volatility will, in time, become historically just one more challenge that the system vigilantly worked through to successfully manage the pension portfolios through change.

*For more on the investment work by the State Treasurer’s Office, go to [www.VermontTreasurer.gov](http://www.VermontTreasurer.gov) and consult the most recent annual report.*

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## Vermont State Teachers' Retirement System

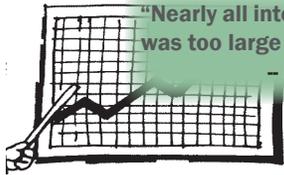
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your summer!**

# Legislature Approves Streamlined Pension Investment Committee



**“Nearly all interviewees felt the current 17 person board was too large for effective investment decision-making.**

**– From VPIC: Effectiveness & Governance Report**

## The Vermont Pension Investment

Committee, responsible for investing the more than \$3 billion in assets for the three state-level retirement systems, is being reduced in size from 17 to six. The change, approved by the State Legislature and the Governor in the recently concluded legislative session, is aimed at enhancing the investment decision-making process for the committee.

Act 100 redefines the membership of VPIC to six voting members and four alternates. The active and retired employee members of the Vermont State Employees' Retirement System and Vermont State Teachers' Retirement System boards of trustees each appoint one member and one alternate. The employee and municipal official members of the board of the Vermont Municipal Employees' Retirement System appoint one member and one alternate. In addition, two members and one alternate are appointed to the VPIC by the Governor. The sixth member is the State Treasurer or designee. In considering appointments, the legislation directs that the experience and knowledge of potential appointees be considered in light of the purposes of the committee. The members serve staggered four-year terms with no term limits.

“When the original VPIC was created by the Legislature in 2005, there was considerable controversy about the appropriate membership composition. In the end, it was decided to include all of

the trustees from each retirement board on the committee,” said State Treasurer Jeb Spaulding. “However, we found that such a large committee, 17 members, posed challenges with continuity in attendance and in timely decision-making. The smaller size will allow for board representation and diversity of membership, yet meet the need for more dynamic governance.”

In accordance with the original VPIC enabling legislation, an independent consultant evaluated the effectiveness of the committee and submitted a report to the Vermont General Assembly in January. Among the report conclusions was the recommendation that the VPIC be reduced to a more manageable size of six to nine voting members. The report further recommended that financial expertise be explicitly included in the nomination, assessment, and appointment process. Consultants from Oxford University submitted the report.

Act 100 went into effect July 1. Individuals appointed to the committee are: Stephen Rauh, VMERS voting member; Steven Jeffrey, VMERS alternate; Jay Kaplan, VSTRS voting member; Joseph Mackey, VSTRS alternate; Richard Johannesen, Governor's appointee; Michael K. Smith, Governor's appointee; and Jeb Spaulding, State Treasurer. As of publication date, the VSERS board had yet to elect a voting member and alternate to the VPIC.

The reorganized VPIC will continue its original mission of making decisions that strive to maximize the total return on investments within acceptable levels of risk for public retirement systems. Such decisions are directed to be made in accordance with the standards of care established by the State's prudent investor rule, 9 V.S.A. § 4651.