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Vermont State Teachers' Retirement System

December 2008

# Retiring *TIMES*

Volume 8, Issue 2

## **VSTRS 403(b) Program Now Available to School Districts**

### ***Great-West Retirement Selected to Manage Plan***

The **403(b) Investment Program** designed and created by the Vermont State Teachers' Retirement System (VSTRS) Board of Trustees is now available for adoption by supervisory unions and school districts throughout Vermont. Twenty supervisory unions had elected to offer the program to employees as of the end of November.

\$25, and Managed Account Service with a sliding fee scale based on the total account balance of the participant. The Self-Directed Brokerage Account has a flat dollar annual fee of \$60 plus management fees for the securities selected outside of the VSTRS 403(b) line-up. Under both options, fees are paid by only those participants who sign up for the additional services.

(continued pg. 4)

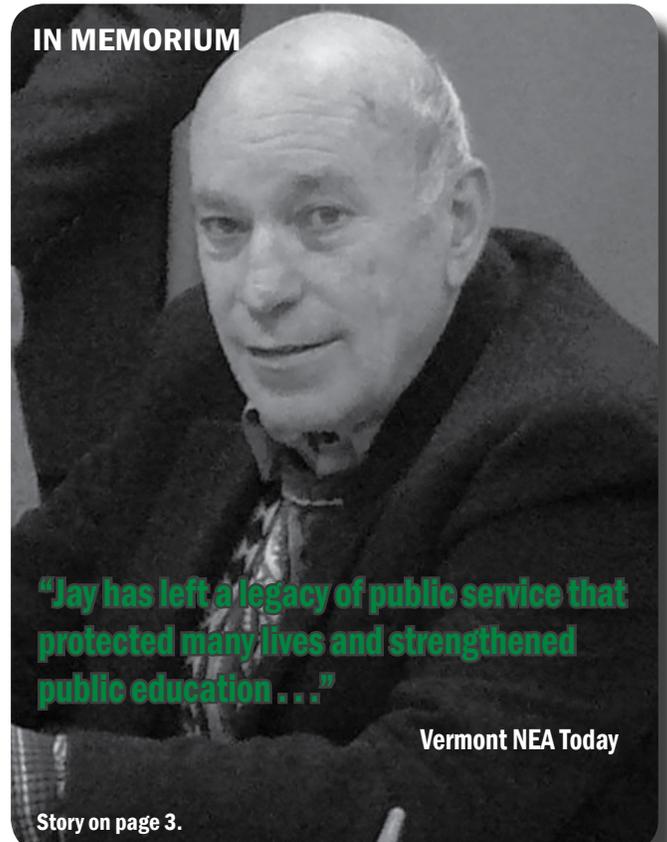
**The program investment line-up offers a broad variety of asset classes with the lowest possible fees.**

Enabling legislation passed in the 2008 legislative session directed the VSTRS board to create a high-quality, low-cost supplemental retirement savings program, typically referred to as a 403(b) plan. After issuing a Request for Proposals (RFP) this summer, the board selected Great-West Retirement Services from among other qualified vendors to administer the program. Great West is a division of Great-West Life & Annuity Insurance Company. Great-West also manages the State of Vermont's 457 Deferred Compensation Plan available to all public employees.

"The program investment line-up offers a broad variety of asset classes with the lowest possible fees, a combination of index funds and target-date allocation funds," explained Cynthia Webster, Director of Retirement Policy and Outreach for the Treasurer's Office. "In addition, because of the State's existing relationship with Great-West in administering the 457 plan, the board had greater leverage in negotiating administration fees for the new program. The administrative fees charged in the VSTRS 403(b) program is just 15 basis points or a fee of \$1.50 per \$1,000 invested."

Two optional services also are available to participants in the program. Investment Advisory Services offer three levels of service: Online Investment Guidance that is free of charge; Online Investment Advice for an annual fee of

### **IN MEMORIAM**



**"Jay has left a legacy of public service that protected many lives and strengthened public education ..."**

Vermont NEA Today

Story on page 3.

# UPDATES FROM THE RETIREMENT DIVISION: Online Forms & Tax Withholdings

## Tax Withholdings on Retirement

The majority of your pension is considered taxable income. For some who made contributions into the system prior to the contributions becoming a pre-tax deduction, a very small percentage of the pension payment is excluded from taxes. Everyone is required to complete a form for federal and state tax withholdings, even if you don't want to have taxes withheld. This is an ideal time to look at your tax withholdings and make sure you are having the correct amount withheld from your monthly pension. If you would like to change your withholdings, please call our office at 1-800-642-3191 (within Vermont only) or 828-2305 and we would be happy to send you new withholdings forms. Forms received by the 15th of the month will be processed for that month's pension payment. In January, our office will mail 1099-R forms to benefit recipients. You will need this form when you file your income tax return. The 1099-R provides information for the 2008 calendar year, including total gross distributions, total taxable amount, federal and state tax withholdings.



## Retirement Forms Now Available Online

We have an addition to our web site to allow you to access basic forms to print, complete and mail to the Retirement Division Office. Go to [www.VermontTreasurer.gov](http://www.VermontTreasurer.gov) and look under Retirement Services for FORMS. There you will find the designation of beneficiary form that you can use to name or change the beneficiary on your retirement account. Our office also requires that any changes to the mailing address for a retiree's pension check be made in writing. To assist you in doing this, you will also find under FORMS a change of address form and a direct deposit form. We hope soon to add more forms as we continue to update our web site. Check back later to see what's new!

## Retirement Board of Trustees

**Jon Harris**, Chair, Active Teachers  
**Joe Mackey**, Vice Chair, Retired Teachers' Association  
**Vacant, awaiting appointment**, Active Teachers  
**Jeb Spaulding**, Vermont State Treasurer  
**Thomas Candon**, Banking, Insurance, Securities & Health Care Administration  
**Vaughn Altemus**, Department of Education



Director of Retirement Policy and Outreach, Executive Secretary of the Board: **Cynthia Webster**; Director of Retirement Operations: **Michael Clasen**

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**

## Scheduling Appointment Alert

Prompt, courteous, and thorough service to our active and retired members is an important priority of the Retirement Division. This priority has not changed, nor will it change in the future. However, our office is reaching a critical stage in our project to replace the existing computer retirement system with the new VPAS system. The entire staff in the division is taking on the additional task of testing the functions of the new system while handling the on-going responsibilities of their regular jobs. With just 15 employees to provide services to 44,000 active and retired members, we must unfortunately cut back on some of the less time-sensitive services we provide. The most significant of these affected services are the retirement estimates and one-on-one counseling sessions for members contemplating retirement within a few years. Through May, the division will limit appointments with Retirement Specialists to accommodate members planning on retiring within the next six months. Estimates for retirements occurring outside of a six-month window will take a minimum of four to six weeks to process. We apologize for the necessity of cutting back on these important functions. We appreciate your understanding and patience during this final stage of implementation.

## 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.

## COLA Increase Effective January 2009

Retirees will receive a COLA (Cost-of-Living Adjustment) in January of 5 percent for those retired from Group A and 2.5 percent for those retired from Group B or C. To receive the COLA, you must have received at least 12 pension payments. If you have not yet received your first 12 pension payments, you will not receive a COLA until January of 2010. Retirees who retired under an early retirement are not eligible for a COLA until the January following attainment of normal retirement age.

## Every solution has to start somewhere.

Do you need help finding help? Dialing 2-1-1 is your first step. Vermont 2-1-1 gives you information about health and human service organizations in your community. A local call from anywhere in Vermont and a free service.

If calling for Vermont services from outside of the state, call (802) 652-4636.

Vermont   
**2-1-1**™  
Get Connected. Get Answers.  
United Ways of Vermont

# Vermont Economic Overview

## Elected Officials Face Sobering Fiscal Realities

by Jeb Spaulding, Vermont State Treasurer

Like states all across the country, the State of Vermont is facing daunting revenue declines and budgetary challenges as a result of the meltdown in global credit markets that has severely hurt the national and state economy. There are so many numbers and statistics bandied about in the news these days that it is hard to get a clear picture of the situation. I hope this column will help to clarify the situation that elected officials in Vermont are facing. One thing must be understood: this is not a run-of-the-mill economic slowdown.

Expectations for total State revenues for the rest of this year and next year have been reduced by nearly \$125 million. The State of Vermont General Fund, which pays for most programs, services, and personnel costs, will receive about \$100 million less in the next fiscal year (FY2010) than two years ago (FY2008). There will actually be less money to spend in fiscal year 2010 than there was in fiscal year 2006. On a relative basis, the Transportation Fund is in even worse shape, with revenues consistently failing to meet projections. There is a distinct possibility that revenue estimates will be reduced again in the months ahead.

**The State of Vermont General Fund, which pays for most programs, services, and personnel costs, will receive about \$100 million less in the next fiscal year (FY2010) than two years ago (FY2008).**

On the expenditure side, pressures are mounting on a number of fronts. One, near and dear to public employees, is the cost of funding retirement plans. Full funding of the actuarial recommendation for State employees and teachers for the upcoming fiscal year will require an increase of \$10 to \$12 million. The current projected Medicaid deficit for State funds is \$40 to \$60 million for the upcoming fiscal year. The General Fund commitment to the Education Fund requires an estimated increase of \$6 million. As our economy and employment suffer, there will be increased demand on a wide range of State services.

My point is not to depress readers of this column, but to provide some context to use in evaluating proposals that will be offered in the coming weeks and months to address this situation. The Governor, legislators, and others have no choice but to take bold steps to reduce State spending and stimulate economic activity and job creation. One example is my proposal to ramp up work on failing bridges in Vermont through a \$150 million bonding program that is supported by a five-cent motor fuels distributor infrastructure assessment. The idea behind that proposal is to save Vermonters money in the long run and to put people to work in the short run. The transportation system, coupled with the current challenging fiscal picture, requires a marked change in how we address our transportation needs.

Solving our fiscal challenges will require innovation, cooperation and, yes, some sacrifices. Vermonters understand that the State must make budgetary adjustments and strategic investments now if we are to responsibly manage our finances through an economic downturn that is currently predicted to last until mid-2010. Keeping a clear picture of the State's current fiscal situation in mind will allow all of us to evaluate the available options to help us best weather this economic storm.



## VSTRS Loses Friend & Advocate

### Jay Kaplan Remembered

We are saddened to report the loss of our long-term Board of Trustees member Jay Kaplan. Jay succumbed to lung cancer in late August, after having battled courageously for several years. Jay served on the Board of Trustees since 1989, first as an elected active member representative, then as the representative designated by the Vermont Retired Teachers' Association after his retirement. He became Vice-Chair in 1990 and eventually went on to serve a decade as Chair of the Board of Trustees.

Jay was a diligent and aggressive advocate for active and retired members throughout his years on the board. He fought for full funding of the retirement system, going so far as to join the VT-NEA in bringing a lawsuit against the Administration for continual underfunding practices in the early 1990s. His primary goal was to protect the long-term viability of the system for current and future generations.

Jay was also very concerned about access to health care in retirement. He was the leading force in putting together the excellent health care plan options that are available to retirees today. He worked side-by-side with members of the Vermont Education Health Initiative to obtain the ability to pool our retirees with active teachers for the purpose of purchasing medical insurance through their organization. His success with this endeavor has resulted in identical medical plans being available to active and retired teachers at a significantly reduced rate for retirees.

Jay was well-known throughout the pension industry as an astute, knowledgeable and experienced investor and savvy board member. He was many things to many people: a mentor to many, and fellow fly fisherman to some, a gentlemen protector to others, a worthy adversary and, most of all - a caring public servant in the truest sense. He devoted his life to organized public education and we hope and expect his legacy will continue in the future. Thank you, Jay Kaplan. You will be missed, but never forgotten.

## (403(b) Program, Continued)

The investment funds and accompanying fund expense percents offered through the VSTRS 403(b) Investment Program are as follows:

<u>Fund Name</u>	<u>Annual Fee Based on Assets Invested</u>
T. Rowe Price Retirement Income Fund	0.55 percent
T. Rowe Price 2010 Fund	0.61 percent
T. Rowe Price 2020 Fund	0.68 percent
T. Rowe Price 2030 Fund	0.72 percent
T. Rowe Price 2040 Fund	0.73 percent
Vanguard International Stock Index Fund	0.27 percent
Vanguard Small Cap Index Fund	0.22 percent
Vanguard Mid Cap Index Fund	0.07 percent
Vanguard Institutional Index Fund (Large Cap)	0.05 percent
Vanguard Total Bond Market Index Fund	0.19 percent
Guaranteed Portfolio Fund (Fixed Account)	Variable

“If you are employed by a school district that has elected to offer the VSTRS program, I recommend that you talk with a Great West representative to explore how this program might work for you. If your school district has adopted more than

**Twenty supervisory unions had elected to offer the program to employees as of the end of November.**

one 403(b) vendor, I encourage you to do your homework and compare investment options and applicable management fees, as well as the level of service afforded under each program before making a decision whom to select,” said Webster. “Make sure you understand exactly what fees you’ll be paying under each vendor, both administrative and management fees. There is no such thing as a no-fee vendor.”

Questions about the VSTRS 403(b) Investment Program, may be directed to a Great-West representative at (802) 229-2391, or Cynthia Webster in the Retirement Division at (802) 828-2302.

## (Investment Focus, Continued)

Due to an insurance company contract that “wraps” SDIA assets, participants may withdraw the “book value” of their assets (original contribution amount plus earnings credited since contribution), provided the businesses the investments are in maintain a quality credit rating. The insurance does not provide for protection in the event of a failure of the business the investment is made in. However, the SDIA investment portfolios remain composed of investments with a very high average credit quality and those investments are very diversified so as to mitigate the risk to individual issuers. While some investment risks are present in the SDIA (and by definition only treasury securities are risk-free), the SDIA does have in place multiple important safeguards to help protect participant assets. Recent events in the credit markets have had the effect of modestly reducing the earnings crediting rate, but have not impacted participant account book values.

The 457 plan is offered to State and Municipal employees and teachers of certain school systems. As of June 30, the plan had more than 6,500 participants and approximately \$243 million in assets. There are 19 different investment options including domestic and international equities, fixed income, balanced and stable-value

## Remarks from VSTRS Board Chair Jon Harris

At this point in time all active teachers in the state should have been informed about the new IRS 403(b) investment regulations that will go into effect January 1, 2009. School administrators and business managers throughout the state have been working diligently to comply with the new IRS regulations prior to the January 1 deadline to ensure there is an IRS-compliant 403(b) program offered by every school district in Vermont. Last year, when the new IRS regulations were first released, the VSTRS Board of Trustees was concerned about the impact these new regulations would have

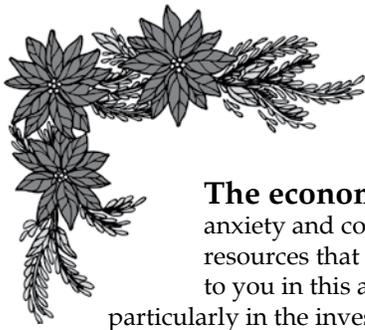


**The Board was concerned about the impact these new regulations would have on the investment opportunities available to school employees.**

on the investment opportunities available to school employees. With this concern in mind, the Trustees requested the Treasurer’s Office staff to research the feasibility of the creation of a VSTRS Board of Trustees managed 403(b) investment program that could be utilized by Vermont school districts. This type of state-managed 403(b) investment program would be the first of its kind in the country. During the past three months the specific details of the newly created VSTRS 403(b) Investment Program have been developed and finalized. The Board is extremely pleased with the selection of Great-West Retirement Services as the investment provider. The selection of Great-West was based upon their experience with 403(b) investing and their ability to offer stable investment options with very low administrative fees.

alternatives. Participants select from these alternatives based upon their tolerance for risk and their return objectives. Account values are based on the performance of each individual’s investment choices. Among those investment choices, the stable value fund invests in high-grade income securities. The average credit rating for this portfolio is triple-A (highest rating agency credit level). As described above for the SDIA, multiple insurance companies aid in allowing participants to withdraw funds at the book value (sum of contributions and earnings credits). Also, as with the SDIA, investment risk is mitigated by high levels of diversification and high issuer credit quality. While recent credit market events have modestly reduced crediting rates for the investments in this fund, stable value fund participants’ account values have not declined. However, the volatile market will likely impact future financial gains of the fund investments over the long term.

Effective in January 2009, the VSTRS 403(b) investment program is available to Vermont school districts. For more information, see a separate article on page one of this newsletter.



# Director's Corner

## Pension Benefits Guaranteed

by Cynthia Webster, Director of Retirement Policy & Outreach

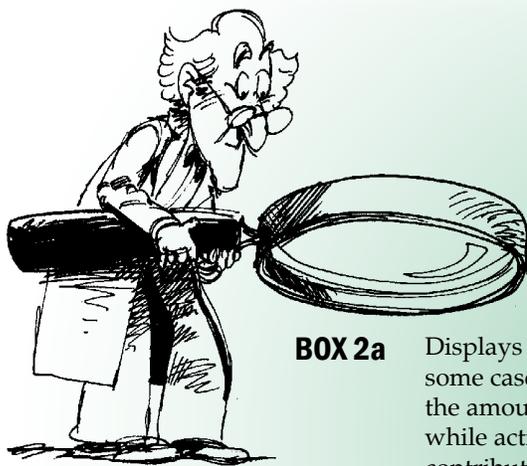


**The economic environment** over the past several months has created much anxiety and concern about what to expect in the future, particularly regarding the resources that will be available to us when we retire. The message I would like to relay to you in this article is to assure you that regardless of what happens to the economy, particularly in the investment arena, your retirement benefits through the Vermont State Teachers' Retirement System (VSTRS) are secure. *The retirement benefits you have earned as a member of the VSTRS are guaranteed to be paid to you when you retire, and will continue to be paid as long as you live, with annual cost of living adjustments included.*

State Treasurer Jeb Spaulding wrote an excellent piece that is posted on the Treasurer's Office web site regarding the stability of your retirement pension. In the article he states, "While current events in the financial markets are certainly a cause for concern, you have a legal right to your benefits as they come due." If you wish to view the Treasurer's full message, go to [www.Vermont-Treasurer.gov](http://www.Vermont-Treasurer.gov) and click on "Message to Members of Vermont's State Level Retirement Plans."

In addition to your retirement income being guaranteed for as long as you live, you may elect at retirement an option that will allow the pension to continue to another individual after your death. There are six levels of survivorship options available and you may elect anyone to receive the benefit after your death. Survivorship options are particularly valuable if there is another individual whom you wish to protect by ensuring continued income for their lifetime as well. The income protection afforded by the VSTRS' defined benefit plan cannot be overstated. Everyone has seen and heard stories in the private sector where long-term employees lose their pension benefits and are left with little to no income in retirement. It should be comforting and rewarding to know that after spending your career taking care of the needs of Vermont's children, you will be provided a secure and predictable income throughout your remaining years.

Also, a timely reminder for upcoming retirees, benefits from the system do not start automatically. You must contact the Retirement Division to complete needed paperwork before any benefits will begin. Also, unlike Social Security, your benefits do not increase after normal retirement age if you are no longer working. The normal retirement age is typically 62, although it varies according to group plan. Also, if you terminate employment, and are beyond normal retirement age, you will lose money if you postpone the application process. Contact us at 1-800-642-3191 to request an estimate or schedule an appointment.



## Understanding Your 1099-R Form!

The tax statement for retirees that is generated and distributed in January is called a 1099-R. Every year, our office receives numerous questions regarding how to read the tax statement. This article is intended to assist retirees by explaining what each box on the 1099-R represents. The descriptions below only identify those boxes on the form that are used by the Vermont State Teachers' Retirement System for reporting your pension to the IRS.

**BOX 1** Displays the gross amount of the pension you received during calendar year 2008, before any deductions have been withheld.

**BOX 2a** Displays the taxable amount of the pension you received during calendar year 2008. In some cases, boxes 1 and 2 reflect the same amount. If the amount in box 2 is smaller than the amount in box 1, it means that you made contributions into the retirement system while actively employed that you paid taxes on, and therefore those same already-taxed contributions will not be taxed again in retirement.

**BOX 4** Displays the total amount that has been withheld for federal taxes, based on your filing status, during calendar year 2008. If the amount in box 4 is blank, then you have either elected not to withhold federal taxes, or your filing status results in a -0- withholding.

**BOX 5** Displays the portion of the total pension reflected in box 1 that is not taxable. If box 5 is blank, it means that your pension is fully taxable. NOTE – this box can be confusing as it appears to indicate that insurance premiums should be displayed here. Our system does not use this box for insurance premiums, nor is it a deduction of any kind.

**BOX 7** Displays the IRS code for a pension distribution.

**BOX 10** Displays the total amount that has been withheld for Vermont State taxes, based on your filing status, during calendar year 2008. If the amount in box 10 is blank, then you have either elected not to withhold Vermont taxes, or your filing status results in a -0- withholding.

**BOX 11** Displays the state to which the withholding was paid and the payer's federal identification number.

**ACCOUNT NUMBER** Displays your unique Vermont State Teachers' Retirement System retirement number.

## Vermont State Teachers' Retirement System

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# Investment Focus: What's happening to my retirement investment funds?

by David Minot, Director of Finance & Investment

**In addition to the three** defined benefit pension plans administered by the State Treasurer's Office for state, municipal, and teacher employee groups, there are several alternative retirement savings and investments programs. These are the Single Deposit Investment Account (SDIA), the 457 Deferred Compensation Plan (457 Plan), and the Defined Contribution Plan (DC Plan). Unlike the State and teacher employees' pension plans, where fixed monthly benefits are provided for by statute, these plans offer retirement savings levels that are based upon investment performance. We've received many questions about the status of investments in these programs. The update below addresses some of these questions.

**Unlike the State and teacher employees' pension plans, where fixed monthly benefits are provided for by statute, these plans offer retirement savings levels that are based upon investment performance.**

SDIA is a tax-sheltered account funded through a one time-employee transfer of funds from a contributory plan that was in existence in 1981. As of June 30, 2008, the SDIA had over 2,100 participants. Plan assets are approximately \$84 million and are invested in fixed income securities. These assets are managed by contract with Dwight Asset management in Burlington, Vermont and Loomis Sayles in Boston, Massachusetts. Investments are made in a variety of government agency, corporate, mortgage-backed, and other fixed-income securities. This portfolio of investments must

by contract be composed of investments rated in the double-A category. Double-A designation generally means it is a safe investment with low risk of failure.

(continued pg. 4)

## Bear vs. Bull Markets

A bear market is a prolonged period in which investment prices fall, accompanied by widespread pessimism.

If the period of falling stock prices is short and immediately follows a period of rising stock prices, it is instead called a correction. Bear markets usually occur when the economy is in a recession and unemployment is high, or when inflation is rising quickly. The most famous bear market in U.S. history was the Great Depression of the 1930s. The term "bear" has been used in a financial context since at least the early 18th century. While its origins are unclear, the term may have originated from traders who sold bear skins with the expectations that prices would fall in the future. In contrast a bull market is a prolonged period in which investment prices rise faster than their historical average. Bull markets can happen as a result of an economic recovery, an economic boom, or investor psychology.

