



STATE OF VERMONT  
OFFICE OF THE STATE TREASURER

# ***IMPORTANT NOTICE***

## ***Vermont State Teachers' Retirement System Changes to Pension Benefits and Access to Health Care Coverage in Retirement May 2010***

Act 74 (formerly H.764) was the result of a multi-party agreement to provide sustainability of quality pension and retiree health benefits for Vermont teachers. The Act, which becomes effective on **July 1, 2010**, contains numerous changes to the pension benefits available to current and future members, as well as a change in access to health care coverage after retirement. The purpose of this notice is to provide you with the details of the changes that are being made, and to assist you in determining whether you need to take action prior to June 30, 2010, to ensure you are eligible for the level of benefits you are entitled to receive. You will notice a common theme throughout this notice; specifically, that age and the total years of creditable service in the retirement system on June 30, 2010, are critical in determining how the changes will impact each member.

**Please note that the changes contained in Act 74 will not impact anyone who retires on or before July 1, 2010.**

### **Pension Benefits**

Members affected by the pension changes are broken down into two categories;

- 1) members who are within 5 years of *normal* retirement (normal retirement is currently age 62 or 30 years of service). This means members who are at least age 57 or have at least 25 or more years of creditable service in the retirement system on June 30, 2010.
- 2) members who are not within 5 years of *normal* retirement on June 30, 2010.

For members in category #1 (within 5 years of normal retirement), normal retirement will remain at 62 or 30 years of service, whichever is earlier. However, the following change will be applied to their benefits if they continue to work :

- the maximum allowable benefit will increase from 50% of average final compensation (AFC) to 53.34%. Regardless of the amount of service reflected in a member's account, the maximum benefit is capped at 50% for service earned up to June 30, 2010, then will continue to accrue up to a maximum benefit of 53.34% of AFC in recognition of service earned after July 1, 2010.

For members in category #2 (not within 5 years of normal retirement), the changes that will take effect on July 1, 2010 are as follows:

- normal retirement will be age 65 or the Rule of 90 (combination of age and years of creditable service);

- early retirement will stay at age 55, but will have an actuarial reduction applied instead of the current 6% per year reduction;
- the maximum allowable benefit will increase from 50% to 60% of AFC;
- the value of each year of service (called the multiplier) will increase from the current 1.67% per year to 2% per year for each year accrued after reaching a total of 20 years of service. If a member already has 20 or more years of service on June 30, 2010, the 2% multiplier will be applied for all years accrued after July 1, 2010.

***The contribution rate for all members of the system will increase from the current 3.54% to 5% of gross salary effective July 1, 2010.***

Also, Act 74 places a fixed 10% cap on the amount that the annual salary can increase during the 3-year AFC determination period.

### **Retiree Health Care Coverage**

Unlike the changes to the pension benefits, the changes to the health care coverage in retirement impact everyone according to the number of years of service they have on June 30, 2010.

***Members who have 10 or more years of creditable service on June 30, 2010 are vested in the 80% health care subsidy, and will continue to be eligible for 80% of their health care premium (based on the standard plan) paid after retirement. Subsidized spousal coverage will be available based on total creditable service on June 30, 2010 and completion of the required additional teaching service as outlined in the fourth bullet point below.***

However, for members who do not have 10 or more years of creditable service at June 30, 2010, the following changes will be applied based on total creditable service at the time of retirement:

- members retiring with less than 15 years of service will have no subsidized coverage;
- members retiring with between 15 and 19.99 years of service will have 60% of their health care premium paid after retirement;
- members retiring with between 20 and 24.99 years of service will have 70% of their health care premium paid after retirement;
- members retiring with 25 or more years of service will have 80% of their health care premium and their spouses' health premium paid after retirement, based on the following timeframe for access to spousal coverage:
  - ◆ those with more than 30 years of service will have to work another 5 years;
  - ◆ those with between 25 and 29.99 years of service will have to work a total of 35 years;
  - ◆ those with between 15 and 24.99 years of service will have to work 10 more years;
  - ◆ those with between 10 and 14.99 years of service will be eligible upon 25 years.

\* \* \* \* \*

The following ***Questions and Answers*** are intended to clarify important points about the above changes and provide members with food for thought on how the changes will impact them personally. In all cases of doubt, or if you have questions that are not specifically addressed in this mailing, please contact the Retirement Division at its toll-free number: 1-800-642-3191 or locally at (802) 828-2305 for further assistance.

**Q. I will have 30 years of service on June 30, 2010; may I purchase 2 years to bring my maximum benefit to the new 53.34%?**

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

**Q. If I have accrued less than 50% of AFC as of June 30, 2010, may I purchase service years to bring me to that AFC level?**

*A. Yes, you can purchase years to bring you to 50% of AFC, and that purchase can be made before or after June 30, 2010. However, to reiterate, teachers must work an additional **two years** once they reach 50% of AFC to bring their pension benefit to the maximum of 53.34%.*

**Q. I will have a little less than 25 years of service on June 30, 2010; may I purchase sufficient “air time” to get to 25 years?**

*A. No. Air time may only be purchased after you have 25 or more years of service. However, you may purchase other types of eligible service, if available, to get to the 25 years required to be within 5 years of normal retirement, and thereby be exempt from many of the pension changes.*

**Q. Please describe “other types” of eligible service that may be purchased.**

*A. Eligible service that may be purchased includes teaching in a public or private school in Vermont or another state, state or municipal employment in Vermont or another state, restoration of a prior membership, and military, VISTA or Peace Corps service with a minimum of 15 years of creditable service. In all cases, you cannot purchase service if you have a benefit available to you from another system for that same service. Service may be granted if you were on an approved leave of absence for professional study or acceptance of an exchange position. You may also restore service credit lost while on an approved leave of absence if it occurred after July 1, 1991.*

**Q. I will have less than 10 years of service on June 30, 2010; may I purchase service to get to the required 10 years to be vested in the health care subsidy for the retiree only?**

*A. Yes, but the purchase must be made in full no later than June 30, 2010. Please see answer above for the types of service that may be purchased.*

**Q. How do I go about making a purchase, and how much does it cost?**

*A. All service must be first verified before it can be purchased. You may download an Application to Purchase Service from our web site at the following address and click on FORMS on the right-hand menu:*

*[www.vermonttreasurer.gov/retirement/teachers-vstrs](http://www.vermonttreasurer.gov/retirement/teachers-vstrs)*

*The web site also has a CALCULATOR on the right-hand menu that you may use to determine the approximate cost to purchase each year of service. Please note that the Retirement Office will calculate the actual cost for all purchases and determine the actual number of years that are eligible to purchase.*

**Q. What is the latest date that I can purchase service in order to affect my years of service at June 30, 2010?**

*A. All purchases must be completed no later than June 30, 2010. This means that the full payment for all service must be received in the Retirement Division by June 30, 2010.*

**Q. May I use pre-tax money to make the purchase?**

*A. Yes, an in-service distribution may be made from a tax-sheltered account such as a 403(b), 401(k), 457 or an IRA to cover the purchase, or you may use after-tax money as well. However, you may not use pre-tax money that is in another person's account, such as a spouse. The money must come from your own account.*

**Q. May I purchase the additional years required in order to obtain the spousal subsidy when I retire?**

*A. No. You must actually work the required number of years and contribute at the higher rate in order to be eligible for the spousal subsidy when you retire. However, you can purchase service **prior to June 30, 2010**, to minimize the number of years you will need to work to receive the spousal coverage. Please contact the Retirement Division to determine if this option is advantageous for you.*

**Q. I am within 5 years of normal retirement, but I intend to work several more years, and would therefore like to be eligible for the increase in the maximum benefit to 60%. Is that possible?**

*A. Unfortunately, the answer is no. There are no provisions for being able to pick and choose which of the benefit changes will impact your pension benefits, the exception being those teachers who are able to purchase eligible service to bring their total creditable service to 25 years prior to June 30 2010.*

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In summary, for the majority of members of the Vermont State Teachers' Retirement System, the changes brought about by this new legislation will prove beneficial in obtaining greater pension and health care benefits in retirement. However, we recognize there will be educators who find that they will need to work longer in order to reach the benefit levels that they had previously expected.

***The members who need to act quickly are those who are just short of the 10 years required to be vested in the medical subsidy for the retiree only, those who are just short of the 25 years required to keep the ability to retire at age 62 or upon attainment of 30 years of service, and those who want to purchase years to shorten the amount of time they must work to be eligible for spousal health coverage.*** If you are one of those members, and you are eligible to purchase "air time" or other eligible service credit, please visit our web site to calculate the approximate cost and to download the *Application to Purchase Credit Form* so that the service may be verified as soon as possible. *Please note that the Retirement Office will calculate the actual cost for all purchases and determine the actual number of years that are eligible to purchase. **Contact the Retirement Office as soon as possible if you are interested in making a purchase prior to June 30, 2010.***

A quick note for those members who are close to having 25 years of service at June 30, 2010, and could purchase sufficient service to get to the 25 years . . . we encourage careful consideration be given to career goals and how the various changes may impact those goals. It may be that the changes that will be made for those who are not within 5 years of normal retirement will better serve your future retirement needs than the current pension benefits.

To reiterate once again, do not hesitate to call toll-free 1-800-642-3191 or 802-828-2305 if you have questions regarding your retirement account and how these changes may, or may not, affect you.