In This Issue:

At the traditional retirement age of 65, more than eight in 10 Americans report living in houses they own.

January 2013

Retiring TIMES

Vermont Municipal Employees' Retirement System

HOUSING OPTIONS IN RETIREMENT

Retirees Most Likely to Own Home & Stay in Local Community

The lore of how older Americans move suggests a mass relocation of retirees to Florida or Arizona. However, national studies indicate most retirees stay close to home. If they do move it is a relatively short distance, with only a small number making the migration from the Frost Belt to the Sun Belt. In Vermont, real estate trends suggest new retirees are following a similar pattern.

Owning a home is the most common housing arrangement for older Americans. At the traditional retirement age of 65, more than eight in 10 Americans report living in houses they own. A 2012 study by the Employee Benefit Research Institute (EBRI) found home ownership peaks at age 65, and then falls slowly until the age of 75, when the rate of home ownership declines steadily. Renting and other housing arrangements, such as living rent-free with family, show the exact opposite trend of home ownership—lowest at age 65 then increasing steadily after 75.

The Center for Retirement Research at Boston College reports that, on average, nearly 60 percent of moves by older homeowners are less than 20 miles. The report concludes that since the majority of moves are short distances, it suggests individuals can change their residence, but still enjoy the benefits of aging in place if they remain in a community that provides meaningful connections and a sense of belonging.

> **The aging of the baby-boom generation is a key factor, lifting the share of older households to a record high. Given that they currently occupy more than 46 million homes, they will have a major impact on housing markets when they die or are unable to live on their own.**
>
> **--Joint Center for Housing Studies of Harvard University**

What's Happening in Vermont?

Leslee MacKenzie is the President and owner of Coldwell Banker Hickok & Boardman Realty. She has worked in Vermont real estate since 1993 and is the Past President of the Vermont Association of Realtors. MacKenzie believes most retirees stay in their homes.

"When I've seen retirement-age people make a change it's been out of a desire to downsize and have less space and maintenance overhead or to move closer to their children or grandchildren," said MacKenzie. "In the second home

(continued pg. 4)

1099R FORM DISTRIBUTION

The 1099-R form is the tax statement for retirees that is generated and distributed by the Retirement Division in January. If you have any questions about your form, please give us a call at (802) 828-2305 or toll free in Vermont only at 1 (800) 642-3191. We've also posted an article on our web site that explains what each box on the 1099-R represents.

Go to: www.VermontTreasurer.gov

Click on "Retirement" located on the top left-hand side of the page.

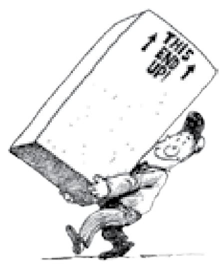
NEWS… FROM THE RETIREMENT DIVISION

JANUARY COLA NEWS!

Based on the Northeast Region Consumer Price Index for all urban consumers as of June 30, 2012, the cost-of-living adjustments (COLA) that will be applied to pension payments on January 31, 2013 are as follows: Groups A, B, C and D -1 percent increase. In order to qualify for a COLA, you must have received at least 12 pension checks prior to January 1. Retirees who retired under an early retirement also must have reached normal retirement age for their group prior to January 1.

DO WE HAVE YOUR CURRENT ADDRESS?

The Retirement Division receives a significant amount of returned mail due to incorrect addresses. The costs associated with the returned mail are considerable for processing again by a staff person and the postage costs of re-sending the information. Active municipal employees' addresses are updated via the quarterly reporting system from each employer's payroll officer. If you are an active municipal employee who has recently changed your mailing address, please inform your payroll officer of the change of address so that they can update your information via the web-based quarterly reporting system. If you are a retiree receiving a monthly benefit you must notify the retirement office in writing of any change in address.



CONTRIBUTION RATES UNDER DISCUSSION

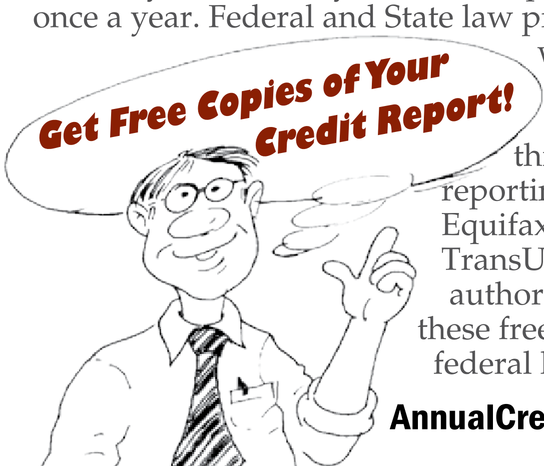
At its meeting on November 14, the VMERS Board of Trustees voted to adopt some increases in the fiscal year 2014 employer contribution rates. The employer contribution rates beginning July 1, 2013 are as follows: Group A – 4 percent; Group B - 5.25 percent; Group C - 6.75 percent; and Group D – 9.75 percent. These rates represent a 0.25 percent increase for Groups B, C and D.

Like almost every other public pension plan in the country, VMERS saw its ratio of funding need to funds available decline substantially during the current economic downturn. The system has experienced a decline in funded status over the past year. Investment pressures, a more conservative investment rate assumption, and the demographics of the group plans contributed to this decline. The plan is still very healthy and is better funded than the majority of other public retirement plans in the U.S. However, continued responsible contributions are necessary to put the plan on more stable footing -- now and in the future.

In 2000, the legislature approved the recommendation by the VMERS board that most of the employee rates be lowered for a five-year period and that the lower rates be extended another five years and evaluated annually since then. The rates were kept constant until July 2010 when the Group C employer rate was increased by 0.50 percent and the employee rate increased 0.25 percent. Rates have remained unchanged since July 2010 for Group C and since 2000 for A and B. Group D rates also remain unchanged.

While the legislature is responsible for setting employee rates, the board typically makes a recommendation. A sub-committee of the board, employer and employee groups has been formed to assess employee rates and will be making a recommendation. The subcommittee also is charged with discussing long-term employer contribution rates. In making its recommendation, the long-term financial health of the system is of critical importance to achieving reliable and adequate pensions in a manner affordable to employees and taxpayers.

The Consumer Financial Protection Bureau advises you to check your credit report at least once a year. Federal and State law provides you with free credit reports each year from the three main credit reporting companies--Equifax, Experian and TransUnion. The only authorized source for these free reports under federal law is found at:



AnnualCreditReport.com

Your credit report is a record of how you have used credit, including how much credit you have and your history of bill payment. Make sure there are no mistakes!

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Director's Corner

by Laurie Lanphear, Director of Retirement Operations

Our office continues to receive calls from retirees who question the reason they do not receive a monthly pension statement. I would like to clarify why this practice was implemented, and what typically happens that will generate a new monthly statement.

The main reason that the Retirement Office stopped mailing monthly statements several years ago was to save the system, and ultimately taxpayers, money. In the vast majority of cases, the amount a retiree receives each month does not change more than once or twice a year. Usually the December and/or January payments may increase or decrease due to tax withholding changes, medical and/or dental premium changes, or cost-of-living adjustments. To send out a statement each month that reflects the same amount as the previous month is costly and wasteful. Therefore, it was determined that monthly pension statements would only be sent when the net amount of the payment changed. Anytime a change occurs in either the amount of the gross monthly allowance or any of the elected deductions, a new statement will be produced and sent. For most retirees, this will result in a monthly statement in December (when premium amounts change) and January (when tax tables changes and cost-of-living adjustments are applied) each year. If a change is made in any of the withholdings during the remainder of the year, a new statement will be produced and mailed that will reflect the gross amount of the payment, an itemized list of all of the deductions, and the net amount that is deposited into the bank or credit union.

Retirees are encouraged to keep their last statement in a convenient place for easy reference and discard any previous statements received. If you should misplace your last statement, you may contact the Retirement Division for a duplicate or the breakdown as outlined above.

Recent Retiree Update

	2012	2011	2010	2009	2008
JANUARY	20	18	12	12	16
FEBRUARY	9	3	3	8	6
MARCH	9	9	4	3	12
APRIL	13	8	7	14	13
MAY	14	8	9	5	10
JUNE	7	17	12	7	3
JULY	60	63	52	25	40
AUGUST	14	15	19	4	13
SEPTEMBER	11	10	11	24	11
OCTOBER	20	9	13	8	8
NOVEMBER	17	9	5	12	6
DECEMBER	10	7	10	9	2

(Pension Performance Continued pg. 6)

ongoing political conflict in both the U.S. and Europe, and slow global economic growth. While stock market valuation levels are near historic norms, absent stronger economic growth, there are few compelling reasons to expect sustainable strength in stock prices. Bonds, a traditional safe haven, currently offer meager returns and potential risks if interest rates begin to move higher.

VPIC is confident that its investment strategy is appropriate for the current investment environment. VPIC also has significantly strengthened its portfolio monitoring and risk management capabilities. For additional detailed information on pension plan investments, go to the Vermont Treasurer's web site at: www.VermontTreasurer.gov/pension-funds.

Tax Provision Assists Vermonters with Property Tax Bill

The Property Tax Adjustment Claim assists Vermont residents in paying their property tax and is based on a percentage of the household income. Homeowners eligible for an adjustment are those who (1) owned and occupied the property as a principal home on April 1; (2) were a Vermont resident all of calendar year 2012; (3) were not claimed as a dependent by another taxpayer for tax year 2012; and (4) household income was $99,000 or less in 2012. The credit reduces your property tax and the town issues you a bill for any balance due. An additional program assists seniors who rent and have households with incomes of $47,000 or less.

To file for a property tax adjustment, the property owner must meet the eligibility requirements of the homestead declaration. Beginning in 2013, both the homestead declaration and property tax adjustment are on one form, HS-122. In addition, property owners must complete and file the household income schedule, HI-144. The Vermont Department of Taxes offers an Excel worksheet available on its website to help the property owner calculate an estimate of his or her property tax adjustment. For more information on the homestead declaration, property tax adjustment, and household income, visit www.tax.vermont.gov or call toll-free in Vermont, 866-828-2865.

(Housing Options Continued pg. 1)

market, I've seen seniors moving out-of-state to a home they already own and selling their Vermont residence."

MacKenzie observes that Vermont's tight rental market provides fewer housing options for retirees who wish to sell their homes and rent. The average vacancy rental rate for New England is 4 to 5 percent. In high-demand areas like Chittenden County, the rental vacancy rate is 1.7 percent. High rental market prices also make renting less financially attractive.

"The monthly rent for a condominium in Chittenden County averages between $1,200 to $1,600. With mortgage interest rates currently at 3.5 percent or lower, owning your own home can be more affordable than renting." said MacKenzie.

Nationwide, it is estimated that elderly households account for 13 percent of the renting population.

Why Do People Move?

The EBRI research shows that the death of a spouse is the most common factor associated with a housing transition. Almost 42 percent of households that went from owning to renting experienced the death of spouses. The next-most common factor was a drop in household income—30.5 percent of households that made such transitions reported drops in household income. Median household income for those between ages 50 and 64 who continued to own their home was $79,758. Those who shifted from owning to renting in that same age group had a median household income of $53,520.

Gender also appears to play a role in making a move in retirement. The Boston College report found households headed by women were less likely to move. The report concludes that as people get older, they have a harder time breaking ties with the community and changing their daily routine.

Households more likely to move were headed by an unmarried person, white, or headed by a college graduate. The Boston College report observes: "Being unmarried means more flexibility when making a decision to move as there is no need to accommodate the preferences of two people. The intuition for the impact of race is that white households may be less likely to have large extended families and thus weaker ties to the community than non-white households. Regarding education, college graduates are a mobile group of the population in general—often leaving their homes in early adulthood to go to college and frequently following available jobs across the country."

Planning Ahead

As you consider retiring, make planning for your future housing needs a priority. Where you live in retirement will impact not only your income, but also your emotional, social and physical well-being.

Even if a move isn't imminent, the Vermont Association of Realtors recommends that Vermonters meet with a professional real estate agent to learn the fair-market value of their homes and what home improvements may be needed before putting a home on the market. Such assessments can help retirees weigh their financial options. Selling a home can take time. In 2012, the average days a Vermont home was on the market was 178, or almost six months. (This average does not include for sale by owner sales.)

Drafting a preliminary retirement housing budget, even if you are years away from retiring, can help with spreading future expenses across several years. Homeowners can make gradual improvements to their property while they are still employed and have a larger income. Those not owning a home, and not yet retired, may consider the merits of purchasing property now to take advantage of low interest rates. Once you are retired it may be more difficult to qualify for a mortgage because of the change in monthly income.

-- by Lisa Helme, Retiring Times Editor

Resolve to Evaluate Your Retirement Savings in the New Year!

The Vermont State Retirement System offers a 457 deferred compensation program to employees who would like to save for retirement. There are currently more than 6,400 individuals participating in the plan. As of September 30, 2012, the 457 plan assets totaled $281 million.

Plan contributions are deducted from a participants' paycheck before state and federal taxes are calculated, thereby reducing the person's current taxable income. Depending on a person's tax bracket, the 457 plan can help an individual increase their current spendable income and save for retirement at the same time. Taxes are paid on the money when it is withdrawn at retirement. Many times that money is taxed at a lower rate, because the individual's annual income has decreased and the participant is now in a lower tax bracket.

The 457 plan is available to all members of the Vermont State Employees' Retirement System. Members of the municipal retirement system and teachers' retirement system may participate if their employer offers it as an option. Great-West administers the plan and also offers a 403(b) plan through participating school supervisory unions. Also, participants now have the option of placing their savings in a Roth account through the 457 plan. The State Treasurer's Office negotiates all plan fees—which are much lower than if an individual signed up for their own retirement savings plan.

Looking at who is participating in the 457 plan, approximately 45.5 percent of participants are women and 50.5 percent are men. The average account balance is $46,314. Great-West representatives are paid by salary and not commission. They can assist participants in choosing from a variety of investment options to meet each person's retirement goals. Among those options is a newly available Self-Directed Brokerage Account which allows participants to buy and sell stock through an Exchange Traded Funds window. To learn more about the 457 plan, contact Great-West through the Montpelier office at (802) 229-2391 or visit the web site at www.Vermont457.com.

Reducing Costs

2012 Brought Opportunities to Save Taxpayers Money

by Beth Pearce, Vermont State Treasurer

The Treasurer's office remains committed to implementing cost saving measures for our customers wherever available. Our customers include the citizens and taxpayers of Vermont and the more than 46,000 retired and active members within the Vermont Retirement System. Whether it be maintaining the State's high bond rating or looking for fee reductions in our retirement plans, we are actively seizing opportunities to administer our programs in a prudent and cost effective way. As I reflect back on 2012, I'm pleased that my office was able to take several actions that saved taxpayers, and our retirement system members, money.

In March of 2012 we were able to leverage our strong bond rating to refinance State debt and save taxpayers million of dollars. The Treasurer's office issued $69 million of refunding bonds that saved $5.36 million in interest payments over the life of the bonds. Called a bond refunding, this is similar in concept to a homeowner refinancing a mortgage.

Over the summer, my office requested proposals for plan administration of the existing State and Municipal Defined Contribution Plans. After successful negotiations, Fidelity was re-engaged to administer both plans. As part of their proposal, Fidelity offered institutional share class funds and lower administrative fees, providing overall fee savings to plan participants of 22 percent.

In 2012, my office was able to take several actions that saved taxpayers, and our retirement system members, money.

Per participant fees for the State of Vermont 457 Deferred Compensation Plan also were reduced. In 2011, the Treasurer's office determined that the per participant fee could be reduced from 15 basis points, or 0.15 percent of assets, to 12 basis points -- a reduction of 20 percent. In 2012, the Treasurer's office further determined, based upon a 10-year projection of fee collections and expenses, that the per participant fee could be further reduced from 12 basis points to 10 basis points -- an additional reduction of 16.7 percent and a combined reduction of 33.3 percent over two years. This will become effective on March 1, 2013.

Finally, the Treasurer's office in 2012 completed the transition of the master custody contract for the Vermont Pension Investment Committee's $3.5 billion of investments from State Street Bank, the incumbent for more than 20 years, to JP Morgan Chase. JP Morgan Chase provides enhanced data analysis, performance reporting, compliance, administrative, and operational capabilities, and is expected to provide cost savings in excess of $100,000 per year.

Recent economic times have presented significant challenges for all us. Vermont continues to meet these challenges through a combination of hard work, resiliency, fiscal prudence, fairness and partnership. I am privileged to serve as Vermont's State Treasurer and look forward to working on the fiscal challenges that lie ahead in 2013.

More Americans Concerned About Financing Retirement

Despite a slowly improving economy and three-year-old stock market rebound, Americans today are more concerned about their retirement finances than they were at the end of the Great Recession in 2009, according to a nationally representative survey of 2,508 adults conducted by the Pew Research Center. Approximately 38 percent of adults say they are "not too" or "not at all" confident that they will have enough income and assets for their retirement, up from 25 percent in a Pew Research survey conducted in late February and March of 2009. An analysis of these surveys shows that concerns about retirement financing are now more heavily concentrated among younger and middle-age adults than among those closer to retirement age--a major shift in the pattern that had prevailed at the end of the recession.

The Vermont State Treasurer's Office offers a workshop to assist people in evaluating how financially prepared they are for retirement. "Keeping the Gold in Your Golden Years" is a two-hour workshop that teaches participants how to complete a retirement needs assessment. The individualized assessment includes sources of retirement income, expenses in retirement, and an evaluation of the person's current rate of retirement savings. Each participant will receive a free retirement planning workbook packed with useful suggestions and worksheets. This practical workshop is free. To discuss scheduling a session for your workplace, call Lisa Helme, Treasurer's Office at (802) 828-3706.

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Pension Performance Update: Assets at $3.5 Billion

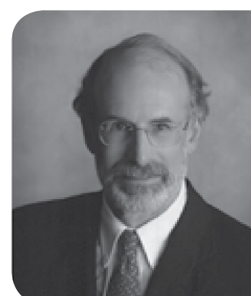
by Stephen Rauh, VPIC Chair

The Vermont Pension Investment Committee (VPIC) oversees the investment of the assets of the Vermont State employees', teachers' and municipal employees' retirement plans, as well as the Burlington Employees' Retirement System. The combined assets of the retirement plan portfolios were approximately $3.5 billion as of October 31, 2012.

The financial markets continue to be driven by political events, as U.S. and European political leaders struggle with high government debt and large budget deficits. Central bankers across the globe have pushed interest rates to historically low levels in efforts to revive economic growth. Unfortunately, the continued stimulus is having a diminishing effect and growth remains weak in the U.S. and Europe. The emerging economies, most notably China and Brazil had been a global economic bright spot and a potential source of export demand for the U.S. and Europe. However, growth is now slowing in the emerging economies. Given this environment, it's not surprising that consumers and businesses are being cautious.

The VPIC portfolio produced attractive investment performance relative to other public pension funds--ranking in the top 15 percent of public funds.

The good news is that lower levels of consumer debt and high corporate cash balances represent significant pent up demand and investment capital that could boost economic growth once confidence returns.



VPIC Chair Stephen Rauh

The VPIC portfolio continues to produce attractive investment performance relative to other public pension funds--ranking in the top 15 percent of public funds for the three years ending October 31, 2012. The annualized rate of return for three years is 10.3 percent. These results suggest that VPIC's portfolio restructuring toward a more broadly diversified, lower volatility portfolio, is working well. More challenging for VPIC, and for all defined benefit pension plans, is meeting or exceeding the actuarial return assumptions of the pension plans. For the fiscal year ending June 30, 2012, VPIC again produced strong results relative to other public plans, but the absolute return for the fiscal year was only 2.3 percent--well below the return assumptions of the pension plans.

Looking ahead, VPIC has subdued expectations for the pension portfolio's rate of return. This cautious outlook takes into account a continuation of very low interest rates, anticipated

(continued pg. 3)