In This Issue:

Vermont Municipal Employees' Retirement System

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Retiring TIMES

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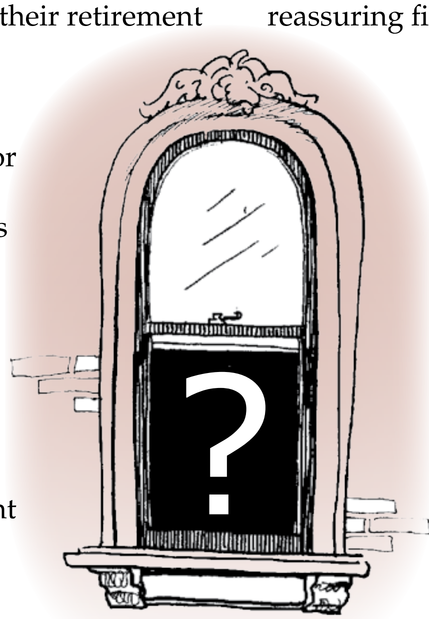
Looking Through the Retirement Window

What's the picture for Vermont State Retirement System members?

> **"Now, I am up at 5 a.m. and, after exercising, showering, eating breakfast, commuting to work, working all day and then commuting home, I have little time during the week to do much else. Once I retire, I am looking forward to getting up at a more reasonable time and being able to spend more time with my family, especially since my daughter is expecting our first grandchild next spring."**
>
> *-- A Municipal Employee*

From the simple to the spectacular, plans on how people hope to spend their retirement years are as varied as the individuals themselves. However, just as the municipal employee quoted above relates, most everyone is planning for a change of pace from the rigors of a 40-hour work week. Everyone also is hoping to have the finances in place to accommodate that change.



There are approximately 45,500 active and retired members in the Vermont State Retirement Systems (VSRS). The VSRS consists of the three largest pension systems in the state. The system provides retirement benefits to qualified and participating employees working for the State of Vermont, member municipalities, and Vermont teachers and administrators. In fiscal year 2010, $186 million in retirement benefits were paid to 12,991 retirees and their beneficiaries. For the 18,291 current active employee members in the state and teacher systems, the majority will be eligible for a normal retirement benefit at age 62. The normal retirement age for the 6,605 municipal employee members is roughly an even split between ages 62 or 65. While the presence of a pension benefit can be reassuring financially, many VSRS members don't believe their pension benefit alone will be enough to cover their retirement expenses.

"I feel reasonably confident about my retirement as both my wife and I have retirement investments separate and apart from the state retirement system and Social Security," said Shaun Donahue of the Department of Children and Families. "I recommend that people start planning for retirement early. A little bit now goes a long way in the future!"

Shifts in the Retirement Picture

Over the past 25 years, traditional pension coverage has been on the decline in the private sector. According to the

(continued pg. 3)

NUMBER OF EMPLOYEES RETIRING BY SYSTEM

	Vermont State Teachers' Retirement System (VSTRS)	Vermont Municipal Employees' Retirement System (VMRS)	Vermont State Employees' Retirement System (VSERS)
*2010	566	147	335
*2009	361	122	472

* Dates are from January 1 to November 1 of each year.

A Changing of the Guard

Solid operational commitment will maintain service and performance

by Jeb Spaulding, Vermont State Treasurer

Shortly after I was first elected as Vermont's State Treasurer in 2002, the Treasurer's Office adopted this commitment statement to Vermonters.

"The State Treasurer's Office manages money that belongs to all citizens of Vermont. The treasurer and staff are committed to doing this honestly, efficiently, responsibly and professionally. The Treasurer's Office operates as a business, serving the needs of Vermonters while working to save the taxpayers money and earn the highest possible investment returns in its funds within acceptable risk parameters."

In January, I will step down as State Treasurer to assume the job of Secretary of Administration. It's a position that will allow me to build on my experience in this office to protect and improve the fiscal well-being of this state. I will be able to play a key role both in crafting the State's most immediate annual budget and in creating long-term economic prosperity for Vermont.

Meanwhile, the important work of the Treasurer's Office will continue. The commitment statement above truly reflects the quality of work that has, and continues to be, carried out daily by our staff. Within the Retirement Division, the staff annually provides retirement counseling to more than a thousand individuals. Last year, we calculated more than 7,200 retirement estimates for prospective retirees. The office currently processes the retirements of approximately 900 people each year across state, teacher and municipal systems.

The Treasurer's Office remains a vigilant caretaker of the more than $3.2 billion in pension assets. The investment performance of the assets has significantly rebounded from the global economic downturn of 2008. The composite return on investments has again risen into the double-digits. As of September 30, 2010, the composite investment returns for the three State retirement systems was 13.2 percent. Over the last few years, the Vermont Pension Investment Committee has been honed to a smaller, more efficient, more knowledgeable oversight group responsible for investing the billions of dollars in pension assets. The work of VPIC will continue, even as I step down from that committee.

The commitment to work for the good of all Vermonters is not simply the mission of the State Treasurer. Whether you are retired or still actively employed and a part of one of the three State retirement systems, we are all contributing toward the good of Vermont. I am pleased that I could serve as your State Treasurer for eight years. I plan to continue such service in my new role and beyond.

(Contribution Rates Continued)

Group C contribution rate should be increased slightly because that plan was not as well funded as the other plans, the board voted to raise the employer contribution rate by one-half of 1 percent for fiscal year 2011. The board also voted to seek legislation to increase the employee contribution in the Group C plan by one-half of 1 percent. The issue of raising employee contribution rates was much debated in the last legislative session. Lawmakers eventually passed legislation that raised the Group C employee contribution rate by one-fourth of 1 percent in fiscal year 2011.

FISCAL YEAR 2012 CONTRIBUTION RATES

	EMPLOYER RATE	EMPLOYEE RATE
GROUP A	4 percent	2.5 percent
GROUP B	5 percent	4.5 percent
GROUP C	6.5 percent	9.25 percent
GROUP D	9.5 percent	11 percent

State statute requires the board to direct the actuary to make an actuarial investigation into the mortality, service and compensation experience of the members and beneficiaries of the system. The actuary then will make recommendations to the board regarding whether changes are needed to the underlying assumptions that are adopted by the board and then used in conducting the annual valuations of the assets and liabilities of the retirement system. This investigation is called an Experience Study. The next Experience Study will be completed by the actuary and presented to the board in the spring of 2011. Any assumption changes that may be recommended by the actuary will be used to complete the Actuarial Valuation for the fiscal year ending June 30, 2011. One of the assumptions that will be under review will be the assumed rate of return on the assets in the plan.

"The current assumed rate of return is 8 percent, which is conservative compared to many other public retirement systems across the country. However, most retirement systems are discussing whether it would be prudent to lower the long-term assumed rate of return in light of current volatility in the investment environment. The assumed rate of return has a significant impact on the contribution levels necessary to adequately fund the retirement system," explained Webster.

The board will be looking closely at all of the actuary conclusions in anticipation of how those assumptions will impact the next annual Actuarial Valuation due in the fall. At that time, the actuary will recommend to the board appropriate employer and employee contribution rates for fiscal year 2013.

National Institute on Retirement Security, in 1975, among employees with a retirement plan at work, 88 percent were covered by a defined benefit pension plan. By 2005, that number had dropped to 33 percent. A defined benefit plan is best known as a traditional pension, whereby employees receive a defined monthly benefit check upon retirement that is usually based on salary level and corresponding contributions, years of service, and age at which the employee draws the benefit. Social Security is a defined benefit plan. The NIRS describes defined benefit plans as a critical source of reliable income for many Americans. A 2009 NIRS report cites poverty rates among older households lacking pension income are about six times greater than those with such income.

"When I first entered the workforce, perfect retirement for me was having enough resources to move to Australia and not have to work once I retire. Australia's out, Wyoming's in, and it may not be perfect, but I might work at least part-time." - Dave Colburn, Department of Labor

The age at which Americans expect to retire is gradually rising. In the 2010 Retirement Confidence Survey by the Employee Benefit Research Institute (EBRI), the national study indicated that only 28 percent of those surveyed planned to retire before age 65. That's a significant change from the 1991 survey where 50 percent of workers planned to retire before age 65. A challenging economy, uncertain job climate, and a lack of finances are the main reasons the EBRI cites for people postponing retirement. As some VSRS members refine their retirement plans, they're also choosing to work longer.

"I had originally believed I would be able to retire by my 55th birthday," said Paul Beyor of the Agency of Transportation. "However, I found out several years ago that I would need to continue to work until 62 as I would need extra money to support the amount of travel that I would like to enjoy in retirement."

On the opposite end of the retirement spectrum nationally are those workers retiring earlier than planned, often for negative reasons. The EBRI study found that 41 percent of retirees retired earlier than planned due to health problems or disability (54 percent) or company downsizing or closure (26 percent). However, VSRS has not seen an increase in early retirements.

"We haven't seen an increase in the number of people choosing to retire early," said Cynthia Webster, Director of Retirement Policy and Outreach for the Treasurer's Office. "Rather, we're talking to more people choosing to retire at full benefits now instead of working longer. For the teachers' system, legislative changes to contribution rates and a change in the normal retirement age prompted many to retire. In the State employees' system, the uncertainty regarding potential future changes to the retirement plan are motivating people to retire now before any changes are made."

In the municipal system, Webster said they have noticed a growing trend of people retiring because their employers have reduced their hours and they no longer qualify for the retirement plan. The teachers' and municipal systems both saw an increase in retirees in 2010 from previous years, while the State system saw a decline. However, the 2009 State retirement numbers were unusually high due to a one-time retirement incentive program offered that year.

The average age at which VSRS members choose to retire is 60. The average retirement age and years of service for retirees from each employee group are: State employees—age 59.46, 21.9 years of service; teachers—age 59.88, 22 years of service; and municipal—age 63.12, 15.5 years of service.

Income Sources in Retirement

Traditionally, retirement income has come from three main sources: the government, in the form of Social Security; employer-sponsored plans such as pensions; and personal savings that includes Individual Retirement Account–type plans. Recently, working full or part-time has emerged as a common source of income. The EBRI study shows that since 2003, approximately 70 percent of workers surveyed plan to work after they retire. Of those, three-quarters of workers say that employment will provide them and their spouse with a major (27 percent) or minor (50 percent) source of retirement income. Among current retirees who worked in retirement, their reasons for doing so were to remain active and involved and because they enjoyed working. However, almost all of the retirees who worked named at least one financial reason for doing so.

"I'm looking forward to having the choice of whether I want to work or not," said Heather Pembrook of the Department of Environmental Conservation. "I love my work and I hope to continue contributing to my state and community. Retirement for me means having the independence to make that choice."

When it comes to pensions as a source of income, the National Institute on Retirement Security reports that among Americans age 60 and older, in 2006 the average pension benefit was $15,784, and the median benefit was $11,467. In Vermont, pensions for retirees from the State and teacher systems are closely aligned with the national average. Fiscal year 2010 data indicates that the average annual retirement income for current retirees of the State system is $15,520; for retirees of the teachers' system the average annual pension is $15,565. Retirees of the municipal system receive on average a much lower annual pension than the other two systems, due to a variety of reasons including lower overall average salaries; lower benefit plan structure; and less service time prior to retirement. The average annual retirement income for a municipal system retiree is $6,453.

"I'm confident I'll be financially prepared because I've been contributing to a retirement fund for several years. My advice for others? Prepare. It's never too early!" - Jennifer Gray, Town of St. Albans

Personal savings, whether through employer-sponsored savings plans, IRAs, or other investments is becoming a more important source of retirement income for workers nationally. The EBRI survey showed 78 percent of workers surveyed expected to rely on personal savings and investments as one of their sources of retirement income. In addition to the defined benefit pension plans, the VSRS administers two defined contribution plans. A defined contribution plan is a retirement plan in which a certain amount or percentage of money is set aside each year by the worker, the employer, or both, for the benefit of the employee. One of the VSRS plans, a 457 deferred compensation plan, allows State, teacher, and municipal employees to use pre-tax income to save for retirement. As of September 30, 2010, 6,380 employees were contributing to the plan, representing 32 percent of all active employees. Participation among the State employee member group is highest, with 65 percent of employees contributing to a deferred compensation account.

Dreams for the Future

"I'm still more than 15 years away from retirement, but it's important to get a clear picture of your retirement as early as possible," said Bud Fetterolf of Forest, Parks and Recreation.

That "picture" may mean having the funds set aside to allow for yearly travel or for a major relocation to another part of the country. A key to funding retirement dreams is to assign dollar amounts to future activities and events. Having specific dollar amounts in-hand allow workers to have a clearer idea of what their annual income needs will be in retirement.

"Envision your dreams, then be conservative and think of making your future dreams a reality. When I first entered the workforce, retirement was not something I considered. Instead, as of late, I feel my perfect retirement is more attainable than I thought possible," said Elementary School Teacher Theresa Giffin.

Key questions to examine individually to determine what annual income will be needed in retirement are:

- **What do I want to do in retirement?**
- **Where will I live in retirement?**
- **What healthcare and long-term care costs should I consider?**
- **Do I want to leave money to relatives, friends or a favorite charity?**

Merle Moore, an employee of the State's Department of Buildings and General Services, offers this advice, "Take the long view in life and do not simply live for today. Too many people want it all now and overspend, which prevents having extra funds available to set aside for retirement. Time does have a tendency to slip by quickly and it is gratifying to look and realize that you have saved and planned and that savings can add up."

The State Treasurer's Office offers a workshop that presents how to complete a retirement needs calculation. For more information on this free workshop, "Keeping the Gold in Your Golden Years," go to www.MoneyEd.Vermont.gov. *- by Lisa Helme, Retiring Times editor*

Recent Retiree Update

	2010	2009	2008	2007	2006
JANUARY	12	12	16	8	3
FEBRUARY	3	8	6	10	5
MARCH	4	3	12	6	7
APRIL	7	14	13	9	3
MAY	9	5	10	7	10
JUNE	12	7	3	5	12
JULY	52	25	40	40	34
AUGUST	19	4	13	16	3
SEPTEMBER	11	24	11	13	8
OCTOBER	13	8	8	9	9
NOVEMBER	5	12	6	12	6
DECEMBER		9	2	5	5

Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach

All financial planners recommend that employees put money aside in a variety of investment vehicles during active employment in order to enjoy a financially secure retirement. Money set aside before federal and state taxes are withheld is particularly attractive in order to lower the taxable income for those employees who may be within their highest earning years, or when the mortgage is paid off and many other standard tax-deductible items have been eliminated. That is extremely sound advice, and the reason why many of the retirees I have the pleasure of speaking with tell me that they are actually better off in retirement than they were when actively employed. I think we all strive to enjoy that status in our later years.

Under current IRS regulations, withdrawals from tax-deferred savings accounts must begin in the year in which the original participant turns 70 ½. For example, if the participant turns 70 ½ in March, a "minimum distribution" must be taken by December 31 of that year. There is a one-time election to defer the first minimum distribution until the April following the year in which the participant turns 70 ½, but if elected, then a second withdrawal must be taken by December 31 of that same year. Thereafter, a minimum distribution must be taken by December 31 each year until the money is depleted. If the original participant dies before 70 ½, the spousal beneficiary on the account must take the minimum distribution based on when the original participant would have turned age 70 ½. This ensures that the money will be withdrawn during the expected lifetime of the participant who enjoyed the tax-deferred savings, and minimizes the time the government has to wait to receive their tax withholdings.

A minimum distribution is calculated by taking the account balance as of the previous December 31 and dividing it by the life expectancy of the participant. The amount of the minimum distribution changes each year as the account balance and age of the participant changes. All types of tax-sheltered accounts are subject to this minimum distribution rule, including the Vermont State Teachers' Retirement System 403(b) Program, the State of Vermont Deferred Compensation (457) Plan, and the Single Deposit Investment Account.

If you participate in one of the above plans and would like more information about how the minimum distribution rules affect you, please call Great West Retirement Services at (802) 229-2391.

UPDATES FROM THE RETIREMENT DIVISION: *COLA Update & New Roth IRA Option*

Update on January COLA

The cost-of-living adjustments that will be applied to pension payments on January 31, 2011 are as follows: Groups A, B, C, and D—0.55 percent increase. In order to qualify for a cost-of-living adjustment, 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.

457 Plan to Offer Roth IRA Option

The VSRS board recently approved the addition of a Roth IRA to the investments available within the State of Vermont Deferred Compensation (457) Plan. Recent changes in the Federal 457 guidelines made Roth IRAs available to 457 plans for the first time. The board expects the Roth IRA will be added to the plan investment options and ready for selection within the first quarter of calendar year 2011. Roth IRAs are a valuable retirement planning tool as they allow participants to defer money on a post-tax basis while they are still actively employed. The money may then be accessed tax-free in retirement, and if the money is invested for at least five years prior to withdrawal, all investment earnings may be withdrawn tax-free as well. As many retirees find themselves in the same tax bracket as they were prior to retirement due to sound retirement planning and wise investment practices, having access to tax-free money in retirement may be the final link to the best mix of resources to maximize income and minimize taxes. Look for more information about this exciting new option within the next few months.

The State 457 Plan is available to all State employees and legislators and affords an opportunity to defer money on a voluntary, pre-tax basis from bi-weekly paychecks. As of September 30, 2010, the 457 Plan assets totaled $256.6 million with 6,380 participants. School district and municipal employees also are eligible to join the 457 Plan if offered by their employer.
To learn more about the 457 Plan, contact Great West Retirement Services at their Montpelier office at (802) 229-2391.

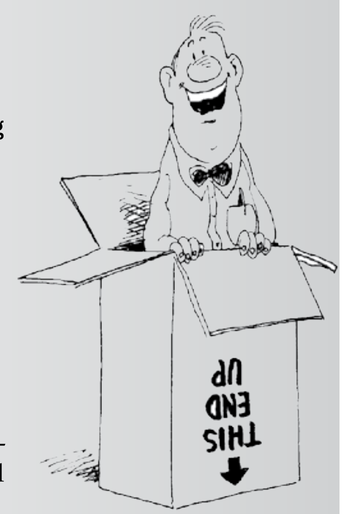
Plan Ahead to Receive Retirement Estimate

If you are not retiring in the near future, but would like to receive a financial estimate of what your monthly and annual retirement benefit would be at a certain time in the future, please note—it may take 12 to 16 weeks to receive an individual report. Our retirement specialists must first give priority to fulfilling estimate requests for those system members closest to retiring.

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 Municipal Employees' Retirement System. Editor: **Lisa Helme**

Making Sense of 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 Retirement System for reporting your pension to the IRS.



BOX 1 Displays the gross amount of the pension you have received during calendar year 2010, before any deductions have been withheld.

BOX 2a Displays the taxable amount of the pension you have received during calendar year 2010. 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 2010. 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 2010. 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 Retirement System retirement number.

Vermont Municipal Employees' Retirement System
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CONTRIBUTION RATES

Board Votes to Maintain Current Employee & Employer Rates

The VMERS Board of Trustees recently unanimously voted to continue the current employer contribution rates for all of the defined benefit group plans for the fiscal year beginning July 1, 2011 and ending June 30, 2012. In addition, they voted to submit a bill to the State Legislature that would allow the current employee contribution rates to continue for one more year, or until June 30, 2012.

It is the responsibility of the board to set the employer contribution rate each year for the following fiscal year, based on the results of the annual Actuarial Valuation that is performed for the fiscal year just ended.

"The board has maintained a discipline for stability in the employer contribution rate since the inception of the plan," said Cynthia Webster, Director of Retirement Policy and Outreach for the Treasurer's Office. "The employer contribution rates were even lowered for the first time in fiscal year 2000 as a result of the excellent fiscal health of the plan."

Also in 2000, the board successfully sought legislation that lowered the employee contribution rates of three of the defined benefit plans for a period of five years. When the lower employee contribution rates were due to revert back to the original higher rates in fiscal year 2005, the board again successfully pursued legislation that continued the lower contribution rates for another five years.

In fiscal year 2008, the municipal retirement system experienced significant investment losses, along with virtually all other pension systems across the country. As a result of that loss, the funding ratio of the system dropped below 100 percent for the first time in more than 20 years.

The board felt comfortable at this time in setting the employer contributions rates for groups A, B and D at the same level for another year and to seek legislation allowing the employee contribution rates for groups A and B to remain at the lower rate for another year.

"Despite the decreased funding level reflected in the fiscal year 2009 Actuarial Valuation, the board felt comfortable at this time in setting the employer contributions rates for groups A, B and D at the same level for another year and to seek legislation allowing the employee contribution rates for groups A and B to remain at the lower rate for another year," said Webster.

However, based on the actuary's recommendation that the

(continued pg. 2)