In This Issue:

VERMONT

Vermont Municipal Employees' Retirement System December/January 2012

Retiring TIMES

Volume 11, Issue 2

Retirement in the News!

Keep informed with these briefs on retirement research

The challenge of retirement is how to spend time without spending money.
– Anonymous

Retirement is on the minds of many Vermonters. With economic-related news headlines frequently alerting us to the latest fluctuations in the financial markets, it's no wonder people are considering what financial future awaits them in retirement. Gleaned from the headlines of the last six months, we've compiled several stories we think will give you some useful perspective in weighing your own retirement options.

Redefining the American Dream

Nearly half of U.S. adults say top financial goal is having enough money for retirement

Aug. 22, 2011. NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION — For some, the American Dream can be found in the comforts of a modest home surrounded by a white-picket fence. But a new survey from the National Endowment for Financial Education (NEFE) finds that almost half of American adults say the financial goal that is most important to them is having enough money for retirement.

Forty-seven percent of U.S. adults aged 18 and older say having enough money for retirement is their top financial priority, compared to just 17 percent who feel homeownership is their top financial goal. The on-line poll was commissioned by NEFE in cooperation with TheStreet.com and conducted by Harris Interactive.

In thinking about their own financial situations, 57 percent believe they are achieving the American Dream. But the chase isn't without its obstacles. A majority of U.S. adults (70 percent) agree that a significant obstacle to achieving the American Dream is their inability to save enough, and 54 percent agree that managing their debt is a significant barrier.

Strengthening State & Local Government Finances

Lessons for Negotiating Public Pension Plan Reforms

Sept. 7, 2011. CENTER FOR STATE & LOCAL GOV'T EXCELLENCE — A new report offers lessons from governments that have reformed their pension plans to make them more fiscally sustainable while still providing retirement security to their employees. The report, "Strengthening State and

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Long-time Retirement Director Cynthia Webster Retires

EDITOR NOTE: In the three decades Cynthia has worked for the State Treasurer's Office, her dedication and commitment to her job have helped mold a retirement system that now serves more than 45,000 active and retired members. We thank her for her contributions and wish her the best in retirement. We're pleased to share with readers, Cynthia's walk through the Vermont State Retirement System's history.

My decision to retire after over 31 years of service with the State of Vermont, all of them while employed within the State Treasurer's Office, is made with very mixed emotions. I have always offered the same statement to members who are struggling with the ideal time to retire, "You will know when that time comes." It is now time to take my own advice, as the ideal time has come for me. I am leaving a job that I absolutely love to return to my primary passion

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Retirement in the News Continued

Local Government Finances: Lessons for Negotiating Public Pension Plan Reforms" covers the reforms of five governments: Iowa, Oregon, Vermont, Gwinnett County in Georgia, and the City of Houston in Texas.

It offers lessons for other reform-minded governments on plan funding and governance, the importance of using good data from experts, communication, governance, and financial education. The report's key findings include:

- Pensions should be viewed as part of a broader human resources strategy that can affect recruitment and retention.
- Policymakers need high quality data and analyses as they consider benefit changes.
- Strong communication with all stakeholders helps employees, elected officials, and the public understand the need for change.
- Discipline in funding a plan's annual required contribution is important to achieve full funding.
- Workplace financial education will help public employees learn how to build their retirement savings.

The complete report is available on-line by going to: **www.slge.org** and clicking on the "Center Publications on Pensions" located in the far righthand column on this page.

How Much to Save for a Secure Retirement

Estimates Suggest People Need 80 Percent of Pre-Retirement Income

Nov. 1, 2011. CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE — While market ups and downs are unpredictable, people do have control over work and saving decisions that can significantly improve their retirement prospects. This brief uses a simple model to estimate what percent of earnings an individual must save to ensure a financially secure retirement. Recent estimates suggest that people need about 80 percent of their pre-retirement income in retirement.

The savings rate needed to hit this target depends on earnings, saving start age, retirement age, and asset returns. An average earner who starts saving at 35 and retires at 67 needs to save 18 percent each year, assuming a 4-percent return. The comparable rates for low and high earners are 12 percent and 22 percent, respectively.

Starting early and working longer are more powerful levers for gaining a secure retirement than earning higher returns. This strategy of saving for a longer period of time is especially effective given the greater risk that comes from attempting to earn that higher return. And the further along an individual is in his/her career, the more effective working a few years longer becomes.

The brief, "How Much to Save for a Secure Retirement," is available at **http://crr.bc.edu/briefs/how_much_to_save_for_a_secure_retirement.html** .

DEFERRED COMPENSATION PLAN NEWS

Participants in the State of Vermont Deferred Compensation 457 Plan or the teachers' retirement system 403(b) investment program may take advantage of the Reality Investing options offered by Great-West, the administrator of the plans. Participants may take advantage of a suite of investment advisory services. There are three alternatives to choose from: (1) online investment guidance that is free of charge; (2) online investment advice available for a $6.25 quarterly fee deducted from the participant's account; and (3) managed account service in which an annual fee ranging from .30% to .60% based on the account balance is paid by the participant. Each of these services is designed to appeal to a different segment of the participant base—the Do-It-Myself Investor, Help-Me-Do-It Investor, and the Do-It-For-Me-Investor. To learn more about these options, contact your Great-West representative at (800) 457-1028 and select option 2, or locally at (802) 229-2391. These investment services are offered in collaboration with Advised Assets Group, LLC (AAG).

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. Additionally, employees may not receive important information in a timely manner. 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.

Tropical Storm Irene Prompts Treasurer's Office to Contact Retirees

When Tropical Storm Irene swept through Vermont, the resulting damage forced post offices in the impacted communities to temporarily close. While most retirees receive their pension checks through direct deposit, a small number of people receive their payment through the mail.

"Shortly after Irene hit, our monthly pension checks were scheduled to be mailed," explained Deputy Retirement Operations Director Laurie Lanphear. "We worried that people would have trouble receiving their checks in a timely manner if they lived in one of the areas hard hit by the storm."

Retirement Division staff researched on-line those zip codes that were temporarily closed. From that information, they were able to run a report that listed all of the retirees scheduled to receive a check mailed to each of the closed zip code areas. The retirement specialists worked to contact retirees via phone to alert them to possible delays in receiving their checks. Retirees could opt to have their checks held, mailed to a different address, or sent directly to their banking institutions. Some retirees also chose to have their checks sent to their original addresses knowing that the mail could be delayed. While some were surprised by the extra effort made to contact them, all of the more than two dozen retirees impacted by the disruption in mail service appreciated being notified about the potential problem.

Strengthening Our Resolve

We must maintain our commitment to full support of the pension systems

by Beth Pearce, Vermont State Treasurer

Personal resolutions – this is the time of year that many people use for thoughtful self-examination. We take stock of our accomplishments during the past year and make our New Year's resolutions. As State Treasurer, I am prompted to take such a look at our retirement system.

Looking toward 2012 and beyond, a challenging fiscal picture will require continued constructive and collaborative work as we all aim to keep our municipal retirement system affordable and fair for system members and taxpayers alike. In fiscal year 2011, approximately $204 million was paid to 13,319 retirees and their beneficiaries in the State, teacher and municipal systems. In defined benefit systems, pensions are funded by employee contributions, employer contributions and interest. Demographic trends predict a continued growth in our retiree population and a corresponding lowering of the ratio of active members to retirees. That means there will be fewer active members contributing to the system for each retiree drawing a pension benefit.

The largest source of contributions to the system comes from interest earnings. On average, roughly 70 percent of every dollar paid to retirees is from investment income. In our municipal system, the VMERS Board of Trustee sets the contribution rates to meet the actuarial funding requirements. I commend the board for continuing their strong commitment to meeting these requirements. The result has been a system that currently stands on strong fiscal ground. In the State employees' and teachers' systems, the legislature determines whether to make the full actuarially recommended contribution. I appreciate the legislature's past actions in the last several years to address the issue of full funding.

Nationally, many are questioning the interest rates and actuarial assumptions underlying pension funding decisions. Vermont continues to take a measured and informed approach to such decisions. The Vermont retirement system boards of trustees, in concert with its investment and actuarial consultants, believe that interest earning assumptions should not be considered in isolation, but rather as part of an interrelated set of actuarial assumptions. To that end, a new method of developing interest rate assumptions called "select-and-ultimate" was recently implemented. Vermont is one of the first states in the country to adopt this approach, one that is already largely

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used in the private sector. In this method, rate of return forecasts were developed by the system's actuary using a sophisticated capital market model. My hope is that by refining our actuarial approaches, we may more confidently plan for the future fiscal needs of our retirement systems.

In consideration of the positive steps we've taken in the past year and, looking ahead to 2012, I would propose the following "resolutions" for our retirement systems:

- Continued policies for full actuarial funding;
- Utilization of reasonable assumptions to assure the pension systems are achieving the dual goals of benefit security and fiscal responsibility;
- Continued review of changes to the benefit system to assess their impact;
- Retaining our ongoing commitment to disciplined investment; and
- Continued prudence in assessing our risk management framework and developing proactive strategies that anticipate future challenges to our retirement systems.

It has been my pleasure to serve as your State Treasurer in this first year. I wish all of you a joyful holiday season and a prosperous new year.

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(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**

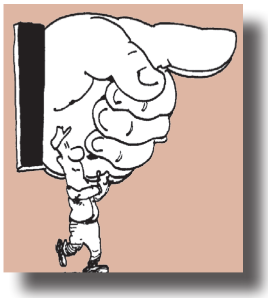
WHAT IS AN ACTUARY?

An actuary is a business professional who analyzes the financial consequences of risk using mathematics, statistics, & financial theory to study uncertain future events, especially those of concern to insurance and pension programs. Each year, an actuary recommends an amount of money that needs to be allotted to the retirement systems to pay for future benefits.

UPDATES FROM THE RETIREMENT DIVISION: *New Trustee Appointed & January COLA*

Rowlee Appointed to Fill Vacated Trustee Seat

The VMERS board has appointed David Rowlee, a firefighter from the Town of Hartford, to fill a Board of Trustees opening created by the resignation of James Quinn. Quinn recently stepped down from the board after accepting a promotion that made him ineligible to continue in the employee representative's position on the board. Lieutenant Rowlee has worked for the Hartford Fire Department since 1990. "My hope is to serve the members in the system in their best interest to see that everyone retiring receives the benefits they deserve," said Rowlee. Rowlee assumes the remainder of Quinn's four-year term which expires June 30, 2014.



Employee Contribution Rates Outlook

The VMERS board voted at their October 24 meeting to recommend to the State Legislature that the employee contribution rates continue at their current level for fiscal year 2013. If approved by the legislature, the employee contribution rates will be as follows beginning July 1, 2012 through June 30, 2013: Group A - 2.5 percent; Group B - 4.5 percent; Group C - 9.25 percent; and Group D - 11 percent.

January COLA Figures In

The cost-of-living adjustments that will be applied to pension payments on January 31, 2012 are as follows: Groups A, B, C, and D—1.7 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.

Tax Benefits Continued, Pg. 6

For 2012, annual deductible amounts for Medical Savings Accounts (MSAs) increased from the tax year 2011 amounts; please see the table below.

MEDICAL SAVINGS ACCOUNTS (MSAs)	SELF-ONLY COVERAGE	FAMILY COVERAGE
Minimum Annual Deductible:	$2,100	$4,200
Maximum Annual Deductible:	$3,150	$6,300
Maximum Annual Out-of-Pocket Expenses:	$4,200	$7,650

The $2,500 maximum deduction for interest paid on student loans begins to phase out for married taxpayers filing a joint return at $125,000 and phases out completely at $155,000, an increase of $5,000 from the phase out limits for tax year 2011. For single taxpayers, the phase out ranges remain at the 2011 levels.

For an estate of any decedent dying during calendar year 2012, the basic exclusion from estate tax amount is $5,120,000, up from $5,000,000 for calendar year 2011. Also, if the executor chooses to use the special use valuation method for qualified real property, the aggregate decrease in the value of the property resulting from the choice cannot exceed $1,040,000, up from $1,020,000 for 2011. The annual exclusion for gifts remains at $13,000.

Several tax benefits are unchanged in 2012. For example, the additional standard deduction for senior citizens remains $1,150 for married individuals and $1,450 for singles and heads of household.

Details on these inflation adjustments can be found on the Internal Revenue web site at **www.irs.gov**. The adjustments are located in Internal Revenue Bulletin 2011-45 in Revenue Procedure 2011-52. *— Article by IRS.*

Retiree Stipend to Continue

The $25 monthly health care stipend given to retirees of the VMERS will continue to be paid at least through June 30, 2013, according to action taken by the VMERS board at their November 9 meeting. The monthly stipend was initiated by the board more than 10 years ago to provide VMERS retirees with a monthly "stipend" in the amount of $30 to help defray the cost of obtaining and paying medical expenses after retirement. This was in lieu of providing a health care plan to retirees. When the Retiree Health Savings (RHS) Plan was established in 2007, the board discussed eliminating the stipend and putting the money into the RHS plan instead. However, before they decided to take that course of action, the market plummeted, making it impossible to deposit more money into the RHS accounts. Therefore, the board reduced the amount of the stipend to $25, but elected to continue it at least until the fund recovers. Approximately 1,680 retirees currently receive the stipend.

Recent Retiree Update

	2011	2010	2009	2008	2007
JANUARY	18	12	12	16	8
FEBRUARY	3	3	8	6	10
MARCH	9	4	3	12	6
APRIL	8	7	14	13	9
MAY	8	9	5	10	7
JUNE	17	12	7	3	5
JULY	63	52	25	40	40
AUGUST	15	19	4	13	16
SEPTEMBER	10	11	24	11	13
OCTOBER	9	13	8	8	9
NOVEMBER	9	5	12	6	12
DECEMBER	7	10	9	2	5

NOTICE:
Dental Premium Rates Remain Unchanged in Calendar Year 2012!

Webster Retires Continued

- my family. I intend to spend the next couple of years taking care of my fourth and probably last grandchild. I can't think of anything more satisfying and rewarding at this point in my life.

Making the decision to retire prompts me to think back about all of the changes that have occurred in the retirement system since I first became employed in the State Treasurer's Office in 1971. Many of the major changes I recall in this article may spark a remembrance for some of you. Please walk with me down memory lane.

Cynthia was 17 years old when she first started working at the Treasurer's Office. Her first job in the office was as a typist. In the next 31 years, she was promoted via seven different positions to her current job as Director of Retirement Policy and Outreach.

1971 – Frank Davis was State Treasurer, and Edwin (Ed) Gallison was Director of Retirement Investment and Member Services. Ed was my mentor when I was first employed as a very young and inexperienced 17-year-old, and remains my role model for the ideal boss. Although Ed retired from Vermont service in 1987, I am pleased to say that we still keep in touch after all of these years.

The Vermont State Employees' Retirement System was a contributory, 30-year plan for all general State employees. Judges had a separate group plan. State Police and Motor Vehicle Inspectors Retirement System was a separate system altogether. These two systems merged in 1972 to become the Vermont State Retirement System (VSRS). The Vermont State Teachers' Retirement System (VSTRS) was a contributory, 30-year plan for all public school teachers and administrators. The Vermont Municipal Employees' Retirement System (VMERS) did not exist.

At this point, I need to fast-forward, as I left employment in 1976 to become a full-time wife and mother for my growing family. During my absence, significant actions took place that affected the retirement systems.

1975 – The VMERS plan was established to provide retirement benefits to municipal employees who were not covered under any other type of retirement plan.

1981 – An alternative non-contributory retirement system was introduced for both the VSERS and VSTRS in 1981. More than 90 percent of those employed in 1981 transferred to the non-contributory systems. The Single Deposit Investment Account (SDIA) was established as a vehicle to invest funds that were made available to members as a result of their transfer to the non-contributory system. Money invested in the SDIA was guaranteed a return of 15.24 percent for a 10-year period. The State of Vermont Deferred Compensation Plan was established as a vehicle to assist State employees to save for retirement on a pre-tax basis.

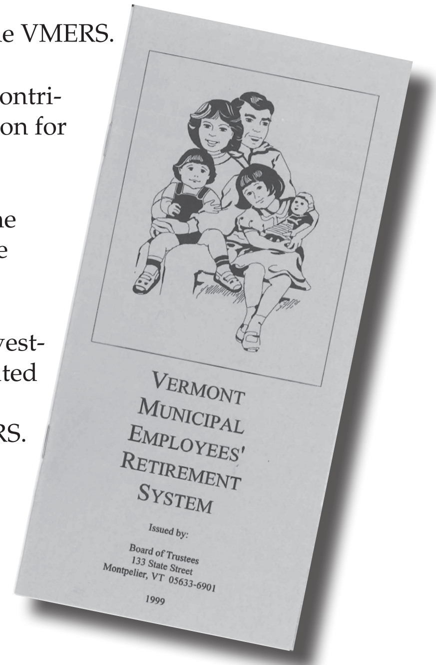
I returned to employment in the Treasurer's Office, Retirement Division, in 1985 and had the pleasure of participating in and helping to implement the following changes.

1987 – Group B was added to the VMERS and the previous level of benefits was re-named group A.

1990 – The non-contributory plan in the VSTRS was replaced with a contributory, 30-year plan. The benefits for those that elected to remain in the old contributory plan were upgraded.

1991 – The non-contributory plan in the VSERS was replaced with a contributory, 30-year plan. The benefits for those that elected to remain in the old, contributory plan were upgraded.

1992 – Group C was added to the VMERS.



1999 – An alternative Defined Contribution Plan was added as an option for exempt State employees.

2000 – Group D was added to the VMERS, along with an alternative Defined Contribution Plan.

2005 – The Vermont Pension Investment Committee (VPIC) was created to invest the pooled assets of the VSERS, the VSTRS and the VMERS.

2007 – VMERS implemented a Retiree Health Savings plan to assist vested members to pay for health care expenses in retirement.

2009 – The VSTRS established a 403(b) plan that is available to all school districts to assist employees to save for retirement on a pre-tax basis.

I have had the pleasure of working with the legislature since 1996 to oversee and assist in making amendments to the systems. Without exception, I have found the legislators to be extremely hard-working, knowledgeable, and thoughtful individuals who have the best interests of both the State and its citizens at heart. I will truly miss working with them during the upcoming session.

I have always offered the same statement to members who are struggling with the ideal time to retire, "You will know when that time comes." It is now time to take my own advice, as the ideal time has come for me.

In closing, I want to express my gratitude for the kindness and trust that has been granted through the thousands of wonderful, dedicated public employees I have worked with over the years, many of whom I now call my friends. Having the unique opportunity of providing assistance and support for the very people who spend their lives serving all Vermonters has been an honor and a privilege. I have thoroughly enjoyed an exciting, yet humbling career, and know that I am leaving at a time when the quality of service that has always been a priority will continue thanks to the outstanding, caring and knowledgeable staff that will remain long after I retire.

— Cynthia Webster, Director of Retirement Policy & Outreach

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Good News: Many Federal Tax Benefits to Increase in 2012

For tax year 2012, personal exemptions and standard deductions will rise and tax brackets will widen due to inflation. By law, the dollar amounts for a variety of tax provisions, affecting virtually every taxpayer, must be revised each year to keep pace with inflation. New dollar amounts affecting 2012 returns, filed by most taxpayers in early 2013, include the following:

YOUR 1099-R FORM!

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.

- **Tax-bracket thresholds increased for each filing status. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket is $70,700, up from $69,000 in 2011.**
- **The value of each personal and dependent exemption, available to most taxpayers, is $3,800, up $100 from 2011.**
- **The new standard deduction is $11,900 for married couples filing a joint return, up $300, $5,950 for singles and married individuals filing separately, up $150, and $8,700 for heads of household, up $200. Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions and state and local taxes.**

For tax year 2012, the maximum earned income tax credit (EITC) for low- and moderate- income workers and working families rises to $5,891, up from $5,751 in 2011. The maximum income limit for the EITC rises to $50,270, up from $49,078 in 2011.The credit varies by family size, filing status and other factors, with the maximum credit going to joint filers with three or more qualifying children.

(continued pg. 4)