

Retiring Times

Volume 2 Number 1

Retired Municipal Employees

September 2002

Message from Vermont State Treasurer James Douglas

I want to reassure all of you that your pension fund is sound and your benefits are secure. My office has received dozens of phone calls from people around the state who are concerned about the health of their retirement plan in the wake of the Enron and WorldCom scandals. It is unfortunate that press reports of losses in the pension fund caused you any worry, but your plan is fine.

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For the year ended June 30, 2002, the Municipal Employees' Retirement Fund had a total return of -1.8%, which is 2.9% better than the median public fund at -4.7%.

Let me explain how your pension system works. Yours is a defined benefit, or DB, plan. In a DB plan, your eventual benefit is a contractual responsibility of the State. Your benefit is determined by your number of years of service and your final average compensation, NOT by investment performance. The assets of the plan are invested in both the stock and bond markets because it is the best method to accumulate additional assets.

The last actuarial study determined that your plan has a market value that is 108% of all future liabilities. That means that if the plan were suddenly frozen, more than enough money needed to provide promised benefits to active and retired participants would already be there. Sounds pretty good, doesn't it? But the next part gets a little more difficult to explain.

The plan retains an actuary to project just what

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Message from Retirement Operations Director Cynthia L. Webster

The governing body of a municipality may decide to offer a higher benefit plan to its employees **by September 30 of each year**. The four defined benefit plans differ in normal retirement age, years of service to achieve the maximum benefit, and benefits to children.

Group A – Normal retirement at age 65 or age 55 with 35 years of service.

Group B – Normal retirement at age 62 or age 55 with 30 years of service.

Group C – Normal retirement at age 55.

Group D – Only police officers, firefighters, and emergency medical personnel can belong to Group D. Normal retirement is at age 55, with children's benefits in the event of disability or death before retirement.

Each step up to a new plan does entail additional contributions from the employee and the municipality.

If a municipality elects to offer a higher defined benefit plan, employees have until the end of

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Treasurer's Message (continued from page 1)

all those future liabilities will be. The actuary makes a lot of assumptions about how long retired people will live and what their benefits will be based on future salaries. In addition, the actuary projects asset growth at an 8% annual rate. These assumptions are very difficult to predict with complete accuracy, so to compensate both for changes in demographic statistics and investment market fluctuations, the actuary employs a five-year smoothing technique that recognizes only 20% of accumulated investment gains or losses in any one year. After that calculation, the actuarial valuation of assets will cover 112% of all future liabilities – a very well funded plan.

Since three of the last five years had accumulated gains, there are approximately \$5 million more in additional gains waiting to be absorbed into the system on an actuarial basis – much more than the \$500,000 loss in Enron in the fourth quarter of 2001. I wish I could report that none of the investment managers had invested in Enron, and I am sure that they wished they had not as well. However, I am pleased to report that your portfolio had no exposure to WorldCom. Thus, the retirement plan remains very healthy and your benefits remain secure.

Please call my office if you have further questions.



Director's Message (continued from page 1)

the calendar year to decide whether they want to join the new plan or stay with their current plan. No one is forced to change retirement plans – it is completely voluntary. If a member elects to transfer to the higher benefit plan, the transfer will be effective the following July 1.

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Director of Retirement Operations:
Cynthia Webster
133 State Street
Montpelier
Vermont 05633-6901
828-2305 or 1-800642-3191 (In-State)

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Editor: Joseph Bahr

The Retirement System also offers a defined contribution plan. The two fundamental differences between a defined benefit and defined contribution plan are that a defined benefit plan guarantees a certain payment for life but is not "portable", which means that if an employee leaves a municipality he or she cannot earn any further retirement benefits. A defined contribution plan is "portable", but because the individual worker "owns" it and not the municipality, he or she also assumes the risk of in-

vesting the funds in the plan. With wise investments and a favorable market environment, the individual could obtain a higher retirement benefit than in the defined benefit plan. The inverse is also true – if the investment plan did not work as well as anticipated, the individual will either have to work longer or accept a smaller benefit.

Municipalities have until **December 31 of each year** to decide to offer the defined contribution plan as an alternative to the defined benefit plan. If a municipality offers the defined contribution plan, employees have until March 31 to decide whether they wish to join it or stay with their defined benefit plan. Again, no employee will be forced to change plans – it is a voluntary choice.

If either a municipality or an employee has questions about the possibility of adding another option to their retirement choices, please contact the Retirement Office at 828-2305 or 1-800-642-3191. For more information on any of the defined benefit plans, please see our web site at www.tre.state.vt.us. Click on Municipal Retirement System in the left-hand column, and on the next screen click on Group Comparison Table.

Cynthia L. Webster

New Legislation Improves Retirement Plans

The Vermont Legislature amended several sections of the Vermont Municipal Employees' Retirement System this year. The most important changes are an increase in the benefit formula for employees in the group A plan, an increase in pension benefits for retirees who were in the group A plan, and clarifying language on when the Cost of Living Adjustment begins for vested employees who are terminated.

The group A plan is the basic plan for municipalities and has the most members of the five retirement plans that are offered. The Legislative amendment increases the benefit formula to 1.4% for all employment prior to 1987. The old benefit formula was only 1.0% up to 1975 and 1.1% from 1975 to 1987. The increase in the benefit formula enhances the value of the group A plan to all members who were employed by a municipality prior to 1987. The change takes effect immediately.

For those of you who are not familiar with the benefit formula for the group A plan, it is used to determine the amount of your pension payment when you retire. The full formula is fairly easy to understand. First, multiply the number of years of employment with a municipality by the 1.4%. Second, multiply this result by the Average Final Compensation (AFC). The AFC is the average gross income of the highest five consecutive years

of employment with a municipality. Typically, the AFC is based upon the last five years of employment since pay usually rises with years of service.

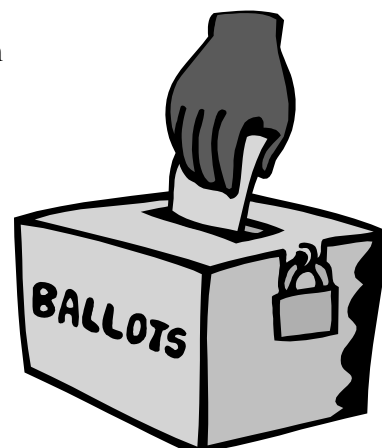
Retirees with time in the group A plan will receive an adjustment in their pension payment that reflects the aggregate increase to 1.4% for time between 1975 and 1987. The pension payment increase will take effect on January 1, 2003.

The final Legislative change was clarifying language on the Cost of Living Adjustment for individuals who were vested when they terminated their employment with a municipality. To be vested, an individual must have been employed by a municipality and have belonged to a retirement plan for at least five years. If a member has met this requirement, then a Cost of Living Adjustment will be applied to the Average Final Compensation on January 1 of the year after his or her separation from employment with the municipality and every year thereafter until they retire. This change helps the member's AFC maintain its value as inflation gradually increases the cost of living.

All of these changes are beneficial to affected members of the retirement plans. If you have any questions, please contact the Retirement Office at 828-2305 or 1-800-642-3191 (in-state only).

Trustee Election Results

W. John "Jack" Mitchell will be reappointed to the Board of Trustees for another three-year term. He was the only person to file nomination papers for the employee representative trustee position. He is employed by the Barre Town Elementary School, and is also a reserve police officer for two police departments (Barre Town and Barre City) and a member of the Barre Town Select Board. Mr. Mitchell has served on the Board of Trustees for the Vermont Municipal Employees' Retirement System since 1981. Congratulations to Mr. Mitchell on his reappointment for another term.



Late Breaking News from Board Chair Steve Jeffrey

Since there have been many articles in the newspapers recently about Vermont's retirement systems, your Board of Trustees want to reassure you that the Municipal Employees' Retirement System is healthy and strong. We held our quarterly investment meeting last week and for the quarter ended June 30, 2002; our system had the best performance of all the pension accounts covered by our consultants, New England Pension Consultants or NEPC. Compared to a large universe of other public funds, our fund ranked in the top 25% for the past five years and the top 10% for the past ten years.

However, it has still been a difficult year for the securities markets. The total return for all the

holdings of our Fund for the last quarter was - 3.5%, and for the last year -1.8%. However, the median public fund had returns of -4.9% and -4.7% for those same periods, so your fund outperformed those medians by 1.4% and 2.9% respectively. After July, which was the worst month the market has ever had, we have been enjoying an August that so far has seen the S&P 500 Index rise by 19%. Perhaps this means that we have seen the bottom, and can once again return to more positive market news. I hope so.

Regardless of these short-term disappointments, VMERS is a "defined benefit" retirement plan which means that you can depend on the benefits on which you are counting.

About 40 municipalities offer the State of Vermont Deferred Compensation plan, which allows employees to save money for their retirement. Those of you in the plan have received information on the change in administrator from Citistreet to BenefitsCorp. Investment options remain the same, but this is a good time to review your investment choices. Retirees will be receiving a single payment for September and October to ensure no disruption of income during the transition period in late September and early October.

The new Deferred Compensation phone number is (800) 457-1028. The new web site for Deferred Compensation is at www.vermont457.com

Vermont Municipal Employees' Retirement System
133 State Street
Montpelier, VT 05633-6901

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