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VERMONT

Vermont Municipal Employees' Retirement System

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Retiring TIMES

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Legislators Pass Retirement Bill

Act 13 Creates "Spring Cleaning" Impact on State Statutes

Legislative leaders rolled up their sleeves and helped bring completion to a long overdue clean-up of language in state statutes related to the Municipal Employees' Retirement System. Act 13 contains 49 sections that make technical changes to create consistent language. The act also modifies state statutes to reflect ever-changing federal law requirements.

Reflecting back on the 2007 legislative session, Cynthia Webster, the Director of Retirement Policy and Outreach for the State Treasurer's Office, said such clean-up work is important in clarifying how the retirement system works and promoting clear communication.

"One painstaking area of change was to modify state statutes to reflect that funds were deposited to and admin-

(continued pg. 2)

What does Act 13 do? It . . .

- Adopts the current federal law requirements for public pension plans into state law.
- Reduces the number of funds identified to be consistent with current accounting practices.
- Defines how the average final compensation will be calculated for members who retire with service that has been accrued in more than one group within a single plan.
- Eliminates the inability to belong to the Municipal Retirement System if covered by the Teachers' Retirement System.
- Defines an individual's monthly pension check to equate to the maximum retirement option.
- Creates a new definition for "Fund."
- Eliminates the 90-day eligibility period prior to membership enrollment for employees who are offered both the defined benefit and defined contribution plans.
- Establishes language to ensure no loss of creditable service if a member goes on a leave of absence as a result of a work-related injury and receives worker's compensation payments while on leave.
- Establishes the ability for terminated, vested members to draw early retirement with appropriate penalty.

(continued pg. 2)

HEALTH SAVINGS ACCOUNTS ANNOUNCED

Meetings were held throughout the state recently to inform VMERS members about the new individual retiree health savings accounts. Above, (r to l) retiree Wayne Kathan, his wife Fay, and fellow retiree Rebecca Peatman attend an informational session in Montpelier. Kathan and Peatman are both retired from the town of Warren and were encouraged by the news of the plan. "Every little bit helps," commented Kathan. Q AND A ON THE PLAN INSIDE.

Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach

I am pleased to provide you with an update on the progress of our new automation process called VPAS or the Vermont Pension Administration System. The entire staff has worked diligently with representatives from Levi, Ray and Shoup, Inc. to document our current processes and design the "to-be" processes and procedures that the new system will be able to accommodate. As you may recall from a previous newsletter, the Treasurer's Office initiated this process out of a need to replace our current pension legacy system that is more than 30 years old. This new system will not only give members more ready access to retirement information, it will enable the Retirement Division to manage our large State Retirement System database more efficiently and allow for ongoing upgrades to our data management capabilities.

We will begin our transition of the active data in February 2008. Once the active members are transitioned, we will turn our attention to the retired members for transition approximately one year later.

A side benefit of going through this process is being able to spend time truly thinking about each and every aspect of the way we administer the plan benefits on a daily basis. A significant amount of the changes addressed in the comprehensive retirement bill summarized in this newsletter were a result of identifying areas where we needed to clarify certain processes or codify our existing practices. We will continue this important work over the next year with an eye to ensuring that the administration of the plan is well-defined by either statute or internal written procedures.

If you have specific ideas or suggestions of ways in which our office can improve the way we provide service to our members, communicate the benefits of the respective retirement plans, or extend our outreach activities to members and retirees around the state, please e-mail me at cynthia.webster@state.vt.us or call me at (802) 828-2302. I welcome and appreciate your input.

(Retirement Bill Passed, Continued)

istered out of a single fund for each of our three defined benefit pension plans--one for state employees, one for state teachers, and one for municipal employees," Webster explained. "Previously, our state statutes referred to a wide range of sub-funds that did not accurately reflect the true fiscal accounting that was operating within the larger funds."

"Such clean-up work is important in clarifying how the retirement system works and in promoting clear communication."

-- Cynthia Webster, Director of Retirement Policy & Outreach

Webster also noted that Act 13 made no significant changes to the retirement system or the way benefits are calculated and administered. Please note the brief summary of the items pertaining to the Municipal Employees' Retirement System contained in Act 13 on that starts on page one.

"Act 13 also helped create needed guidelines in some areas of state statute that should enhance our ability to better serve our members," said Webster. "For example, prior to Act 13, if a member died and that person had not designated a beneficiary for their benefit payments, we were unable to easily transfer any appropriate funds to the closest next-of-kin. Within Act 13, guidelines are now in place that allow us to do that."

You may review the entire content of Act 13 by going to www.leg.state.vt.us.

What does Act 13 do? Continued . . .

- Clarifies the application for reduction in pension benefits for prior group A, B or C service if someone retires from the group D plan.

- Establishes appropriate death-in-service benefit for group D beneficiary.

- Establishes guidelines for the payment of benefits under and over $1,000 after an active member death or a retiree death in the absence of a designated beneficiary.

- Establishes penalties for defined benefit employers and defined contribution employers who file erroneous or delinquent quarterly reports.

Straight from the Retirement Book

What is the process for drawing my monthly pension benefit?

If you are contemplating leaving your current employment, it is important to understand how your retirement benefits will be impacted and what, if any, action you should take. Here are some important guidelines.

- If you separate from service and are eligible to immediately draw your retirement benefit, it is strongly recommended that you contact the Retirement Division for an estimate of benefits and the paperwork to complete. If you are a group A, B or C member, the earliest you can draw your retirement benefit is age 55 with five years of service. Group D members may draw a benefit as early as age 50 with 20 years of service.

- If you are not eligible to draw your retirement benefit immediately following separation from service, but have over the required five years to be vested, you may allow your contributions to remain in the system and draw your vested, deferred benefit when you reach eligibility for an early or normal retirement. It's recommended that you contact the Retirement Division if you are eligible for a vested benefit at least three months prior to the date when you could begin to draw your benefit. This will allow our office to provide you with an estimate of benefits and the appropriate paperwork with which to file for your benefit. Important: unlike Social Security, your retirement benefit does not increase once you reach normal retirement age; therefore, there is no advantage to waiting to draw your benefit until a later date if you are no longer working. Normal retirement age is 65 for group A members, 62 for group B members and 55 for group C and D members.

- As a contributory member of the retirement system, you always have the option to request a refund of your contributions, plus accumulated interest upon separation of service. If you have the required five years to be vested, withdrawing your contributions may not be your best option as you will forfeit your accrued service and all rights to a future retirement benefit as a result. If you have less than five years of service, you may withdraw your contributions immediately or allow them to remain in the system for up to three years before you will be required to withdraw them. This allowable absence period is valuable as it allows you time to return to employment with a municipal employer who participates in the Municipal System before you lose your already accrued service.

For more information, please contact the Retirement Division at 1-800-642-3191.

State Deferred Comp Plan Offers New Investment Options

The good news is that Vermonters are living longer than ever. The bad news is that too many of us will not have adequate retirement savings to live comfortably in retirement. Fortunately, municipal employees have the ability to conveniently put aside, on a tax advantaged basis, a portion of their salary in the Vermont 457 Deferred Compensation Plan. Savings in this plan, through a simple payroll deduction at a level you can afford, could well make a significant improvement in your retirement years.

The state's 457 plan now offers among its investment options three socially responsible fund choices.

"It's important that those now in the workforce consider how they will fully fund their retirement years, so that they don't find themselves without adequate resources."

-- Jeb Spaulding, State Treasurer

The State regularly reviews 457 Plan mutual fund investment options in order to make available those funds determined to have shown superior investment performance, favorable costs and continuity in management. As a result of a recent review, three funds in two separate asset classes were replaced. The Templeton Foreign A Fund was replaced with the Dodge & Cox International Stock Fund, and the Templeton Developing Markets Fund was replaced with the Lazard Emerging Markets Institutional Fund. Also, the Domini Social Equity Fund was replaced with the Vanguard FTSE Social Index Fund. Costs on two existing investment options, the Calvert Income Fund and the Vanguard Mid-Cap Index Fund, were also reduced. This gives plan investors the same investment portfolio, but at a lower fund expense fee.

The State also approved adding two new socially responsible investment options in SRI categories not previously available: the Pax World Balanced Fund and the Calvert Social Investment Bond A Fund. Along with Vanguard FTSE Social Index Fund, these new SRI funds together allow for SRI investing in large cap equities, Global stocks and bonds, and domestic bonds. All five new funds became available July 2, 2007, giving municipal employees a slate of 19 investment options. Any plan participant who would like to direct balances in funds being replaced, or to direct future contributions differently than to the new replacement funds, must take action prior to September 4, 2007. If no action is taken, both balances in and contributions to funds being replaced will be redirected to the replacement funds automatically. The adjustment to the fund expense fee also becomes effective on September 4. Municipal employees were first offered access to the State deferred compensation plan in the 1990s. Currently, approximately 6 percent of the municipal workforce contribute to the plan. It is managed by Great-West Retirement Services.

"National statistics indicate that one-quarter of current retirees rely totally on Social Security for their income and have no outside resources. It's important that individuals now in the workforce consider how they will fully fund their retirement years, so that they don't find themselves at retirement without enough resources," said State Treasurer Jeb Spaulding. "The 457 Plan is one easy way municipal employees can boost their retirement savings."

For more information on the Vermont Deferred Compensation Plan, contact your department's human resources officer, visit the web site at www.vermont457.com, or call the Montpelier office of Great-West at (802) 229-2391 to discuss your options.

VMERS Pension Fund Continues Positive Momentum

Continued Collaboration Required to Ensure Long-Term Solutions

by Jeb Spaulding, Vermont State Treasurer

As a member of the Board of Trustees of the Vermont Municipal Employees' Retirement System (VMERS) and custodian of the funds for this retirement plan, I appreciate the opportunity to provide a short status report to you.

The VMERS retirement plan is on sound financial ground. A disciplined approach to benefit structure and management of pension assets, combined with a strong commitment to funding retirement benefit liabilities, has contributed to this success. We continue to have excellent investment performance in the VMERS pension fund, posting returns of 12.2 percent for the 12-month period ending March 31, outperforming the nationwide public pension fund median return of 10.9 percent and well above actuarial benchmarks of 8 percent.

For fiscal year 2006, the plan had a funded ratio of 104.3 percent, well above the median for public pension plans. This translates into a surplus of almost $12 million. As a result of this and strong past experience, employer contribution rates for the four defined benefit plans were reduced in 2000 and have stayed constant, with the exception of a slight increase for the group D plan, which was approved for fiscal year 2007. In October 2007, the Board of Trustees voted to maintain these rates for fiscal year 2008. Member contributions were also reduced in 2000 and will remain at this level, per state statute, until 2010. I encourage you to look at the various financial reports on our web site at http://www.vermonttreasurer.gov/pension/muniReports.html.

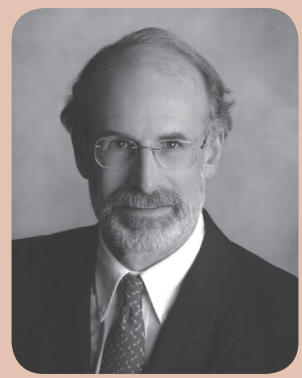
The strong funding position of the plan has had another benefit. This past year, the Board of Trustees, under the leadership of Chairperson Steven Jeffrey, approved a plan to utilize $5 million to fund and create individual retiree health savings accounts for its 4,700 vested active members and retirees. The $5 million, to be available to vested members this July, is anticipated to be the first of many deposits in the coming years to the health savings accounts, which may be used to reimburse health care expenses during retirement. More information on this important program is included in this newsletter.

Despite the positive position we are currently in, difficult challenges lie ahead. As people live longer, it is becoming increasingly common for them to draw benefits for a period longer than they spent in employment. It is not uncommon for employees to retire with full benefits in their early fifties. This is a far different picture than when our retirement plans were first enacted, and very expensive.

The Board of Trustees and this office encourage proactive adoption of practices to protect the long-term viability of the retirement plans for the benefit of current and future retirees. Pension benefits are essentially IOUs or promises to employees that accumulate while they are working and that are cashed in at the time of retirement. In order to protect retirement benefits for current and future employees and in order to be able to assure taxpayers that these benefits are affordable and fair to all parties, we must ensure that pension and retiree health provisions will be appropriate, affordable, and adequately funded far into the future.

Meet Stephen Rauh, CPA

Vermont investment manager Stephen Rauh was recently welcomed as the Governor's Delegate to the VMERS Board of Trustees.



Rauh is a Chartered Financial Analyst with more than 30 years of investment management experience.

"I was honored to be asked to join the Board of Trustees," said Rauh. "I am pleased to have the opportunity to use my experience in service to Vermont."

Rauh was a Senior Vice President of NL Capital Management, Inc., was the founder and President of Rauh King & Kraus Incorporated, and worked in various investment roles for the National Life Insurance Company—all located in Montpelier, Vermont. He began his career as an assistant portfolio manager with Scudder, Stevens & Clark in New York City.

Rauh earned his Bachelor of Arts in economics from Trinity College in Hartford, Connecticut. He was awarded his MBA in accounting and finance from the Amos Tuck School of Business Administration at Dartmouth College. He later continued his studies at Dartmouth Medical School, where he earned a Master of Science, with a concentration in health care improvement.

Rauh currently serves on the Public Oversight Commission. The state commission approves Certificate of Need applications by Vermont hospitals and other health care providers and reviews annual hospital operating budgets. He also previously served as a member of the Dartmouth-Hitchcock Investment Committee from 2001 to 2005.

Rauh steps into the VMERS Trustee position previously filled by Marie Duquette, who recently passed away.

VMERS Board Establishes New Retiree Health Savings Plan

More than 4,700 active and retired members were pleasantly surprised to receive a letter in early May informing them that money would be deposited on their behalf in a new VMERS VantageCare Retirement Health Savings Plan.

What is the VantageCare Retirement Health Savings (RHS) Plan?

The VMERS RHS Plan is a tax-advantaged savings plan that will assist retirees in paying for healthcare costs after retirement. The money goes into the RHS plan on a tax-free basis, accumulates interest on a tax-free basis, and is drawn out during retirement on a tax-free basis to reimburse health care expenses that include out-of-pocket expenses, deductibles and premiums. That amounts to a triple tax advantage to the plan members. The VMERS has contracted with ICMA-RC to administer the plan.

Glenn Moore, Assistant Building Inspector in Montpelier, called the plan promising. He's hopeful that when the time comes for him to retire, the account will help pay health insurance premiums.

Where does the money come from to fund the RHS Plan?

The VMERS Board of Trustees will use surplus investment returns on the assets of the system, when available, to distribute into the RHS accounts. This year, the board determined that an amount of $5 million would be deposited into the RHS accounts on July 2, 2007. Future deposits will be made if and when the system's funding position is more than is actuarially needed to fund current and future pension obligations. There is no guarantee that the RHS accounts will receive funding every year.

Who is eligible to receive money in an RHS account?

All VMERS defined benefit members and retirees who have a minimum of five years of contributory service received a deposit on July 2, 2007. The amount each member received was determined by their total number of contributory years of service in the system. Each year of service is equal to one share. The share value this year has been determined to be $91.01, based on the total eligible population, the total number of years of contributory service represented, and the amount of the distribution. The share value will change when future deposits are made. All eligible members will receive five shares equal to $455.05 in their medical reimbursement account, which may be used for any medical expense, including premium reimbursement. The additional shares, representing service credit above five years, will be deposited into the premium reimbursement account, which may only be used for medical, dental, vision or long-term health care premium reimbursements.

When can the money in the RHS accounts be used?

For members who are already receiving retirement benefits from the VMERS, the money in the RHS accounts may be used to reimburse expenses incurred after July 1, 2007. Members who are still actively employed, or in a vested, terminated status may access the money once they retire and begin receiving monthly pension payments.

For all members, the money in the RHS accounts will be invested in the appropriate age-related Milestone Fund through ICMA-RC. The money will, hopefully, continue to grow through positive investment returns, as well as future funding by the VMERS. For more information about the plan, you may visit the ICMA-RC website at www.icmarc.org/vmersrhs, or call them toll-free at 1-800-669-7400. You also may visit the VMERS web site at www.vermonttreasurer.gov/retirement/municipal or call the VMERS office at 1-800-642-3191 (within Vermont) or 1-802-828-2305.

Retirements

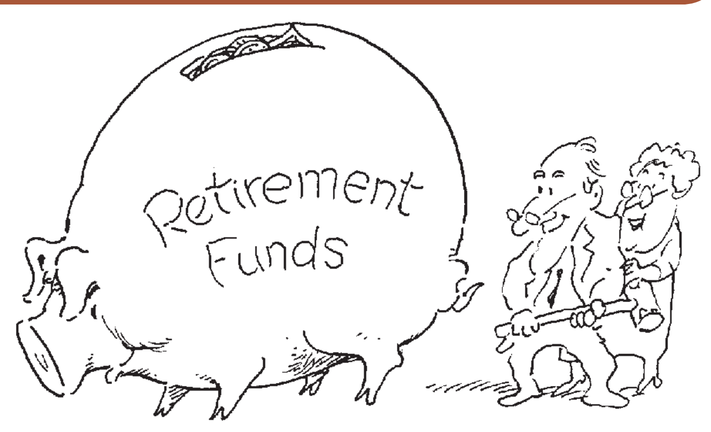
We would like to congratulate all of the employees of the Vermont Municipal Employees' Retirement System who recently retired. Among those who retired with more than 35 years of service were **Patricia Hagadorn**, **Dean Buxton**, **and Bob Jewett**. Best wishes to all of you.

AT A GLANCE . . .

How many members are there in the Vermont Municipal Employees' Retirement System? Take a look!*

Active Members	5,949	Retired	1,241
Inactive	2,075	Inactive Vested	418

** Totals above as of June 30, 2006, for a grand total of 9,683.*



Thinking about your retirement? We're happy to help you with questions on your pension funds. Call us at 1 (800) 642-3191.

Four Key Estate Planning Documents Identified at Seminar

Most people are not eager to think about end-of-life decisions. However, Barre Attorney Michael Caccavo tries to stick to the "basics" when discussing estate planning documents, making it easier to consider such issues.

"When I say everyone, I mean EVERY person over age 18 and able to sign a document should consider completing four basic life and estate planning documents," said Caccavo.

Caccavo recently discussed these documents with a group of more than 30 state employees as part of a Pre-Retirement Issues session conducted by personnel from the Retirement Division of the State Treasurer's Office. The all-day session covered a variety of topics including deferred compensation plans, the future of Social Security, and how Vermont's retirement system works.

The four essential estate planning documents listed by Caccavo were a will, a durable power of attorney, an advance health care directive, and a HIPAA release.

"I am seeing less reliance on wills as people take advantage of passing on their property through death and beneficiary designations now built-in to many financial products, such as life insurance and individual retirement accounts," explained Caccavo. "However, for property that does not have such designations, a will allows you to clearly indicate what you would like to have happen with your property after death."

A will only disposes of property that goes into a Probate Estate and not property owned jointly or with named beneficiaries. It does require a proceeding in Probate Court.

A durable power of attorney allows you to name someone as your agent to make business-related decisions for you. Caccavo said it's helpful for disability planning and as an alternative to a guardianship.

An advance health care directive allows you to appoint someone to make medical decisions for you when you can't make them yourself. It also can specify burial and funeral arrangements and replaces what used to be called a "Living Will."

"I am seeing less reliance on wills as people take advantage of passing on their property through death and beneficiary designations now built-in to many financial products."

-- Michael Caccavo, Counselor At Law

Finally, Caccavo recommended people fill out a HIPAA release. The release authorizes the hospital, doctor, and any other medical professional to share personal medical information and discuss your condition with those you specify in the document. He said this is particularly useful if you're not able to sign a release when admitted to a hospital. With the release in-hand, your family and other designated individuals would be able to legally receive information on your medical condition.

EDITOR NOTE: The Retirement Division asks a wide variety of speakers to present at their sessions, but does not endorse one representative over another. Please consult the attorney of your choice for estate planning questions.

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