

- **Balancing Pension Portfolios in a Volatile Market**
- **Additional Funds Placed in Health Savings Accounts**
- **Longtime VMERS Board Member Jack Mitchell Retiring**
- **A Look at Legislative Action from the 2008 Session**

Vermont Municipal Employees' Retirement System

July 2008

Retiring *TIMES*

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New Dollars Going to Health Savings Accounts

Trustees announce deposit of \$3.5 million into members' accounts

VMERS retirees will soon have more funds available to them to pay for medical expenses. Next month, a second contribution of \$3.5 million will be deposited into the retirement health savings accounts of each vested system member or retiree. This latest contribution follows the initial deposit of \$5 million that the VMERS Board of Trustees used to create the Retiree Health Savings (RHS) Plan last July.

The RHS Plan is designed to provide vested VMERS members with funds that can be used on a tax-free basis to pay for medical expenses, including insurance premiums, which are incurred and paid for after a member is retired. Until an employee retires,

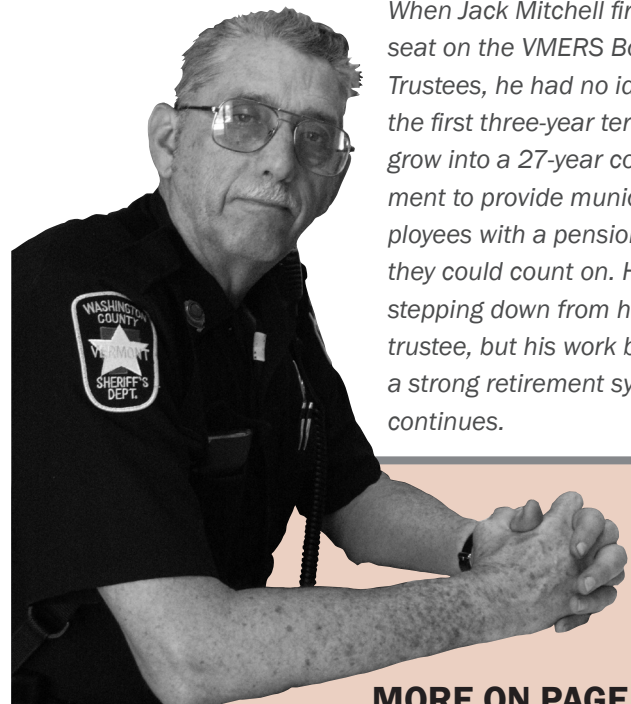
dress another medical expense."

The VMERS board only approves future deposits into the health savings accounts when the system's funding position is more than is actuarially needed to

(continued pg. 2)

Mitchell Steps Down as Trustee

When Jack Mitchell first won a seat on the VMERS Board of Trustees, he had no idea that the first three-year term would grow into a 27-year commitment to provide municipal employees with a pension system they could count on. He's now stepping down from his role as trustee, but his work building a strong retirement system continues.



MORE ON PAGE 3!

Many retirees feel the health savings accounts are making a real difference in their ability to pay for medical care.

the money for the health savings account is invested in the name of the individual. Upon retirement, the principal including interest earned is then available to the member to pay for medical and premium expenses.

"We are happy to report that approximately \$343,354 was disbursed from the accounts to retired members through March 31 of this year," said Cynthia Webster, Director of Retirement Policy and Outreach for the State Treasurer's Office. "Comments from retirees who are using their RHS money have been overwhelmingly positive. Many feel it makes a real difference in their ability to pay for medical care. The retirees have liked being able to decide where the money will go, whether to pay their physician or ad-

(Health Savings Accounts, Continued)

fund current and future pension obligations. Currently, the system pays just under \$8 million annually in pensions for more than 1,300 retirees and beneficiaries. Annual contributions into the RHS accounts are not guaranteed.

On average, members with 15 years of service could see about \$860 deposited into their health savings accounts.

Each vested active and retired member receives a share of the total amount deposited into the accounts based on the number of years they've contributed to the system. One share is equal to one year of contributing service. It's estimated that each share will be valued at around \$57. This means that the average member with 15 years of contributing service could receive approximately \$860 deposited into his or her retirement health savings account.

"These current funds will be disbursed into both existing RHS accounts and new accounts established for active and retired members who did not have the required five years of contributory service necessary to be eligible for the accounts last year," said Webster. "We will be distributing more detailed information to all eligible members when the actual contribution is made."

The RHS Plan is administered by ICMA Retirement Corporation. The company invests plan funds into individual, age-appropriate Milestone accounts managed by the firm. The Treasurer's Office will co-host informational seminars with ICMA-RC again this October to assist members in better understanding how the RHS Plan works. Questions regarding the plan may be directed to ICMA-RC by calling 1-800-669-7400 or by contacting Cynthia Webster at 1-800-642-3191. Members with questions regarding recently filed claims for reimbursement should contact Meritain Health at 1-888-587-9441.

DEFERRED COMPENSATION PLAN NEWS

Socially Responsible Options

As a member of the VMERS, you have the opportunity to regularly put money away for retirement through the Vermont 457 Deferred Compensation Plan. Since the money invested in the plan is deducted before your taxable income is calculated, you are reducing your taxable income while increasing your retirement savings. The plan, available to all municipalities and school districts, is managed for the State by Great-West Retirement Services. However, not all employers have chosen to adopt the plan.

Among the investment options you may choose from are an expanded menu of socially responsible funds. In general, such funds invest in companies that operate ethically, provide social benefits, and are sensitive to the environment. A popular focus for such funds recently has been environmentally friendly or "green" companies



and mutual funds, Sudan-free and Iran-free investments, and "terror-free" investments. Three socially conscious funds were added to the investment line-up last July. These funds were the Calvert Social Investment Bond A Fund, Vanguard FTSE Social Index Fund, and the Pax World Balanced Fund. If you're interested in learning more about socially responsible investing, the Internet can be a good resource. One web site to get you started is the Social Investment Forum at www.socialinvest.org. This national nonprofit membership organization is dedicated to the concept of socially responsible investing.

For more information, call the local Vermont office of Great-West at 1-800-457-1028 and press option 2, or visit the plan's web site at www.vermont457.com. Also, speak to your employer if the plan is not currently available to you.

Medical Mystery...



How Do You Plan for Future Health Care Expenses?

Health care costs in the U.S. have risen faster than inflation over the past 20 years. According to a Kaiser Family Foundation report on employee health benefits, the annual premium that a health insurer charged an employer for a health plan covering a family of four averaged \$12,100 in 2007. Workers contributed nearly \$3,300 or 10 percent more than they did in 2006. When you turn 65, you will become eligible for Medicare. However, Medicare does not cover all medical costs—including deductibles, co-payments and long-term care. It is critical for today's workers to plan for large health care expenses in retirement and adjust retirement savings plans accordingly. To help plan for what your monthly health care expenses could be in retirement, start by considering your current monthly medical expenses and then multiply that amount by 1.9672 to account for a 7 percent rate of inflation. The list below is meant as a guide to help you plan. Leave items blank that don't apply to your situation.

MONTHLY EXPENSE **CURRENT** x 1.9672 = **COST IN 10 YRS.**

Health Insurance ¹	
Medicare A ²	
Medicare B ³	\$96.40 x 1.9672 = \$189.64
Medigap ⁴	
Doctors' visits	
Hospital	

MONTHLY EXPENSE **CURRENT** x 1.9672 = **COST IN 10 YRS.**

Prescribed medicine
Over-the-counter medicine
Dental
Vision
Non-covered items

TOTAL ESTIMATED COSTS:

¹ If you will rely on Medicare as your primary health insurance provider, don't enter an amount in your retirement estimate.

² You usually don't pay a monthly premium for Part A coverage if you or your spouse paid Medicare taxes while working. If you didn't work or pay enough Medicare taxes while you worked, you may be eligible to purchase Part A. The 2008 Part A monthly premium amount is \$423.

³ Medicare B covers medically-necessary items like outpatient care. The standard premium amount for 2008 is \$96.40.

⁴ A Medigap policy is health insurance sold by private insurance companies to fill the "gaps" in the original Medicare plan coverage. Insurance companies can only sell you a "standardized" Medigap policy. You may be able to choose from up to 12 different Medigap policies.

Director's Corner

by Cynthia Webster, Director of Retirement Policy & Outreach



Our office receives numerous calls each year inquiring about what is considered earnable compensation for retirement purposes and how Average Final Compensation is calculated at retirement. I would like to clarify both issues for our members.

24 V.S.A. § 5051(9) defines Earnable Compensation as the total amount paid to an employee for his or her position. In cases where compensation includes maintenance, the retirement board shall fix the value of that part of the compensation not paid in money. Fees shall be counted as compensation. In accordance with the statutory definition, ALL compensation paid to a member must be reported as earnable compensation. That includes overtime, payment of unused sick or annual leave, termination bonuses, meritorious bonuses, and any other payment reported as income for Social Security purposes on a W-2. Fees received by town clerks, treasurers, and other officials also must be reported and retirement contributions deducted accordingly. If you are uncertain if a payment should be included in earnable compensation, call Katie McSorley at (802) 828-5188.

24 V.S.A. § 5051(4) defines Average Final Compensation (AFC) for each group plan and how it is calculated within the Vermont Municipal Employees' Retirement System (VMERS). The AFC for group A members is the highest five consecutive years of earnings, for group B and C members the highest three consecutive years of earnings, and for group D members the highest two consecutive years of earnings. It is important to note that the earnings used to calculate AFC must be within the membership of the VMERS. The highest consecutive years of earnings frequently fall within the last few years prior to retirement. However, if the highest consecutive years of earnings were not the last years of employment, our office will use whatever consecutive years of earnings within your membership that provide you with the highest AFC. For example, if you worked a considerable amount of overtime six years ago, and you are a group B member with a three-year AFC, it is conceivable that your AFC will be calculated using your salaries from six years ago. For more information regarding how AFC is calculated if you retire within a fiscal year, you may either go to the statute or talk to a retirement specialist in our office by calling 1-800-642-3191.

Mitchell Leaves Legacy of "Members First" Leadership

It's all about the members. That sentiment sums up Jack Mitchell's perspective when it comes to making good decisions regarding the Vermont Municipal Employees' Retirement System. In his almost three decades of public service on the Board of Trustees, his commitment to members is apparent. As a trustee, he helped bring on board three new defined benefit plans, an alternative defined contribution plan and, most recently, a retiree health savings account option.

You need to look at the big picture and, ultimately, remember that it is members first.

"When he started, there was only one plan," said VMERS Board Chair Steven Jeffrey. "Municipal workers had to work 13 years before they could become vested to receive any retirement benefits, and that was limited to earning one percent of your salary for each year you worked for a member plan. There was no cost of living adjustment and no help for retirees to plan for their health needs."

Mitchell brought to the board his perspective as both a Barre Town school district employee and a select board member. This experience allowed him to better represent the needs of members. Approximately ten years ago, when a proposal

was made to privatize the retirement plan by removing it from State administration, Mitchell could speak with authority for a wide range of employees who did not want the system changed. He counts his work on that issue as one of the accomplishments he is most proud of.

He's also pleased with his recent work on the board to provide health savings accounts for retirees. Mitchell sees the development of health care benefits for retirees as one of the major challenges facing the board in the future. He's happy to have been able to play a role in starting the first health savings program for municipal employees.

While Mitchell must now step down from the board because he has retired from municipal service, he will continue working full-time for the Washington County Sheriff's Department. He offers this advice for those who'll serve on future retirement boards: "You can't have your own agenda," said Mitchell. "You need to look at the big picture and, ultimately, remember that it is members first."

We extend our thanks to Jack Mitchell for his outstanding tenure as a trustee. Jack, you will be missed.



UPDATES FROM THE RETIREMENT DIVISION: *New Trustee & Update on H.883*

Team of the Year Named for Treasurer's Office



Monica Chiren (lower left) and Cheryl Taylor are recognized for their work at the May 5 annual State's Employee Recognition Luncheon. Joining them are Retirement Operations Director Michael Clasen (left) and Treasurer Jeb Spaulding.

Retirement Operations Customer Service Technicians Monica Chiren and Cheryl Taylor were named the Team of the Year for the Office of the State Treasurer. The recognition was part of the State's annual Public Service Recognition Week observance. "As the primary front-line service representatives for the Retirement Division, Cheryl and Monica excel at providing excellent and thorough customer service," said State Treasurer Jeb Spaulding. When you call in with a retirement question, join us in congratulating them for their good work!

H.883 Cleans Up Retirement System Language

The 2008 legislative session was a quiet one for the Vermont Municipal Retirement System. Act 137, formerly H.883, was enacted and provides for numerous technical corrections to the three public retirement systems in Vermont. Two sections of the act pertain to the municipal system. Those sections focus on defining and codifying current practice in the following areas:

- Amends the definition of "actuarial equivalent" to remove reference to regular interest, and replaces it with a reference to the actuarial assumption for the rate of return on investments of the plan assets. This amendment ensures that all purchases into the VMERS are "cost-neutral" to the plan.
- Amends the "creditable service" definition to remove the inability to accrue service after the normal retirement date. This amendment should have occurred back in 1987 when the system removed the inability to join the system after age 56 and expanded the system to include the group B plan.
- Amends the Average Final Compensation calculation used to determine the final pension benefit. This amendment clarifies how the AFC is calculated when a member has been enrolled in more than one plan during his or her membership.

A Timely Reminder on Benefits

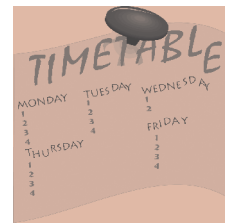
Retirement benefits from the system do not start automatically. You must contact the Retirement Division in the State Treasurer's Office to complete needed paperwork before any benefits will begin. Also, unlike Social Security, your retirement benefits do not increase after *normal* retirement age if you are no longer working. The normal retirement age is typically age 62. In fact, if you terminate employment, and are beyond normal retirement age, you will lose money if you postpone the application process. Members nearing retirement may be interested in more detailed information regarding benefits, in-



cluding optional forms of retirement benefits or early retirement options. The retirement office is happy to complete personal retirement estimates for you. Contact us at 1-800-642-3191 to schedule an appointment.

Don't Miss These Upcoming Workshops!

The Retirement Office offers a range of mini-workshops on benefits and the structure of the VMERS. We are happy to travel to your location to assist you. Give us a call at 1-800-642-3191. Also, we will once again sponsor a booth at the upcoming Vermont League of Cities and Towns annual conference in October. Stop by and talk with our representative. New this fall is *Keeping the Gold in Your Golden Years*. This free 90-minute community workshop teaches you how to get your personal finances on track to cover future retirement expenses. Call 828-3706 for more information.



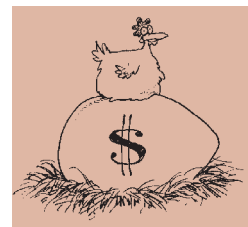
VMERS Board Welcomes New Trustee

Peter Amons, CFO of the Rutland City Public Schools, is the newest member of the VMERS Board of Trustees. Amons recently won election to the board, filling the position vacated by the retirement of long-time board member Jack Mitchell. Amons has 25 years of experience in finances and has worked for companies in Boston and southern NH before coming to Rutland. He has a BA in economics from the University of Massachusetts at Amherst and an MBA in finance from the Wharton Graduate Division of the University of Pennsylvania. He is a strong advocate for defined benefit plans and looks forward to serving on the VMERS board.



Defined Contribution vs. Defined Benefit Plans

Did you know that participating municipalities have the option to elect to offer eligible employees a "defined contribution" plan through the VMERS as an *alternative* to the "defined benefit" plan? A defined contribution plan is similar to a 401(k) plan where money is contributed by the member and the employer into an investment account that is managed by the member. At retirement, the member has an account balance that may be accessed in a variety of ways. Defined contribution plans are very different from defined benefit plans. Both can be excellent retirement vehicles, but both have features that may be very desirable for some and less attractive for others. Some of the primary differences between the two plans are the portability and personal control available in the defined contribution plan, and the predictable, guaranteed benefit that is available through the defined benefit plan. Contact the Retirement Division at 1-800-642-3191 if you wish to know more about the alternative defined contribution plan. Keep in mind that it is an *employer* choice and cannot be selected by a member unless offered by the employer.



Balancing Pension Portfolios in a Volatile Market

Long-term Perspective Guides Pension Asset Investments

by Jeb Spaulding, Vermont State Treasurer

“Volatile” and “roller-coaster ride” are both terms used a lot these days to describe the performance of financial markets. With more than \$3 billion in combined assets within Vermont’s three statutorily defined pension plans, the Vermont Pension Investment Committee and the Office of the State Treasurer have definitely been monitoring the markets and the impact such volatility is having on our investments. The sub-prime mortgage loan crisis, followed by a tightening of available credit and higher corporate interest rates, and rising energy prices have fueled the rapidly changing market prices. Despite such volatility, the long-term investment goals for Vermont’s pension assets will allow us to safely weather such challenges.



Vermont’s pension funds are invested in a diverse portfolio that includes stocks, bonds, and real estate securities. In the past decade, the Vermont Retirement Systems have added or increased commitments to global bonds, small company stocks, and high-yield debt. Recently, the Vermont Pension Investment Committee (VPIC) made a greater commitment to emerging market international stock portfolios to allow us to take advantage of this rapidly growing sector. This type of balanced portfolio reduces investment risk while increasing assets to cover the costs of the pension system.

The consolidated fund assets for the State Employees’ Retirement System, State Teachers’ Retirement System, and the Municipal Employees’ Retirement System are administered by the VPIC. As State Treasurer, I serve on that committee. The VPIC has concurrent goals of both capital preservation, or safety, and return on investment. Investment decisions are carefully weighed against these goals. This approach to investment has helped the VPIC minimize losses such as those you may have read about recently related to the sub-prime mortgage loan crisis. While not immune from the impact the sub-prime credit crisis is having on the overall market, VPIC portfolios are largely composed of types of investments that have fared well in a volatile financial environment.

Nationwide, the 10-year domestic public pension fund median return on investment is 6.1 percent. The long-term weighted average performance of Vermont’s combined retirement systems investments over the last ten years has exceeded that level. In the short term, the volatile market is impacting our rate of return. While our investment performance is currently below the actuarial targeted return rate of 8 percent, the VPIC believes the current asset allocations in our portfolio will generate the required actuarial returns over the long term.

As we look at the impacts of the current market volatility, our pension investments track with our 10-year performance record.

The VPIC is staying with its long-term investment strategy. In keeping with that strategy, the VPIC has a policy of rebalancing the target asset allocation percents on a semi-annual basis. That means we look at the holding values of our different asset classes and add and subtract from each asset class as it falls or rises above targeted levels.

Historical downturns in the market are well documented. However, also well documented are the upturns in the market. Periodic downturns in investment marketplaces are an inevitable component of any investment program that seeks higher levels of total return over a long period of time. Vermont’s pension fund assets are invested for the long term, consistent with the long-term obligations to pension fund participants. *Your pension benefit is contractually guaranteed to you through the retirement systems, whether the pension asset investments that support the systems are returning a high or low rate of return.* Each year the combined pension funds pay more than \$140 million in benefits. The Vermont retirement systems are intended to function productively over many lifetimes. I am confident the current market volatility will, in time, become historically just one more challenge that the system vigilantly worked through to successfully manage the pension portfolios through change.

For more on the investment work by the State Treasurer’s Office, go to www.VermontTreasurer.gov and consult the most recent annual report.

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Peter Amons, Employee Representative

Director of Retirement Policy and Outreach, Executive Secretary of the Board: **Cynthia Webster**; Director of Retirement Operations: **Michael Clasen**

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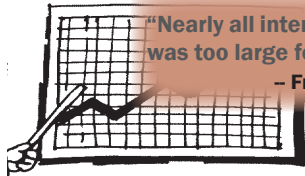
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Legislature Approves Streamlined Pension Investment Committee



"Nearly all interviewees felt the current 17 person board was too large for effective investment decision-making."

– From VPIC: Effectiveness & Governance Report

The Vermont Pension Investment

Committee, responsible for investing the more than \$3 billion in assets for the three state-level retirement systems, is being reduced in size from 17 to six. The change, approved by the State Legislature and the Governor in the recently concluded legislative session, is aimed at enhancing the investment decision-making process for the committee.

Act 100 redefines the membership of VPIC to six voting members and four alternates. The active and retired employee members of the Vermont State Employees' Retirement System and Vermont State Teachers' Retirement System boards of trustees each appoint one member and one alternate. The employee and municipal official members of the board of the Vermont Municipal Employees' Retirement System appoint one member and one alternate. In addition, two members and one alternate are appointed to the VPIC by the Governor. The sixth member is the State Treasurer or designee. In considering appointments, the legislation directs that the experience and knowledge of potential appointees be considered in light of the purposes of the committee. The members serve staggered four-year terms with no term limits.

"When the original VPIC was created by the Legislature in 2005, there was considerable controversy about the appropriate membership composition. In the end, it was decided to include all of

the trustees from each retirement board on the committee," said State Treasurer Jeb Spaulding. "However, we found that such a large committee, 17 members, posed challenges with continuity in attendance and in timely decision-making. The smaller size will allow for board representation and diversity of membership, yet meet the need for more dynamic governance."

In accordance with the original VPIC enabling legislation, an independent consultant evaluated the effectiveness of the committee and submitted a report to the Vermont General Assembly last January. Among the report conclusions was the recommendation that the VPIC be reduced to a more manageable size of six to nine voting members. The report further recommended that financial expertise be explicitly included in the nomination, assessment, and appointment process. Consultants from Oxford University submitted the report.

Act 100 went into effect July 1. Individuals appointed to the committee are: Stephen Rauh, VMERS voting member; Steven Jeffrey, VMERS alternate; Jay Kaplan, VSTRS voting member; Joseph Mackey, VSTRS alternate; Richard Johannesen, Governor's appointee; Michael K. Smith, Governor's appointee; and Jeb Spaulding, State Treasurer. As of publication date, the VSERS board had yet to elect a voting member and alternate to the VPIC.

The reorganized VPIC will continue its original mission of making decisions that strive to maximize the total return on investments within acceptable levels of risk for public retirement systems. Such decisions are directed to be made in accordance with the standards of care established by the State's prudent investor rule, 9 V.S.A. § 4651.