



- **Director's Corner--Pension Benefits Guaranteed**
- **Vermont Economic Overview**
- **Update on Retirement Savings Programs**
- **Third Deposit Made to Retiree Health Savings Account**

Vermont Municipal Employees' Retirement System

December 2008

Retiring *TIMES*

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Be Certain of Retirement Plans in Uncertain Economy *Lifestyle choices impact retirement income needs*

The current challenging economic times underscore the need for Vermonters to prepare financially for retirement. Both retirees and those looking ahead to retirement are impacted by the economic slow-down. While retirees may find their income just doesn't go far enough to meet rising prices, those still employed have watched in dismay as retirement savings account balances have dropped.

"One of the big questions people have facing retirement, is how much income they'll actually need," said Treasurer's Office Director of Financial Literacy Lisa Helme. "That can be a daunting question to answer, particularly when you

consider that many people find it difficult to track their current spending habits."

A recent AARP-commissioned national survey found that if the economy does not improve significantly, over six in 10 workers, age 45 and older, say it is likely they will spend less in retirement (69%), as well as delay retirement and work longer (65%).

"It's been generally assumed that people's income needs decline in retirement because people have paid off their mortgages, are no longer supporting their children, and no longer have expenses tied to going to work every day," explained Helme. "However, a more accurate reading of your income needs will be found in personally examining what lifestyle you hope to live and the related expenses."

The Treasurer's Office recommends that individuals consider several planning questions.

- At what age do I plan to retire and how many years can I expect to live in retirement?
- What do I want to do in retirement and how much do these activities cost?
- If I plan to move when I retire, how expensive is it to live in the new community?
- What healthcare and long-term care costs should I consider?
- Do I want to leave money to relatives, friends or a favorite charity?
- What will be my sources of retirement income?

It is not uncommon for people to retire and then discover that their monthly income sources just aren't enough to cover their expenses. One recommended retirement planning technique is to "simulate" your retirement and actually compose a monthly budget. The U.S. Bureau of Labor conducts average expenditure or cost studies that give

(continued pg. 4)



Photo by Dennis Curran

Above, a couple enjoys Vermont's winter weather and prepares to go on a sleigh ride in Waitsfield. Recreational activities play a part in many people's retirement plans. Estimating how much such activities could cost you is a part of planning for your retirement.

UPDATES FROM THE RETIREMENT DIVISION: *Online Forms & Tax Withholdings*

Tax Withholdings on Retirement

The majority of your pension is considered taxable income. For some who made contributions into the system prior to the contributions becoming a pre-tax deduction, a very small percentage of the pension payment is excluded from taxes. Everyone is required to complete a form for federal and state tax withholdings, even if you don't want to have taxes withheld. This is an ideal time to look at your tax withholdings and make sure you are having the correct amount withheld from your monthly pension. If you would like to change your withholdings, please call our

office at 1-800-642-3191 (within Vermont only) or 828-2305 and we would be happy to send you new withholdings forms. Forms received by the 15th of the month will be processed for that month's pension payment. In January, our office will mail 1099-R forms to benefit recipients. You will need this form when you file your income tax return. The 1099-R provides information for the 2008 calendar year, including total gross distributions, total taxable amount, federal and state tax withholdings.

Retirement Forms Now Available Online

We have an addition to our web site to allow you to access basic forms to print, complete and mail to the Retirement Division Office. Go to www.VermontTreasurer.gov and look under Retirement Services for FORMS. There you will find the designation of beneficiary form that you can use to name or change the beneficiary on your retirement account. Our office also requires that any changes to the mailing address for a retiree's pension check be made in writing. To assist you in doing this, you will also find under FORMS a change of address form and a direct deposit form. We hope soon to add more forms as we continue to update our web site. Check back later to see what's new!

457 Update: New Reality Investing Feature

The Vermont State Retirement System Board of Trustees has added a new option that will be available to participants in the Vermont Deferred Compensation 457 Plan in early 2009. The new option is called Reality Investing. Great West, the administrator of the 457 Plan, in collaboration with Advised Assets Group, LLC (AAG), recently launched Reality Investing, a suite of investment advisory services. This comprehensive service offers three alternatives to plan participants: online investment guidance free of charge; online investment advice (\$25 annual fee paid by participant); and managed account service (an annual fee ranging from .30% to .60% based on account balance paid by participant). Combined with an education program, this series of targeted advisory services can provide real help to participants who require assistance with investment decision-making. If you're interested in learning more, please contact your Great-West representative by calling (800) 457-1028 and select option 2, or locally (802) 220-2391. It is important to note that there is no guarantee that participation in this new option will result in a profit or that your account will outperform a self-managed portfolio.

Scheduling Appointment Alert

Prompt, courteous, and thorough service to our active and retired members is an important priority of the Retirement Division. This priority has not changed, nor will it change in the future. However, our office is reaching a critical stage in our project to replace the existing computer retirement system with the new VPAS system. The entire staff in the division is taking on the additional task of testing the functions of the new system while handling the on-going responsibilities of their regular jobs. With just 15 employees to provide services to 44,000 active and retired members, we must unfortunately cut back on some of the less time-sensitive services we provide. The most significant of these affected services are the retirement estimates and one-on-one counseling sessions for members contemplating retirement within a few years. Through May, the division will limit appointments with Retirement Specialists to accommodate members planning on retiring within the next six months. Estimates for retirements occurring outside of a six-month window will take a minimum of four to six weeks to process. We apologize for the necessity of cutting back on these important functions. We appreciate your understanding and patience during this final stage of implementation.

Address Changes in Writing, Please

This is the time of year that we like to remind our "snow birds" that all address changes need to be received in writing. You need to send us a written address change when you leave Vermont and again when you return in the spring or summer. Written address changes received by the 15th of the month will be processed for that month.

COLA Increase Effective January 2009

Retirees will receive a COLA (Cost-of-Living Adjustment) in January of 2.0 percent for those retired from Group A and 2.5 percent for those retired from Group B, C or D. To receive the COLA, you must have received at least 12 pension payments. If you have not yet received your first 12 pension payments, you will not receive a COLA until January of 2010. Retirees who retired under an early retirement are not eligible for a COLA until the January following attainment of normal retirement age.

Every solution has to start somewhere.

Do you need help finding help? Dialing 2-1-1 is your first step. Vermont 2-1-1 gives you information about health and human service organizations in your community. A local call from anywhere in Vermont and a free service.

If calling for
Vermont services
from outside of the
state, call
(802) 652-4636.

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Vermont Economic Overview

Elected Officials Face Sobering Fiscal Realities

by Jeb Spaulding, Vermont State Treasurer

Like states all across the country, the State of Vermont is facing daunting revenue declines and budgetary challenges as a result of the meltdown in global credit markets that has severely hurt the national and state economy. There are so many numbers and statistics bandied about in the news these days that it is hard to get a clear picture of the situation. I hope this column will help to clarify the situation that elected officials in Vermont are facing. One thing must be understood: this is not a run-of-the-mill economic slowdown.

Expectations for total State revenues for the rest of this year and next year have been reduced by nearly \$125 million. The State of Vermont General Fund, which pays for most programs, services, and personnel costs, will receive about \$100 million less in the next fiscal year (FY2010) than two years ago (FY2008). There will actually be less money to spend in fiscal year 2010 than there was in fiscal year 2006. On a relative basis, the Transportation Fund is in even worse shape, with revenues consistently failing to meet projections. There is a distinct possibility that revenue estimates will be reduced again in the months ahead.

On the expenditure side, pressures are mounting on a number of fronts. One, near and dear to public employees, is the cost of funding retirement plans. Full funding of the actuarial recommendation for State employees and teachers for the upcoming fiscal year will require an increase of \$10 to \$12 million. The current projected Medicaid deficit for State funds is



The State of Vermont General Fund, which pays for most programs, services, and personnel costs, will receive about \$100 million less in the next fiscal year (FY2010) than two years ago (FY2008).

\$40 to \$60 million for the upcoming fiscal year. The General Fund commitment to the Education Fund requires an estimated increase of \$6 million. As our economy and employment suffer, there will be increased demand on a wide range of State services.

My point is not to depress readers of this column, but to provide some context to use in evaluating proposals that will be offered in the coming weeks and months to address this situation. The Governor, legislators, and others have no choice but to take bold steps to reduce State spending and stimulate economic activity and job creation. One example is my proposal to ramp up work on failing bridges in Vermont through a \$150 million bonding program that is supported by a five-cent motor fuels distributor infrastructure assessment. The idea behind that proposal is to save Vermonters money in the long run and to put people to work in the short run. The transportation system, coupled with the current challenging fiscal picture, requires a marked change in how we address our transportation needs.

Solving our fiscal challenges will require innovation, cooperation and, yes, some sacrifices. Vermonters understand that the State must make budgetary adjustments and strategic investments now if we are to responsibly manage our finances through an economic downturn that is currently predicted to last until mid-2010. Keeping a clear picture of the State's current fiscal situation in mind will allow all of us to evaluate the available options to help us best weather this economic storm.

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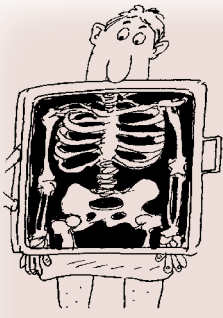
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(802) 828-2305 or (800) 642-3191 (in-state) *Retiring Times* is published twice yearly by the Vermont Municipal Employees' Retirement System. Editor: **Lisa Helme**



Third Deposit Made to Retiree Health Savings Account

The VMERS Board of Trustees voted in October to deposit an additional \$2.5 million before the end of the year into

the Retiree Health Savings (RHS) account of each vested system member or retiree. This marks the third deposit the board has approved into the accounts since the program was established in July 2007 for a combined deposit total of \$11 million.

When the board created the RHS account, they developed a formula to determine when account deposits could be made. The formula requires that the pension plan be funded a minimum of 102 percent before a deposit could be considered. Despite an actuarial review that indicated the funding level had dropped to 101.5 percent, the board approved the third deposit because the money had already been set aside. The drop in funding level for the pension plan is not a reason for concern, as the retirement system remains in excellent shape. However, the drop does impact the board's ability to fund the accounts until the funding level increases over the 102 percent level again. The board plans to review the funding level again next fall and will determine then whether additional deposits may be made.

Retirees have the option of spending all of the money in their RHS accounts for the reimbursement of medical expenses and health care premiums. From July 1, 2007 through June 30, 2008, approximately \$421,100 was paid out of the accounts to assist retirees with their medical expenses. If you're a retiree and have questions about this program, contact Cynthia Webster at (802) 828-2302.

(Investment Focus, Continued)

Due to an insurance company contract that "wraps" SDIA assets, participants may withdraw the "book value" of their assets (original contribution amount plus earnings credited since contribution), provided the businesses the investments are in maintain a quality credit rating. The insurance does not provide for protection in the event of a failure of the business the investment is made in. However, the SDIA investment portfolios remain composed of investments with a very high average credit quality and those investments are very diversified so as to mitigate the risk to individual issuers. While some investment risks are present in the SDIA (by definition only treasury securities are risk-free), the SDIA does have in place multiple important safeguards to help protect participant assets. Recent events in the credit markets have had the effect of modestly reducing the earnings crediting rate, but have not impacted participant account book values.

The 457 plan is offered to State and Municipal employees. As of June 30, the plan had more than 6,500 participants and approximately \$243 million in assets. There are 19 different investment options including domestic and international equities, fixed income, balanced and stable-value alternatives. Participants select from these alternatives based upon their tolerance for risk and their return objectives. Account values are based on the performance of each individual's investment choices. Among those investment choices, the stable value

(Retirement Planning Story, Continued)

estimates for items like food, shelter and clothing. Tables with these estimated costs are available at www.bls.gov.

"A spending diary is also a great tool to track what you're currently spending. A diary may be as simple as a piece of paper in your wallet or purse. The key is to write down the dollar amount you spend, what you are spending it on, and when you spend it. At the end of your tracking period you will be able to examine your spending habits," said Helme. "Ask yourself how those habits might differ when you're retired."

A spending diary can likewise help current retirees track expenses to provide more control over discretionary spending.

Another key piece of information needed for retirement planning is income sources. Try estimating what your total monthly income could be from a pension, Social Security, and any other retirement savings you have. The Treasurer's Office Retirement Division and the Social Security Administration mail a yearly estimate to all qualified recipients to help with this planning step. By comparing your estimated monthly income with expected expenses, you can determine if there will be enough money to fund your anticipated retirement lifestyle.

A variety of planning and money management resources are available at no cost from the Treasurer's Office. You may request a free retirement planning booklet by calling the office at 1-800-642-3191 or going to www.MoneyEd.Vermont.gov.

A final thought: retirement planning isn't something done only once. Regularly checking your income and expenditure estimates will help you adjust your plans to accommodate changes in investment performance, job promotions and savings habits. While you can't control the length or severity of an economic downturn, you can control your plans for retirement and monitor when and how you will update those plans.

In Dec. 1998 the average price for a dozen eggs was \$1.09. In Oct. 2008 that price had risen to \$1.40. Planning for changes in the price of commonly consumed items can help you anticipate what your costs for food might be when you retire.



Source: www.bls.gov

fund invests in high-grade income securities. The average credit rating for this portfolio is triple-A (highest rating agency credit level). As described above for the SDIA, multiple insurance companies aid in allowing participants to withdraw funds at the book value (sum of contributions and earnings credits). Also, as with the SDIA, investment risk is mitigated by high levels of diversification and high issuer credit quality. While recent credit market events have modestly reduced crediting rates for the investments in this fund, stable value fund participants' account values have not declined. However, the volatile market will likely impact future financial gains of the fund investments over the long term.

The Vermont Municipal Employees' defined contribution plan is offered by some employers as an alternative to participation in the defined benefit plan. At fiscal year end this plan had 594 participants and \$13.2 million in assets. This plan has investment options of a similar nature to the 457 plan described above and also includes a stable value fund option called the Managed Income Portfolio (MIP). There are 123 participants who have \$1.6 million invested in the MIP. With characteristics similar to the 457 Plan Stable Value Fund above, the effects of recent credit market events have modestly reduced crediting rates, but have not impacted participant account book values.



Director's Corner

Pension Benefits Guaranteed

by Cynthia Webster, Director of Retirement Policy & Outreach

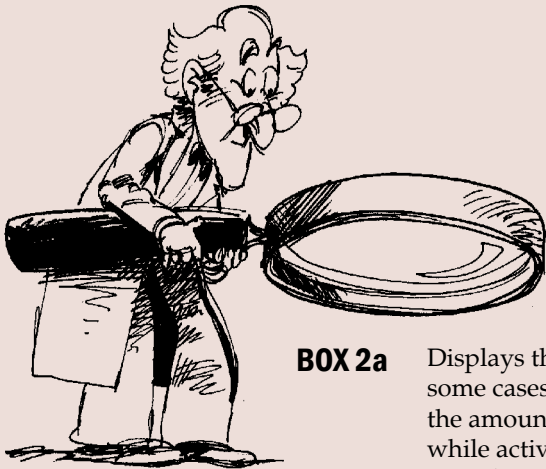


The economic environment over the past several months has created much anxiety and concern about what to expect in the future, particularly regarding the resources that will be available to us when we retire. The message I would like to relay to you in this article is to assure you that regardless of what happens to the economy, particularly in the investment arena, your retirement benefits through the Vermont Municipal Employees' Retirement System (VMERS) are secure. **The retirement benefits you have earned as a member of the VMERS are guaranteed to be paid to you when you retire, and will continue to be paid as long as you live, with annual cost of living adjustments included.**

State Treasurer Jeb Spaulding wrote an excellent piece that is posted on the Treasurer's Office web site regarding the stability of your retirement pension. In the article he states, "While current events in the financial markets are certainly a cause for concern, you have a legal right to your benefits as they come due." If you wish to view the Treasurer's full message, go to www.Vermont-Treasurer.gov and click on "Message to Members of Vermont's State Level Retirement Plans."

In addition to your retirement income being guaranteed for as long as you live, you may elect an option at retirement that will allow the pension to continue to another individual after your death. There are four levels of survivorship options available and you may elect anyone to receive the benefit after your death. Survivorship options are particularly valuable if there is another individual whom you wish to protect by ensuring continued income for their lifetime. The income protection afforded by the VMERS' defined benefit plan cannot be overstated. Everyone has seen and heard stories in the private sector where long-term employees lose their pension benefits and are left with little to no income in retirement. It should be comforting and rewarding to know that after spending your career taking care of the needs of Vermont's citizens, you will be provided a secure and predictable income throughout your remaining years.

Also, a timely reminder for upcoming retirees, benefits from the system do not start automatically. You must contact the Retirement Division to complete needed paperwork before any benefits will begin. Also, unlike Social Security, your benefits do not increase after normal retirement age if you are no longer working. The normal retirement age is typically 62, although it varies according to group plan. Also, if you terminate employment, and are beyond normal retirement age, you will lose money if you postpone the application process. Contact us at 1-800-642-3191 to request an estimate or schedule an appointment.



Understanding 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 Municipal Employees' Retirement System for reporting your pension to the IRS.

BOX 1 Displays the gross amount of the pension you received during calendar year 2008, before any deductions have been withheld.

BOX 2a Displays the taxable amount of the pension you received during calendar year 2008. 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 2008. 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 2008. 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 Municipal Employees' Retirement System retirement number.

Vermont Municipal Employees' Retirement System

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Investment Focus: What's happening to my retirement investment funds?

by David Minot, Director of Finance & Investment

In addition to the three defined benefit pension plans administered by the State Treasurer's Office for state, municipal, and teacher employee groups, there are several alternative retirement savings and investments programs. These are the Single Deposit Investment Account (SDIA), the 457 Deferred Compensation Plan (457 Plan), and the Defined Contribution Plan (DC Plan). Unlike the State and municipal employees' pension plans, where fixed monthly benefits are provided for by statute, these plans offer retirement savings levels that are based upon investment performance. We've received many questions about the status of investments in these programs. The update below addresses some of these questions.

Unlike the State and municipal employees' pension plans, where fixed monthly benefits are provided for by statute, these plans offer retirement savings levels that are based upon investment performance.

SDIA is a tax-sheltered account funded through a one time-employee transfer of funds from a contributory plan that was in existence in 1981. As of June 30, 2008, the SDIA had over 2,100 participants. Plan assets were approximately \$84 million that is invested in fixed income securities. These assets are managed by contract with Dwight Asset management in Burlington, Vermont and Loomis Sayles in Boston, Massachusetts. Investments are made in a variety of government agency, corporate, mortgage-backed, and other fixed-income securities. This portfolio of investments must

by contract be composed of investments rated in the double-A category. Double-A designation generally means it is a safe investment with low risk of failure.

(continued pg. 4)

Bear vs. Bull Markets

A bear market is a prolonged period in which investment prices fall, accompanied by widespread pessimism.

If the period of falling stock prices is short and immediately follows a period of rising stock prices, it is instead called a correction. Bear markets usually occur when the economy is in a recession and unemployment is high, or when inflation is rising quickly. The most famous bear market in U.S. history was the Great Depression of the 1930s. The term "bear" has been used in a financial context since at least the early 18th century. While its origins are unclear, the term may have originated from traders who sold bear skins with the expectations that prices would fall in the future. In contrast a bull market is a prolonged period in which investment prices rise faster than their historical average. Bull markets can happen as a result of an economic recovery, an economic boom, or investor psychology.

