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Vermont State Employees' Retirement System

December 2009

# Retiring *TIMES*

Volume 9, Issue 2

## Commission Considers Benefit and Contribution Changes

*Retirement Commission meetings prompt discussion and concern*

**EDITOR NOTE:** Due to extensive interest in the work of the Retirement Commission, in this newsletter we wanted to provide information to members and beneficiaries on what the commission is considering and why. The explanation below is a background paper produced by the commission for a public hearing held on December 3. As this newsletter went to press, no final recommendations had been agreed to. Meeting minutes and other related documents may be viewed on-line at [VermontTreasurer.gov](http://VermontTreasurer.gov). Recommendations from the commission will be forwarded to the State Legislature for consideration.

Similar efforts are occurring across the country because the costs of maintaining retirement programs have been increasing faster than states' ability to pay for them. In Vermont, the State's combined actuarially required contribution this year is \$73.5 million and, without changes being implemented, will be \$103.5 million next year. That is a \$32 million one year increase in a year the State is facing at least a \$90 million deficit – the increase for retirement plans is not included in that projected deficit figure.

	VSTRS Employer ARC*	VSERS Employer ARC*
FY 2009	\$37,077,050	\$25,333,307
FY 2010	\$41,503,002	\$32,013,894
FY 2011	\$63,501,220	\$41,581,656

\*refers to the actuarially required contribution recommended in October as part of the annual valuation.

### The Challenge:

The Commission was created by the Vermont Legislature to review and report on the design and funding of retirement and retiree health benefit plans for the state employees' (VSERS) and teachers' (VSTRS) retirement systems. The Legislature and Governor are concerned about the affordability and long-term sustainability of the retirement plans, pension and retiree healthcare, and expect recommendations from the Commission addressing the situation.

Why the dramatic increase? Certainly the serious implosion of the financial markets in 2008 and the first quarter of 2009 is the largest factor this year. But, demographics and workplace trends also play an important role over time. There are 2,800 more retired teachers and state employees this

(continued pg. 3)

## Recent Retiree Update

	2009	2008	2007	2006
JANUARY	65	52	59	51
FEBRUARY	23	11	23	14
MARCH	24	15	24	19
APRIL	18	21	28	20
MAY	14	17	16	28
JUNE	33	12	20	18
JULY	45	43	28	34
AUGUST	12	37	22	28
SEPTEMBER	189	26	22	30
OCTOBER	25	27	20	12
NOVEMBER	24	23	21	20
DECEMBER		12	19	22



We are frequently asked to report on the number of members who retiring each month. Historically, January and July are the two months of the year when more people tend to retire. However, given the 2009 retirement incentive offered earlier this year, we had a large number of employees retire effective September 1, 2009. Listed on the left is the number of new retirees for the last four years.

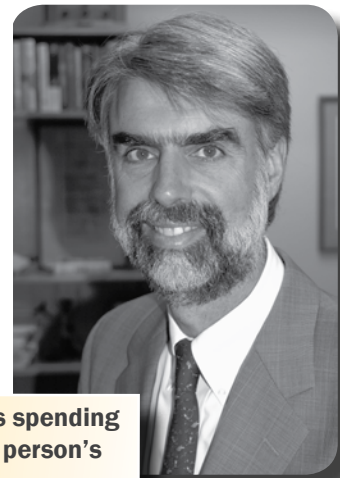
# Economic Impact of Pensions

## Pension benefits positively stimulate local spending

by Jeb Spaulding, Vermont State Treasurer

**Amid the discussion** about how to best ensure the solvency and sustainability of retirement plans for public employees, we should not lose sight of the significant economic value of these programs to our state and communities.

This year the Vermont teachers' and State employees' retirement plans will pay approximately \$172 million in pension benefits to more than 11,000 retirees and beneficiaries. That provides a major boost to our economy. When retirees spend their pension benefits to buy products, go to a movie, weatherize their home, or have a prescription filled, that supports local businesses and



**Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a multiplier effect.**

**—National Institute on Retirement Security**

enables them to create jobs. A recent report by the National Institute on Retirement Security estimated that retiree expenditures stemming from state and local pension plan benefits supported close to 1,400 jobs in the state. That report stated that retirement benefits have a large multiplier effect, too. Each taxpayer dollar invested in Vermont's public pensions supported \$5.54 in total economic activity, while each dollar paid out in benefits supported \$1.27 in economic activity. To read more, go to [http://www.nirsonline.org/storage/nirs/documents/factsheet\\_VT.pdf](http://www.nirsonline.org/storage/nirs/documents/factsheet_VT.pdf).

Not only do pension benefits provide direct support to our economy, it is also worthwhile to keep in mind that retirees pay state income tax on their retirement benefit payments. That adds millions of dollars in revenues to the General Fund, which in turn supports important services to Vermonters. Certainly, Vermont policymakers must ensure our public retirement plans are fair and affordable, now and in the future, but let's not forget how much of an economic benefit we all enjoy from these programs.

## Long-time VSERS Trustee Retires

**When Warren Whitney** became a VSERS Board of Trustee member in 1994, members were debating the need to provide full funding for the defined benefit pension system and taking a hard look at whether system-wide changes were needed to ensure its financial future. Fast forward to 2009 where a struggling economy has once again placed these same issues in the limelight. For Whitney, it is a bittersweet time to retire.



**Warren Whitney is retiring after 15 years as a trustee.**

"I was originally motivated to run for a seat on the board by my concerns for improving the financial efficacy of the pension system," recalled Whitney. "It seemed short-sighted to me that we were not then fully funding the pension system. Since then, we've made strides in addressing some of the sustainability concerns by devel-

oping a defined contribution plan for exempt State employees and making some system funding increases. In this current debate, I hope we all will keep a long-term view of the situation and take prudent action that assures the ability of the system to meet promised benefits."

Whitney retired in early December from the Vermont State Police. Along with his retirement, he has stepped down from his position on the Board of Trustees. He served 26 years on the patrol, and concluded his career as a Detective Lieutenant and the Assistant Director of the Vermont Forensic Laboratory. For the last 15 years, Whitney also added the duties of board member to his career. He served for the past six years as Chair of the board.

Among the accomplishments Whitney is most proud of include work done on the State's 457 deferred compensation plan to ensure funds invested by members are placed in trust with ownership of assets remaining solely with each member. He is also proud of work done to improve the quality of the investments available to members. Whitney cites age-based life-cycle funds offered within the 457 plan as one example of improved investment flexibility. Members may invest in the multi-asset class portfolio of mutual funds grouped according to the age of the plan participant.

"When I started, we didn't have options like the life-cycle funds. We have also worked hard over the years to make the fee structure of investments transparent. It's important that people understand and know what they are paying for," Whitney said.

Funding for health care and benefits, along with financial stability for the defined benefit retirement plan, are key issues Whitney says the board will continue to grapple with in the future. He asks members to keep in mind that their pension is only one asset each should have as they enter retirement, to include Social Security and personal savings, as well.

The board and the Treasurer's Office wish Whitney the best in his retirement and thank him for his many years of service.

## (Commission Background Report, Continued)

year than there were in 2003. Pension benefit payouts for state employees and teachers have been increasing by roughly \$10-11 million each year in recent years and, going forward, are projected to increase by \$15-16 million each and every year. It is not uncommon to have employees begin drawing their pension and retiree health benefits in their early to mid fifties. With increasing life expectancies, these people may well receive retirement benefits for more years than they spent in employment for the State or school districts.

Even if investment returns experience a sustained recovery, the current level of growth in the required contributions to fund the pensions exceeds historical growth of the past 15+ years or any current long-term revenue growth projections. The independent actuary, assuming a 15% positive investment return this year, projects, based on current benefits and assumptions, the employer ARC for VSTRS will continue to escalate from \$63.5 million in FY 2011 to \$70.3 million in FY 2012 and for VSERS it would escalate from \$41.5 million in FY 2011 to \$45.5 million in FY 2012. Payments for the 80% employer share for retiree health insurance premiums also are escalating by several million dollars a year.

	VSTRS Retiree Health Payment	VSERS Retiree Health Payment
FY 2008	\$15.08 million	\$16.37 million
FY 2009	\$16.42 million	\$17.89 million
FY 2010	\$18 million estimated	\$22 million estimated

The Commission recognizes that the benefit and contribution levels for both systems are modest when compared to public systems in other states. It also recognizes that the relative competitiveness of public benefits should not only be compared against other state systems, but also to what is competitive within Vermont and for the many thousands of workers in the private and other non-profit sectors. Most private and non-profit sector employers and members of the public do not have comparable benefits. Total compensation (salary and benefits) must be considered when making comparisons between the public and private sectors.

The ideas and scenarios in this document are not final recommendations. There may be other options that will result in a realistic scenario for ensuring the sustainability of these benefit plans, while meeting the objective of providing quality retirement plans for our public employees. Suggestions from any and all parties are welcomed and appreciated.

### What we are not considering:

- Changes to pension or retiree health benefits for those already retired.
- Changes to pension or retiree health benefits for anyone close to retirement - within five or ten years of retirement eligibility.
- Ending the current defined benefit plan and moving to a defined contribution plan.
- Making the basic provisions (maximum benefit, multiplier, COLA, etc.) of our plan significantly less competitive or generous than those of other state public systems.

### What we are considering on the pension side:

#### Revisions to normal and early retirement ages:

State Group F and Teachers' Group C:

- Raise normal retirement age from 62 or 30 years at any age to 65 or rule of 90 (combination of age and years of service) for those more than five or ten years from normal retirement eligibility.
- Raise the early retirement age from 55 to 58 for those more than five or ten years from early retirement eligibility.

State Group D:

- Raise normal retirement age from age 62 to age 65 for those more than five or ten years from normal retirement eligibility.

State group C:

- Raise the early retirement age to 52 from 50 for those more than five or ten years from early retirement eligibility.

#### Lengthening the salary compensation period:

State Group F and Teachers' Group C:

- Use a five year compensation period instead of a three year period to calculate benefits for those more than five or ten years from retirement eligibility.

State Group C:

- Use a three year compensation period instead of a two year period to calculate benefits for those more than five or ten years from retirement eligibility.

State Group D:

- Use a two year compensation period instead of final salary to calculate benefits for those more than five or ten years from retirement eligibility.

**Possibly increasing the maximum benefit from 50% to 60% of final compensation for State Group F and Teachers' Group C.**  
**This would provide an opportunity for increased benefits to employees who work longer.**

#### Reviewing contribution rate ratios for employer and employees:

Implementing a proportional linkage (50/50, 60/40) between the employer and employee contributions so that employer and employee contributions rise and fall in tandem, to accomplish a partnership – share the gain, share the pain. This could be accomplished by a sharing of the total annual contribution developed by the actuary or on a going-forward basis using FY 2010 as a baseline. For demonstration purposes, assuming no changes on the benefit side and on a 50/50 going-forward basis, preliminary estimates show this would increase the FY 2011 VSERS employer contribution percentage to 8.7% from 7.57% and increase the Group F and D employee contribution to 6.23% from 5.1%. For VSTRS this would increase the employer contribution percentage to 9.28% from 7.41% and increase the employee contribution to 5.27% from 3.4%.

#### Employer/employee contribution levels as a percentage of payroll:

	TEACHERS		STATE EMPLOYEES	
	Employee	Employer	Employee	Employer
FY 2009	3.4%	6.88%	5.10%	6.27%
FY 2010	3.4%	7.41%	5.10%	7.57%
FY 2011	3.4%	10.82%	5.10%	9.84%

The cost-sharing approach would result in increased contributions for both the State and employees, but preserve the fundamental structure of benefits. While sharing would increase the contribution rates now for both parties, it provides the opportunity to both parties to benefit with reductions in rates should financial markets experience a sustained recovery and/or plan costs are reduced. For example, if the contribution rates are adjusted in combination with the scenarios described earlier in this document, using the five year window, the necessary increase in the rate would be much less, with an employee contribution rate of approximately 5.67%, instead of 6.23%, for VSERS, and 4.74%, instead of 5.27%, for VSTRS.

### What we are considering on the retiree health insurance side:

One proposal under consideration by the Commission is a tiered medical premium copayment structure based on length of service. Instead of the current straight 80/20 split of retiree health insurance premiums, a new tiered system would apply to all of those not within five or ten years of eligibility to draw this benefit.



The new employer share for the tiered system would be:

30% - 10 yrs	50% - 15 yrs	70% - 20 yrs
or		
40% - 10 yrs	60% - 15 yrs	80% - 20 yrs

Provide ability to “recapture” health benefit with 20 years of service upon drawing benefits.

Possibly add spouses to coverage for VSTRS members (this would require an increase in employee contribution to make this work).

### VSTRS only—Reconfigure funding source of employer share for pension and/or retiree health insurance:

Currently, the “employer” share of the pension contribution is made by the State. The 80% “employer” share of retiree health insurance is paid from the pension fund. There is no local contribution for either pension or retiree health insurance. However, local decisions and compensation levels do have an effect on the costs.

In order to improve transparency for total educational expenditures, increase accountability between incurrence of liabilities and responsibility to pay, and to improve the likelihood of full funding on a consistent, dependable basis, one scenario the Commission has reviewed would:

- Continue to pay for unfunded pension liabilities (about 2/3 of the total contribution) from General Fund and would transfer normal costs to Education Fund or directly to local districts with multi-year phase-in.
- Continue paying the employer share of VSTRS retiree health insurance for those already on job as is. For new hires, districts would be assessed on a prefunding actuarial basis with the proceeds deposited in a dedicated trust fund to pay for future health care.
- Revise VSTRS Board Governance by increasing membership from six to seven, adding a school board member and a superintendent and removing the BISHCA Commissioner or designee.

It is important to note that the ideas and scenarios in this document are under discussion by the Commission, but have not been voted on as recommendations. Your reaction to the ideas and scenarios within, as well your suggestions for other ideas to meet the challenge, are welcomed and important as we develop final recommendations.

### (VPAS Story, Continued)

different business processes such as benefit estimate calculations and annual benefit statement production. Future enhancements to VPAS will include a web-based member self-service feature that will allow active employees, as well as retirees, the ability to review their accounts on-line. More information on the member self-service functionality will be provided at a later date.

### Retirement Board of Trustees

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Jeb Spaulding, Vermont State Treasurer  
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Caroline Earle, Commissioner, Dept. of Human Resources  
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109 State Street, 4th Floor, Montpelier, Vermont 05609-6901, (802) 828-2305 or (800) 642-3191 (in-state) *Retiring Times* is published twice yearly by the Vermont State Employees’ Retirement System. Editor: Lisa Helme

## Director’s Corner

by Cynthia Webster, Director of Retirement Policy & Outreach

### The majority of benefits

that are afforded to employees of the State of Vermont are determined through the collective bargaining process (i.e., salary, medical, dental, and life insurance, leave accruals, etc.) Retirement benefits are one of the few that are not bargained, but rather outlined in statute. The “road-map” for calculating and administering the Vermont State Retirement System benefits is found in 3 V.S.A., Chapter 16. Retirement benefits are statutorily driven and cannot be changed except through the legislative process. This article is intended to give you a broad overview of how that legislative process unfolds.



A proposed change in existing statute may originate in a variety of places, including from a union or organization, a department, an individual VSERS member, a board or administration, or through the work of a study committee. Any proposal to change existing statute must be sponsored at a minimum by one legislator before it can be drafted into a bill. The more legislators that sign on to a bill, the better chance the bill has to move forward. Once a sponsored bill has been drafted, it will be sent to the appropriate committee for consideration. If the bill is sponsored by a member of the House, the bill will be sent to the House Government Operations Committee for action. If the bill is sponsored by a Senator, it will be sent to the Senate Government Operations Committee for review.

It is up to the discretion of the respective Government Operations Committee whether the bill is given any consideration or not. In fact, many bills that are introduced never come under consideration by a legislative committee. Generally, it is the responsibility of the originator to work with the committee to ensure the bill receives the appropriate attention. If the bill contains a significant change or changes to the existing benefits of the retirement system, the committee will make every effort to provide an opportunity for all interested parties or members who might be impacted by the proposed changes to comment. If the bill is voted out of the Government Operations Committee, and it has a financial impact to the State of Vermont, it must then be reviewed and voted on in the Appropriations Committee. If it makes it through both the Government Operations and Appropriations Committees, it then goes to the floor of either the House or the Senate, depending on where it originated, to go through three readings. If the bill receives a majority vote from the floor, it will then move to the other chamber to repeat the process. Assuming it makes it through the next body, the bill will be sent to the Governor for his signature, and only then will it be enacted into law. With very few exceptions, most bills that are enacted are effective the following July 1.

Needless to say, it is not a simple process to make changes to existing retirement benefits, and there are many opportunities throughout the process for affected members to make their views known to their legislators.

# UPDATES FROM THE RETIREMENT DIVISION: COLA Update & Tax Reminder

## Board Welcomes Two New Trustees

The VSERS Board of Trustees welcomed two new members to the board at their November meeting. Caroline Earle, Commissioner of the State of Vermont Department of Human Resources, replaces David Herlihy. The department commissioner serves as a standing member of the Board of Trustees. "It allows me an opportunity to have input and oversight into one of the biggest benefits that the State offers its employees--the retirement benefit," said Earle.



Caroline Earle

Paul White was recently elected to serve as VSEA's alternate representative to the board. White has been a State employee for 18 years. He is employed as a State Patrol Officer and works out of the Middlesex field station. "As one of VSEA's three representatives, I understand it is my duty to advocate on behalf of all members," said White. "I look

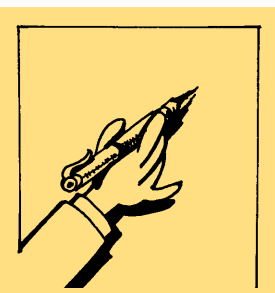


Paul White

forward to serving on the board for as long as the membership continues to elect me." Welcome to both new board members.

## Be on the Lookout for Your 1099-R Form

We will soon update the federal and state tax tables to be effective for the January 2010 pension payments. 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 withholding forms. Both the federal and state withholding forms are also on our website at: <http://www.vermonttreasurer.gov/retirement/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 2009 calendar year, including total gross distributions, total taxable amount, and federal and state tax withholdings.

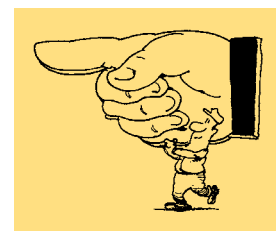
## Do We Have Your Current Address?

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 State employees' addresses are updated via the bi-weekly payroll feed we receive from the Department of Human Resources. If you are an active State employee who has recently changed your mailing address, please inform your personnel officer of the change of address so that they can update your information in the State's Human Capital Management System. If you are a retiree receiving a monthly benefit you must notify the retirement office in writing of any change in address.

## Retirees to Receive Negative COLA

Retirees eligible to receive a cost-of-living adjustment (COLA) in January will experience a decrease due to a negative rate of inflation reflected in the Consumer Price Index (CPI). The CPI on June 30, 2009, was a negative 1.4 percent. Group A, B, C, and D retirees will experience a negative 1.4 percent adjustment in their January pension payment. For example, a retiree currently receiving a monthly pension benefit of \$750 will receive \$10.50 fewer dollars to reflect the decrease in the COLA. Retirees in group E and F will receive the minimum statutory adjustment of negative 1 percent in January as required by 3 V.S.A., § 470. For example, a retiree from these groups who receives a monthly benefit of \$750 will receive \$7.50 fewer dollars. It is important to note that retirees receiving their first COLA in January of 2010 will not be impacted as the statute mandates that a retiree's allowance never go below the amount of the original benefit payable at retirement.



## Deferred Compensation (457) Plan Update

This is a reminder that there are now two ways that contributions may be made to the State of Vermont Deferred Compensation Plan. You may request that a specific dollar amount, or a specific percentage, be deducted from your bi-weekly paycheck. Allocating a percentage of your pay is a relatively new option, and is very attractive as it allows your contributions to automatically increase or decrease in accordance with salary changes. If you wish to change your deferred compensation deduction, you may access the appropriate form on line at [www.finance.vermont.gov/forms#payroll](http://www.finance.vermont.gov/forms#payroll).

## Insurance Coverage Reminder for Retirees

If you are retired and are covered by the Selectcare (POS) Medical Plan, please be aware that you must continue to access your medical care through your primary care physician, even if you are out-of-state for a period of time. The only exception would be if you encounter an emergency situation, in which case you should take care of your emergency first. Afterwards, contact your primary care physician as soon as possible to ensure you will have coverage for your medical expenses. If you actually move out-of-state, you should consider changing to another plan, unless you move to an area that has a provider that participates in the State of Vermont Selectcare Plan. All other medical plans available to retired State employees will cover expenses incurred outside of Vermont.

## New VPAS Benefit Payments Implemented

The staff in the Retirement Division have spent the last three years working on the development and implementation of a new computer system, referred to as VPAS (Vermont Pension Administration System). In many cases, the staff have


devoted considerable time to the VPAS project while still managing to complete the work associated with their ongoing "day jobs." When fully operational, VPAS will replace the division's 30-year-old legacy computer system. The VPAS project is structured in three phases: imaging phase; retiree benefit payment phase; and the active member salary, contributions,

and service credit phase. The imaging phase has substantially been completed. The retirement benefit payment phase became operational beginning with the November 2009 pension payroll. Most of the changes are internal and allow for more efficient and faster processing of new retirements and changes to existing retiree accounts. The VPAS also houses all of the data in one system that is backed up on a daily basis. The current plan is to begin rolling out the active member functionality in phases, to be completed by the end of the fiscal year. This phase will also house all data in the VPAS and allow for automation of a number of

(continued pg. 4)



### NEW LOOK FOR RETIREE MONTHLY STATEMENTS

	
State of Vermont State Employees' Retirement Fund Montpelier, VT 05609-6901 (802) 828-2305 TOLL-FREE in VT 1 (800) 642-3191	
DATE: _____	ID NUMBER: _____
DEPOSIT AMOUNT: _____	
<small>Your ID Number listed above was changed effective November 1, 2009 as a result of transitioning to a new computer system in the Retirement Division. Please note this change in your records.</small>	
<b>Message Box</b>	

Many of you may have noticed that the statements issued to retirees for the November 30 monthly pension payments had a new look. The reason is due to the implementation of the new Vermont Pension Administration System (VPAS). In addition to the new look, the statements have several helpful features. The first is a large box at the top of the statement that will be used to relay timely messages to retirees. Another change is reflected under the Gross Payment Box, where we now list both pension and annuity amounts. The gross monthly pension has always been comprised of these two components, but we have never broken them down on the statements before. The annuity portion simply represents that portion of the gross monthly pension that is paid from your contributions made prior to retirement. Questions? Please give us a call.