

# VERMONT'S PUBLIC PENSIONS

## KEEPING THE PROMISE

RETIREMENT SECURITY FOR OUR TEACHERS, OUR NURSES,  
SOCIAL WORKERS, THOSE WHO PROTECT US AND OTH-  
ERS WHO DEDICATE THEIR CAREERS OF PUBLIC SERVICE TO  
THE NEEDS OF VERMONTERS



A REPORT BY VERMONT-NATIONAL EDUCATION ASSOCIATION  
**December 29, 2009**

THIS REPORT IS SUPPORTED BY A BROAD COALITION WHO, TOGETHER, ARE WORKING TO MAINTAIN THE RETIREMENT SECURITY AND BENEFITS OF PUBLIC EMPLOYEES AND OLDER VERMONTERS:

COMMUNITY OF VERMONT ELDERS (COVE)

UNITED PROFESSIONS/AFT VT

VERMONT RETIRED TEACHERS' ASSOCIATION

VERMONT STATE EMPLOYEES ASSOCIATION

WORKING VERMONT, THE COALITION OF ALL VERMONT LABOR UNIONS

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# ABSTRACT

**W**hen the Commission on the Design and Funding of Retirement and Retiree Health Benefit Plans for State Employees and Teachers issues its recommendations in the next several days, we don't expect them to address how changes to the retirement system will play out in the broader context.

Indeed, in the report that follows, we strongly disagree with the narrowness of the commission's exploration. While their recommendations will have long-term impact on the retirement systems themselves, they do not take into account the long-term effects such actions will have on the state's budget, its public schools, its public workforce or its seniors.

The commission is expected to recommend:

- ◇ Reducing the benefit levels of new and even most vested employees.
- ◇ Increasing the required contribution rates of all employees, including those close to retirement age.
- ◇ Raising the retirement age for teachers from 62 or 30 years at any age to 65 or the so-called Rule of 90 (the combination of age and years of service must equal or exceed 90).
- ◇ Raising the early retirement age from 55 to 58 for those more than five years from retirement.
- ◇ Using a five-year compensation period instead of a three-year period to calculate benefits for those more than five years from retirement,

effectively lowering the retirement benefit.

- ◇ Boosting contribution rates for all participants.
- ◇ Implementing a tiered health insurance benefit, and continue to deny a spousal benefit for teachers.
- ◇ Telling the Legislature to consider changing from defined benefit to a defined contribution plan.

**In other words, the commission will tell teachers and state workers to work longer, pay more and get less, all in the name of filling a budget shortfall this year. The commission will, we expect, fail to sufficiently take some important factors into account:**

- ◇ The Constitution, and its ramifications and limitations on any changes to a pension promise.
- ◇ The long-term health of the pensions themselves, and the functions they play: recruitment, retention and dignified retirement after a successful and dedicated career.
- ◇ The over-all fiscal health of the state itself.

In this report, we outline how we think the questions surrounding the pensions should have been addressed by the commission. We recommend that legislators will use this framework as we work with them to craft a solution that keeps a long-term promise to Vermont's teachers and public workers, provides for continued health of the pensions, and helps the state confront its short-term budget problems.

# INTRODUCTION

Vermont's public employees – teachers, nurses, social workers, protectors of our safety, and many others – while not included on the Spaulding Commission\*, are concerned about the retirement security and dignity of older Vermonters, the protection of property taxpayers, and the fiscal stability of our state. We have produced this report, in anticipation of the commission's report, because we share responsibility for the retirement systems, the health and safety of other taxpayers, and our state.

In short, it will not be as realistic as the commission will assert to expect to find – solely within public pension policy – significant ways to reduce the state's anticipated budget shortfall.

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## THE SOLUTION IS NOT FOUND SOLELY IN CHANGES TO RETIREMENT SYSTEM

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□ The commission will make quite specific recommendations and will assert specific amounts to be saved by implementing them. Several of those assertions may be flawed, since they may not take into account consequences outside the pensions.

□ Vermont, like most states, is in the midst of serious short-term financial problems. We focus here on the limited extent to which we believe the work of the commission provides effective means to address those short-term problems, and we suggest additional avenues to explore.

□ Some "very big" numbers are involved in financing our public pensions, but, when analyzed, each one becomes manageable. There is no useful way to manage any social issue in the current climate if the underlying assumption is that our economic vitality as a state and as a nation is permanently diminished. Our economy is now recovering, as is evident by the stock market's having regained nearly two-thirds of its losses over the last year.

Our direct involvement in these complex discussions is necessary if the state is to reach good decisions that help it meet its immediate fiscal needs and its long-term obligations to those dedicated to the public's work.

These are the twin pillars on which our policy conclusions rely:

Protecting older Vermonters. It is wise public policy to do no harm to the retirement dignity and security of older Vermonters. It is just as wise not to harm the dignity or security of those who will follow.

Protecting property taxpayers. It is wise public policy not to impose new costs on property taxpayers. It is just as wise to reject shifting state costs to property taxpayers in the guise of clamping down on local communities as they seek an excellent education for Vermont's children.

### NOTE

*\*It was created to examine the "Design and Funding of Retirement and Retiree Health Benefits for State Employees and Teachers.*

# BASIC QUESTIONS

**L**egislators and the public will need to address several broad questions as they assess the work of the commission or any other proposals to alter eligibility or benefits for public pensions:

## **An arithmetic question.**

Any changes proposed that appear to "save" money or reduce state contributions to pensions would cause changes in how those affected act, and those changes would have cost effects unrelated to pension costs. For example, if a proposal is made to delay the age of "normal retirement," the purpose would be to induce employees to work longer, reducing costs to the pension system, but increasing costs to the public employer, since long-term employees, earning more than shorter-term employees, would continue drawing salaries each extra year they work before retiring. Every proposal should be analyzed for its cost implications beyond pensions.

### *The question:*

*What are the cost implications for the state generally, beyond just pension policy, stemming from proposed savings to the pension systems?*

## **A constitutional question.**

Under the federal Contracts Clause, there is a pension contract between the state and many thousands of individual public employees. That contract may be changed under limited circumstances: if the change is insubstantial, the contract itself (the statute) says it can, or it is justified by a "significant and legitimate" public purpose. In the latter case, the change must be offset by comparable new advantages and be both "reasonable and necessary" to preserve the pension system.\* If the contract is not sufficiently reflected in legislation stemming from proposals,

it is likely it will be challenged in court, perhaps successfully.

### *The question:*

*Do proposals adequately reflect the reach of the state's contracts?*

## **An ethical question.**

The state set up pension systems that impose on public employees certain obligations in exchange for its promise to provide benefits in retirement. Public employees dedicate a career to serving the public and pay into the pensions every dime required of them, every pay period, and in full. Quite simply, if the change is justified by the numbers and permitted by the constitution, the legislature would still have a policy judgment to make about whether it is the right thing to do.

### *The question:*

*Do proposals keep the state's promise to its public servants?*

**EVERY PROPOSAL SHOULD  
BE ASSESSED FOR ITS  
BROAD FISCAL, ITS CON-  
STITUTIONAL AND ITS  
ETHICAL IMPLICATIONS.**

### **NOTE**

*\*This oversimplified analysis is consistent with the lengthier one provided by an Indiana law firm retained for the purpose by the commission.*

# SUMMARY

**T**HE ISSUES, ESPECIALLY THE CONNECTIONS AMONG ISSUES, IN PUBLIC PENSION POLICY, ARE COMPLEX, ESPECIALLY FOR THOSE WHO DO NOT ROUTINELY FOCUS ON THEM. WE ATTEMPT HERE TO PROVIDE A USEFUL WAY TO APPROACH THIS SUBJECT:

☐ **THERE ARE PRINCIPLES TO WHICH WE HAVE ADHERED IN OUR ANALYSIS.**

☐ **THERE IS A FRAMEWORK WE HAVE USED IN APPLYING THE PRINCIPLES.**

☐ **THERE ARE BROAD RECOMMENDATIONS WE HAVE REACHED AS A RESULT OF OUR ANALYSIS.**

## Principles of a good public pension system

The principles to which we adhere are nearly identical to those adopted by the commission. They are actually an outgrowth of those agreed to by a 2005 commission examining components of the Teachers' Retirement System, a commission that included representatives of teachers and school districts.

- **Retirement dignity and security** is about all of us: Downgrading the security of any group of our citizens inevitably harms all our citizens.
- **Recruitment:** The system should be a recruitment tool for high quality teachers and state employees in Vermont.
- **Retention:** The system should induce high

quality teachers and state employees to stay in teaching and public service for their career.

- **Reward:** The system should provide a solid foundation for retirement security for persons following a career dedicated to public service.
- **Sustainability:** The cost and benefits of the system should be sustainable and predictable over the long term.
- **Development:** The state's contributions to public pension plans are an investment in economic development, since retirees spend their pensions on goods and services, increase economic demand, promote employment, and generate more economic activity.
- **Taxes:** The state excluded pension payments from the Education Fund to avoid heavier reliance on property taxes to fund public service. The state should continue to refrain from shifting the costs of its obligations onto property taxpayers.

## A framework for analyzing public pension questions

Stemming from our principles and the state's obligations under the Constitution, the General Assembly should approach the analysis in four ways.

### a. Issues. There are three basic issues that must be considered:

- Underfunding of pension systems
- Health care benefits
- Pension benefits

### b. People. There are five basic groups of public employees:

- Current retirees
- Vested late career public employees

- Vested mid-career public employees
- Non-vested public employees
- Those persons yet to be hired

**c. Implications. There are three basic questions (set out on p. 6):**

- Cost \*
- Contract\*\*
- Ethical

**d. Time. There are two basic time frames:**

- The next year or so
- Long-term

It will be useful for policy makers to approach the analysis by assessing each implication under each issue for each group of employees for the next year or so and for the long-term.

**Recommendations about Vermont public pensions**

**T**he State of Vermont can weather its current budgetary crisis without damaging the long-term retirement security and dignity of the many thousands of its citizens who devote their careers to public service. The state owes a constitutional obligation to the vast majority of them and any proposal must be assessed in the context of all proposals to determine their propriety. Pension cost "savings" in commission proposals need to be balanced against resulting cost increases in other taxpayer obligations.

**We recommend:**

- Complying with the Constitution.** The state should minimize the potential for constitutional challenge by conforming any policy change to constitutional requirements. This extends well beyond decisions to make no changes in the benefits of current retirees or to avoid shifting to risky defined contribution plans.
- Knowing indirect as well as direct cost implications of pension changes.** The state should

only consider changes in retirement eligibility or benefits that are consistent with the principles of a good system and the constitution, and only after understanding their indirect as well as direct cost implications.

- Engaging in joint effort with those affected.** The General Assembly should engage representatives of teachers and state employees in a joint effort to determine how to address the state's short-term fiscal circumstances and to protect the long-term dignity and security of older Vermonters.
- Paying unfunded liability.** The General Assembly should stay the course it set for itself in 2006, by providing annually the actuarially and statutorily required amounts to pay down the state's underfunding of the Teachers' System, and it should avoid future underfunding of any public pension.
- Protecting property taxpayers.** The state should refrain from any shift in costs from the General Fund to the Education Fund or school districts.

**NOTES**

*\*The Joint Fiscal Committee prescribed what amounts to a "3.5 percent solution" for next year in asking the commission to determine how to limit pension spending increases to 3.5 percent. The amount required to pay pension costs alone will unavoidably go up by well more than 3.5 percent, and the law requires the amount dedicated to repay past underfunding to increase by 5 percent each year. We understand the thrust of the JFC's target: obtaining help in balancing the budget. Without ignoring constitutional or ethical considerations, it is not viable for the commission to produce proposals that adhere to this funding restriction. Also, artificially reducing contributions to the pension system is not a new tactic and it is the primary cause of the increased contributions that are required today.*

*\*\*The constitutional, or contract, implications require a comparative analysis of benefit or eligibility "disadvantages" and offsetting "advantages." That makes it necessary to assess any individual proposed change only in the context of a combination of proposed changes.*

# BACKGROUND

## THE BENEFITS OF VERMONT'S CURRENT PUBLIC PENSION SYSTEMS ARE MODEST.

- Vermont's public employees, during or after their employment, do not get rich off the rest of the taxpaying public.

The average pension of retired Vermont public employees is less than \$17,000.

- Vermont's public pensions pay the lowest percentage of final salary in the nation.

**P**ension amounts are pegged to a percentage of employee final salaries. Among the country's 129 largest public education pension systems, Vermont's, at just 50 percent, provides its retired teachers the lowest percentage of final salary in the country. And the limit on state employees ranks equally low. Vermont alone has this 50 percent limit. Sixty-five plans place no limit on the amount employees can accrue. Sixty-four plans place some limit. The most common limit is 100 percent of final salary. The next lowest limit is 60 percent: only three other plans have that limit.

- Vermont's public pensions have one of the smallest "multipliers" (the percent of final salary earned for each year of service) in the nation.\*

The "multiplier" (the portion of final salary the employee gets in pension for each year of service), at just 1.67% for the vast majority of Vermont state employees and teachers, is also well below average. During the 1980s, when many current public employees were beginning their careers, the multiplier was just 1.25%. Most public pensions nationally have multipliers between 1.75 percent and 2.5 percent or more. The most common multiplier is between 2.0 percent and 2.24 percent. In many plans, the multiplier actually increases during late stages of career. \*\*

- Vermont's retired state employees and teachers, as a result, have one of the smallest public pensions in the nation.

- Average salaries of Vermont public employees are well below the average nationally and especially in the Northeast.

- Their pensions, unlike those in every other state, are limited to 50 percent of their final salaries.

- The product of below average salaries and the lowest percentage used in calculating the pension benefit yield a very modest pension following a career of service.

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## CREDIT WORTHY PEOPLE DON'T PAY CASH FOR THEIR HOMES OR CARS. STATES PAY FOR THEIR PENSIONS IN THE SAME MANNER.

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### THE "BIG" NUMBERS INVOLVED CAN ALL BE ADDRESSED.

There are several "big" numbers cited in this discussion. The major ones:

- **\$700 million.** This is roughly the amount the state, this past summer, owed its retirement systems for its own failure to maintain funding discipline during the 1990s and well into this century. The amount the state failed to provide the teachers' system was about \$150 million, but the loss of compounding interest on that amount and the losses associated with the most recent market downturn ballooned the figure. This

## NOTES

\*"Characteristics of Large Public Education Pension Plans," National Education Association, November, 2008.

\*\**Ibid.*

number, however, as large as it is, falls as well as rises with the market. Over the past several months, for example, with stock market growth, that number has shrunk by about \$100 million. We anticipate that, as the market recovers and the state maintains its efforts begun in 2006 to pay down the unfunded liability, that the amount of underfunding will continue to fall over the life of the pension funds.

- **\$1.6 billion.** An even larger number, but even less significant. It is the entire amount the state would need over the next 30 years to pay the cost of the health insurance benefit for retired public employees. The number could actually have no meaning to the extent the federal or state government addresses useful reform of the health care system.
- **\$2.3 billion.** This one is just the sum of the first two.

These large numbers continue to be used by some to drive consideration of pension and health care changes that are much deeper than what is actually necessary either to insure long-term sustainability of the system or to meet the state's short-term budgetary needs. The tactic of using big numbers like these to instigate unneeded changes has no useful place in this policy discussion.

It would not be correct to conclude we're in big trouble because we don't have the money on-hand to pay the pension costs for each of the next 30 years. That would be like telling credit-worthy car buyers they can't buy on credit or telling homebuyers to forget it unless they put the full asking price on the table. While it might be nice to be able to pay all those costs up front, a system is still a responsible one without "prefunding" the entire amount. And, in the midst of a volatile economic pattern, we conclude the wisest course is one that:

- retains fundamentally sound public policy;
- allows pension funding over the life cycle of the fund; and
- encourages intergenerational equity and shared responsibility among the state, public servants, and the taxpayer.

## DEFINED BENEFIT PROGRAMS SHOULD BE RETAINED.

Our public pensions, like the vast majority of public pensions in the nation, are defined benefit systems. They offer a set amount of money per month in retirement. The basic alternative, a defined contribution system based on individuals' accounts, places all responsibility on the individual and almost always results in poorer results. Historically, these accounts were intended to foster individual savings above and beyond Social Security and employer-provided pensions: they were supplemental savings accounts. The basic purpose of substituting defined contribution schemes here is to shift investment and longevity risk from the employer to the employee. Shifting investment risk to the individual is inefficient and results in lower returns, and lower returns result in lower retirement incomes, affecting the economy as a whole. Professionally managed and pooled investment risk through a defined benefit system provides stronger returns and more efficient use of limited government resources.

The current pension system is sound. Respected authorities recognize that "State and local retirement systems have sufficient assets set aside, even after the market downturn, to continue paying promised benefits for decades."\* That general statement definitely applies to Vermont's systems.

- Defined benefit participants lost less. People with defined benefit pensions generally had market losses that were less severe than those of individual investors – those with 401(k)'s and related "defined contributions." And the size of those losses has been partially offset with strong investment gains this year.

- Defined benefits promote security. "This difference between public pension funds and in-

### NOTE

*\*National Association of State Retirement Administrators (Brainard), "Public Fund Survey: Summary of Findings for FY 2008," October, 2009.*

dividual retirement accounts is a result of public pension methods and strategies that temper the effects of market volatility, and helps illustrate the important role defined benefit plans play in promoting retirement security."

The rates of poverty among older households lacking defined benefit pension income is about six times greater than those with such income. Pensions reduce – and in some cases eliminate – the greater risk of poverty and public assistance dependence that women and minority populations otherwise would face. \*

- Defined benefits are much less costly. According to a recent study, by pooling assets and risk and generating higher investment returns for all plan participants, defined benefit plans deliver the same retirement benefit at nearly one-half of the cost of a *defined contribution plan*. \*\*

**T**hink what would have happened to Social Security recipients if that system had been "privatized." That's what to expect from shifting from defined benefits to defined contributions.

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## THE SUBSTANCE

### UNDERFUNDING: THE RESPONSIBILITY OF THE STATE

Vermont's public employees have lived up to their obligation. They have paid into the systems every dime – well more than \$500 million – required of them, on time, and in full. Any underfunding is the result of decisions by various administrations and Legislatures. The history of the state's underfunding in the Teachers' System appears on the next page.

The numbers are subject to change. The Comprehensive Annual Financial Report this month should provide all of us more current information about the valuation of the systems and the extent of underfunding in the Teachers' System. These plans have the major benefit of being financed over decades. In the context of public pension planning, the state has time on its side, as difficult as the immediate budget environment may indeed be, unlike so many other obligations requiring more immediate attention.

The responsibility for retiring this obligation belongs to the state. Legislation in 2006 resulted in reamortizing this "unfunded actuarially accrued liability," reducing the annual obligation but requiring fiscal discipline to retire the obligation over 30 years.\*\*\* The Legislature has lived up to its obligation in each of the past 4 years, the lon-

**FOR THE LAST FOUR YEARS,  
THE LEGISLATURE HAS PAID  
WHAT THE STATE OWES;  
NOW IS NOT THE TIME TO  
END THAT POSITIVE TREND  
AND SHORTCHANGE THE  
SYSTEM AGAIN**

gest period of full-funding in decades. This is the right prescription for the health of the retirement systems and the economy of the state and should not be abandoned.

It is fundamentally irresponsible to shift the obligation to repay this debt from the state, which created it, to anyone else. The economic downturn should not serve state government as an escape route from the consequences of its own decision not to fund the system properly. Property taxpayers should not be burdened with this liability.

### NOTES

\*National Institute on Retirement Security, "The Pension Factor: Assessing the Role of Defined Benefit Plans in Reducing Elder Hardships," July, 2009

\*\*National Institute on Retirement Security (Almeida, Fornia), "A Better Bang for the Buck," August 2008.

\*\*\*The resulting statute is found at 16 VSA Sec. 1944(c)(4).

# CUMULATIVE EFFECTS OF UNDERFUNDING TEACHERS' RETIREMENT SYSTEM

	What the actuaries said was needed that year	Less what the governor and legislature provided	= The year's underfunding	Assumed Earnings/Interest Rate on Uncontributed Amounts*				
				5%	6%	7%	8%	9%
1994	\$25,805,408	(\$20,580,000)	\$5,227,402	5,279,676	5,541,046	5,593,320	5,645,594	5,697,868
1995	27,451,926	-18,080,000	9,373,921	15,151,929	15,528,648	15,686,861	15,846,120	16,006,424
1996	28,711,597	-11,480,000	17,233,593	33,573,958	34,210,967	34,621,710	35,036,746	35,456,107
1997	30,721,768	-18,080,000	12,643,765	48,212,515	49,286,703	50,131,526	50,989,201	51,859,891
1998	26,927,205	-18,106,581	8,822,622	59,666,328	61,331,206	62,772,147	64,243,864	65,746,921
1999	20,723,874	-18,080,000	2,643,873	65,361,665	67,736,328	69,904,676	72,135,081	74,429,081
2000	19,936,345	-18,586,240	1,352,105	70,015,656	73,193,175	76,197,432	79,312,077	82,540,648
2001	20,970,278	-19,143,827	1,828,452	75,390,602	79,468,071	83,423,700	87,558,633	91,880,039
2002	22,146,880	-20,446,282	1,702,600	80,905,297	85,989,834	91,025,550	96,334,028	101,928,459
2003	28,279,810	-20,446,282	7,835,531	92,981,981	99,219,821	105,507,113	112,189,702	119,290,150
2004	41,658,946	-24,446,282	17,214,668	115,276,115	122,904,118	130,709,792	139,068,133	148,015,592
2005	47,714,318	-24,446,282	23,270,041	144,891,712	154,246,507	163,943,970	174,394,426	185,654,188
2006	56,627,046	-24,985,506	31,643,546	184,570,933	196,094,150	208,171,118	221,255,268	235,430,570
2007	38,929,729	-38,496,410	435,326	194,245,688	208,308,185	223,193,659	239,408,429	257,074,237
2008	41,204,051	-40,955,566	250,493	204,214,728	221,064,684	239,076,475	258,821,616	280,472,684

% of \$700m underfunding	29%	32%	34%	37%	40%
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% of 2008 \$467m UAAL	44%	47%	51%	55%	60%
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\*Assumes 1/2 of interest on current required contribution.

*This chart shows how much the state lost in investment earnings because it did not fully fund the system adequately between 1994 and 2008.*

## HEALTH INSURANCE: THE ISSUE HERE IS HEALTH CARE REFORM

The health benefit for retired public employees is structured like this:

Retired state employees receive 80 percent of the premium cost of insurance for themselves and their families. 3 V.S.A. §479 extends to retired state employees the same benefit as active state employees. The state's payment is distributed across departments.

Retired teachers receive 80 percent of the premium cost of insurance for themselves. 16 V.S.A. §1944(c)(12) extends to retired teachers up to 80% of single insurance. The state's payment comes from the system's investment fund.

**G**ASB does not control. Earlier this decade, the Government Accounting Standards Board, through its standard #45, required that governments disclose the long-term costs of their non-pension retirement benefits, including health care. The accounting problem created by GASB 45 is a paper issue, but it gives those seeking big changes one of the big numbers they rely on to make their case for reducing earned benefits. The GASB 45 accounting standard requires public pension plans to acknowledge – on paper – the amount they will have responsibility to provide for non-pension post employment benefits like health care, over a 30-year period. GASB does not require the State of Vermont to have \$1.6 billion on-hand or even to pre-fund the health benefit, as is required in its pensions standard. Since the accounting standard has been applied a few states have begun to pre-fund this obligation. Vermont should meet its disclosure obligation and also consider how it will address funding going forward.

The larger issue is health care reform. Paying the state's portion of retired teachers' health insur-

ance out of the investment fund is really no solution at all. It is a symptom of the much larger, societal problem: our approach to health care costs is stifling the entire economy. The need for health care reform is clear and Vermont – with the help of the union producing this report – has been a leader in this effort.

Schools and teachers have been doing their part. As a matter of record, the Vermont Education Health Initiative (VEHI) – the partnership of the School Boards Insurance Trust and Vermont-NEA – which provides health insurance to virtually every public school employee in the state, agreed in 1999 to incorporate the insurance needs of Vermont's retired teachers within its group. The effect has been a sizable reduction in the premium cost to the Teachers' Retirement System and an annual increase in the premiums for active school employees on the order of 2%. VEHI has saved taxpayers millions of dollars over each of its 15 years, including millions of dollars in lower premiums for retired teachers.

## PENSION: CONTRACT AND ETHICAL IMPLICATIONS

a. The indirect costs of changing pensions. The pension benefits for retired Vermont state employees and teachers start near the bottom of those offered by states generally (see page 9). That makes Vermont less competitive: the state must be able to recruit and retain high quality people into public service or face a certain decline in what makes Vermont special. Attempting to cut into pension benefits – the income of retired citizens – would also cut Vermont's income and tax receipts.

Nevertheless, there are elements of any pension program that may be adjusted to make or keep them consistent with the principles of a good system. This is the component of the discussion where there is room for discussion. As our general workforce has aged, so has our public

workforce. As wage rates have crept up over the decades, so have those of public employees. As life expectancy has improved generally, so it has for former public servants. The combination of increased retirements, higher ending wages, and longer duration of retirement has made annual pension payment increases outpace inflation. But that comes as no surprise, and the actuarial cost predictions take all that into account. The real issue is the extent to which even permissible cost reductions in the pension system would produce offsetting cost increases elsewhere.

If, as we expect, the commission recommends restricting access to retirement benefits, it should be followed by an assessment, in addition to any "savings" to the retirement systems, what the fiscal effects would be to the public more generally.

b. The inadequacy of current pensions. Vermont's public pension programs do make us less competitive. Features that place us at or near the bottom of the states include the low cap on earnable pension, the low "multiplier" used to determine pensions and the absence of dependent health coverage in the teachers' system, among others.

**W**e have been told in recent years, outside of pension policy, that Vermont ranks "too high" among the states in how well it takes care of its neediest citizens and its children. The result is an unofficial goal by some to move Vermont downward toward the national average. We believe Vermont ranks too low among the states, in this context, when it comes to the dignity and security of its public servants, as well as their beneficiaries and dependents, in their retirement.

c. The interrelationship of pension components. However the commission addresses eligibility, benefits, and payment issues would have potential short-term and long-term human as well as budgetary effects. We also know that there are constitutional restrictions on changes, or the manner in which changes may be made.

Any proposed changes must be considered col-

lectively for their impact on cost containment, cost-shifting to employees or property taxpayers or other taxpayers and their impact on retirement income adequacy and system sustainability. **We are committed to working with the General Assembly to assess the human and budgetary effects of each of these proposals and to reach conclusions that are both constitutional and help address immediate concerns without jeopardizing the long-term dignity and security of older Vermonters.**

## WHO SHOULD PAY?

The Education Fund is unique in America. The Legislature created it as the repository for public education funds for distribution to school districts. In 1997, legislators wanted to insulate property taxpayers from added payments in the transition to school funding and property tax reform. They excluded from the Education Fund most expenses that, at that time, were not considered school costs, no matter the logical connection to education. Virtually every year since the Education Fund was created, the Legislature has considered, but until 2009 rarely yielded to, adding to it items of expense.

The economic downturn appears to have led the governor to propose shifting the entire cost of the teachers' pension system to local school districts and imposing spending caps on them at the same time, arguing that the combination would result in no property tax increase. It is obvious that shifting the cost to school districts would mean property tax levels higher than without the shift.

It would be wrong to shift the cost of portions of the teachers' pension system to local school districts, with resulting increases in property taxes statewide.

**Voters in 2008 did not send their representatives to Montpelier to create new property tax obligations. This is not the time to consider inserting a new cost to be paid by property taxes.**

# CONCLUSION

**A**s we set out at the beginning of our report, the Spaulding Commission is not likely to have addressed the issues surrounding the state's pensions in a bigger-picture context.

In addressing only the pensions themselves, the commission does an incomplete examination, at best, of how changes to these systems will affect the state's overall budget.

For more than a year, the governor, legislative leaders and pundits have insisted that the pensions – and the employees who have paid hundreds of millions of dollars into them – must be tapped for millions in savings in an attempt to balance a temporarily out-of-balance general fund. What is not said is that simply looking at savings from the pensions alone will do nothing to produce long-term and sustainable savings to the pensions or the state's taxpayers.

Although we – or any teacher or state employee – were not members of the commission, we contributed testimony when asked, but were excluded from the major discussions. Regrettably, as predicted, the commission's recommendations will be piecemeal, short-sighted in nature and not responsive to the greater needs of the state.

In this report, we addressed the interrelationship among the pensions, the constitution and the state's overall financial picture. We debunked the scare tactics presented by those who wish to use the economic downturn as an opportunity to substantially weaken Vermont's public work force. We welcome a thorough discussion of the teach-

ers' and state employees' pensions, or changes that can benefit the state, public employees and taxpayers over the long-term. Toward that end, we are preparing a proposal that will, if implemented, achieve savings to the taxpayers of Vermont, while addressing the issues of falling student enrollment and education costs in general. We will propose to strengthen the pensions and offer public employees a better system, all while saving taxpayers tens of millions of dollars over a five-year period.

Had we been members of the commission, we would have been well along our way in developing this proposal. As it stands, we are working with national experts to delve into the complex sets of numbers surrounding the pension, the health benefit, the Education Fund and demographic trends. We have begun discussions with Legislative leaders that we hope will lead to the complete development of this proposal in short order.

**Vermont's teachers and state employees have kept their promise to the state and its taxpayers for more than six decades, producing one of the nation's finest public education systems and a state that efficiently addresses Vermonters' needs.**

**Once again, that public workforce will be a significant contributor to addressing Vermont's changing demographics, sustaining public pensions over the long term, and saving taxpayers money. Working together, the promise can, and will be kept.**