

## MEMORANDUM

**TO:** Honorable James Douglas, Governor  
Honorable Gaye Symington, Speaker of the House  
Honorable Peter Welch, Senate President Pro Tem

**FROM:** Jeb Spaulding, State Treasurer

**DATE:** 30 November 2005

**RE:** **Commission on Funding the Vermont State Teachers' Retirement System**

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The 2005 General Assembly created the Commission on Funding the Vermont State Teachers' Retirement System (VSTRS) to make recommendations for funding an adequate, sustainable, and actuarially sound retirement benefit plan for Vermont teachers by November 15, 2005. An Executive Summary was submitted to you on that date. The full report with the Commission's recommendations is enclosed.

Our findings are startling. The actuarial method currently used by VSTRS does not accurately reflect the actual experience of the plan and does not accurately reflect underfunding in the "funded ratio" or "unfunded accrued liability," which often are used to measure and compare the financial health of pension plans.

Using the actuarial method used by most states, the VSTRS funded ratio declined from 92.3% in 2001 to 81.1% in 2005. The unfunded liability increased from \$93.8 million to \$315.1 million in that same time period. Unless underfunding by the State ends soon, Vermont may not be able to catch up with actuarially required contributions without taking draconian measures and may jeopardize its favorable credit rating.

The primary goal of our recommendations is to return to the expectation and reality that the actuarially required contributions for VSTRS must be met by the State on an annual basis. If our recommendations are adopted as a package, the difference between this year's appropriated amount and what is required for FY 2007 will be reduced by more than 60% – from a difference of almost \$35 million to less than \$13 million.

In order to make the implementation of those recommendations useful, however, the State will need to faithfully appropriate the actuarially required amount each year going forward. If a long-term commitment to funding is not achieved, then the result may be viewed as little more than putting additional "debt" on the State's credit card, with no real plan to pay.

If you would like to review our report and recommendations in person, feel free to contact me.

cc: Interested Legislators