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Shumlin pledges fix of shortfall in teacher retirement fund, but solution is elusive

by Hillary Niles

Vermont may actually stop shortchanging teachers' retirement health care and pension systems next year, if Governor Peter Shumlin has anything to say about it. In his legislative budget address Wednesday, Shumlin committed to finally fixing a perennial shortfall — though administration officials say consensus on a solution hasn't yet been reached.

"For decades, the annual costs of retired teacher health insurance premiums have been taken right out of the state teacher pension fund itself," Shumlin said.

That practice is only occurring with the fund that covers health care costs for retired teachers. The state and municipal employee pensions are typically funded at the actuarially recommended levels. The state has "never established an explicit funding source" for the teachers' retirement health care obligation, Shumlin said. Instead of appropriating its annual costs — lately about \$25 million per year — the state has made a token \$4.75 million annual contribution and borrowed the rest from the teachers' pension fund.

That's a costly and increasingly risky practice, Vermont Treasurer Beth Pearce says. Secretary of Administration Jeb Spaulding said at a press briefing Wednesday morning that Shumlin — and just about everyone else — agrees.

But common ground on solutions remains elusive.

Pearce convened a special group in the fall to work on the issue. Representatives from the Vermont chapter of the National Education Association, legislative leaders, administration officials and other stakeholders have yet to agree on how to address the problem. Spaulding even said there's some argument over whose responsibility it is to fill the shortfall.

In the administration's opinion, both a "phased-in" approach and a "partnership" with teachers and school districts is required. Shumlin is proposing the state allocate an additional \$2.5 million in fiscal year 2015 budget as a partial solution. But that would only take care of a fraction of the shortfall.

The Supplemental Property Tax Relief Fund is being eyed for \$8 million to \$10 million more. This would bring the state's contribution up to about half of the additional funding Pearce says is needed. Shumlin is looking to teachers and school districts for the rest, to the tune of about \$10 million in the next fiscal year.

"I think teachers are willing to do their part," Spaulding said.

He credited teachers with already having made significant contributions toward more sustainable retirement plans. For example, teacher contributions to their comprehensive teacher pension programs increased from 3.5 to 5 percent of their salaries four years ago.

Vermont School Boards Association executive director Stephen Dale said it's only fair for current teachers to chip in more.

"Teachers who will receive should be expected to contribute to the solution," Dale said.

He doesn't expect them to like it, just as he dislikes the prospect of some contribution coming from the Education Fund. But one way or another, Dale said, the taxpayers are better off contributing more than putting it off any longer.

NEA-Vermont spokesman Darren Allen said whether and how much teachers may be willing to contribute is still under discussion.

"We're still at the table," Allen said. "And we're gratified that there's a commitment from the governor to find a way to preserve this really important benefit that is part of the state's social contract with teachers."

Allen expects a permanent solution will be found by the end of the legislative session. With a significant number of teachers expected to retire in coming years, the problem otherwise may only get worse. But tapping into the Education Fund drew fire from Steve Jeffrey, executive director of the Vermont League of Cities and Towns. He roundly opposes the administration's proposal to tap a property tax fund for teachers' health care or retirement.

"It's a travesty of the use of something called that (the Supplemental Property Tax Relief Fund) when it's going to pay for a state obligation," Jeffrey said.

He said the teachers' retirement health care system was created and shaped by the state in the 1980s, but never funded. Teachers have benefited from it, and Jeffrey says the school districts that have had nothing to do with it should not be stuck with the bill. Jeffrey said looking to localities to fund the system only puts more pressure on municipal and school budgets, and by association, property taxes.

Spaulding responded to this concern Wednesday morning by saying that school districts' taxpayers would hold onto control over their taxes by shaping their school budgets and other services accordingly.

Dale, representing the school boards, said taxpayers will end up footing the bill one way or another. He's just hopeful the Legislature can come up with a "fair split" that's straightforward, transparent and simple enough for people to understand.