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Treasurer unveils Vermont teachers' pension fund remedy

by Nancy Remsen

MONTPELIER — Treasurer Beth Pearce pledged last fall to recommend a permanent way to pay for retired teacher health care expenses. But the process took longer than she expected when she convened a group in October to work on the problem.

"This has been a tough process," she said as she delivered the promised package Friday to the House Government Operations Committee. Pearce worked with the Shumlin administration, legislative leaders and school advocates to craft the proposal. Pearce reminded lawmakers of the importance of acting this year. Currently, the \$28 million expense to cover health costs for 7,700 retired teachers is financed by tapping the teacher pension fund. That practice threatens the financial stability of the pension fund and could lead to a downgrading of the state's bond rating, which would affect what the state, towns and non-profits pay when borrowing, she said.

Speaking of the remedy, Pearce said, "It is not one without pain, but the greater pain would be to not act."

The funding remedy calls for:

- Earmarking \$10.5 million in next year's budget for retired teacher health care. The House budget already called for adding \$2.8 million to a base allocation of \$4.75 million established last year. The new agreement would make a one-time addition of \$2.5 million from the Supplemental Property Tax Relief Fund.
- Requiring new teachers and those who aren't vested in the retirement system to pay an additional 1 percent of their salary into the pension system. The extra money in the pension fund will free up money the state was contributing so it would be put toward the health care expenses.
- Requiring school districts to pay an annual teacher health care charge — adjusted annually but pegged at \$1,072 next year — for each teacher new to the retirement system who is hired after July 1.
- Renegotiating federal contracts that pay for teachers so these federal grants cover pension expenses, effective in 2016.
- Relying on a \$28 million loan that the state would make to itself from operating cash to cover teacher retirement health costs in the near-term until funding builds up from the other changes.
- Incorporating \$4 million in savings from taking advantage of a Medicare drug program, a plan that Pearce and the state teachers' union previously agreed to undertake.

"It is sound," Pearce said of the package. "It spreads the pain in a way I think can be borne."

Jeb Spaulding, secretary of administration, advised the panel that Gov. Peter Shumlin supported the proposal. "Addressing this right now is absolutely critical and will be a win."

Spaulding acknowledged that the state would be paying more of the bill than the administration had wanted, but said that concession was part of what it took to reach a deal.

"It is a fragile agreement," Joel Cook, executive director of the Vermont NEA, told the House committee. "It is not an easy sell for any of us."

The Vermont School Boards Association supports all the provisions of the deal except the one that would require school districts to pay an annual fee for teacher health care, said Steve Dale, the group's executive director. He argued that the Legislature made the decision to offer health care to retired teachers so the state ought to cover the cost. Shifting the cost to school districts will add yet another obligation to school budgets, Dale said.

Committee members posed quick questions, but planned to delve into the details next week.

Rep. Michel Consejo, D-Sheldon, complained that Pearce had worked behind closed doors to develop the package. "It seems the process hasn't been very transparent." He questioned why the plan was offered so late in the legislative session. "I wish we had known sooner."

"Is it a take or leave it proposition?" Consejo also asked.

"It took some time to get some consensus," Pearce replied. She added, "I would recommend this as a good package and that you look at it as a package."

House Government Operations Chairwoman Donna Sweaney, D-Windsor, said the committee would try to move the proposal quickly, since it would need review by the House money committees, too.

Pearce urged action. "I hope we can take this last step."