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Tentative Funding Deal Reached for Retired Teacher Health Care

by Hilary Niles

A new plan was unveiled Friday to shore up an old problem with the way Vermont pays for retired teachers' health care.

State Treasurer Beth Pearce says the state will no longer borrow money from the teachers' pension fund to pay for health care. The deal between the teachers' union, lawmakers and the Shumlin administration will avoid nearly a half billion dollars of interest payments over the next 25 years.

Pearce mediated the tenuous agreement between Gov. Peter Shumlin's administration, legislative leaders and the Vermont chapter of the National Education Association. The Vermont School Boards Association and the Vermont League of Cities and Towns are not entirely on board with the plan, however.

Pearce told the House Committee on Government Operations Friday afternoon that the plan "spreads the cost … and spreads the pain." Retired teachers will not see a reduction in benefits, and teachers already vested in the retirement system will not see an increase in contributions.

Stephen Dale, executive director of the Vermont School Boards Association, testified Friday delicately said that he thinks the plan is good overall. But Dale did not sign on to the agreement because he says a proposed annual health care fee for new hires unfairly burdens local school districts. An annual fee of $1,072 would be assessed on all new contracts for each new hire. He said school districts would likely see it as an unfunded mandate. Dale urged lawmakers to deduct the fees from the Education Fund rather than imposing it on local school districts. In this scenario, the cumulative cost of the fees would affect the statewide property tax and would not be concentrated in districts that experience turnover.

Steve Jeffrey, executive director of the Vermont League of Cities and Towns, said in an interview Friday that the same issue prevented him from signing on.

"It's the state teachers' retirement fund," Jeffrey said in an interview Friday. "It was set by the state. The benefits have been decided by the state. The decision to allow health care benefits to be provided to retirees was made by the state," he said.

The state, therefore, should figure out how to pay for it, Jeffrey and Dale said.

Over the decades, the number of retired teachers has steadily grown at the same time health care costs and life expectancy have increased. The fund now costs Vermont at least $28 million per year — a figure that's projected to climb to $44 million in a decade.

Instead of funding health care outright, for years the state has borrowed money from the teachers' retirement pension fund to pay for the health care obligation. This is expensive, as it carries a high interest rate. It also undermines the pension fund's overall stability and credit rating.

Pearce has brought the issue to lawmakers' attention since she took office as state treasurer in 2011. So far, only modest funding increases have made it through the Legislature. Last fall, she stepped up her message campaign.

Donna Sweaney, D-Windsor, chair of Government Operations, supports the plan.

"I want to thank you for taking the bull by the horns, pulling together the folks around the room, along with the leadership to say, we're going to do something," Sweaney said. "We just talk, talk, talk, and say, 'Oh, this is a bad thing.' Thank you for pulling it together and making it happen."

Pearce got a lot of praise for getting stakeholders — including the Vermont School Boards Association, the Vermont League of Cities and Towns, Vermont-NEA, the Vermont Retired Teachers Association and the Vermont Superintendents Association — involved in ad hoc negotiations. The working group met roughly a dozen times between October and early April.

Rep. Michel Consejo, D-Sheldon, said he appreciated the effort, though he was not entirely impressed by its method.

"It seems like the process has not been very transparent," Consejo told Pearce during the committee hearing. "It seems like in producing (this plan), there has been discussion. However, I don't know any of it. Now you're asking me to vote on something that you and other folks — still nebulous who and where — have put together."

Pearce encouraged Consejo to speak with any and all participants in the discussions, and said she would provide a complete list of participants when she testifies again to the committee next week.

"This has been a tough process," Pearce said. "This is something that was ignored for many, many years. And we've done some steps over the last few years. I'm proud of those steps. I hope we can take this last step toward fiscal sustainability of the system, and for the benefit of the taxpayers."

Where the money comes from

Existing funds
The fiscal year 2015 budget that passed the House in March includes $4.75 million in General Fund appropriations for retired teacher health care. It sets aside $4 million in projected savings from a new prescription drug benefit plan Pearce said took effect in January.

Property relief, General Fund, operating cash
The bulk of the new funding will be picked up by a one-time, $28 million "loan" from the state's operating capital. This will be paid back with 2 percent interest, starting in FY 2020. In the meantime, any surplus funds would go toward paying down that low-interest loan.

The proposal also includes a one-time infusion of $2.5 million from the property tax relief fund, and $300,000 in one-time money.

An additional $2.5 million would come next year from the General Fund. That figure is set to increase over the next decade, reaching $10 million in FY18 and nearly $13 million in FY24.

New and unvested employee contributions
New and as-yet-unvested employees would be asked to increase their employee contribution by 1 percent, yielding about $1 million of extra money next year and growing to $2.5 million by FY24.

Some lawmakers asked why currently vested employees would not be asked to increase their contributions. Pearce said it's largely a matter of fairness, while Vermont-NEA executive director Joel Cook questioned the legality of an increase.

New hire health care fees
The new annual health care fee for new hires, to which SBA and VLCT object, would kick in about $375,200 in FY15. Because it's an annual fee attached to the roughly 350 new contracts signed every year, that annual fee will continue to multiply, reaching $5.8 million in a decade. Jeffrey said he hopes the state's pending single-payer health care in 2017 will put an end to the assessment.

Federal contracts
Another source of funding is more a matter of savings: Pearce said the long-term health care obligations for teachers hired with federal funds are currently borne by the state. She wants to change those terms, to allow pension costs to be written into federal grants. Pearce said Maine and Massachusetts already do something similar, and she would look to emulate the Maine model.

Dale said he had some concerns about the legality of appropriating federal funds in this way, but Pearce cited the precedent in other states as evidence it could be done in Vermont. She estimates it could save up to $3 million starting in FY16.

Lower pension contributions, avoided interest
Pearce calculated the amount of money the state will save in annual pension contributions to make a case for the urgency of the deal. Her plan will put an end to borrowing from the pension fund to pay for retired teacher health care, which in turn will reduce required annual pension contributions. She estimates savings of roughly $2.6 million in FY16, ramping up to $23 million by FY24.

By paying up front instead of essentially "putting it on a credit card," the state also will save on interest payments. This is where the numbers really add up. Pearce estimates that, if the Legislature does nothing to change the way it pays for retired teacher health care, future interest payments would total $483 million by 2038.