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By Kyle Midura

"Across the nation, city and state pensions are underfunded by more than one trillion dollars. In Illinois, the governor will suspend legislators pay until they come up with a plan, and California's plan is on the edge of bankruptcy. Kyle Midura looked into the state of obligations in the Green Mountain State. Kyle, what can you tell us? Kristin, Treasurer Beth Pearce released a new plan today to combat our state's pension and benefits pinch - about three-point-two billion dollars. She says Vermont is on the right path, but others argue we're not doing enough, and compounding the problem."

Paying down pensions in Vermont

MONTPELIER, Vt. - Following the country's housing bubble comes the growing problem of penniless pensions. In Vermont, unfunded obligations total \$3.2 billion. That figure represents promises made to state workers and teachers for retirement and medical benefits in the future.

"I think it's already unmanageable," said David Coates, a financial expert.

Coates says the state promised more than it can afford and is sinking \$80 million further behind every year. His solution: switch from defined benefit plans-- better known to most as a pension-- to defined contribution plans like 401(k) accounts for new employees.

"I think that's the wrong move," said Beth Pearce, D-Vt. Treasurer. "I know he has looked at the same data I have, but we have a different solution to it."

Pearce says the state began implementing reforms in 2005 and is on the right track. She compares the state's liability annual payments to a mortgage that will be paid off by 2038.

"It's going to increase until about 2022 and then begin to decrease," Pearce said.

Vermont is set to spend \$108 million this year on obligations, 75 percent of which is covering old underfunded obligations. Experts say 2008's recession exposed chronic underfunding in the teacher's fund, and caused retirement investment funds to fall short of projections.

The state has lowered the projected rate, making predictions more accurate, but also increasing the size of the hole.

"The nice part is teachers and state employees have been willing to participate in a positive way in that process," said Sen. Jane Kitchel, D-Caledonia County.

In the past few years, unions for state employees and teachers have agreed to later retirement dates and increased personal contributions to funds.

Kitchel says that convinces her that pensions can stay.

"For me the top priority is to start funding separately, the retiree health care benefit," Kitchel said.

The benefit is currently paid out of the teachers' strapped pension fund.

"So, we make no headway whatsoever and that's why we're underfunded more on the teacher's pension than we are on the state," Coates said.

Vermont could bring in as much as \$50 million a year from a federal internet sales tax reform and use it to pay the \$22 million bill.

Coates says the funds should be dedicated, but believes the benefit promise should still be scrapped for new hires. Much of the liability math relies on projecting how much invested funds will earn.

In the past, funds could generate double digit returns annually. But Vermont has dropped its projection to six and a quarter based on independent analysis though officials are counting on rising rates in the future.

Coates says 4-5 percent would be a much safer projection and isn't as confident in peak rates returning.

It's an expensive gamble the state can't afford to lose.