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# Pearce: Unfunded Health Care Obligations Threaten Teacher Pensions

By Hilary Niles

State Treasurer Beth Pearce might soon run out of metaphors for the chronic funding shortfall in Vermont's teacher retirement system.

It's a "monster," she told the House Appropriations Committee on Wednesday. "It's at a tipping point," she said. It's like a credit card that charges 18 percent interest, when a 2 percent deal sits idle on your desk. "It's taking the wind out of the sails of (the pension system's) recovery."

The Vermont State Teachers' Retirement System (VSTRS) encompasses pensions and other retirement benefits of retired teachers. It's one of three pension systems managed by the state treasurer — the other two being state and municipal employees.

The teacher pensions have been consistently funded by the state Legislature in recent years, Pearce says, but the health care benefits have not. The state is falling about $20 million short each year, she estimates, based on the current cost of healthcare and demand for services. The health care is getting paid for, Pearce emphasizes, but in a very expensive way.

It's like a mortgage: Instead of paying the full cost of retiree health care each year — roughly $25 million lately — the state is making a partial down payment of about $4.75 million, and taking a mortgage on the rest. But the interest rate is very high.

"By spreading it out, that $20 million will cost the taxpayers $58 million," Pearce said in an interview.

As a matter of funding, any solution will require legislative action. House Appropriations Chair Rep. Martha Heath, D-Westford, raised the issue as one of her budget priorities before Pearce's presentation to the committee Wednesday.

"I think it is really important to the long-term fiscal stability of the state," Heath said. Acknowledging significant changes that have improved the fund's outlook since 2006, Heath said, "It's time for us to do something again."

A spokesman for the teachers' union said the solution, on one hand, is simple.

"It's a money issue," said Darren Allen, communications director for the Vermont-National Education Association. "(Pearce) predicts we need so many millions of dollars to keep the system secure and sustainable for the long-term, to provide the benefits that have been promised to retirees," Allen said. The money is a fraction of the state's budget, and even a smaller sliver of Vermont's overall economy, he said.

"On the other hand, it's not that simple," Allen said. "Twenty-four million dollars is not an insignificant amount of money."

Pearce's plea for $20 million of additional contributions, on top of the $4.75 million already appropriated for VSTRS health care, was delivered to the appropriations committee after a day of presentations centered largely around current and future budget shortfalls.

Joint Fiscal Officer Steve Klein on Thursday said the appropriation Pearce recommends would further widen the roughly $70 million gap already predicted for fiscal year 2015.

Pearce confirmed Thursday afternoon that a “teachers’ health care working group” had been formed earlier in the morning to conjure up possible solutions for the Legislature to consider when lawmakers reconvene in January. The group is comprised of members of the NEA, legislative leaders, the Agency of Administration and the Joint Fiscal Office, she said.

## Options

Unable to swallow a $20 million pill whole, two committee members on Wednesday wondered aloud about ways to get around the big bill that just balloons with time. Pearce dismissed both suggestions as either risky or ineffective.

“Why not just borrow the money?” one representative asked.

“It’s an arbitrage bet,” Pearce said of pension obligation bonds, as such borrowing is known. “I don’t mind doing that with my own funds, but I have a hard time doing that with taxpayer money.”

Another go-to reaction was benefit restructuring — in other words, somehow lowering the amount of money the state is obligated to pay for the pensions or health care of retired teachers.

Given the tiered system through which new hires are phased into the pension system, Pearce pointed out, any restructuring today would not truly affect the state’s cash flow for 15 years. “And it runs counter to our philosophy of health care for everybody,” she said.

Looking ahead to the possibility of statewide single-payer health care in 2017 is tempting, Pearce told the committee. “But waiting to 2017 in the hope that it bails you out is not the solution.”

She recommended a few options that could help around the edges, but none that replace what she presented as the inevitable need to commit “significant” money to VSTRS health care funding.

One idea comes from Maine, where the state recovers a portion of its pension contributions from the federal government.

“To the extent that its employees work on federally funded programs, Maine may receive federal reimbursement for a portion of its contributions … made on behalf of those employees,” Pearce’s report to the committee reads.

Another recommendation is to simply ramp up the rate at which unfunded liabilities — the mortgage, in other words — are paid off. The amortization schedule is currently set to increase 5 percent each year, but Pearce would like to see a level payment schedule to pay down accrued debt more quickly.

“The bottom line is, taxpayers are going to have to ante up for our promises and our obligations,” Pearce told the committee.

She emphasized that prior years’ work to reduce and restructure obligations have made those promises more affordable, but their payoff is not solved yet.

“This is the last big step,” Pearce said. “We actually need to take that leap.”