

Teachers' retirement fund needs millions

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By David Gram Associated Press

MONTPELIER — Vermont's statewide retirement fund for teachers is some \$315 million short of the money it is estimated to need, a growing gap that needs to be closed, a special commission studying the issue has reported.

"Unless underfunding by the state ends soon, Vermont may not be able to catch up with actuarially required contributions without taking draconian measures and may jeopardize its favorable credit rating," said a memo dated last week from state Treasurer Jeb Spaulding to the governor and legislative leaders.

Spaulding said the state has been using a faulty method of calculating the annual contribution it needs to make to the roughly \$1.5 billion teachers' retirement fund. Some \$24 million was added to the fund from state appropriations earlier this year.

The treasurer said actuaries have determined that fully funding the coming fiscal year's contribution to the fund would require \$59 million, as it is currently structured.

The Legislature last spring set up a special Commission on Funding the Vermont State Teachers' Retirement System to investigate the fiscal health of the fund and issues surrounding benefits.

Spaulding said the fund isn't threatened with anything like immediate default, but that it needs increased payments years into the future to maintain long-term stability.

"If a long-term commitment to funding is not achieved, then the result may be viewed as little more than putting additional 'debt' on the state's credit card, with no real plan to pay," the treasurer said in his memo.

The 13-member panel, which included legislators, state officials and teachers' representatives, said this year's \$24.4 million contribution to the plan was "less than half of the actuarially required contribution of \$56.6 million."

Spaulding said commission members agreed that efforts to right the retirement plan's finances must not come at the expense of teachers. He called existing retirement benefits for teachers "modest at best," and said they were significantly less generous than in many other states.

Spaulding said teachers' pensions are calculated by averaging the teacher's three best-paid years' salaries and paying 50 percent of that figure. Many states pay 80 percent or 90 percent of salary to retired teachers, he said.

Commission members also recommended against shifting costs onto local school districts, for fear they would merely mean property tax increases. But a majority of commissioners suggested some of the needed funding for the coming year might come from withholding part of the rate reductions planned for the statewide property tax.

The commission's report recommends reamortizing — Spaulding likened this to taking out a new mortgage — the fund's shortfall for a new 30-year period. He said doing so would cost more in the long run, but would reduce the payments the state would be required to make each year to make the fund whole.

For example, Spaulding said, fully funding the next fiscal year's payment to the fund would require \$59 million; doing so after reamortization would require about \$37 million. He acknowledged that would still be a more than 50 percent increase in the size of the state's payment to the fund from the current fiscal year to the next.

Funding shortfalls actually compound. A shortfall of \$2.4 million in 1982 meant lost investment earnings through fiscal 2004 of \$36.7 million — money that the state is legally required to make up because retirement benefits are binding promises to pay, the commission's report said.

"Taxpayers and future teachers are at significant risk without restoration of funding at the actuarially required levels," the report's conclusion said. "Every dollar we delay putting into the system now results in the need for substantially more dollars later."

Finance and Management Commissioner James Reardon said the administration would review the report and its recommendations as it prepares the overall state budget for the fiscal year that starts July 1. The governor will present that budget proposal to the Legislature next month