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Vermont pension woes part of national trend

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MONTPELIER – When a special commission last week reported that the state's retirement fund for teachers was facing a potential $315 million shortfall, Vermont joined a long list of cities and states with troubled public pensions.

And while state Treasurer Jeb Spaulding insists that the $1.7 billion Vermont State Teachers Retirement System is basically sound, he cautions that without immediate action on the part of the governor and the General Assembly the state's largest public pension could be a costly problem for the next generation of taxpayers.

"The $315 million is an eye-popper and it certainly gets people's attention," Spaulding said.

From New Jersey to Montana to Philadelphia to San Diego, public pension managers are dealing with eye-popping numbers of their own. A host of public retirement systems are teetering on the edge of insolvency, prompting city halls and state legislatures to raise taxes, slash benefits and rob other parts of public budgets to shore up pensions.

Vermont isn't there – yet.

Last month, the Commission on Funding the Vermont State Teachers' Retirement System issued a report calling for immediate action to preserve the fund's ability to pay for the retirement of thousands of public school teachers. The most important step, according to the commission is to start contributing the amount of money required to keep the pool actuarially sound.

That has only happened for a handful of the last 15 or so years, and it shows: Left unchecked, the fund will be $315 million short when its obligations are tallied, even though the fund is only paying out $60 million a year in benefits right now.

That figure will balloon in future years, as today's teachers join the ranks of the retired and a smaller cadre of teachers remains employed.

If the Legislature continues its annual contribution to the fund of $24 million – far short of the nearly $60 million experts say is required – the fund's principal would start declining in 2020, and be "completely depleted" by 2047, according to the commission's report.

"While this may seem to be somewhat far into the future, actuaries point out that the critical tipping point is not when assets run out or even decline, but when governors and legislatures no longer believe the required contributions are realistic and give up trying to fund the actuarially required contributions," the report said.

In other words, they will just give up.

But it's not as if the state's promise to pay retirement benefits goes away.

"It's one thing for corporations to say, 'We wash our hands of these people,'" Spaulding said. "Who gets stuck with the bill then? The public does. Well, if a public pension plan washes its hands of its beneficiaries, it's the taxpayers who are on the hook. We might as well fix it now."

Pension plans in America – both public and private – have been under tremendous pressure in recent years. The cities of Philadelphia and San Diego, Orange County in California and states such as Montana and New Jersey have unfunded liabilities in the billions of dollars.

Some of the root causes are the same, and some result from increasingly more generous benefits, stingy funding and, in the case of San Diego, actual mismanagement.

In the most extreme cases, taxes are being hiked, benefits slashed and millions of dollars earmarked for other needs are being diverted to shore up faltering pension plans. The Wall Street Journal reported last month that, collectively, state and local governments are facing $300 billion worth of shortfalls.

Vermont needs to make a combination of complicated bookkeeping changes, and, most importantly, come up with the cash.

If all the recommendations the commission made are followed, the state next year will need to boost the annual contribution by about $13 million.

And there are several ways to pay for it. One way is to tap a part of the state's $19 million education fund surplus; another is to raise taxes on property or income. And still another, the commission said, is to shift some money from other parts of the state's $4 billion budget.

Gov. James Douglas, who excoriated the Legislature for underfunding teachers' retirements when he was treasurer, has acknowledged the problem. What tack he wants to take is still unknown.

"I know a little about the pension funds, having administered them myself," he said Thursday in his trademark dry style. "No teacher should be concerned about his or her pension fund. While actuarially underfunded, it is still very sound."

The Legislature will confront the issue shortly after it convenes next month, according to House Speaker Gaye Symington, D-Jericho.

"It definitely has been a concern on the Legislature's radar screen," Symington said. "It's high on the list of things we have to deal with."

Of the state's three public pension plans, only the teachers' faces a potential funding shortfall in the future, Spaulding said.

Both the state employees' and municipal employees' funds receive an appropriation sufficient to keep them sound.

At $1.7 billion, the state teachers' fund could afford another 28 years of payments at current levels without the contribution of another cent.

But it doesn't work that way.

"If the necessary funding is not forthcoming, Vermont could be criticized for wearing rose-colored glasses and doing little more than putting additional debt on the state's credit card," the commission's report said.

Sooner or later, the report said, a day of reckoning will come when the state faces far more serious impacts on its bottom line and credit rating.

"These are contractual agreements," Symington said. "Do I have an exact recipe for where the funds will come from? No. But it's a matter of whether taxpayers take care of it now, or whether we are going to pass it on to future generations. That's what the federal government does and I don't think that's what we should do here."

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