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Vermont pension fund needs a makeover

Opinion

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Add Vermont to the growing list of states struggling with shortfalls in their public pension funds. The official announcement that the state's Teachers' Retirement program is seriously underfunded came last week, but the problem is far from new.

For more than a decade, the state has been slowly underfunding the state's commitment to retired teachers. It hasn't been an intentional slight to teachers; instead, scarce state dollars have been siphoned off for more pressing and immediate needs, with no real accounting system in place to set off alarms when the underfunding reached problem proportion.

Pressures on the fund have also increased, with more teachers retiring and living longer. Now, it appears, the alarms are going off.

State Treasurer Jeb Spaulding said the Legislature appropriated $32.2 million less for this fiscal year than the $56.6 million actuarially required. If no action is taken to shore up the fund, the shortfall could climb as high as $315 million in future years.

Not only is the state legally obligated to meet its contractual obligation to retired teachers, failure to rectify the problem could damage Vermont's AA+ bond rating, which could cost the state up to $2.3 million in borrowing expenses.

Spaulding has a special reason to watch that rating. He and Gov. Jim Douglas traveled to Wall Street in November and met with the bond rating agencies to make a case for upgrading Vermont's rating to AAA. If approved, Vermont would be one of only 10 states with such a premier rating -- a huge savings to taxpayers.

A task force studying the pension shortfall agreed that immediate action was needed to bring the situation under control. One common-sense recommendation would improve the actuarial methodology to ensure the funds' short- and long-term prognosis is clear and available for public monitoring.

Another suggestion (not endorsed by the full task force, but worth consideration) would increase the contribution new teachers make to their pension fund. Vermont teachers' contribution rate is about 3.4 percent, well below the rate of teachers in other New England states.

Benefits might also be scaled back for new teachers. Vermont's benefits are among the lowest in the region, but still somewhat higher than many in the private sector receive. Rhode Island recently took such a step.

Taxpayers will probably have to shoulder a share of this burden. Vermont's obligations are legally binding, so Spaulding recommended spreading the shortfall repayment out over future years to soften the blow to the state budget. That, in combination with spending controls, probably makes sense.

Vermont is not alone in this struggle. Montana lawmakers might hold a special legislative session to authorize a $125 million taxpayer bailout of its pension system; Kentucky officials fear a $2.5 billion hole; and New Jersey is looking at changes in its system to stem the financial losses.

These problems are not unlike those facing the private sector. What is different, however, is that the state cannot declare bankruptcy or legally walk away from its obligation.

It's been too easy for lawmakers to ignore this growing problem. The 2006 Legislature needs to take the situation seriously and find balanced solutions that not only control the cost of the fund, but bring it into the black in a reasonable manner and timetable. To learn more Visit the Treasurer's Office at www.vermonttreasurer.gov.