RUTLAND HERALD

Article published Feb 3, 2010

# It can be done

The agreement last week between the Vermont teachers' union and state officials about curbing the growth of state-funded retirement benefits is a model of problem-solving that the federal government could learn from.

State Treasurer Jeb Spaulding provided the leadership to forge the agreement that is designed to restrain the explosion of costs to the state, while keeping faith with teachers for whom retirement benefits are an important part of their compensation package.

Spaulding had led a commission created by the Legislature to study the problem of escalating retirement costs for teachers and state employees. The report of his commission contained sobering news about the cost of the state's retirement programs and fashioned a series of recommendations to bend the curve of growth downward.

Initially the teachers were reluctant to support changes in their benefits, but with the help of the legislative leadership, Spaulding was able to fashion agreement with the teachers that would save the state $15 million this year.

The findings of the commission about the rising costs of the retirement programs were dire. With no changes the state's required contribution to the state employees' and teachers' retirement funds would have been $73.5 million, and it would have jumped to $103.5 million next year — an increase in one year of $32 million at a time when the state is trying to erase a looming $150 million deficit.

The report found that the pension contributions for 2008 represented about 5 percent of General Fund revenues. This year they would be 7 percent. Next year, with no changes, they would be 9.5 percent. The state's responsibilities to its employees and the state's teachers were threatening to consume the state budget.

The commission made a point of noting that retirement expenditures are not simply money down the drain. They are important for attracting and retaining good employees, and in some cases good retirement benefits help to offset relatively lower compensation. Further, retirement benefits circulate through the state's economy when retirees spend money to support themselves and pay taxes.

But ignoring the looming crisis was out of the question. So Spaulding, the legislative leadership and the teachers' union negotiated a package of changes that addresses some important problems.

One of the big problems is demographics. Retirees are living longer than before. Sometimes they live longer in retirement than they actually worked. Further, a surge of retiring baby boomers means that the growth in the number of retirees is exceeding the growth in the number of working teachers. There are 2,800 more retired teachers and state employees this year than there were in 2003.

The agreement between the teachers and the state addresses these problems in several ways. Normal retirement age would rise from 62 to 65 or would be figured by the rule of 90 — the combination of age and years of service. Payments by teachers into the pension system would rise from 3.54 percent to 5 percent, saving the state $8 million.

In return the teachers would gain a higher cap on benefits — from 50 to 60 percent of wages. Also, teachers would gain 80 percent health care coverage for their spouses.

The sort of demographic disaster facing Vermont is threatening federal entitlement programs in a much bigger way. The projected costs of Social Security and Medicare form a major portion of the deficits foreseen by President Obama's budget. And yet the federal government has been paralyzed by partisanship and unable to address the problem. Even the idea of forming a commission to study the problem was shot down by the Senate.

In Vermont the Legislature was willing to form a commission, and the commission did the hard work of facing reality. Then when it came time to put the commission's recommendations into action, Spaulding and the legislative leaders were willing to enter the tough negotiations needed to bring about a good faith effort by the teachers. The result was a significant step forward in addressing a major problem. A similar process may yield a similar outcome in negotiations with state employees.

Our seemingly intractable problems are not so intractable after all if our public officials are willing to act in the public interest. It worked in Vermont. It could work elsewhere.