



STATE OF VERMONT
OFFICE OF THE STATE TREASURER

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Joint Proposal to Fund Retired Teacher Healthcare Announced

MONTPELIER, Vt. - A proposal that would provide for the long-term financial security of the Vermont State Teachers' Retirement System and save taxpayers up to a half-billion dollars in the next 25 years was announced today. Gov. Peter Shumlin, State Treasurer Beth Pearce, legislative leaders and the teachers' union unveiled a plan to pay for retired teachers' health benefits.

"I am pleased that after months of hard work, we've been able to find a way to pay for this valuable benefit that teachers have earned over their careers," said Gov. Shumlin. "The agreement calls for everyone at the table to bear some responsibility for ensuring that the pension teachers rely on in retirement is solvent, safe and secure for generations to come."

The proposal would utilize a variety of sources to address the lack of funding for teacher health care on a current-year basis. Currently, teacher health care costs are paid from a pension fund sub-trust, but there is no explicit funding. Actuarial projections show that a \$20 million shortfall for teacher health care in 2015 would grow to a liability to the pension trust fund of more than \$50 million in 2037. The estimated cost for retired teacher health care in fiscal year 2015 is \$28.6 million.

"This proposal provides dollars to immediately address the need for a dedicated fund for teacher retiree health care costs," said Pearce. "It allows us to pay an increasing amount of health care costs each year and reduce the growing liability to the system. By paying more of the costs today, we will save taxpayers millions of dollars in the future and provide for the retirement security of our teachers' system."

The proposal will be presented today to the House Government Operations Committee. Key components of the plan draw from the following funding sources.

- Appropriations from the fiscal year 2015 General Fund budget of \$10.05 million toward teacher health care--\$4.75 million as proposed in the House Appropriations Bill; an additional \$2.8 million in new General Fund dollars; and \$2.5 million from the Supplemental Property Tax Relief Fund.
- Current teachers not yet vested in the pension system and new hires would begin contributing July 1 an additional 1 percent of their salary.
- For teachers hired on or after July 1, 2015, local school systems or educational entities would pay an annual teacher healthcare charge.
- Beginning in 2016, school districts that pay for teachers with federal dollars will need to include costs of pensions in the federal grant, lowering the liability for the State.

- To facilitate an immediate infusion of funds to pay health care costs, the State would borrow \$28 million from the State's operating cash. The money would be paid back at a rate of interest comparable to similar investments made by the State. Funds would be paid back within eight to 10 years, or sooner. To the extent that surpluses are available, it is expected that these could be used to reduce the need for an inter-fund loan. The House budget contemplates a portion of any such surplus to be used for this purpose.
- The proposal also incorporates savings from the already implemented Employer Group Waiver Plan for retired teachers on Medicare.

"While we had hoped to insulate teachers from any additional deductions from their paychecks, the reality is that everyone bears some responsibility for ensuring the safety and security of the pension, and the preservation of the retiree health benefit," said Vermont-NEA President Martha Allen. "Nonetheless, we are very fortunate to have a Governor, a State Treasurer and legislative leaders who agree with us that maintaining and securing a stable pension for our state's teachers is the right thing to do."

The proposal has the support of both Senate President Pro Tempore John Campbell and House Speaker Shap Smith.

"With the State of Vermont facing the possibility of a multi-million-dollar liability that will grow greatly over time," said President Pro Tem Senator John Campbell, "we need to act now. This proposal is fiscally responsible and necessary for the long-term health of our State finances."

"Ensuring the solvency of retired teacher's health care has been a top priority since the beginning of the legislative session," said Speaker of the House Shap Smith. "I am pleased that we have been able to find a financially sound solution to ensure that the State can keep the promises it has made to our state's teachers."

It is expected that the proposal will be addressed this legislative session.