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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Representative Catherine Toll, Chair, House Committee on Appropriations
Senator Jane Kitchel, Chair, Senate Committee on Appropriations
Representative Maureen Dakin, House Committee on Appropriations

FROM: Beth Pearce, Vermont State Treasurer

CC: Steve Klein, Joint Fiscal Office
Maria Belliveau, Joint Fiscal Office

RE: Retired Teachers' Health and Medical Benefits Fund

DATE: April 12, 2018

The Retired Teachers' Health and Medical Benefits Fund was created in 2014, effective fiscal year 2015, to help pay for teacher health care payments and incorporated a number of funding sources. Up to that time, there was no explicit funding plan for teachers' health care. In the absence of such funding, these expenditures were treated as an actuarial loss to the system which added to pension costs and was effectively borrowing money at a rate of 7.50% -7.75%. This added significant costs to the taxpayer in paying for both pensions and health care for retired teachers. In 2014, the General Assembly passed legislation creating a separate fund for health care and provided sources of revenue that would ramp up over time. While those revenue sources were building, a temporary general fund loan, a much cheaper way of funding, was created to provide time for the fund to build up. This is expected to save over \$480 million in interest payments for the taxpayer through 2038. We are on target, potentially ahead of target.

When we set the amount of federal grants, we do so based on the prior year projections and we expect to do a "true up" before year end. Most of the dollars are collected at year end and therefore some form of "true up" is required annually. Last year we recommended that the appropriations bill include language for FY17 to reduce the appropriations for teachers pensions and increase the appropriation for the Retired Teachers' Health and Medical Benefits Fund (RTHMBF) by \$300,000. This year we are requesting a change in the opposite direction for FY18. We are not making any adjustments for the FY19 request. The specific language is as follows (on the next two pages) and **we would request that it be effective upon passage.**

Sec. C.112 2017 Acts and Resolves No. 85, Sec. B.514 is amended to read:

Sec. B.514 State teachers' retirement system

Grants	83,809,437	<u>84,109,437</u>
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Total	83,809,437	84,109,437
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Source of funds

General fund	75,912,816	76,212,816
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Education fund	<u>7,896,621</u>	<u>7,896,621</u>
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Total	83,809,437	84,109,437
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Sec. C.113 2017 Acts and Resolves No. 85, Sec. B.515 is amended to read:

Sec. B.515 Retired teachers' health care and medical benefits

Grants	27,560,966	<u>27,260,966</u>
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Total	27,560,966	27,260,966
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Source of funds

General fund	27,560,966	<u>27,260,966</u>
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Total	27,560,966	27,260,966
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Sec. C.114 2017 Acts and Resolves No. 85, Sec. E.514 is amended to read:

Sec. E.514 State teachers' retirement system

(a) In accordance with 16 V.S.A. § 1944(g)(2), the annual contribution to the State Teachers' Retirement System (STRS) shall be \$88,409,437, of which ~~\$83,809,437~~ \$84,109,437 shall be the State's contribution and ~~\$4,600,000~~ \$4,300,000 shall be contributed from local school systems or educational entities pursuant to 16 V.S.A. § 1944c.

(b) In accordance with 16 V.S.A. § 1944(c)(2), of the annual contribution, \$8,346,261 is the "normal contribution," and \$80,063,176 is the "accrued liability contribution."

Sec. C.115 2017 Acts and Resolves No. 85, Sec. E.515 is amended to read:

Sec. E.515 Retired teachers' health care and medical benefits

(a) In accordance with 16 V.S.A. § 1944b(b)(2), ~~\$27,560,966~~ \$27,260,966 will be contributed to the Retired Teachers' Health and Medical Benefits plan.

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These need to be effective on passage

Sec. G.100 EFFECTIVE DATES

(a)... C.112-C.115(fiscal year 2018 teachers' retirement system and health care and medical benefits adjustments), ... shall take effect on passage.

I will also note that this change has a net zero impact on the general fund.

I want to thank all members of Appropriations Committee for consideration of including the language suggested above. Please give me a call if you have any questions. Thank you for your assistance.