

Memorandum

TO: House Government Operations Committee
FROM: Jeff Fannon, Executive Director
DATE: April 9, 2021
RE: Pension Draft 1.1 (VPIC & Task Force)

Good afternoon, I appreciate the opportunity to speak with you about your draft bill concerning the Vermont Pension Investment Committee (VPIC) and the Pension Design and Funding Task Force. We appreciate that this process is slowing down, and, as was the case in 2010 and 2014, we will continue to participate in this process because maintaining a strong defined benefit pension for our teachers is critical to our students and communities. I have several specific observations and a general comment about the draft bill.

As a general matter, the draft lacks balance—balance between plan participants and other interested parties. For example, the troopers are not mentioned anywhere and should be. The recent public hearings and outpouring of comments from participants demonstrated a genuine need for fairness in the process, including VPIC and the Task Force, so that any recommendations have buy-in from those affected by the proposed changes. Balance, therefore, must be achieved.

Vermont Pension Investment Committee

The draft bill concerning VPIC has several concerns. Increasing the size of VPIC from 7 to 10 members dilutes the voices of the 3 plan participants on the Committee. As I mentioned on March 25th when I spoke about the earlier proposal’s governance changes, the current composition of VPIC is perfectly in-line with the recommendations of the Boston College Center for Retirement Research (BC). Among other concerns raised by BC, adding political appointees to the Committee, as this draft does, is likely to diminish investment returns; thus, according to the BC research, the governor’s appointees should be reduced to one, the Commissioner of Finance and Management.

It is also unclear why the VPIC chair has a 20-year term limit. Board members are often accused of becoming too cozy with board advisors, consultants, and staff and, therefore, they fail to ask the necessary critical questions. The chair should have the same 12-year term limit as all other members.

The draft lacks a “removal” section, which is critical. The Committee must have the ability to remove a member in cases of malfeasance or other egregious actions. Minus such removal language, a VPIC member could overstay their welcome and possibly harm the Committee and its work.

We additionally recommend, at proposed section 523(d) (“Policies”), adding the word “written” in the first sentence as follows: “The Committee shall formulate written policies and procedures . . .” so there is no ambiguity.

Task Force

Composition - Again, as above, the Task Force lacks balance, which is absolutely critical to convey fairness. We believe the composition of the Task Force must be revised to include greater participant voice. Moreover, there is no rational reason to include a “member of the business community” when the plans are all public sector plans not private sector plans. It is notable, however, that private sector plans are governed by ERISA, which requires collectively bargained plans to include an equal number of employees and employer representatives. Notwithstanding the private sector’s requirement for balance, the business community member should be removed from the Task Force. Likewise, the Commissioner of DFR should be removed. Regardless of position or affiliation, the balance of the Task Force must include an equal number of employee and management representatives to achieve fairness and integrity of any possible recommendation. **This can be achieved by adding to the Vermont-NEA, VSEA, and VTA appointees or subtracting from the employer side, but balance must be accomplished.**

Charge

Workforce Recruitment and Retentions - We are hearing and you heard from many current plan participants of the concern over recruitment and retention of teachers and state employees. On the teacher side, there already is a teacher shortage in Vermont and just yesterday Secretary French spoke in the Senate Education Committee about the concerns with the shortage of qualified educators in Vermont. The Task Force should examine the effects of current benefit structures and contribution characteristics on the recruitment and retention of public school educators and state employees, and an evaluation of any proposed changes to current benefit structures and contribution characteristics on the recruitment and retention of public school educators and state employees in the future.

Impact on other State Benefits - In the early 2000s, many retired teachers’ pensions were so small that the state had to unilaterally increase teachers’ pensions to get such retirees off public assistance programs. The Task Force should evaluate proposed changes to current benefit structures and contribution characteristics on the pre-retirement and post-retirement welfare and financial security of (a) public school educators and state employees who identify as female or BIPOC and (b) public school educators and state employees, irrespective of identity, who earn less than the federal poverty level during their years of active employment and during their retirement.

Impact of Underfunding - It is well documented that the teacher system was underfunded from 1979 until 2006 in every year except 4 (an alarming achievement), and this underfunding is clearly displayed by the fact the VSTRS underfunding is more significant when compared to the VSERS funding ratio. The Task Force should conduct an actuarial in-depth assessment of annual investment returns estimated to have been lost to the teacher pension system and the impact of these losses.

Dedicated Revenue & One-Time Funds - Teachers and state employees have put in every penny ever required of them by law, and while we appreciate that the state has paid the full ADEC since 2007, the underfunding of the teachers’ system cannot be disregarded. For this

reason, among others, the Task Force must investigate funding and revenue enhancements, including contributions from the state, municipalities, and monies generated from increased taxes on the wealthiest Vermonters, including individuals, businesses, and other new potential revenue sources. Additionally, the state should use at least the previously discussed \$150 million in one-time funds towards the pensions. The federal stimulus funds have been a proverbial shot in the state's economic arm and using the state's increased revenues to begin to shore-up the pensions is the best use of these dollars.

Intersection with Healthcare Costs - One the 4 buckets often discussed, mostly by the governor, is the teachers' OPEB bucket, i.e., health care. The Task Force should study health benefit design innovations, state regulatory measures, and alternative models of providing pooled health insurance benefits to both active and retired school employees to lower health care costs for employees, retirees, school boards, and the state.

Economic Impact Analysis – The Task Force must evaluate the intermediate and long-term economic effects to the state and local economies because of any proposed changes to current benefit structures and contribution characteristics and their potential effects on retiree spending power.

Finally, the Task Force's timeline seems unnecessarily aggressive, and the report should be delivered on or before October 15 to allow for genuine analysis and consideration by Task Force members. A hastily drafted report will only cause more harm and anger amongst those possibly affected by the report.