



# VERMONT LEGISLATIVE Joint Fiscal Office

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## Fiscal Note

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### **H.572 – An act relating to the retirement allowance for interim educators**

**As Recommended by the Senate Committee on Government Operations**

Link to Amendment:

[https://legislature.vermont.gov/Documents/2022/Docs/CALENDAR/sc220428.pdf#bk6447\\_0](https://legislature.vermont.gov/Documents/2022/Docs/CALENDAR/sc220428.pdf#bk6447_0)

Link to Bill:

<https://legislature.vermont.gov/bill/status/2022/H.572>

### **Bill Summary**

This legislation, as recommended by the Senate Committee on Government Operations, proposes amendments to the Vermont State Teachers' Retirement System (VSTRS) to permit a retired member to return to active teaching service on an interim basis, at any rate of compensation, for a period not to exceed one school year while still collecting a retirement benefit. This legislation would create an additional path for retired teachers to return to active teaching service for a limited time, which might assist local education agencies with short-term hiring and recruitment challenges. As proposed in the recommended amendment, a member's retirement benefit would not be suspended during the return to active service as an interim educator or be modified as a result of the additional service performed.

The fiscal impact of this proposal to the VSTRS pension system is not currently known. The impact will depend on the number of VSTRS members who would use this provision and the extent to which this provision may alter retirement and net turnover behaviors of the VSTRS membership in the future.

### **Overview of Legislation**

#### **Current Law**

Retired members of the VSTRS system are permitted under [16 V.S.A. § 1939](#) to resume active service on a limited basis without disrupting their retirement benefit. However, the member's retirement benefit shall be suspended if the member is compensated in excess of the allowable number of days per school year as established by the Retirement Board for substitute teaching, or receives compensation in excess of 60 percent of the average compensation in the teacher retirement system during their period of restored service. Upon subsequent retirement, the member's former retirement allowance is restored (if applicable), and the member also receives a separately computed retirement allowance for the period of restored service for which they made pension contributions.

#### **Proposed State**

[H.572](#), as recommended by the Senate Committee on Government Operations, would create an additional path to allow retired VSTRS members (beneficiaries) to return to active service as an interim school educator and continue to receive a retirement allowance during that period of interim service, regardless of their level of compensation, with some restrictions:

- The beneficiary must have received a retirement allowance for six months or more prior to resuming service;
- The employer of the beneficiary shall make annual “new teacher assessment” payments into the Retired Teachers’ Health and Medical Benefits Fund (RTHMB) for the entire period that service is resumed consistent with [16 V.S.A. § 1944d](#);
- The employer of the beneficiary shall remit a one-time fee of \$2,500 to the State Treasurer for administrative costs associated with the beneficiary resuming service;
- The beneficiary who resumes service under this provision would *not* make contributions into the VSTRS pension system during their period of interim service, nor would their retirement allowance increase from the period of service performed as an interim educator.
- Each superintendent who hires an interim educator pursuant to this legislation must certify to the VSTRS Board that the district exhausted all reasonable options to employ a qualified active educator prior to employing a beneficiary as an interim educator.

The recommended amendment authorizes the State Treasurer to grant not more than two renewals for a one-fiscal-year period for the ability of a beneficiary to resume service as an interim educator under the provisions of this bill during FY 2024 and 2025. Should the State Treasurer renew this authority, a beneficiary may only resume service during each one-year renewal period if service is performed in a different interim school educator position.

The recommended amendment also contains a sunset provision that repeals all the provisions of H.572 on June 30, 2026.

## Fiscal Impact

The actuarial impact of this proposal on the VSTRS retirement system will depend on the number of members who utilize this provision and how it may cause retirement behaviors to change.

On its face, prohibiting interim educators from making pension contributions during their period of interim service or earning an additional retirement benefit for the service performed as an interim educator is unlikely to have a detrimental impact to the VSTRS system. The salary experience and service credit from the member’s period of interim service would not increase the accrued liabilities of the pension system, and the pension system would not be obligated to refund contributions paid by the member during their period of resumed service when they subsequently retire without an additional retirement benefit. A school, therefore, would receive a year of service from a teacher without increasing the liabilities of the pension system. Furthermore, the “new teacher assessment” would be paid to the RTHMB Fund as if the school hired an active educator rather than a beneficiary, resulting in no adverse revenue impact to that Fund as a result of a school hiring decision.

However, if this proposal causes member retirement or net turnover behaviors to change substantially, it could increase the unfunded liabilities of the pension and retiree health care systems. For example, if more members decide to retire at earlier ages than they otherwise would because they find it more attractive to retire and work for a limited time as an interim educator (thereby receiving both a salary and a pension benefit concurrently), that could cause the unfunded pension and health care liabilities to increase, which would be expected to lead to increased future employer retirement costs.

While it is not currently known how many members would return to service on an interim basis under these terms, the provisions requiring a member to be retired for at least six months prior to serving as an interim educator, as well as the certification and renewal requirements and sunset provision are likely to narrow the universe of members who would return to service under this provision. These terms may also reduce any

incentive for a member to retire earlier than they otherwise would (thereby potentially leading to less actuarial risk) since their ability to return to service would be limited and require a 6-month minimum “waiting period” in retirement.

While the recommended amendment requires a \$2,500 administrative fee to be paid to the State Treasurer, it is not clear how many members would take advantage of this provision and pay the fee. Therefore, the fiscal impact of this provision is not known but is likely to be de minimis.

A more accurate estimate of the impacts of this proposal would require actuarial analysis that is either based on projections from imputed assumptions about member behavior in the future, or is informed by several years of experience data reviewed retroactively.