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TO: Senator Jeanette White, Chair, Committee on Government Operations
Senator Brian Campion, Chair, Committee on Education
Senator Jane Kitchel, Chair, Committee on Appropriations
Representative Sarah Copeland Hanzas, Chair, Committee on Government Operations
Representative Kathryn Webb, Chair, Committee on Education
Representative Mary Hooper, Chair, Committee on Appropriations

FROM: Beth Pearce, Vermont State Treasurer

DATE: March 21, 2022

RE: H.572 – Treasurer’s Office Supplemental Comments

Thank you again for the opportunity to review and comment on H.572 – An act relating to the retirement allowance for interim educators. I want to thank the House of Representatives for making improvements to the original bill in the House Passed version, which is available [here](#), consistent with some of the recommendations and discussions we have had over the past month.

Notwithstanding these improvements, I continue to have concerns about the bill and that fact that it uses the VSTRS Pension Fund to pay the costs of addressing current staff shortages at our schools, rather than current budgets. We think that the focus should be on retaining existing educators through financial incentives that are incorporated into school budgets.

The ability to come back to work and receive one’s full salary plus full pension represents a valuable financial opportunity for retirees. I would expect that the incentive structure set forth in H.572 would induce current retirees to re-enter the workforce. Over time, I would expect that this incentive structure would likely cause some members to retire earlier than they otherwise would, knowing that this opportunity awaits. This change in expected behavior would, of course, result in costs to the System, much as similar incentives in other States would do to those systems.¹

Over the past many years, the VSTRS Board has worked with our Office and the Legislature to identify ways to strengthen the System through improved funding methods and identified cost savings. I reviewed H.572 with the Board at their last meeting, and they passed the following motion, which they asked that I share with the Legislature: *After review of relevant portions of H.572, the board has significant concerns about increases in the unfunded liability that would be caused by H.572 and believes further review is necessary.*

I share the VSTRS Board’s concern, and I believe that this is not the right time to move forward with proposals that increase the unfunded liability of the System. I therefore urge you to consider funding this incentive out of current budgets, rather than placing the costs into the Pension Fund.

¹ Please see my Initial Comments on H.572 for detail on structures in other states.

To be clear, I believe the staffing challenges at our schools must be addressed, and I urge the Legislature to implement some form of financial incentive to attract and retain highly qualified individuals to the workforce. (Moreover, retired teachers remain eligible to return up to a certain threshold of average salary without pausing their pensions.) In doing so, however, I believe the best course is to pay the costs today, and not shift them into the Pension Fund in the manner set forth in H.572.

In the event that the Legislature decides to move forward with this bill, placing the costs in the Pension Fund, I would ask that the Legislature consider the following specific issues:

1. The bill requires that a teacher be retired for six months prior to reentering the workforce. I would urge the Legislature to consider whether additional time or other safeguards should be put in place to ensure that when a VSTRS member retires, it is a bona fide retirement and there is not prearrangement to return to work that might run afoul of IRS requirements.
2. I have previously urged the Legislature to consider a sunset on this bill. Not only would a sunset more directly target the current staffing challenges facing schools due to the pandemic, it would also serve to limit the overall costs to the System by limiting the potential for the behavioral change (i.e., earlier than expected retirements) that this bill would likely cause.
3. The bill continues to be unclear as to how a retiree who returns to the active workforce might receive health insurance. Do they remain on VSTRS health insurance as a retiree or are they placed on the employing school's health insurance policy? Clearly identifying how health insurance will be provided will help to better understand the full scope of the costs and issues presented by this bill.
4. Section (d)(2) of the bill indicates that a retiree who returns to work must pay in contributions to the System, but is not entitled to a subsequent retirement allowance. It is my understanding that these contributions are intended to fund some portion of the System costs presented by this bill. In the normal course, where someone makes contributions into the System and does not qualify for or elect to take a retirement allowance, s/he is entitled to receive a return of contributions plus interest. I believe the intent of the language is to prohibit someone in this circumstance from having those contributions returned upon separation. Assuming this is the intent, it should be clarified in the language, and I urge you to consider whether there are any legal concerns with prohibiting someone from getting a return of their contributions.
5. Finally, section (d)(1)(E) of the bill requires employers to make payments in the manner consistent with how those payments are made for new members. I believe this is a reference to the new teacher assessment set forth in 16 V.S.A. § 1944d. I would urge the Legislature to more clearly specify that this section is intended to require that the employer pay the new teacher assessment set forth in section 1944d, so that there is no ambiguity.

Please let me know if I can be of any further assistance.