

Memorandum

TO: Senate Government Operations Committee  
FROM: Jeff Fannon, Executive Director  
DATE: April 21, 2021  
RE: H.449 Pension Task Force

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Good afternoon, I appreciate the opportunity to speak with you about H.449, which I believe was amended yesterday in the House Appropriations Committee. I understand today's conversation concerns only the Pension Design and Funding Task Force ("Task Force"). We appreciate that this process has slowed 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. My specific proposed changes to the bill are attached hereto.

**Composition** - 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. Regardless of position or affiliation, the balance of the Task Force must include an equal number of plan participants (employees) and non-participants 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**

Right at the start of the Task Force's charge, section 10(c)(1)(A) on page 22 of 27, there is a requirement that the Task Force set a target number for both systems that has been, so far, unobtainable. The concern we have is two-fold. First, since the initial House proposal and the Treasurer's proposal did not meet this target, it is obvious the target is not practical and the charge should not send the Task Force on a fool's errand. This would set up the Task Force for failure or, at the very least, an extremely difficult task that will likely undercut the validity of any recommendations. We recommend striking the specific target and allowing the Task Force to establish its own realistic and achievable target after informed and careful consideration.

Second, demanding the Task Force to meet the target, as found in the current form of H.449 devalues the work of the Task Force itself. The Task Force should be allowed to receive information about the fiscal challenges of the plans, workforce issues, etc., and then establish a target that it believes is achievable and doesn't exacerbate plan problems. The target, as currently drafted, pre-ordains an outcome that isn't practical and won't allow the Task Force to reach its own conclusions based upon its good work.

**Workforce Recruitment and Retentions** - We are hearing and I believe you also have 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 two weeks ago AOE Secretary Dan 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 in-depth actuarial assessment of annual investment returns estimated to have been lost to the teacher pension system and the impact of these losses. We've heard that this underfunding now accounts for between \$700 million and \$900 million of the unfunded liability. That number should be identified and accounted for when examining the teacher system.

**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 teacher system ADEC since 2007, the underfunding of the teachers' system cannot be disregarded. For this reason, among others, we appreciate that the Task Force is now charged with investigating 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. As a reminder, S.59, which is co-sponsored by two members of this committee, already is introduced and would increase taxes on the wealthiest among us. Additionally, the state should use at least the previously identified \$150 million in one-time funds towards the pensions and apply that money to the pension system now and not wait. 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. As a quick reminder, the conversation of the Task Force will be directly affected by whether one-time monies are applied now or not.

**Intersection with Healthcare Costs** - One of the 4 buckets often discussed, mostly by the governor, is the teachers' OPEB bucket, i.e., health care. At our request language was added to H.449 about healthcare costs that said we believe it should be enhanced to 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.

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.