

Retirement Costs: Ed Fund vs. General Fund

Senate Committee on Finance
Chris Rupe, Associate Fiscal Officer
January 21, 2026



JFO

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://jfo.vermont.gov>

The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this presentation is meant to provide information for legislative consideration, not to provide policy recommendations



JFO

Goals of today's talk

- How does VT fund public school retirement benefits?
- Which costs are paid out of the Ed Fund?
- How have these costs trended in recent years?



Education Fund Outlook for FY 2022 Consensus forecast for the December 1 Letter

December 1, 2025

(millions of dollars)	FY 2025 Actual	FY 2026 Preliminary	FY 2027 Projected
a Average Homestead Property Tax Rate ¹	\$1,303	\$1,593	\$1,670
b Average Tax Rate on Household Income	2.33%	2.27%	2.43%
c Uniform Nonhomestead Property Tax Rate ¹	\$1,391	\$1,703	\$1,785
d Property Yield Per Pupil ¹	\$9,893	\$8,596	\$8,849
e Income Yield Per Pupil ¹	\$10,110	\$12,172	\$12,154
f Total Long Term Weighted Average Daily Membership (LTWADM)	142,810	142,564	141,273
g Average Percentage Bill Change Compared to Prior Year (HS/Inc/NHS)	Uniform: 13.8%	Uniform: 1.1%	Uniform: 11.9%
h Statewide Education Spending Growth	10.7%	5.5%	5.8%
i Statewide Education Grand List Growth	14.3%	14.1%	10.4%
j Statewide Adjustment	100.0%	72.4%	70.0%
Sources			
1a Homestead Education Property Tax ²	759.3	765.4	853.8
1b Property Tax Credit	(167.3)	(141.1)	(134.2)
2 Nonhomestead Education Property Tax ²	896.6	903.3	1,012.9
3 Sales & Use Tax	609.7	622.3	638.0
4 Purchase & Use Tax - <i>one-third of total</i>	48.3	49.6	51.2
5 Meals & Rooms Tax - <i>one-quarter of total</i>	71.6	75.0	77.3
6 Lottery Transfer	30.6	33.8	35.3
7 Medicaid Transfer	11.0	9.0	9.5
8 One-time GF transfer	25.0	77.8	-
9 Other Sources (Wind & Solar, Fund Interest)	6.2	5.0	4.4
10 Total Sources	2,291.1	2,400.1	2,548.2
Appropriations			
11 Education Payment	1,882.3	1,991.1	2,104.7
12 Special Education Aid	264.6	270.7	276.7
13 State-Placed Students	19.0	17.2	18.3
14 Transportation Aid	25.3	26.1	26.9
15 Technical Education Aid	17.9	18.7	19.6
16 Small School Support/Merger Support	1.8	1.8	1.8
17 Essential Early Education Aid	8.7	9.0	9.6
18 Flexible Pathways	10.7	10.6	10.8
19 Universal School Meals	17.5	18.5	18.3
20 English Learners Services	2.3	2.3	2.5
21 VSTRS Pension Normal Cost	36.0	38.8	42.2
23 VSTRS OPEB Normal Cost	19.1	22.0	28.2
24 Other Uses (Accounting & Auditing, CMF transfer, Financial Systems)	6.2	5.7	5.4
25 Total Uses	2,311.4	2,432.5	2,565.0



JFO

Introduction

- Vermont funds the **employer** share of retirement benefits (VSTRS pension and health care) for teachers mostly through the State budget – *not* at the school level.
- Pension benefits for non-teaching school staff who are not in VSTRS *are* funded at the school level.
- **Some limited exceptions exist:**
 - Schools with federally funded teachers pay pension costs for those teachers from those federal funds.
 - FY 2027: \$8 million (est.)
 - Schools pay a “new teacher assessment” toward health care (OPEB) for teachers first hired after July 1, 2015.
 - FY 2027: \$9 million (est.), or \$1,649 per teacher



More details: https://ljfo.vermont.gov/assets/Publications/Issue-Briefs/GENERAL-381113-v1-Issue_Brief - Teacher Retirement-v4.pdf



How Teacher Pensions Work

- Pension benefits are prefunded – employee and employer make regular contributions to the pension system over the course of the employee’s career, **those funds are invested**, and the assets fund the benefits.
- Employee contributions fund the normal cost, but not the entire normal cost.
 - Normal cost is the cost of the benefits earned by the active workforce each year, plus administrative expenses.
 - Normal cost is calculated based on the size and characteristics of the active workforce, and actuarial assumptions.
 - In FY 2026, the normal cost is **11.83%** of projected active payroll (including 0.45% admin cost):
 - Active teachers contribute approximately **6.82%** (on average)
 - The “employer” (State) contributes approximately **5.01%** (on average) – mostly from the Ed Fund
- Employer (State) funds the remainder of the normal cost, plus amortization payments on the unfunded liability. This total annual cost is called the actuarial determined employer contribution (ADEC).
 - Unfunded liability is the shortfall between the accrued liabilities of the pension system (the cost of the benefits it owes), and the assets on hand to pay those liabilities.
 - Unfunded pension liability is scheduled to be paid off by FY 2038 (fully funded).
 - Payments on the unfunded liability are recalculated each year to increase 3%/year in future years per statute.
 - Act 114 (2022) calls for additional “plus” payments above the ADEC to accelerate pay-down of the unfunded liability, saving interest costs and reducing the rate of growth in future ADEC costs. \$15 million/year from FY 2026 until VSTRS is 90% funded (expected in FY 2035).



How Teacher Pensions Are Funded

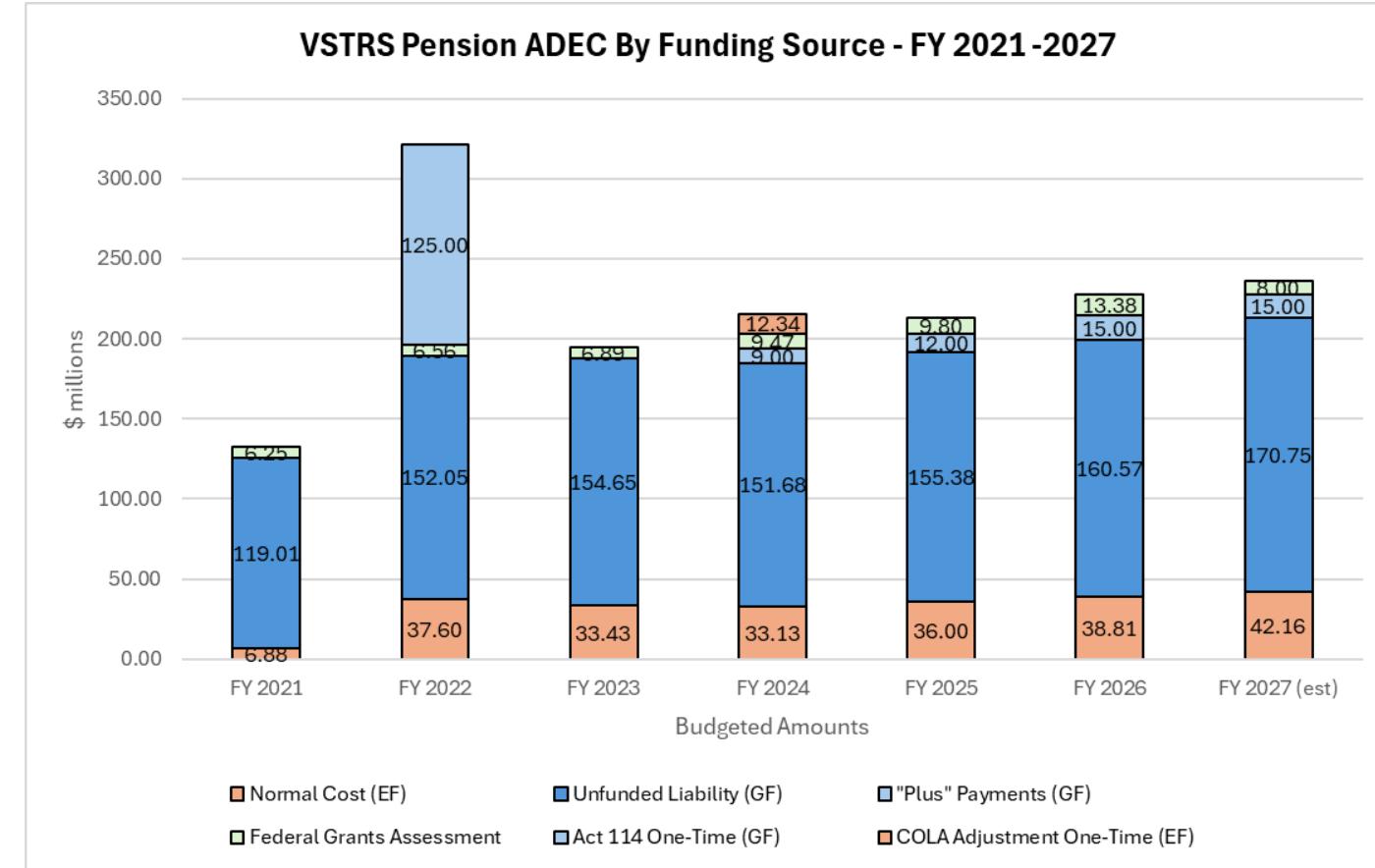
- **The State pays for the employer pension cost for teachers from different sources:**
 - The **normal cost** is funded primarily from the Education Fund “off the top” and is not reflected in local school budgets, though local decisions influence the normal cost.
 - The **unfunded liability** costs are funded primarily from the General Fund.
 - LEA’s with federally funded staff make payments for those staff, and those payments offset normal cost and unfunded liability cost that would otherwise fall to the Ed Fund or General Fund.
- **Though legacy underfunding occurred in prior decades, the employer (State) has fully funded the ADEC every year in the current amortization period (began in FY 2009).**
 - Legacy underfunding is responsible for a relatively small portion of the unfunded liability balance.
 - Most of the current unfunded liability balance is due to experience losses and assumption changes that occurred since the end of FY 2008 – not due to the employer intentionally underfunding the system.
- **Act 114 (2022) called for substantial additional State funding from the General Fund above the ADEC:**
 - FY 2022: \$125 million one-time
 - “Plus” payments:
 - FY 2024: \$9 million
 - FY 2025: \$12 million
 - FY 2026 until 90% funded (FY 2035): \$15 million



Recent Employer Funding of VSTRS Teacher Pension System

- Normal Cost generally grows with payroll – 3% annually in dollar terms.
 - Higher teacher contributions (Act 114) helped reduce the rate of growth to the EF between FY 2023 - 2025
- Unfunded Liability payments are structured to grow by 3% in future years by statute – but the “plus” payments will help to reduce that rate of growth in future years.

Totals reflect budgeted estimates, not actuals. The LEA pension contributions for federally funded staff are credited proportionally toward both the normal cost and unfunded liability and offset costs that would otherwise be paid by the Education and General Funds, respectively.

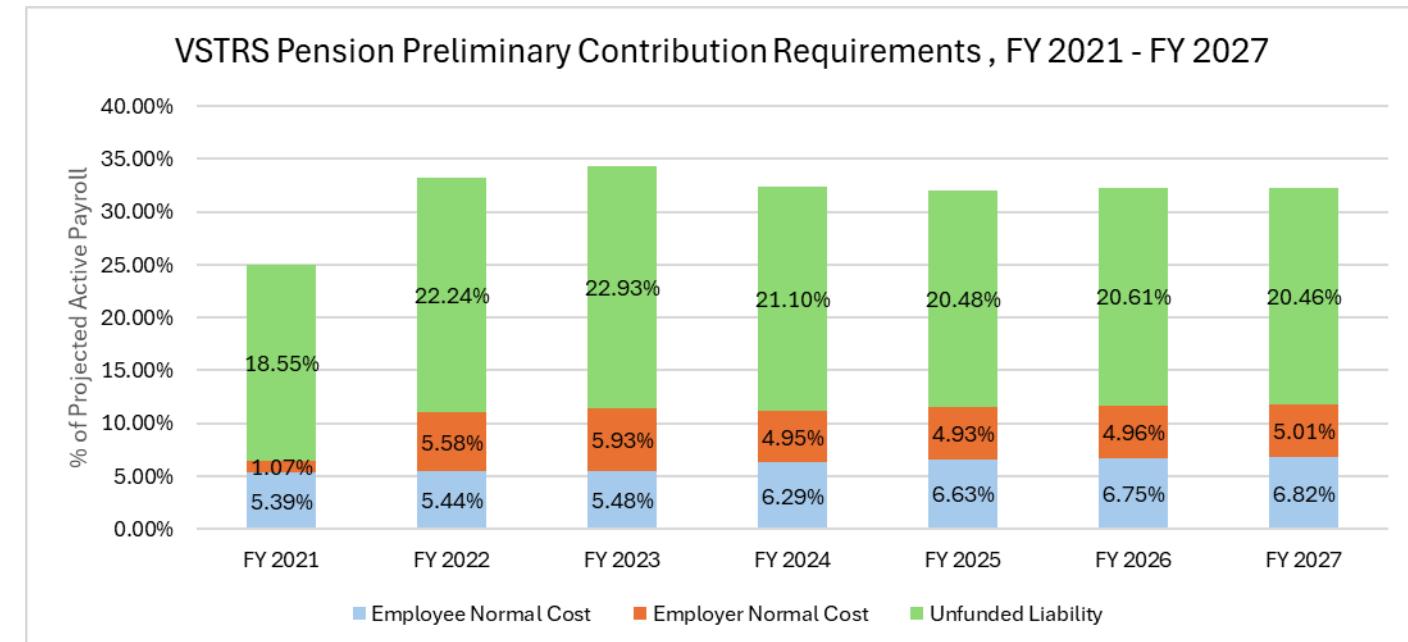


\$ Millions	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027 (est)
VSTRS Pension							
Normal cost	Education Fund	6.88	37.60	33.43	33.13	36.00	38.81
Unfunded liability	General Fund	119.01	152.05	154.65	151.68	155.38	160.57
Unfunded liability "Plus" - Act114	General Fund				9.00	12.00	15.00
Federal Grants Assessment (budgeted estimate)	LEAs	6.25	6.56	6.89	9.47	9.80	13.38
One-time - Act 114	General Fund	125.00					
One-time - COLA adjustment	Education Fund					12.34	
Pension Total - All Sources		132.14	321.21	194.96	215.62	213.18	227.75
							235.91



VSTRS Teacher Pension System Costs As % of Pay

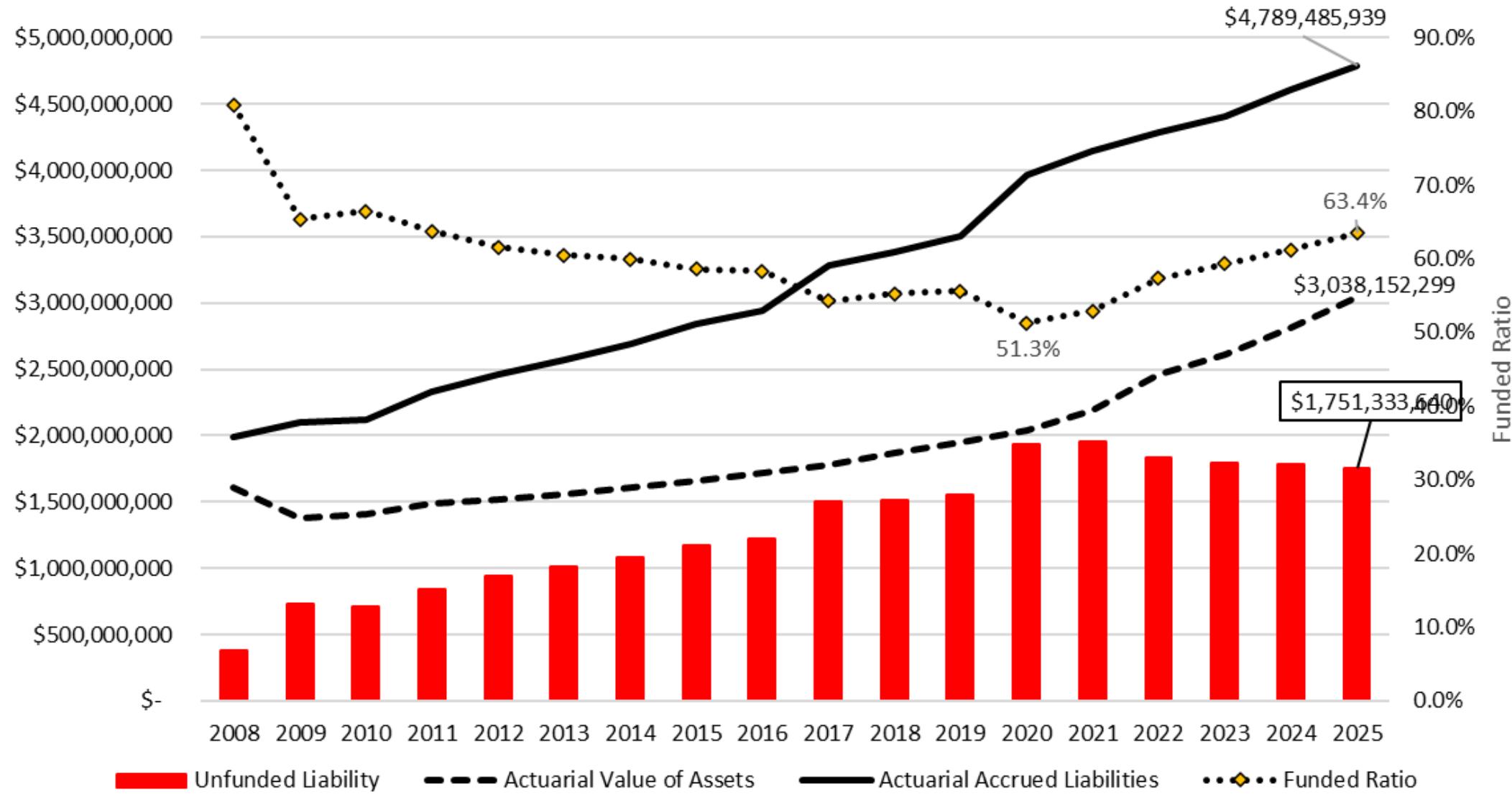
- Actuarial assumptions were modified, effective for the FY 2022 budget.
 - Assumed rate of return lowered from 7.5% to 7.0%
 - Assumption changes increased total normal cost and unfunded liabilities
- Act 114 (2022) increased employee contributions over a 3-year period, which reduced the employer share of the normal cost (resulting in relative savings to Ed Fund).
- Overall, the pension actuarially determined contribution requirements have stabilized as a percentage of projected active payroll – and have slightly decreased.



Includes all funding sources. Reflects preliminary estimates used for calculating funding requirements – not actual contributions relative to actual payroll. Normal cost includes admin expenses.



VSTRS Pension Assets, Liabilities, and Unfunded Liabilities - FY 2008 - 2025



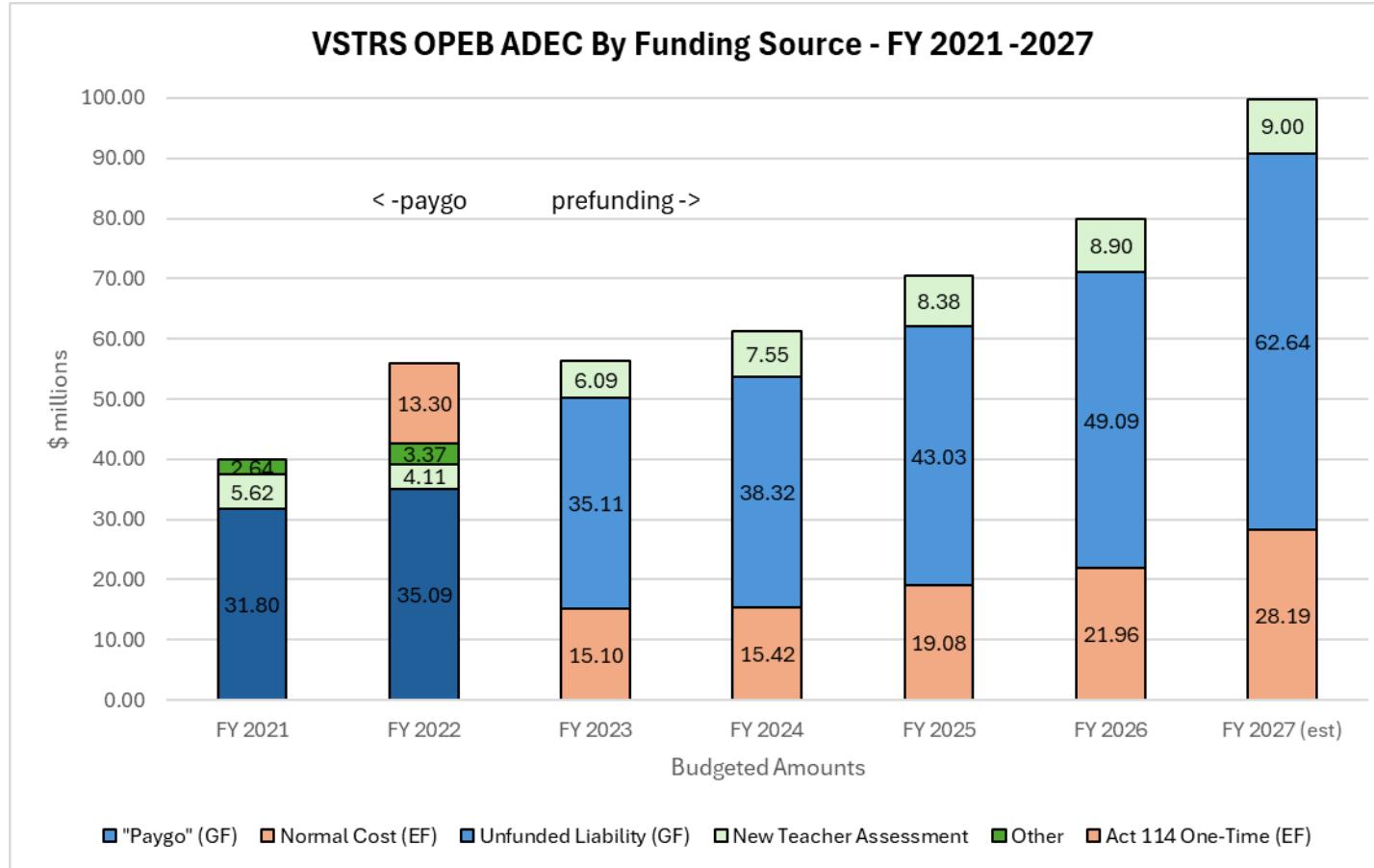
How Teacher OPEB is Funded

- **OPEB = Other Post-Employment Benefits = Retiree health care benefits**
- **Just like pensions, the State pays for the OPEB costs for teachers from different sources:**
 - The **normal cost** is funded primarily from the Education Fund “off the top” and is not reflected in local school budgets.
 - The **unfunded liability** costs are funded primarily from the General Fund.
 - LEA’s pay a “new teacher assessment” on teachers first hired after 7/1/15, and those payments offset normal cost and unfunded liability cost that would otherwise fall to the Ed Fund or General Fund.
 - Active teachers don’t pay toward OPEB while working – instead, they pay a share of the premium cost in retirement
- **OPEB costs are heavily influenced by health care cost trends.**
- **Prior to FY 2023, OPEB was funded on a “pay-as-you-go” basis with minimal prefunding. Only the current year’s premium costs were funded.**
- **Pre-2015, OPEB was funded out of the VSTRS pension system. This contributed to pension underfunding.**
- **Prefunding OPEB began in FY 2023 as part of the Act 114 reforms. OPEB scheduled to be funded by FY 2048.**



Recent Employer Funding of VSTRS Teacher OPEB System

- Normal Cost generally grows with payroll – 3% annually in dollar terms.
- Unfunded Liability payments are structured to grow by 3% in future years by statute.
- Revisions to health care cost trend assumptions have led to steeper rates of growth than 3%.



	\$ Millions	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027 (est)
VSTRS OPEB								
"Paygo" prior to prefunding policy	General Fund	31.80	35.09					
Normal cost	Education Fund			15.10	15.42	19.08	21.96	28.19
Unfunded liability	General Fund			35.11	38.32	43.03	49.09	62.64
"New Teacher Assessment" (budgeted estimate)	LEAs	5.62	4.11	6.09	7.55	8.38	8.90	9.00
Other	Other	2.64	3.37					
One-time - Act 114 begin prefunding	Education Fund		13.30					
OPEB Total - All sources		40.06	55.87	56.30	61.29	70.48	79.95	99.83

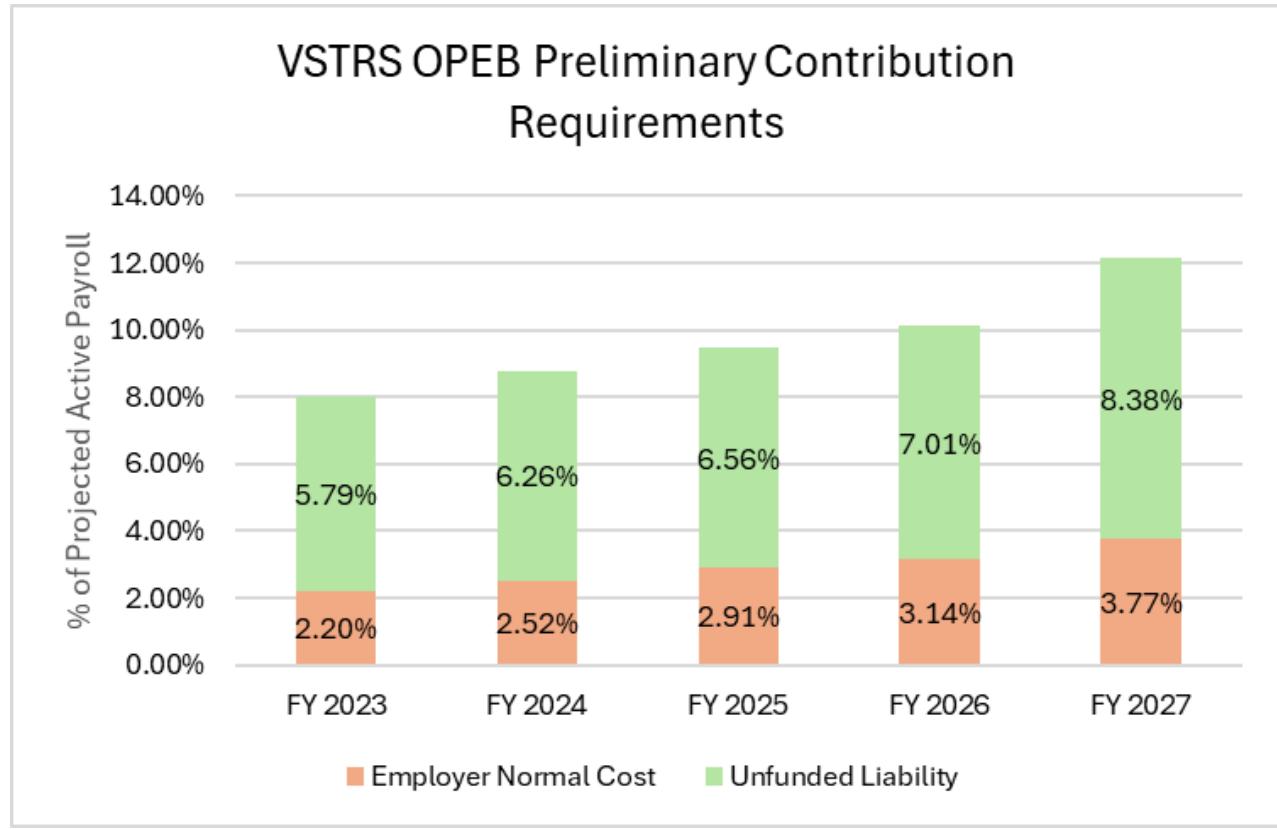
Totals reflect budgeted estimates, not actuals. The "new teacher assessment" for OPEB is credited proportionally toward both the normal cost and unfunded liability and offset costs that would otherwise be paid by the Education and General Funds, respectively.



JFO

VSTRS OPEB System Costs As % of Pay

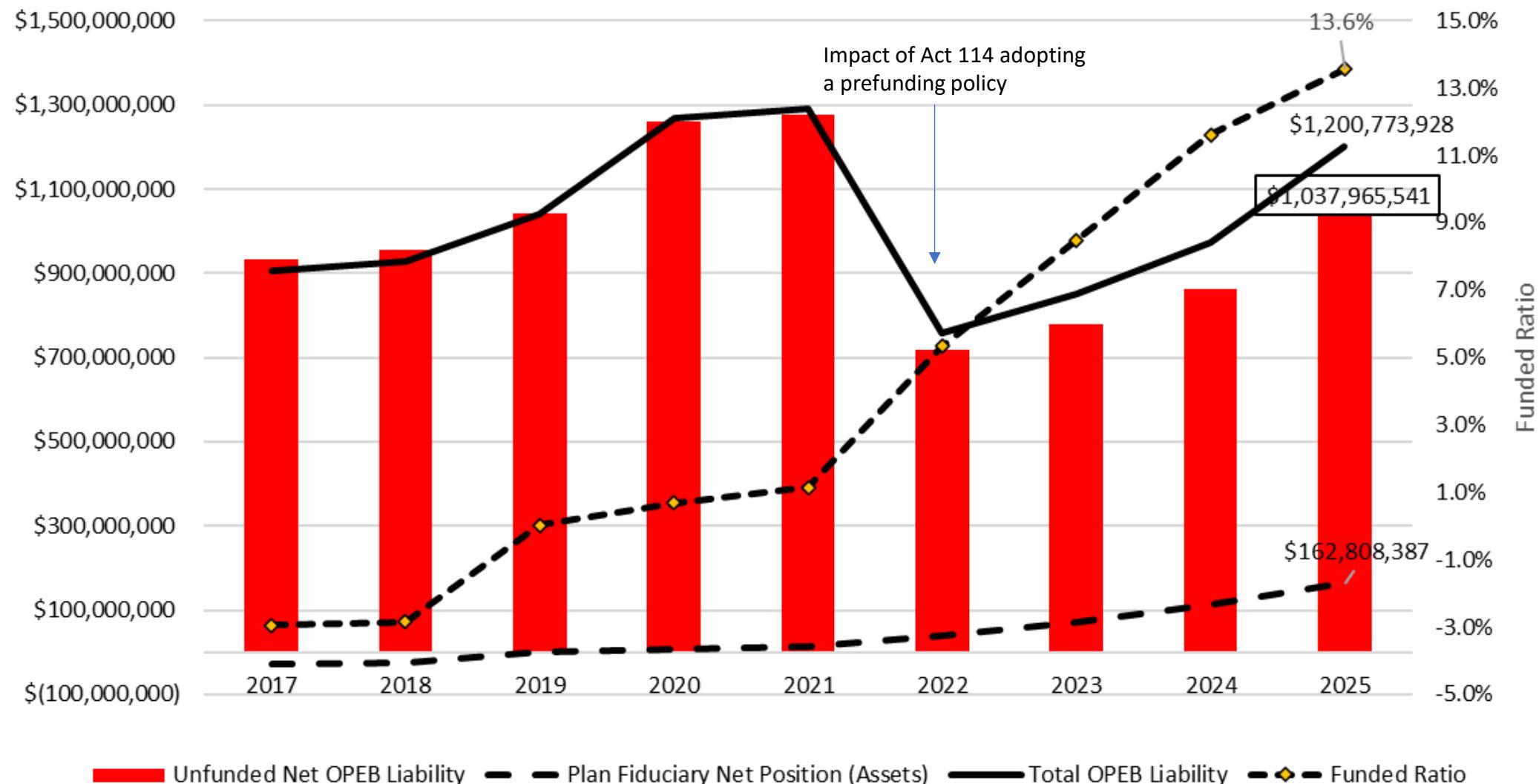
- Prefunding OPEB began in FY 2023.
- OPEB costs have increased as a percentage of payroll, mostly due to increased health care cost trend assumptions.
- Teachers do not contribute toward OPEB while in active service. Instead, they pay a share of the cost of their premiums once in retirement and enrolled in health care benefits.



Includes all funding sources. Reflects preliminary estimates used for calculating funding requirements – not actual contributions relative to actual payroll.



VSTRS OPEB Assets, Liabilities, and Unfunded Liabilities - FY 2017 - 2025



What about non-teaching school staff?

- Many non-teaching school staff participate in the VT Municipal Employees' Retirement System (VMERS) or some other local retirement system. **Retirement benefits offered to non-teaching school staff are funded through local school budgets.**
- VMERS is funded by participating employees and employers – not directly through the State budget (unlike VSTRS).
 - Employees and employers pay stated contribution rates (% of pay) that vary across the 4 benefit groups.

VMERS Contribution Rates (FY 2026)			
VMERS Group	Employee Rate	Employer Rate	Total Contribution
Group A	4.250%	5.75%	10.00%
Group B	6.625%	7.25%	13.875%
Group C	11.75%	9.00%	20.75%
Group D (public safety)	13.10%	11.60%	24.70%

- VMERS is quite different than VSTRS:
 - VMERS is smaller and “less mature,” with more active members than retired (8,991 active vs. 4,890 in-pay)
 - VMERS has a higher funded ratio (74%) and an unfunded liability of \$379.4M (vs. \$1.751B for VSTRS)
 - The VMERS ADEC has not been fully funded in recent years (the contribution rates have not generated sufficient revenue). As a result, the funded ratio has slowly declined.
 - Contributions from employees and employers are scheduled to increase by 0.25%/year until FY 2030.

The VMERS actuarial valuations provide useful insights into the system, but do not differentiate school employees from non-school employees.

https://www.vermonttreasurer.gov/sites/treasurer/files/documents/Vermont%20Municipal%20Employees%27%20Retirement%20System%20%28VMERS%29_Actuarial%20Valuation%20Report%20as%20of%2006.30.2025_0.pdf



Conclusion

- For teachers:
 - **Normal costs for pension and OPEB are funded out of the Education Fund.**
 - Like teacher salaries, the normal cost represents a cost of compensating today's workforce.
 - Teachers make contributions toward the normal cost – the Ed Fund pays the remainder of the normal cost.
 - **Unfunded liability payments for pension and OPEB are funded out of the General Fund.**
 - The General Fund bears the risk of the systems – the unfunded liability reflects the impact of prior year actuarial losses, legacy underfunding, changes to assumptions, etc.
 - Federal funds and OPEB New Teacher Assessment offset the impact of these costs to the Ed Fund and General Fund proportionately.

VSTRS Retirement Costs to the State Budget – FY 2027				
\$ millions	Education Fund	General Fund	Other – FGA pension, NTA OPEB	Total
VSTRS Pension	42.16	185.75	8.00	235.91
VSTRS OPEB	28.19	62.64	9.00	99.83
Total by Fund	70.35	248.39	17.00	335.74

- For non-teachers:
 - Retirement costs (employer share) are reflected in local budgets.

