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The Pension Bill

On Friday, April 23, the House gave final approval to the Pension Bill, H.449. The day before, the bill had advanced on a roll call vote of 125-22. It now goes to the Senate.

This bill addresses what became a key issue for the 2021 session, following State Treasurer Beth Pearce's report in January. Her recommendations were based on changes made by the VT Pension Investment Committee, attached to her office, following an "experience study" that is done every five years.

Specifically, the bill focuses on what to do about the relentlessly increasing unfunded long-term liabilities of the State Employees and State Teachers pension funds, and the ballooning annual payments required from the General Fund.

I have written about this before. I'm doing so again because the issue is so critical, not only to our teachers, state employees, and retirees, but also to taxpayers and to Vermont's economic and social well being.

First, I must apologize for what sounded to some like a callous and even insulting tone in earlier posts. I have the greatest respect for the dedication and professionalism of our teachers, especially in coping with the pandemic, as well as for that of our troopers, corrections officers and all state employees. My characterization of the problem as a "hard question" of benefits and contributions unintentionally diminished the impact on employees, and did not account for past sacrifices. I sincerely regret any offense.

But the problem is acute. The changes VPIC made after the experience study resulted in a $600 million jump in long-term liabilities and a 50% increase in this year's annual payment — nearly $100 million — compared to last year's. Without massive Federal pandemic funding and an unexpected State surplus, finding $100 million in the General Fund would have been incredibly difficult.

But that difficulty remains on the horizon, as Federal largesse dissipates. Most concerning, when, not if, the next recession hits, the clash of scarce revenues versus need for services will be greatly exacerbated by the share of the budget required by annual pension fund payments.

Speaker Jill Krowinski deserves credit for not ducking the issue. House Government Operations chair Sarah Copeland Hanzas and vice chair John Gannon also deserve credit for bringing forth a comprehensive proposal, and modifying it in response to the concerns of employees and their unions.

H.449 as passed tackles the problem in two steps. First is governance. VPIC will be restructured as an independent Commission, separate from the Treasurer's office, with more financial expertise and training. Its role is managing the investments of the three funds (teachers, state employees, and municipal employees), and setting actuarial assumptions (investment rate of return, inflation rate, and method for valuation of assets and returns). It's critical these functions be professional and immune from political bias.

The second step is setting up a Task Force to analyze the benefit and contribution structure and craft a set of recommendations to begin to close the gap and bring the system to sustainability. This obviously is the most difficult question. All options will be on the table, except that no changes will be made for current retirees or those within 5 years of retirement.

The Task Force will be 15 members: 6 representing union employees, 6 legislators, and 3 members of the administration. Gov Ops originally proposed 4 union reps, and a school board member and business representative. In response to union concerns, the latter 2 were dropped and 2 more union reps were added; however some union advocates feel that union reps should be 50% of Task Force membership in order to rebuild trust lost by the initially proposed benefit cuts and contribution increases.

While I am sympathetic to the trust issue, I don't agree that the 6 legislators should be assumed to be "management." We hold the purse strings on behalf of taxpayers, but also represent teachers, troopers, and other state employees in our districts. If ideas contemplated by the Task Force are truly bad for employees, it's hard to imagine union reps failing to persuade at least 2 of the legislators, thereby achieving a majority.

However, it is true that none of the options are good. Inevitably there will be painful compromises. The Task Force has the extremely difficult job of assembling a package of recommendations that balances and shares responsibility for stabilizing the retirement system.

The work is urgent. H.449 requires the Task Force to begin work by June 15, and issue its report by September 15. If the recommendations necessitate union negotiations, those must take place this fall. Finally House Gov Ops must draft legislation and pass it early in 2022; legislative redistricting is expected to take up much of the committee's time next session.

We really have no choice. The alternative is not only default on our obligations to public servants. It is also loss of faith in the system; the near-impossibility of recruiting future employees; higher expenses on other social support programs; lower State bond rating and higher borrowing costs; and destabilization of our economy.

There is plenty of blame to go around for the predicament we are in. But there is no time for pointing fingers. We must join hands and get to work.