April 2, 2021

Speaker Jill Krowinski announced at a press conference this morning that work on pension reform will focus first on legislation to address the governance issue. Changes to contribution and benefit plans will be taken up by a task force this summer. Both governance and plans are integral to closing the gap between assets and costs, and putting the pension systems on a sustainable footing.

It is a problem that will not go away. We are putting over $300 million of General Fund (State taxpayer) money into the systems this coming year, $100 million more than last year. That pinches, but is possible due to Federal money that has buoyed our economy and provided a $200 million surplus in State revenues (all these numbers are rounded significantly). In coming years, without such massive Federal support, covering a continually expanding General Fund contribution will become a fiscal train wreck.

The hard questions about how and where to adjust contributions and benefits still loom. But the Speaker, in my opinion, has shown not only that she is listening to the concerns of teachers and state employees, but that she has the fortitude and confidence to adjust course. The Governor and even the Senate have not shown the same willingness to take the heat that comes with tackling this extremely difficult problem.

April 1, 2021

Pensions, again

Underfunded pensions is an old and chronic problem, and not just in Vermont.

So is having too little money in retirement.

Vermont's pension problems go back at least to the 1979. For 4 of 28 years, until 2007, the State — meaning the Governor and the Legislature — underfunded the annual employer contribution required by the actuarial liability, that is, the amount estimated to be needed to pay retirement benefits for everyone projected at that time to eventually collect them.

I still don't have the full history, but from what I understand: In 2009, leaders came together to make a 30-year plan to close the gap between expected benefits and the projected value of assets. Since 2007, the Legislature has fully funded the amount required for the current cohort of employees and retirees, and injected additional funding as available to close the gap by 2038. Teachers and state and municipal employees also stepped up to increase their contribution and/or trim benefits.

The Great Recession, ballooning numbers of retirees (up more than 50% to 70% between 2008 and 2020), poor management and investment returns, and increasing longevity of retirees, among other factors, led to a widening gap between liabilities (benefit costs) and assets.

Late last year, an experience study that is conducted every 5 years as required by statute revealed that the gap had continued to widen, despite substantial additional payments by the State in 2018 and 2019. As result of the study, the governing boards of the three funds (teachers, state, and municipal employees) lowered the expected investment return from 7.5% to 7.0%. That, and adjustments to demographic and other assumptions, led to a huge increase in the gap.

State Treasurer Pearce's report on all this was released on January 15, 2021. She included recommendations for drastic increases to employee contributions and reductions in benefits, in addition to changes in governance. Speaker Jill Krowinski showed great courage in deciding to act on the Treasurer's report, and her leadership team issued a preliminary proposal March 24.

The reaction was swift.

Employees and teachers are hurt, angry, and afraid. That is completely understandable. But somehow we must salvage the situation. The widening gap is not sustainable, and in the case of the teachers', it is reaching a critical point. Governance problems must be addressed.