
Scott Campbell

Hard Questions On Pensions

House Government Operations on March 24 released an initial proposal to cope with Vermont's ballooning pensions problem, which cover state employees and public school teachers.

The reaction from those affected has been swift and intense. People are afraid the State is renegeing on its obligations and weakening or ruining their retirement planning. The concern is understandable.

Many ask, why now, and why so fast? Why not create a summer study committee to thoroughly vet possible solutions and pass a comprehensive bill in 2022?

Here's why. Last fall, an "experience study," which is required by statute to be completed every 5 years, showed investment returns running below expectation, retirees living longer, and benefits exceeding estimates. The study led the pension governance boards to lower expected future annual investment return from 7.5% to 7.0%, and adjust other demographic and economic assumptions. These changes caused the gap between projected pension fund assets and benefit obligations to widen dramatically.

State Treasurer Beth Pearce outlined all this in a report to the Legislature delivered on Jan. 15,

2021, which included recommendations for reducing benefits and increasing both employee and State contributions to close the gap. That report alarmed everyone, and led to the proposal now under consideration.

It's important to recognize that while the increase is alarming and discouraging, the gap is no surprise. The Legislature has for years appropriated additional funds beyond normal annual contributions — totaling hundreds of millions of dollars — to close the gap by 2038. What appears to be a sudden crisis is actually an ongoing one known to all stakeholders, albeit worsened based on new assumptions. Finger-pointing seems to me a useless exercise; there is plenty of blame to go around: Legislature, Governor, Republican, Democrat, investment management, demographics. The problem gets worse the longer we avoid it.

Now the time to address it has ripened. Speaker Jill Krowinski has courageously put this on the must-do agenda for this session. An unexpected State budget surplus and an influx of more Federal money provide a one-time opportunity.



I think everyone realizes we must honor obligations to retirees. Even the most draconian change — abandoning the current Defined Benefit in favor of Defined Contribution (e.g., 401K) for new hires

— is beside the point. It would not address the legacy of the existing system.

However the reality is that preserving all current benefits and contribution levels is not a recipe for saving the pension system. The solution must go beyond just appropriating more General Fund dollars, and squeezing out needed investments elsewhere. To close the widening gap, contributions will need to go up and benefits will need to go down. Fairness dictates that current retirees and those nearing retirement should be exempt from any changes. Yet the arithmetic is, the more people exempted, the more those not exempted must pick up.

It is also clear governance of the pension systems must improve. Experience studies should be done more frequently than every 5 years. Investment strategies, and management fees, must be more transparent.

The Gov Ops committee is sort-

ing through these details. They have held public hearings, and are continuing to take testimony. Links to hearings, committee resources, and "Pensions 101" workshops presented by Joint Fiscal Office, are posted at Campbell-ForVermont.com.

State employee and teacher retirement benefits are not lavish: the average is less than \$22,000 per year. But the promise of a reliable retirement income is a key part of the overall compensation package that recruits and retains quality employees and teachers. Teachers, especially, have performed heroically this past pandemic year. Taxpayers must recognize we shortchange them at our own peril.

Legislative leadership is focused on saving the pension system, not killing it. But adjustments are necessary. Gov Ops and every legislator is wrestling with hard questions. The hard, stark question for state employees and teachers is, what would you be willing to do to save your pension? And for taxpayers, what are you willing to do to support your children's teachers and the government services you depend on?

Rep. Scott Campbell serves the St. Johnsbury House district.
