

**Statement of Vermont-NEA  
to the Commission on the Design and Funding of Retirement and Retiree Health  
Benefit Plans for the State Employees and Teachers**

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I am submitting this testimony on behalf of Vermont-NEA and its 11,500 active and retired members. This statement addresses three matters: (1) the scope of this important social issue; (2) the inexcusable flaws in the process; and (3) some basic conclusions about the substance.

**The Scope**

The issues on the table are extraordinarily important. We have always recognized as much and, without thorough, objective analysis, it is difficult to see how they should be addressed. But, the issues go well beyond arithmetic. Arithmetic problems, involving just numbers, are always easier to address than social issues, involving the lives of real people. It is the social issues here that ought to be commanding attention.

**Older Vermonters will feel the effects for decades to come.** In the late 1980's, I was Vermont's first commissioner of aging and disabilities. I represented the interests of older Vermonters back then and, here, I suppose I do again. Whether you attempt, ultimately, to insulate current retired public employees from benefit changes is really not the fundamental question. You are well-advised not to intrude into the benefits of current retirees. There is no profit to the state of Vermont there. The more fundamental matter, though, is that whatever changes you do propose will have an effect on older Vermonters for decades to come.

**The flaws that mark "defined contribution."** When we hear several of you talk about shifting from a defined benefit to a defined contribution structure, because "that's what the private sector does," we cringe. We cringe because even the arithmetic doesn't support doing so, but more so because it signals how little underlying concern for real people, Vermont's elders, there appears to be.

**There is no honor in shifting investment risk from the community to the individual.** Do not mistake our firm sentiments about defined contribution structures for criticism of those who have them. We know, and you know, and everyone knows what has happened to the retirement security of Vermonters and Americans generally in the wake of this economic downturn. Everyone also knows the purpose of shifting to a defined contribution system is to shift as well the risk of investment failure from the employer to the employee. Everyone knows that. Plainly, it is not just public defined benefit structures whose investment yields have shrunk. It is most definitely the millions upon millions of Americans whose own personal and employer contributions – defined or otherwise – have tanked – and the dignity and security of whose post-career years have

been so jeopardized. Shifting investment risk from the larger community to individuals would be ignoble.

**Overwhelming costs.** What not everyone knows is that the costs associated with a shift to a defined contribution structure, at least in the short run, would overwhelm the state. Yet several of you continue to go into public advocating directly for that outcome, even as you sit on a commission that is, at least on the surface, supposed to be in the midst of conducting objective analysis of the issues (more about that later).

**The benefit structure is already near the bottom.** President Obama has set in motion federal education "race to the top" funding for some states. What we believe we are witnessing here, however, is a "race to the bottom" regarding retirement security. We have a state pension system that is adequately funded for pension purposes, one that provides minimal benefits when compared with those of most other states, certainly within the Northeast. While we have some obvious major issues to address, it is difficult, at best, to reconcile the obvious value of objective analysis with the undeniable bias and imbalance in your make-up.

**The effects go beyond pensions.** While, in the name of the fiscal stability of the pension funds, you engage in a race to the bottom, you are failing, certainly to this point, even to mention the implications for the human beings you are affecting or the equivalent strain you will be placing on social institutions beyond the silo of pension policy.

**The promise should be kept.** The promise of at least some retirement security is one of the few perks of contributing one's entire work life to public service. In Vermont, the public pension programs provide, at best, that promise: some retirement security. Indeed, the average annual pension for retired public servants does not even reach \$15,000. Whatever changes in the benefit structure you may propose will undoubtedly alter that promise.

### **The Process**

**We have no representation.** The composition of this commission is, and always has been, incomplete, and obviously so. There is not, there never was, a good reason for excluding from it persons representing the more than 25,000 present Vermont households – and about the same number of Vermont households in the decades to come – affected by decisions to be made here. There is not among you one person, on your side of this table, representing active teachers, active state employees, retired teachers, or retired state employees<sup>1</sup> (or, for that matter, school boards, which, on behalf of Vermont's 280 districts, have an obvious interest in the thinking and recommendations that will emerge from this exercise).

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<sup>1</sup> We are well aware of Representative Macaig's long and valued service to the state and its employees' retirement board. He serves on this commission, however, on behalf of the House of Representatives, not state employees or public employees generally.

**The commission has missed opportunities to provide some.** The legislature passed on the opportunity to seat some of us at your table. But, in the wake of that miss, you have had any number of ways to demonstrate authentic interest in what those 50,000 Vermont households might contribute to discussing this difficult public issue. Instead: you did not seat some of us at your table, without giving us a vote, in order at least to give us a voice; you failed even to notify the trustees who sit on these very important pension boards about your first meeting; at your third meeting, having decided to end the meeting before lunch, you put off any public comment until approximately 11:56 a.m.; you waited until more than half your meetings before thinking to provide us close to a useful chance even to comment to you; and you have scheduled your meetings in an ad hoc manner that has made it more difficult for persons interested in attending actually to do so. You even have placed increasing physical distance between yourselves and, well, your audience at each successive meeting. However much you may wish to characterize these ongoing gaffes as oversights, they reflect an obvious mindset that trivializes what the many thousands of public servants whose fate depends in part on your recommendations might have to offer.

**Decades of our participation.** Our organizations – Vermont-NEA, the Retired Teachers Association, VSEA, and the Retired State Employees Association – have been involved, regarding pension matters, in every level of advocacy and collaboration available to us over the past decades. And it is only now, as a very obvious and very accentuated afterthought, that we are brought in to provide our perspective.

**Use of language.** Our collective use of language means something here. Consider how frequently you continue to refer to people – your fellow citizens – in your discussions as merely "retireds," "actives," and "new hires." They are people and deserve to be referred to as people: retired persons, active employees, newly hired individuals. Yes, we know we all resort to shorthand in conversation. The fact remains, however, it is quite a bit easier to discount the human effects of your deliberations by not having humans affected either sitting with you or even being mentioned.

**Conclusion.** Our perspective begins, therefore, this way: we have no faith in this process. You are all persons of high personal integrity, but the manner in which this examination has been conducted leaves us shaking our many, many collective heads in dismay. Whatever recommendations you end up making, therefore, will be tainted in the eyes of those disregarded in the process leading to them. We know several of you come to this table with firm, fixed notions of where you would take your charge.

The people we represent here are just that, people. When they leave their offices or classrooms, they go home to their families and communities, just like everyone else. We do not want our state to reach for the bottom, much less reach the bottom. We in Vermont – of all places – we believe in the value of community, we have instituted some of the most forward-thinking approaches to meeting the needs of our senior citizens. Within our state history, we even boast the first recipient of Social Security. As a nation, we have worked for half a century now to bring our elders up from poverty – in the 1960's one-third of older Americans lived below the poverty level. We do not view those as good old days, and we do not want to see our little state go back there.

## The Substance

All of that being said, we recognize there are legitimate, serious problems that must be addressed. We have been, and continue to be, anxious to help get them addressed, but we've lost several valuable months already. The three basics, in varying degrees for either the state employees or the teachers system, are past underfunding, ongoing pension payments, and the health benefit. There are important secondary issues as well.

**3.5% solution?** Initially, however, there is the matter of the "benchmark" set by the Joint Fiscal Committee. It was directed to you to determine how to limit spending increases next year to 3.5% or explain why that cannot be done. I do not believe the benchmark was restricted to the pension component of the systems. Be that as it may, we all know how unrealistic that approach is. The amount required to pay pension costs alone will unavoidably go up by well more than 3.5%, and the law the legislature itself passed just three years ago requires a 5% increase in the amount dedicated to repay past underfunding. We certainly understand the thrust of the JFC's target: its members want to find ways to balance next year's budget, and that will not be possible without dramatic, draconian, very un-Vermont-like decisions or some approach to revenue that has not yet been vetted. Telling you to propose a 3.5% solution under the pension heading certainly gets that message across, but it is obviously beyond your capacity, even with Ice Miller's assistance, to deliver.

**Past underfunding.** We can do nothing but oppose any effort that seeks to offload the state's failure to provide the funding called for each year by the treasurer's office. While your teachers paid every dime required of them, the state created the problem by shorting the teachers system during the '90s and well into this decade an unadjusted \$150 million. Through the wonders of compounding and the tragedy of investment losses, the number is now, indeed, a staggering one above \$700 million. We frankly do not know what to suggest beyond what we have already. As the chair well knows, we participated in the 2005 commission that led to very promising policy, through which a combination of reamortizing the debt and maintaining funding discipline would retire the obligation over 30 years. Indeed, although the governor did not include in any budget the amount needed, the legislature has stepped forward each of the past four years to meet the need. We suppose that more frequent reamortizing could help make annual payments more attainable.

**Pension.** The pension component is the place in all of this debate where we know there are ways to find common ground. You and we have established close to identical sets of principles, since they both stem from ones to which we subscribed as actual participants on the 2005 commission (about teachers retirement).

The principles lead to concern over our competitiveness, since our pensions start near the bottom. Indeed, as we just learned, Vermont income declined over the past four years, and it did so by more than that in any other state. We do not intend to contribute to that decline by making it more difficult for seniors to retire with a measure of security and dignity. Why would we, as a statewide community, do that?

Nevertheless, there are a dozen or more variables with which to work in discussing ways that address some of the fiscal concerns even as we address some of the substantive shortcomings in the system. We had looked forward to participating directly in that discussion.

**Health benefit.** We all realize it costs a lot to ensure access to high quality health care. We also know the teachers system "method" of paying each year for it out of the investment fund is really no method at all. But, it is a symptom of the much larger, societal problem. An entire spate of recent research – state and nationally – makes it irrefutable that our approach to health care costs is dragging the entire economy. Vermont-NEA has, as much as if not more than any organization in this state, stood at the forefront of the struggle for statewide universal access to health care. Rather than merely attempt to address the payment of the benefit in the retirement systems, wouldn't it make sense for this commission to lend its considerable prestige to a public statement urging access to health care be separated from employment relationships, including retirement, altogether? Moving public employees and retirees into Catamount would not address this huge problem in any way we could support. Reducing the benefit or increasing premium contributions and other out of pocket costs would merely shift costs to others, either retirees themselves or other public programs. From a governmental perspective, you'd just be shifting "your" problem to make it someone else's.

**Tax policy.** One basic arena where we appear to remain at odds is the incomprehensible suggestion that shifting the cost of the pension (and/or other components of the teachers system) to the Education Fund would not be an increase in Vermonters' property taxes. The theory behind the 2007 enactment of the so-called "2-vote mandate" was to clamp down on school spending on behalf of property tax payers. That changed almost as soon as that ill-advised law took effect. Now, it feels like a Willie Sutton moment is upon us: now we need to go after the Education Fund to pay for teachers' pensions because that's where the money is. The inconsistency is palpable, and it is not resolved by clamping down even more on communities in their efforts to get their children an excellent education.

**Ice Miller analysis.** It is not lost on any of us that the project subcontracted to this out of state law firm with Vermont taxpayer money could readily have been conducted in-state, either by competent attorneys already on the state payroll or, at least, by in-state private counsel. Nor is it lost on us that Ice Miller prides itself on helping employers, in its chilling turn of phrase, keep "union-free." Its analysis was provided us much too recently for us to be able to respond to it here with any depth. What we can say is that it is instructive that every item on the list you compiled for analysis – every single one – would cut into the just adequate benefit structure in place. Not one item suggests alternative approaches to maintaining benefits.

We remain willing, and have always been able, to participate in collaborative discussions about the array of issues that need addressing. We welcome useful opportunities to do so. Thank you.