

December 1, 2009

Dear Vermont-NEA Member:

As you know, the Association was excluded from membership on the commission examining changes in the Teachers' Retirement System. This week, the chair of the commission, State Treasurer Jeb Spaulding, was quoted in the news as follows:

"We have asked the unions repeatedly for input, we have received not one recommendation," he said. "And again, if someone has a better idea, put it on the table."

As the treasurer well knows, your Association provided lengthy testimony to his commission on October 8 and a letter to him on November 17. What follows are excerpts from those documents we believe constitute "recommendations." If you are asked by community members why we haven't made any recommendations, feel free to refer to any of the 18 items listed below.

It is one thing for the treasurer to deny you actual representation on his commission. It is quite another for the treasurer then to say to the broad public we have made no recommendations, merely because he may not agree with the ones we have made.

Joel D. Cook
Executive Director
Vermont-NEA

Recommendations by Vermont-NEA to the Spaulding retirement commission
(October 8 and November 17, 2009)

From our October 8 testimony

1. (about a proposed shift to a "defined contribution" system). 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.

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.

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).

2. 3.5% solution? ...It was directed to you (by the Joint Fiscal Committee) to determine how to limit spending increases next year to 3.5% or explain why that cannot be done... 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 the amount dedicated to repay past underfunding to increase by 5%. 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.

3. 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. 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.

4. 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.

5. 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 will not address this huge problem in any way we could support. Reducing the benefit, increasing premium contributions and other out of pocket costs would merely shifts 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.

6. 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.

From our November 17 letter:

...We will provide a fuller perspective on your commission's work when we see the recommendations it produces. We are able, however, to offer some perspective, from the standpoint of the thousands of persons who stand to be directly affected and from the standpoint of the hundreds of thousands of households whose property tax payments appear to be in play. And we will provide some of our thoughts about options your commission is currently considering.

7. "Enough." Regarding your reference to financial markets, we recognize that market forces have been allowed to take their toll on virtually all commitments by the state to its citizens. We believe, and we know many, many Vermonters believe, we have reached the point where, as one community of Vermonters, we have to say, "Enough!" We have

already compromised, beyond enough, the qualities that make Vermont special. Your commission should join us in saying, "Enough! We must not continue on a path that presumes we can merely cut our way through this recession." And, we should stop allowing the recession, especially since we appear to be emerging, however slowly, from it, to be used as an excuse by some to impose dramatic changes on our pension programs or on any programs designed to help our citizens.

In that vein, we say what you and your commission know: our public pensions are barebones by comparison with those elsewhere. So, we begin by saying, "Enough," and we hope your commission will say so as well.

8. (The Constitution.) ...[Y]ou retained Ice Miller to advise your commission. Its advice included the exchange of offsetting advantages for imposed disadvantages, at least in the presence of a contract with your citizens. Your commission should start acknowledging the significance of the constitution before it reaches any unconstitutional conclusions. Waiting to the very day you intend to make decisions to have this dialogue is extraordinarily late. The legislature (at this late date we are beyond this capacity with your commission itself) ought to engage in discussions with those representing members of the pension systems to determine together ways members of the systems might be able to help balance the state budget without the state violating either its constitutional or moral obligations.

9. (Explaining costs). [Y]ou refer to the increased payouts in the systems. We presume you will explain the reasons for them in your commission's report. Without mentioning increased retirements, closing wage levels, and life expectancy, it can appear the system and its actuaries are surprised by the pension increases, and it can appear that, somehow, public employees are getting more than they deserve. We think you should clarify those likely misperceptions.

10. Generally. We see no reference to financial mechanisms, just cost shifts. No mention of bonding (again, first discussing this at your seventh meeting is awfully late in the day), no mention of amortizing, no reference to tax policy (except, of course, increasing property taxes), no reference to what minimal GASB compliance would look like, no distinguishing – in your letter – between pension and unfunded liability. A complete assessment would have included, by now, some useful discussion about revenue and tax policy.

11. Health insurance. We continue to be struck by the narrowness of your vision. Our organization has been working to get our state's overall approach to health care changed, and you know we have called on your office, over a period of years now, to step forward and lend your support to that effort. Instead, we continue to face the tired mantra that costs continue to rise, and the pension system – not the state – must do something about it, as though doing something about it within just the pension system would reduce the cost of health insurance for anything but, well, the pension system. We agree something needs to be done about health insurance. We agree the state's obligation to retired teachers' health insurance would better come from a source other than the investment

fund, if there is an appropriate other source. You know that we, through VEHI, have for a decade contributed to keeping those costs below what they would have been, this and next year included, without our help. The answer lies in reforming the health care system, not in passing the obligation for the "buck."

12. Tiering. Tiering the health benefit, by itself, would be wholly unacceptable to us, as you well know. While you have mentioned several times during commission meetings the importance of adding dependent or spousal coverage to the teachers' system, you omitted any reference to that in your letter. We know doing so costs money, but the analysis you ran for the last meeting let the numbers stand alone, as though there might not be offsetting savings we could have been discussing. You well know the depth of the discussions we have had with your office over the past several years, through which we tried to fashion a package associated with multiple health benefit issues. Your commission has had none of that discussion: as far as its other members know, that discussion has never taken place.

13. Retirees and "close to" retirement. We agree there should be no changes to the benefits of current retirees or benefits expected by those "close to retirement age," and we agree that term is subjective and requires definition by your commission. We believe the contract the state has with members of the retirement systems extends beyond, not just to, those segments of their members.

14. (Contract requires give as well as take.) We do not believe it is appropriate, and it may not be constitutional, to make any of the changes you are considering, if you purport to do so without reference to the existence – or not – of a contract. We are not prepared, therefore, to assess the advisability or viability of any single consideration by itself.

15. "Productivity". That said, we do not readily understand your continued reference to "improved productivity trends" in this context. People who teach for 30 years may very well have many more productive years remaining, but those years may be in teaching and they may not. Your continued use of this term is grating to the extent it means that everyone in one walk of life for 30 years ought to continue doing what she's been doing for additional years to come.

16. 5 years. Lengthening the AFC calculation, without more, merely reduces the pension, already near the bottom.

17. Employee contribution. Raising contribution levels or "developing a proportional relationship," without more, merely takes money from members regardless of what may be a contract obligation.

18. Property taxes. You know our position regarding shifting the state's costs either to the Education Fund or school districts. The result is a barely disguised property tax increase. We acknowledge you have not disguised it.