



Dangerous Trends and the Need for Action

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On behalf of the

Vermont Business Roundtable

September 29, 2009

Dangerous Trends and the Need for Action

“Just the Messenger”

Dangerous Trends and the Need for Action *(continued)*

Mandatory Expenditures

Debt Service

Education Funding

Retirement Plans

Other Post Employment Benefits (OPEB)

Dangerous Trends and the Need for Action *(continued)*

Debt Service

- “ Highest rated state in NE
 - “ AAA rated by Moody’s
 - “ Benefits other agencies (VMBB, VHFA, VEDA, VSAC)
- “ General Obligations (GO) Debt
 - “ 6/30/08 \$438.6 Million
 - “ 6/30/09 \$440.6 Million
- “ Debt Service
 - “ 6/30/08 \$69.4 Million
 - “ 6/30/09 \$71.5 Million
 - “ 6/30/10 \$70.7 Million

Dangerous Trends and the Need for Action *(continued)*

Debt Service *(continued)*

“ GO Debt Guidelines

1) Per Capita	VT	Triple A Rated
2008	\$707	\$998
2009	\$692	\$899

2) Debt as % of personal income

	VT	Triple A. Rated
2008	2.0%	2.8%
2009	1.8%	2.4%

“ Recommended Debt

2008	\$49.2 Million
2009	64.7 Million
2010	70.0 Million
2011	73.6 Million (estimated)

Dangerous Trends and the Need for Action *(continued)*

Educational Fund Outlook – 12/08 (millions of dollars)

	Total Revenues	Residential Tax	Residential Rebate	Non-Residential/ Business Tax	Transferred from General Fund	All Others
2010 (JFO Report)	\$1,383.6	\$509.2	*<\$147.1>	\$560.9	\$297.8	\$162.9
% Growth 2005-2010	31%	47%	59%	45%	19%	N/A
Projected 2016 using same growth 2005-2010	\$1,812.5	\$748.5	<\$233.8>	\$813.3	\$354.4	\$162.3

	Total Spending	Total	\$ Increase	%
Actual	2005	\$ 1,064.9	N/A	
Actual	2006	1,134.0	\$69.1	6.5
Actual	2007	1,200.3	66.3	5.8
Actual	2008	** 1,250.5	50.2	4.2
Projected by JFO	2009	** 1,317.7	67.2	5.1
Projected by JFO	2010	** 1,379.9	62.2	4.7

Projected 2016 using same growth 2005 . 2010		1,793.9	414.0	30.0%
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* Includes renter rebate of \$5.9

** Excludes renter rebate of \$5.9 (2010), \$5.6 (2009), \$5.3 (2008)

Dangerous Trends and the Need for Action *(continued)*

Education Funding

- Formula driven . not transparent / complex
- Statewide school tax
- Declining enrollment / increasing teacher/staff count
- Cost shift from residential to non-residential
- \$4 out of \$5 on salaries, wages, and benefits
- Should education fund pay all school related expenses . teachers retirement and other post employment benefits (OPEB)
- Should each school district pay for teachers retirement and OPEB

Dangerous Trends and the Need for Action *(continued)*

Retirement Plans

Three Major Plans

- *%State Employees+*. Vermont State Retirement System (VSRS)
- *%Teachers+*. State Teachers Retirement System (STRS)
- Municipal Employees Retirement System (MERS)

Dangerous Trends and the Need for Action *(continued)*

State Employees – (VSRS)

- Defined Benefit Plan
- Employees contribute 3.35% / 5.10%
- Retire after 30 years of service or age 62 / age 65 or rule of 87
- Early retirement eligibility . age 55 with 5 years of service
- Receive 50% of highest three consecutive years pay
- Active members 6/30/08: 8,442
- Covered payroll 6/30/08: \$404,938,000

Source: State Financial Audit
Buck Actuarial Report
State Treasurer's Office

Dangerous Trends and the Need for Action *(continued)*

Teachers – (STRS)

- Defined Benefit Plan
- Teachers contribute 3.54%
- Retire after 30 years of service or age 62
- Early retirement eligibility . age 55 with 5 years of service
- Receive 50% of highest three consecutive years pay
- Active members 6/30/08: 10,685
- Covered payroll 6/30/08: \$535,807,000

Source: State Financial Audit
Buck Actuarial Report
State Treasurer's Office

Dangerous Trends and the Need for Action *(continued)*

Other Post Employment Benefits (OPEB)

State Employees (VSRS)

Medical Insurance Plan

Retiree pays 20% of the premium

Covers retirees and dependents

Teachers (STRS)

Medical Insurance Plan (have a choice of three)

Retiree pays 20% of the premium

Covers only retiree

		<u>State Employees</u>	<u>Teachers</u>
Net obligation	6/30/08	\$ 29.5 Million	\$ 60.2 Million
Unfunded liabilities as determined by Actuary		\$751.0 Million	\$863.6 Million

Source: State Financial Audit
Buck Actuarial Report
State Treasurer's Office

Dangerous Trends and the Need for Action *(continued)*

Unfunded Liabilities per Actuary

	At 6/30/08	Estimated 6/30/09
Pension	\$ 466.6 M	\$ 1,051.3 M
Other Post Employment Benefits (OPEB)	\$1,614.6 M	\$ 1,688.6 M
Totals	\$2,081.2 M	\$ 2,739.9 M

Cost per working Vermonter to cover unfunded liabilities	\$ 6,900	\$ 9,100
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Dangerous Trends and the Need for Action *(continued)*

(All numbers in millions)

Pension

Annual Required Contributions per Actuary at 6/30/08	2009	2015
* Pension .		
State workers	\$ 30.6	40.1
Teachers	\$ 33.5	52.3
Total Pension	\$ 64.1	92.4

* *To fully amortize over 30 years unfunded liabilities*

* *2011 preliminary estimate is \$104.7M, an increase of \$31.2 M*

Source: Buck Actuarial Report
State Treasurer's Office
State Dept. of Finance and Management

Dangerous Trends and the Need for Action *(continued)*

Summary of Other Post Retirement Benefits (OPEB)

(all numbers in millions)

Summary of Unfunded Liabilities	2009	2039
State Workers	\$ 751.0	1,381.7
Teachers	\$ 863.6	3,536.0
Cumulative Unfunded Liability	\$1,617.6	4,917.7

Source: Buck Actuarial Report

***Other Thoughts and
Observations ...***

Dangerous Trends and the Need for Action *(continued)*

	State Worker	Private Sector
Average Compensation	\$49,242	\$37,566
Benefit Package	\$17,416	\$ 8,903
Total	\$66,658	\$46,469

- “ National difference on average compensation is 16%; Vermont is 31%
- “ Number of private sector jobs to support one state job ÷ 30+
- “ Pension commission update

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