Promises Made Promises Kept Conference Introduction
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Welcome to today's conference: Promises Made, Promises Kept, Keeping Our Promises to Vermont State Employees, Teachers and Taxpayers.

I am John Pelletier, the director of the Center of Financial Literacy at Champlain College. Our Center is proud to be co-sponsoring this event with the Vermont Business Roundtable.

We are honored to have such a distinguished group of attendees at this event, consisting of government, education, business and non-profit leaders from across our state. We are also pleased to welcome national experts that will share their wisdom with all of us, later today.

I want to make sure that everyone in the audience knows that the Regional Education Television Network is filming today's conference and that we expect this event to be broadcast on public access stations across the state.

Many state and local retirement and healthcare plans are currently on an unsustainable path. The goal of today's conference is to make sure Vermont does not join the growing list of states with severe benefit problems.

Vermont has made retirement and health care promises to state workers and teachers. I believe all Vermonters want to keep these promises so long as they are be treated fairly as taxpayers.

Today we will begin a discussion on how we can strengthen our public pension and healthcare plans so that Vermont can keep its bargain with these employees and all taxpayers.

There are storm clouds on the horizon that are threatening Vermont's public pension and healthcare plans. Perhaps the storm will pass by Vermont or perhaps, like Tropical Storm Irene, it will be a direct hit. Is Vermont prepared for these potential threats?

I want to briefly review with you three risks that Vermont faces: investment risk, longevity risk and economic growth risks. The cost of all of these risks are exclusively borne by our taxpayers.

Investment Risks is the risk that plan returns are below expectations. We are currently in the midst of the second longest bull market in the US since the end of World War II. The bull market will be 9 years old next March. Are Vermont's pensions prepared for another bear market—a decline in the value of equities that is greater than 20%?

Today, the US equities market, based on many valuation metrics, is viewed as being over valued. Many market experts predict low equity returns of about 6% on most global equity investments for the next 5 to 10 years.

Interest rates paid on bonds are a very important source of pension plan income. Interest rates are currently near historical lows and have been since the great recession began. At the turn of the century, in the year 2000, 10 year treasury bonds returned about 6.4% in interest a year, today these bonds pay 2.4% a year.

Experts predict a slow but steady return to more normal interest rates. That is bad news for bond investments held by pension plans. As interest rates increase the value of bonds decrease. A bond portfolio with a 10 year average duration will decrease by 10% if interest rates increase by 1%.

Many in the investment industry are warning investors to expect lower returns for longer. Our state pension plans are based on an expected return of 7.50% a year. Is that a realistic expectation for the future? Calpers, one of the largest pension plans in the country reduced its return expectations to 7% in 2016.

Longevity Risk is the risk that plan beneficiaries live a lot longer than we expect. If you were born on this date in 1947, you are 70 years old today. In 1947 the life expectancy of a newborn child was 70 years. Today the life expectancy of someone born in 1947 is 85 years. Life

expectancy has increased by 2 years each decade. In May, the World Economic Forum issued a report titled “We’ll Live to 100—How Can We Afford It?” The report notes that someone born in the US in 2007 has a life expectancy of 103 years. Our public pension plans were not designed for 30 to 40 years of retirement. Without changes, in the future many individuals could collect retirement benefits for more years than they worked.

Economic Growth Risk is the risk that Vermont’s economy and tax revenues do not grow as quickly as expected. The current economic recovery is the second longest since the end of World War II. At some point in the future we will have another recession and that will result in a drop in Vermont’s tax revenue.

Vermont’s economic growth is equal to its labor force growth rate plus its productivity growth rate. Vermont’s population and its labor force are shrinking. This puts severe limits on Vermont’s economic growth potential. Vermont should expect subpar economic growth in the future compared to other states.

Vermont is the second oldest state in the nation. Only Maine is older. In fact, 1 out of 6 Vermonters is older than 65. The number of working age Vermonters—ages 18 to 65—will continue to decrease as 10,000 baby boomers in the US turn 65 every day until the year 2030. Unless things change, Vermont will have many fewer wage earning taxpayers in the future. How will Vermont fund these benefits with a shrinking tax base and low economic and tax revenue growth?

The speakers you will hear from today have strong and differing opinions. As Vermonters, I know we will have a frank, honest and civil dialogue. We hope that this conference is the beginning of a process that will ultimately result in a consensus solution to Vermont’s unique issues and concerns regarding the future of its public pension and healthcare plans.

I am now honored to introduce the President of Champlain College, Don Laackman.

Link to World Economic Forum report referenced above:
http://www3.weforum.org/docs/WEF_White_Paper_We_Will_Live_to_100.pdf