To: Pension Benefits, Design, and Funding Task Force
From: Vermont Business Roundtable Pension and Health Benefits Reform Task Force
Date: November 30, 2021
Re: Position Statement

Thank you for taking on the critical task of identifying solutions for the issues facing our state employees' and teachers' retirement plans. We know this is no small feat. Like you, we understand the potentially grave impact of failing to develop and act on sustainable solutions. Plan participants could see their benefits curtailed or lose them entirely. Taxpayers could see escalating taxes as unfunded liabilities continue to grow and, ultimately, come due. The social safety net that protects our most vulnerable could erode with fewer funds available for vital government services. Economic development could suffer as potential investors shy away from a debt-ridden state. Your work is recognized, appreciated, and will have a lasting impact on our state.

In the Roundtable's 2020 White Paper, **Policy Options for Vermont State Employees and Teachers Pension and Health Care Retirement Systems**, we provided objective information about the evolution and impact of the unfunded liabilities of the state employees and teacher retirement plans. We also outlined pathways and policy options for reducing these unfunded liabilities. These options included:

1. Conducting rigorous annual stress testing;
2. Improving governance and transparency;
3. Adopting a risk-sharing policy for pension and retirement health care plans;
4. Creating alternative pension and retirement plan designs for new employees/teachers; and
5. Amortizing retiree health care plans' liabilities.

We applaud the efforts of the treasurer and legislature in addressing two of these options - conducting an experience study of the pension plans and improving the governance of the Vermont Pension Investment Commission to provide more expertise and independence. We also support the recent lowering of the assumed rate of return to the more achievable figure of 7%.

While these are welcome changes, our state has still not achieved a sustainable solution for addressing the increasing unfunded liabilities of the pension and retiree health care plans. We understand the Task Force is considering a variety of options to address the problem: establishing a dedicated funding source, utilizing one-time funds, increasing contributions, and more.

We strongly believe that the focus should be on identifying options that comprehensively and completely address the systemic issues driving increased liability. This will ensure we do not encounter a similar challenge a few years down the road. Vermonters deserve options and actions that result in predictive, fair, and viable plans that can withstand unanticipated economic conditions.

We think the actions that can best provide sustainable solutions are:

1. **Amortization of retiree health care plan liabilities.** Implement amortization schedules for the retiree health care plans similar to what was established for the pension plans.

2. **Alternative plans for new hires.** Create different plan structures for newly hired state employees and teachers. This should entail implementing some form of defined contribution plans, whether they be the sole plans available to new hires or a component of defined contribution/defined benefit hybrid plans. We understand that there is resistance to pursuing a defined contribution plan option. While we think that resistance is misplaced and hope such plan designs receive consideration, we urge you to at least consider recommending restructuring defined benefit plans

for new hires in ways that would reduce costs while still remaining competitive (e.g., lengthen vesting periods and/or compensation years for calculating payments, provide for higher contribution rates, limit or do not offer spousal coverage, do not cover early retirement for health care, etc.).

3. **Risk-sharing policy.** Equitably distribute unexpected cost increases between the state and the retirement plans. Events covered by such a policy would include short- or long-term deviations from plan assumptions, such as the 2007 Great Recession, or in response to poor investment returns or unrealistic plan-funding ratios.

   This was previously proposed by the state's 2009 pension commission when it recommended that an expenditure growth rate target of 3.5 percent be implemented for the pension plans (i.e., if a plan's costs increased by more than 3.5 percent in a year, the state and the plan's participants would share in the increase).

We believe these are reasonable and effective considerations that would help establish the guard rails necessary to make these plans viable and sustainable for all stakeholders. As longtime proponents of the need to address Vermont's pension liability, we thank the Task Force for studying and publicly addressing this issue. Effective and meaningful changes to future plan structure will ultimately allow for a sustainable and equitable future for the state, its employees, and for all Vermonters.

Respectfully,

Mark Crow
Chair, VBR Pension and Health Benefits Reform Task Force

Seth Bowden
President, Vermont Business Roundtable