Treasurer Beth Pearce’s Recommended Changes to Your Teachers’ Pension

Thank you for registering for today’s town hall on the future of the Vermont State Teachers’ Retirement System. To better prepare you for today’s discussion, we want to summarize the approach Beth Pearce will recommend. Her approach is based on her desire to preserve the defined benefit pension and prevent it from being converted to a defined contribution plan. As you know, a defined benefit plan guarantees regular payments throughout retirement. A defined contribution plan – such as a 401(k) – does not guarantee regular income in retirement. Once a retiree’s assets are depleted, income stops, which is why Pearce is a staunch defender of defined benefit pension plans.

In a nutshell, Pearce, legislative leaders, and the governor insist that the pension’s funding issues must be addressed now, in the middle of a pandemic and at a time when Vermont’s teachers have demonstrated an unwavering commitment to students and all Vermonters, going above and beyond for nearly a year now.

Driving the “need” for immediate action is the confluence of three steps taken by the pension’s board and Pearce’s office. Working with national experts, Pearce’s office recently took three steps to review where the pension’s finances are heading. First, they conducted a cutting edge risk assessment of the pension’s performance. Second, they performed an experience study, which is done every five years and serves to test whether assumptions made years ago are still holding up. And third, they lowered the projected annual rate of return on the pension’s more than $2 billion portfolio.

The conclusion of these three steps is that, left alone, the pension will not be able to adequately guarantee benefits for current and future retirees. Adding to the difficulty is that we must make decisions now based on a future that is far from certain. All kinds of things – turnover, teacher retirements, longer, healthier retirements, salary changes – affect the pension every day.

TO BE CLEAR, your Vermont-NEA Board of Directors categorically opposes any plan that relies solely on raising costs or diminishing benefits for teachers and retirees. (You can read the board’s statement below.) And your union, in collaboration with other organizations and supportive legislators, will begin a robust campaign calling for increased taxes on the wealthiest Vermonters and corporations to address the pension’s funding issues.

With that said, the treasurer is set to recommend the following changes to your pension, which the Legislature will take up in the coming weeks and months:

- Eliminate cost of living adjustments for active teachers. In other words, when active teachers retire, their benefit will not increase along with inflation.

- Change the Average Final Compensation calculation from a teacher’s highest three years of salary from its current three years to seven years. In other words, it will lessen the amount of average salary upon which the benefit is calculated.

- Increase teachers’ contribution rate to 8 percent. Right now, teachers pay either 5 percent or 6 percent of their salary, depending on when they were hired.
• One of the treasurer’s policy options could include eliminating the cost-of-living adjustment for current retirees, a move that she and we oppose vigorously.

Here is the statement from the Vermont-NEA Board of Directors approved Saturday:

**January 9, 2021 Vermont-NEA Board of Directors Statement on Pensions**

Policy makers, legislators, the treasurer, and governor are formulating their approach to addressing the short- and long-term funding issues with the Vermont State Teachers’ Retirement System. While recognizing the legitimate need to address these issues, the Vermont-NEA Board of Directors opposes any plan that relies solely on raising costs on and diminishing benefits for teachers and retirees.

Over the decades, Vermont’s teachers have contributed billions of dollars for their pension on the promise that it would provide financial security in retirement. Over the decades, Vermont’s teachers have dedicated their lives to our state’s children and communities, no more so than now, in the midst of a deadly pandemic.

The Vermont-NEA Board of Directors will advocate against any cuts or increased costs to current retirees and active teachers. The board further believes that the appropriate solution is to raise revenue by insisting that the wealthiest Vermonters – who have benefited enormously during the pandemic and before – pay their fair share. It is because of working people – like teachers – that the wealthiest among us have been able to enjoy an economic windfall while many become ill, unemployed, hungry, or homeless.

Vermont-NEA supports Treasurer Beth Pearce’s insistence that our defined benefit system remain intact, and we applaud her resistance to any attempts to introduce a defined-contribution scheme or hybrid approach. However, we cannot accept any approach that depends on increasing costs on and diminishing benefits for teachers.