Retired Teachers' Health Benefit FAQ

On Friday, your union announced that it had reached an agreement with Gov. Peter Shumlin, Treasurer Beth Pearce and legislative leaders about how to address the significant issue of paying for the retired teachers' health care benefit. As you may be aware, the state has been paying for this benefit directly from the pension fund itself. This practice could not continue, because diverting more than $20 million a year from the pension to pay for the health benefit seriously jeopardizes both the future of the pension and the health benefit.

Below, please find answers to some frequently asked questions. If you need further information, do not hesitate to contact us.

What does this agreement look like?

It is a compromise. Although we tried mightily to insulate all teachers from having to pay more, there would be no agreement without contributions from some of the people whose benefits we are trying to preserve. The lion's share of the $20 million shortfall – more than 75 percent – is being paid for by the state. The rest is coming from school districts and from non-vested teachers (those with less than five years of service as of July 1, 2014). Essentially, the state is tapping the general fund as well as proceeds from inter-governmental loans for its share; school districts will be called on to make annual payments of about $1,000 for every new teacher they hire who is new to the retirement system. And non-vested teachers will be asked to up their contribution to the system from 5 percent of salary to 6 percent beginning July 1. Further, no retiree benefits, pension or health care, will be lost or eroded.

Why is this agreement necessary?

Simply put, without it, the very future of the retiree health benefit and the pension itself would be in jeopardy. By diverting more than $20 million a year from the corpus of the Vermont State Teachers' Retirement System to pay for the health benefit, the stability and fiscal strength of the fund are compromised. Had no agreement been reached, it is highly likely that your pension fund – particularly for teachers retiring decades from now – could become financially unsustainable. This inevitably would have led to calls to reduce your pension or medical benefits or both, and, perhaps, to eliminate the retiree health benefit altogether and replace the pension with a risky defined contribution plan.

Why are some teachers paying more and others not?

Again, our initial goal was to insulate teachers from having to pay more for the health benefits they will enjoy upon retirement. As discussions unfolded over several months, it became clear that there are legal and constitutional impediments in requiring already-vested teachers to pay more for the same level of benefits. In other words, there is an actual contractual relationship between vested teachers and the state. Unlike four years ago, when everyone was asked to pay more and everyone enjoyed enhanced benefits, this year our efforts are geared to preserving the pension and retiree health benefits you've all worked for over the years.

When will this take effect?

While an effective date won't be set until the legislature passes the agreement – and the governor signs it – our expectation is that it will take effect on July 1. We will keep you posted as we know more.

How will this change my pension or retiree health benefits?

In a word, it won't. You'll still receive the same pension payments and retiree health benefits that your already-retired colleagues enjoy. But make no mistake, what this agreement changes is the uncertainty over the stability, security and future of your $2.5 billion pension fund. Again, if the lack of an independent funding source for the retiree health care benefit hadn't been found, then the pension's value would shrink by $20 million a year, a situation that left unchecked would likely lead to grave problems in a few short years.

I thought we fixed the pension's problems four years ago. Why are we agreeing to pay more again?

You did, indeed, do a lot to shore up your pension in the 2010 deal. You continue to save Vermont's taxpayers more than $15 million a year. In exchange, your potential pension payment in retirement rose from 50 percent of AFC to 60 percent, and your spouse is now included in your retiree health benefit. What we were not able to resolve with the state in the 2010 deal was the continued tapping of the pension fund to pay for retiree health benefits. This agreement rectifies that situation.

Why isn't the state fixing this problem?

Gov. Shumlin, Treasurer Pearce and legislative leaders all agree that a solution must be found. Working with us, the state has agreed to fund the overwhelming share of the annual $20 million shortfall. Unlike in many other states, our public officials here had one goal: to preserve the defined benefit pension and the retired teachers' health benefit. In other states, even some Democrats are dealing with their pension funding issues by slashing benefits, converting new hires to a risky 401K-type defined contribution plan, or, sadly, talking about preventing newly hired public employees from earning or collecting a pension.

Will this be a long-term solution, or will we be back here again in a few years?

While nothing is certain when it comes to pensions, public policy or economic stability, this agreement goes a long way in stabilizing and strengthening the pension fund.