

Week of February 15, 2021

Summary of Current Events: *Conversations continue about the Vermont State Teachers' Retirement system in the legislature, although, so far, that's all they've been – conversations.* Last week, the Joint Fiscal Office, the non-partisan fiscal analysts for the legislature, conducted the first of a three-part series educating legislators about the teachers' and state employees' pensions, history of underfunding, the Treasurers' proposals and other pension issues.

This week, the House Government Operations Committee will take testimony on the prefunding of other post-employment benefits (OPEB), namely retiree healthcare. While we do not know where the Committee is heading we do believe the legislature must continue on a path toward prefunding these benefits so that they remain on a positive financial footing. We do know that with a modest investment from the state General Fund to OPEB costs and adding statutory language about pre-funding of the OPEB by the state in future years, that the state can shave of hundreds of millions in dollars of these unfunded liabilities. This is something we have advocated for in previous years and hope that the legislature will work to protect the OPEB, get to pre-funding, and reduced the OPEB unfunded liabilities.

The Senate Finance Committee last week did an initial walk-through of **H.59, Sen. Cheryl Hooker's bill that would impose a 3% income surcharge of Vermonters making over \$500,000 annually to help pay for the teachers' and state employees' pension unfunded liability.** The Senate Government Operations Committee again took testimony last week, despite the fact that it is our understanding that any path forward on what will happen with the teachers' pension will emerge first in the House.

As a reminder, Vermont-NEA's position is abundantly clear as legislative conversations continue: we oppose any plan that hikes the cost, lowers the benefit, and eliminates the cost-of-living adjustments in retirement. Please stay involved by checking our pension resources page here: <https://vtnea.org/protectourpension>

For Your Information:

What is the difference between a defined benefit (DB) and defined contribution (DC) plan and which approach is better?

While we do not believe there is a real push to move the pension system from a **defined benefit plan** to a defined contribution plan, this is a threat that our opponents will use to scare us. To that end it is important for all of us to understand why defined benefits plans are better for all workers – whether you are an early career teacher or mid-career and late career teacher. The defined benefit plan means that teachers contribute a percentage of the salary to the pension until retirement. In exchange for decades of contributions, the defined benefit plan guarantees a set annual benefit, based on a formula including years of service, salary level, and age. The defined benefit is just that: defined. It also means that retirement income is stable and will last until death.

A defined contribution plan, however, does not feature any guaranteed income. In such a plan – think of 401(k) or 401(b) schemes – employees and employers contribute regularly throughout a teacher's career. Usually after a vesting period, the money in these accounts belongs to teachers. Unlike a defined benefit approach, however, defined contribution plans have a finite amount of money. Additionally, these plans' investment decisions are made directly by teachers and are not guaranteed to preserve the funds in the plan. In other words, once the money in a defined contribution retirement account is gone, benefits will cease. Many experts say that folks with defined contribution plans often run out of money in retirement.

Moreover, defined contribution 401(k) type systems were never meant to provide security in retirement for workers but were set up to provide corporate America with a way to provide additional deferred compensation to executives. Our friends at the National Public Pension Coalition produced a 60 second video title **"401(k)s: America's Failed Experiment"** that explains this important history and how it has hurt all working people: <https://youtu.be/ACjDccOJ9ts>

Resources: Who is the education workforce in Vermont anyways?

Remember, women are disproportionately affected by any cuts to our pension. **As you talk to legislators you can remind them of this.** You can also share with them the 2018 study from the Rutgers School of Management and Labor Relations titled *"Women's Work, Voices of Vermont's Educators"*.

Read the report here: <https://vtnea.org/uploads/files/RU%20SMR%20Womens%20Work.pdf>