



# VERMONT LEGISLATIVE Joint Fiscal Office

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://ljo.vermont.gov>

## Fiscal Note

March 7, 2022

By Chris Rupe, Senior Fiscal Analyst

### **H.572 – An act relating to the retirement allowance for interim educators**

As amended by the House Committee on Government Operations

<https://legislature.vermont.gov/Documents/2022/Docs/CALENDAR/hc220308.pdf#bk4072> 0

### **Bill Summary**

This [legislation](#) proposes amendments to the Vermont State Teachers' Retirement System (VSTRS) to permit a retired member to return to active service on an interim basis, at any rate of compensation, for a period not to exceed one school year while still collecting a retirement benefit. This legislation would create an additional path for retired teachers to return to active teaching service for a limited time, which might assist local education agencies with short-term hiring and recruitment challenges. As proposed in the recommended amendment from the House Committee on Government Operations, a member's retirement benefit would not be suspended during the return to active service as an interim educator or be modified as a result of the additional service performed.

The fiscal impact of this proposal to the VSTRS pension system is not currently known. The impact will depend on the number of VSTRS members who would use this provision and the extent to which this provision may alter retirement and net turnover behaviors of the VSTRS membership in the future.

### **Overview of Legislation**

#### **Current Law**

Retired members of the VSTRS system are permitted under [16 V.S.A. § 1939](#) to resume active service on a limited basis without disrupting their retirement benefit. However, the member's retirement benefit shall be suspended if the member is compensated in excess of the allowable number of days per school year as established by the Retirement Board for substitute teaching, or receives compensation in excess of 60 percent of the average compensation in the teacher retirement system during their period of restored service. Upon subsequent retirement, the member's former retirement allowance is restored (if applicable), and the member also receives a separately computed retirement allowance for the period of restored service for which they made pension contributions.

#### **Proposed State**

[H.572](#), as proposed to be amended by the House Committee on Government Operations, would create an additional path to allow retired VSTRS members to return to active service as an interim school educator and continue to receive a retirement allowance during that period of interim service, regardless of their level of compensation, with some restrictions:

- The member may serve as an interim educator for a period not to exceed one school year.
- The member must have received a retirement allowance for six months or more prior to resuming service.

- The member must maintain or obtain an active educator’s license in the area in which they will serve as an interim educator.
- The member and employer must make retirement contributions for the entire period of resumed service consistent with how those payments are made for new members of the beneficiary’s group as of the date service is resumed.
- Upon subsequent retirement, the member’s pension benefit would not increase from the service performed as an interim educator.

The legislation also contains an annual reporting requirement for superintendents and the Agency of Education to provide data to the legislative Joint Pension Oversight Committee on the number of beneficiaries who resumed service as interim educators pursuant to this provision.

## **Fiscal Impact**

The actuarial impact of this proposal on the VSTRS retirement system will depend on the number of members who utilize this provision and how it may cause retirement behaviors to change.

Requiring interim educators and employers to pay pension contributions during the period of interim service without the member earning an additional retirement benefit for that service is likely to have a negligibly positive actuarial impact to the VSTRS system. The salary experience and service credit from the member’s period of interim service would not increase the accrued liabilities of the pension system, and the system would not experience any significant revenue loss since contributions would continue to be made as if a new employee was hired instead of a retired member.

However, if this proposal causes member retirement or net turnover behaviors to change substantially, it could increase the unfunded liabilities of the pension and retiree health care systems. For example, if more members decide to retire at earlier ages than they otherwise would because they find it more attractive to retire and work for a limited time as an interim educator (thereby receiving both a salary and a pension benefit concurrently), that could cause the unfunded pension and health care liabilities to increase, which would be expected to lead to increased future employer retirement costs.

While it is not currently known how many members would return to service on an interim basis under these terms, the provisions limiting the period of restored service to one school year and requiring members to maintain a license and be retired for at least six months prior to serving as an interim educator are likely to narrow the universe of members who would return to service under this provision. These terms may also reduce any incentive for a member to retire earlier than they otherwise would (thereby potentially leading to less actuarial risk) since their ability to return to service would be limited to one school year and require a 6-month minimum “waiting period” in retirement.

A more accurate estimate of the impacts of this proposal would require actuarial analysis that is either based on projections from imputed assumptions about member behavior in the future, or is informed by several years of experience data reviewed retroactively.