

**MEMORANDUM –DISCUSSION DRAFT ONLY**

To: Rep. Michael Obuchowski, Chair, and Legislative Joint Fiscal Committee Members

From: Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office

Date: July 29, 2009

Subject: Joint Fiscal Committee recommendation for the Retirement Commission spending growth benchmarks

The authorizing language for the retirement funding commission indicates that the Joint Fiscal Committee may provide benchmarks to the commission. Since the commission is underway, if the Joint Fiscal Committee is going to weigh in, the treasurer has asked that it be soon. He specifically indicated that he hoped that any such action could be done before the retirement commission meeting on August 20.

The relevant language of Section E.135.1 of Act 1 of the 2009 Special Session, is as follows:

(a) A commission is created to review and report on the design and funding of retirement and retiree health benefit plans for the state employees' and teachers' retirement systems. The commission is charged with making recommendations about plan design, benefit provisions, and appropriate funding sources, along with other recommendations it deems appropriate for consideration, consistent with actuarial and governmental accounting standards, as well as demographic and workforce trends and the long-term sustainability of the benefit programs.. ***The joint fiscal committee may provide benchmark targets reducing the rate of expenditure growth for retirement and retiree health benefits to the commission to guide the development of recommendations.....***

(4) ***based on benefit and funding benchmarks***, options for providing new benefit structures with the objective of adequate benefits within the established cost containment benchmarks;

Some possible benchmarks to consider:

1. General Fund Revenue Growth Rates:
  - a. In the past ten years, general fund revenue has grown at less than 2.5%.
  - b. From FY1998 to FY2014, the average growth rate is projected at 3.4%.
  - c. The fiscal office uses 3.5% as a proxy for spending growth in our analysis of future deficits.

2. State and Local Price Index from FY1998 – FY2012 has an average annual growth of 3.75%.
  - a. From FY2000 to projected FY2014 the average general fund growth rate is projected to be 3%.
3. The retiree cost growth is likely to be on the high side of these estimates due to demographic and health cost pressures.

Recommendations:

- The Joint Fiscal Committee offers the commission a benchmark “guidance” target of 3.5 - 4% for retiree system cost growth.
- The Joint Fiscal Committee recognizes that this guidance requires difficult decisions on the part of the commission, the legislature, and system participants.
- In the event that the commission chooses a higher growth rate, the commission should be specific about how it is to be financed.

System	FY2010 (Request)	FY2011 (Projection)
State Employees	32 million	45.9 million
State Teachers	41.5 million	63.8 million

**TABLE 3**  
**Relevant Inflation and Other Economic Measures**  
**Consensus JFO and Administration Forecast - October 2008**

U.S. State and Local Government NIPA Chain Weighted Deflator Fiscal Year Basis Calendar 2000 = 100 (FPDIGS.US)			U.S. Consumer Price Index Urban Consumer, All Items Calendar Year Basis 1982-1984 = 100 (FCPIU.US)			OFHEO - Vermont House Price Index Calendar Year Basis 1980 Q1 = 100 (FHOFHOPI.VT)			Vermont Gross State Product (GSP) Nominal Dollars Fiscal Year Basis (FGDP.VT)		
	Index	%ch		Index	%ch		Index	%ch	\$ Billions	%ch	
1981	51.6	NA	1981	90.9	10.4%	1981	105.8	-0.4%	1981	5.1	9.7%
1982	55.4	7.5%	1982	96.5	6.2%	1982	110.2	4.2%	1982	5.6	8.9%
1983	58.5	5.6%	1983	99.6	3.2%	1983	116.8	6.0%	1983	5.9	6.6%
1984	61.0	4.3%	1984	103.9	4.4%	1984	123.8	6.1%	1984	6.6	10.2%
1985	63.5	4.1%	1985	107.6	3.5%	1985	133.7	7.9%	1985	7.2	9.7%
1986	65.6	3.3%	1986	109.7	1.9%	1986	149.1	11.6%	1986	7.9	9.3%
1987	68.0	3.6%	1987	113.6	3.7%	1987	170.7	14.4%	1987	8.6	9.1%
1988	70.4	3.5%	1988	118.3	4.1%	1988	195.3	14.4%	1988	9.6	12.6%
1989	72.7	3.3%	1989	123.9	4.8%	1989	212.2	8.6%	1989	10.8	12.0%
1990	75.5	3.8%	1990	130.7	5.4%	1990	214.4	1.1%	1990	11.3	4.9%
1991	78.8	4.3%	1991	136.2	4.2%	1991	212.7	-0.8%	1991	11.4	0.8%
1992	80.5	2.2%	1992	140.3	3.0%	1992	214.6	0.9%	1992	11.9	3.9%
1993	82.3	2.3%	1993	144.5	3.0%	1993	217.1	1.2%	1993	12.6	5.9%
1994	84.3	2.4%	1994	148.2	2.6%	1994	217.0	-0.1%	1994	13.2	4.9%
1995	86.7	2.9%	1995	152.4	2.8%	1995	218.2	0.6%	1995	13.6	3.0%
1996	88.7	2.3%	1996	156.9	2.9%	1996	221.6	1.6%	1996	13.9	2.7%
1997	90.6	2.1%	1997	160.5	2.3%	1997	223.9	1.0%	1997	14.8	5.8%
1998	92.1	1.6%	1998	163.0	1.5%	1998	229.4	2.4%	1998	15.5	5.2%
1999	94.0	2.1%	1999	166.6	2.2%	1999	238.9	4.1%	1999	16.3	4.9%
2000	97.9	4.1%	2000	172.2	3.4%	2000	256.2	7.3%	2000	17.4	6.7%
2001	101.7	3.9%	2001	177.0	2.8%	2001	276.4	7.9%	2001	18.3	5.5%
2002	103.9	2.1%	2002	179.9	1.6%	2002	297.4	7.6%	2002	19.1	4.3%
2003	107.7	3.7%	2003	184.0	2.3%	2003	318.8	7.2%	2003	19.9	4.2%
2004	111.6	3.6%	2004	188.9	2.7%	2004	361.7	13.5%	2004	21.2	6.5%
2005	117.8	5.6%	2005	195.3	3.4%	2005	412.9	14.2%	2005	22.4	5.3%
2006	125.5	6.5%	2006	201.6	3.2%	2006	450.9	9.2%	2006	23.3	4.1%
2007	131.7	4.9%	2007	207.3	2.9%	2007	468.9	4.0%	2007	24.0	3.1%
2008	139.3	5.8%	2008	216.5	4.4%	2008	472.5	0.8%	2008	25.5	6.3%
2009	143.7	3.2%	2009	221.7	2.4%	2009	467.2	-1.1%	2009	26.6	4.3%
2010	147.9	2.9%	2010	227.2	2.5%	2010	468.0	0.2%	2010	27.5	3.5%
2011	152.4	3.0%	2011	233.6	2.8%	2011	473.1	1.1%	2011	28.8	4.6%
2012	157.1	3.1%	2012	240.8	3.1%	2012	481.5	1.8%	2012	30.2	4.8%

## Revised JFO Retirement Analysis

7/31/2009

<u>Department</u>	<u>Retirees</u>	<u>Employment</u>	<u>%</u>
Agency of Transportation	64	1237	5.2%
Children and Families	41	860	4.8%
Corrections	32	1047	3.1%
Labor	21	277	7.6%
Agency of Natural Resources	17	553	3.1%
Health	16	515	3.1%
Buildings and General Services	15	382	3.9%
Judiciary	12	329	3.6%
Disabilities, Aging & Independent Living	11	287	3.8%
Tax	11	169	6.5%
Public Safety	10	588	1.7%
Education	9	183	4.9%
Child Support	8	119	6.7%
Agency of Agriculture, Food & Markets	7	90	7.8%
Liquor Control	6	54	11.1%
Military	6	127	4.7%
State's Attorneys & Sheriffs	6	161	3.7%
Other	38		
<b>Total</b>	<b>330</b>		

Notes:

Total employment figures taken from State of Vermont Workforce Profile for Q4 of 2009.  
DCF total is net of Child Support office total